

Calibre Energy, Inc.  
Form SB-2/A  
October 31, 2006

As filed with the Securities and Exchange Commission on October 31, 2006 Registration No. 333-133839

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**PRE-EFFECTIVE AMENDMENT NO. 4**  
**TO**  
**FORM SB-2**  
**REGISTRATION STATEMENT**  
**UNDER**  
**THE SECURITIES ACT OF 1933**

**Calibre Energy, Inc.**

(Name of small business issuer on its charter)

**Nevada**  
(State or Other Jurisdiction of  
Incorporation or Organization)

1311  
(Primary Standard Industrial  
Classification Code Number)

88-0343804  
(I.R.S. Employer  
Identification Number)

**1667 K Street, NW, Suite 1230**  
**Washington, D.C. 20006**  
**(202) 223-4401**  
(Address and telephone number  
of principal executive offices and principal place of business)

**Oliver Pennington**  
**1667 K Street, NW, Suite 1230**  
**Washington, D.C. 20006**  
**(202) 223-4401**  
(Name, address and telephone number  
of agent for service)

**Copy to:**  
**Michael C. Blaney**  
**Vinson & Elkins L.L.P.**  
**1001 Fannin, Suite 2300**  
**Houston, TX 77002**  
**(713) 758-2222**

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this registration statement.

If the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: x

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box:

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**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment that specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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\_\_\_\_\_

SUBJECT TO COMPLETION – DATED October 31, 2006

**Calibre Energy, Inc.**

71,433,306 Shares of Common Stock

This prospectus relates to the resale from time to time by the selling stockholders of up to 71,433,306 shares of our common stock, including 55,225,806 shares of common stock previously issued and 16,207,500 shares of common stock issuable upon the exercise of common stock purchase warrants. The selling stockholders may sell the shares of common stock from time to time in the principal market on which the stock is traded at the prevailing market price or in negotiated transactions. The registration statement of which the prospectus is a part, registers the resale of more than 94% of the outstanding shares of our common stock.

Shares of our common stock are traded on the NASD OTC Bulletin Board under the symbol “CBRE.OB.” On October 30, 2006, the last reported sales price for our common stock on the OTC Bulletin Board was \$2.30 per share.

We will not receive any proceeds from the sale of the shares of our common stock covered by this prospectus.

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**Investing in our common stock involves a high degree of risk. You should read carefully this entire prospectus, including the section captioned “Risk Factors” beginning on page 2, before making a decision to purchase our stock.**

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**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.**

**The information in this prospectus is not complete and may be changed. Holders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

The date of this prospectus is \_\_\_\_, 2006.

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**You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information that is different. This prospectus may only be used where it is legal to sell these shares of our common stock. The information in this prospectus may only be accurate as of the date of this prospectus.**

**This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission for a continuous offering. Under this prospectus, the selling stockholders may, from time to time, sell the shares of our common stock described in this prospectus in one or more offerings. This prospectus may be supplemented from time to time to add, update or change information in this prospectus. Any statement contained in this prospectus will be deemed to be modified or superseded for the purposes of this prospectus to the extent that a statement contained in a prospectus supplement modifies such statement. Any statement so modified will be deemed to constitute a part of this prospectus only as so modified, and any statement so modified will be deemed to constitute a part of this prospectus.**

**The registration statement containing this prospectus, including the exhibits to the registration statement, provides additional information about us, the selling stockholders and the shares of our common stock offered under this prospectus. The registration statement, including the exhibits, can be read on the SEC website or at the SEC offices mentioned under the heading “Where You Can Find More Information.”**

## PROSPECTUS SUMMARY

*The following summary highlights selected information from this prospectus and does not contain all of the information that you should consider before investing in our common stock. This prospectus contains information regarding our businesses and detailed financial information. You should carefully read this entire prospectus, including the historical financial statements and related notes, before making an investment decision.*

*In this prospectus, “Calibre Energy, Inc.,” the “company,” “we,” “us” or “our” refer to Calibre Energy, Inc., a Nevada corporation, and its subsidiaries, except where otherwise indicated or required by context.*

### **Our Business**

We are an independent natural gas and oil exploration and production company concentrating on growing reserves and production through the exploration, development, exploitation and acquisition of natural gas and oil reserves in North America and in Kurdistan, Iraq. We have initially concentrated on the acquisition, exploitation and development of producing and non-producing shale gas and oil properties in the Barnett Shale in Texas. Our oil and gas business was commenced in August 2005. We specialize in acquiring oil and gas interests involved in extracting hydrocarbons from known gas-shale source rocks. We intend to focus on: a) shales that are laterally extensive; b) basins where the target zones have been previously penetrated; and c) shales that have been successfully fraced and commercially produced. In September 2006, we expanded into Iraqi Kurdistan, a country with the world's fourth largest proven oil reserves.

### **Our Executive Offices**

Our principal executive and administrative office facility is located at 1667 K Street, N.W., Suite 1230, Washington, D.C. 20006 and our telephone number is (202) 223-4401 and we have an operations office at Ashford VI, 1155 Dairy Ashford South, Fourth Floor, Houston, TX 77079. We maintain a website at [www.calibreenergy.com](http://www.calibreenergy.com), however the information on our website is not part of this prospectus, and you should rely only on information contained in this prospectus when making a decision as to whether or not to invest in shares of our common stock.

## **RISK FACTORS**

*The shares offered hereby have not been approved or disapproved by the SEC or the securities regulatory authority of any state, nor has any such regulatory body reviewed this Prospectus for accuracy or completeness. The shares offered hereby are speculative, involve an unusually high degree of risk and should only be purchased by those who can afford to lose their entire investment. Therefore, prospective investors should carefully consider the following risk factors before purchasing the shares offered hereby.*

The following factors affect our business and the industry in which it operates. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known or that we currently consider immaterial may also have an adverse effect on our business. If any of the matters discussed in the following risk factors were to occur, our business, financial condition, results of operations, cash flows, or prospects could be materially adversely affected.

### **Risks Related to Our Business**

*We have a limited operating history and limited revenues.*

Our oil and gas business commenced in August of 2005 and, accordingly, is subject to substantial risks inherent in the commencement of a new business enterprise. Consequently we have limited assets and operations. To date, we have generated limited revenue from our operations., no business history and may not be able to successfully identify, develop and operate oil and gas leases, generate revenues, or operate profitably that investors can analyze to aid them in making an informed judgment as to the merits of an investment in us. Any investment in us should be considered a high risk investment because the investor will be placing funds at risk in a company with unforeseen costs, expenses, competition, and other problems to which new ventures are often subject. Investors should not purchase our stock unless they can afford to lose their entire investment.

*We will need additional capital to execute our business plan and remain a going concern, and our ability to obtain the necessary funding is uncertain.*

We expect that we will require additional capital to implement our business plan successfully. The timing and degree of any future capital requirements will depend on many factors, including:

- the accuracy of the assumptions underlying our estimates for our capital needs in 2006;
  - the number of prospects we identify;
    - the terms on which we can obtain rights to those prospects;
    - the cost of exploring and developing the prospects; and
- our success rate in developing economically successful prospects.

We have no immediate internal sources of funds, and we do not have any committed sources of capital. Additional financing through partnering, public or private equity financings, lease transactions or other financing sources may not be available on acceptable terms, or at all. Additional equity financings could result in significant dilution to our stockholders. If sufficient capital is not available, we may be required to delay or reduce the scope of our exploration, development and/or production activities which could have a material adverse effect on our business and financial results and could result in our inability to continue as a going concern.



*Several of our officers and directors are also officers and/or directors for another company, which may lead to conflicts of interest for these officers and directors.*

Some of our officers and directors also serve as officers and or directors of Standard Drilling, Inc., a company engaged in the business of drilling services. Standard Drilling's management includes Mr. Prentis Tomlinson as CEO, Mr. Edward Moses as President and COO, Mr. Michael Walker as Vice President of Operations, Mr. Robert Moffet as general Counsel, Mr. Oliver Pennington as CFO; Ms. Cheryl Roberts as Controller and Mr. Peter Frey as Treasurer. Our management includes Mr. Tomlinson as Chairman, President and CEO, Mr. Moses as Vice Chairman, Mr. Pennington as Chief Financial Officer, William B. Nunnallee as Vice President of Land and Mr. Frey as Controller. In addition, three of the five members of our Board of Directors, Messrs. Tomlinson, Moses and Anderson, serve as directors of Standard Drilling. Another one of our directors is a stockholder in Standard Drilling. In addition, our President and these other officers and directors directly or indirectly own approximately 37% of our outstanding common stock and approximately 34% of Standard Drilling determined in each case according to Rule 13D-3. Although each company has other separate officers and staff, there exists a substantial possibility of a conflict of interest for those officers and directors of Standard Drilling arising from their positions with, and ownership of substantial interests in, both us and Standard Drilling. As officers and directors, these individuals will have a duty of loyalty to both companies, and a conflict will arise if we enter into any arrangements with Standard Drilling or if we and Standard Drilling engage, or attempt to engage, in the same businesses. In such cases, the officers and directors may not be able to make decisions or take actions that are in our shareholders' best interests, and as a result our business and financial results could be adversely affected.

In addition, Mr. Drouet is our only director who is not director of, or affiliated with, Standard Drilling and does not constitute a majority of the Board of Directors. Further, as described below, there are no specific time requirements governing whether our officers are devoting sufficient time to managing our business. Thus the supervision of these officers' performance by directors without any conflict of interest regarding Standard Drilling is likely to be limited to the oversight provided by Mr. Drouet. Mr. Drouet is the sole member of our conflicts committee which is charged with overseeing the time devoted to management of our business by those officers who are also employed by Standard Drilling.

*Employment of some of our officers by another company may limit the time they have available to devote to managing our business.*

As noted above, several of our officers, including our President and CFO, are also employed as officers and/or directors of Standard Drilling. Standard Drilling pays the officers salaries comparable to, and in some cases greater than, the salaries we pay them. Currently, Standard Drilling pays Mr. Tomlinson and Mr. Moses \$20,000 more per year than we pay them. Our employment agreements with these officers require them to devote such time to managing our business as is reasonably necessary to perform their duties under the employment agreement but do not specify a specific number of hours or percentage of time. Further, the officers have significant discretion on a day to day basis as to whether to devote time to the management of our business or management of Standard Drilling's business. As a result of the salaries paid to them by, their fiduciary duties to, and their ownership of a substantial interest in, Standard Drilling, or for any other reason, the officers may determine to devote most or all of their time to Standard Drilling for an extended period of time. Because of the time required of these officers to manage Standard Drilling's business, they may not devote sufficient time to managing our business, and as a result our business and financial results could be adversely affected.

*There is a high demand for leases and drilling rigs in the areas of our operation and we may not be able to obtain leases or access to rigs at rates that permit us to be profitable or at all.*

Increases in oil and natural gas prices have resulted in a significant increase in demand for both oil and gas leases and drilling rigs. As a result, the cost of both leases and rigs has increased substantially. In particular the demand for rigs has made it difficult in some instances to obtain such services without significant advance scheduling. If we



cannot obtain leases to oil and gas properties and rigs when needed and at reasonable rates, or at all, we may not be able to complete exploration and development and commence production in a timely manner. As a result, our associated costs could be substantially higher, we may lose our rights to some leases and our business and financial results may be adversely affected.

*We will face intense competition in our industry, and we may not have the capacity to compete with larger oil and gas companies also investing in oil and gas prospects.*

Identifying and realizing attractive investments in the energy sector are highly competitive, involve a high degree of uncertainty and often require significant capital. There are many companies with more resources in the oil and gas industry, competing to identify and acquire the most desirable oil and gas prospects. If we cannot acquire high quality oil and gas prospects, at a cost which allows us to earn a profit, due to such competition, our business and financial results will be adversely affected.

*The selection of prospects, ownership and operation of oil and gas wells, and the ownership of non-operating oil and gas properties are highly speculative investments.*

Prospects may not produce oil or natural gas, or drilling or development on a prospect may not take place at all. Operations on the interests we acquire may be unprofitable, not only because a well may be non-productive “dry hole,” but also because the producing life and productivity of wells are unpredictable. Wells may not produce oil and/or gas in sufficient quantities or quality to recoup the investment, let alone return a profit. Further, weather-related and other delays may affect the ability to drill for hydrocarbons, produce hydrocarbons, or to transport hydrocarbons. Development and transportation may be made impracticable or impossible by weather, ground conditions, inability to obtain appropriate easements, ground water, or other conditions or delays. If any of our prospects or wells fails to produce at anticipated levels or if their completion or operation is delayed or limited, our business and financial results may be adversely affected.

*The experts on whom we rely to analyze potential acquisitions may not make accurate conclusions about prospects.*

We will rely on our management and personnel, experts, our partners and other third parties to analyze potential prospects in which we invest. If the analysis is inaccurate, the prospects may not result in productive wells and our business and financial results will be adversely affected.

*Third parties may operate some of the prospects in which we invest and thus we may be unable to control their operations in a manner as we believe will yield the best results.*

Third parties manage and control the properties in which we invest. Also, third parties may act as the operator of some of our prospects, and in most cases, we will acquire less than a 100% ownership position in our oil and gas properties. Accordingly, third parties may manage and control the drilling, completion and production operations on the properties. As a result, a prospect may not be drilled or operated in the manner we desire. Additionally, we could be held liable for the joint activities of other working interest owners of our investment properties, including nonpayment of costs and liabilities arising from the other working interest owners' actions. Moreover, if other working interest owners do not, or cannot, pay their share of drilling and completion costs for a prospect, that prospect might not be fully developed.

*Leasehold interests in which we invest may revert before the interest is profitable.*

Many leases and mineral interests contain provisions that allow ownership to revert back to the original owners after a certain period of time and under certain circumstances. Because we may not have control of the majority of the interest in a particular lease block or because of a lack of funds or availability of equipment, we will have little or no control over the development or drilling that takes place, and leases may therefore expire before any commercialization of the lease takes place.

*Drilling wells is speculative, unpredictable, and we will lose our entire investment in wells that do not produce in commercial quantities.*

We will be required to pay our pro rata share of drilling expenses on a prospect where we own a working interest. Drilling involves high risk, and the probability is high that no oil and gas will be discovered in commercial quantities. In most instances for any given prospect, a dry hole will result in a total loss of any amounts invested in the drilling of the prospect, including the amount invested in the mineral lease.

*Production and marketing conditions may cause production delays.*

Some of the prospects we acquire may be remote from transportation facilities. Drilling wells in areas remote from transportation facilities may delay production from those wells until sufficient reserves are established to justify construction of necessary pipelines and production facilities. The inability to complete wells in a timely fashion on a prospect may also result in production delays. In addition, marketing demands (which have historically been seasonal) may reduce or delay production from wells. The wells on the prospects in which we invest may have access to only one potential market. Local conditions, including closing businesses, conservation, shifting population, pipeline maximum operating pressure constraints, local supply levels and delivery problems could halt or reduce sales from the wells in which we invest. The occurrence of any of these adverse conditions may adversely affect our ability to produce and/or market oil and gas from the affected wells.

*Political and economic instability in Iraq could adversely affect our investment in projects in Iraq*

We have entered into an agreement to invest in an exploration and production project in Iraq. Our investment in Iraq is subject to a variety of political and economic risks due in part to insurrection and instability in Iraq, including:

- loss of property and equipment as a result of events like acts of war, insurrection, terrorism, expropriation, or nationalization.
  - increases in import, export and transportation regulations and tariffs, taxes and governmental royalties;
  - renegotiation of contracts with governmental entities that result in less favorable terms for us;
- changes in laws and policies governing operations of foreign-based companies in Iraq that increase our costs or otherwise adversely affect our operations;
  - changes in exchange controls and other laws that affect our ability to transfer funds to the United States;
  - changes in the laws and policies of the United States affecting foreign trade, taxation and investment; and
- the possibility of being subject to the exclusive jurisdiction of foreign courts in connection with legal disputes and the possible inability to subject foreign persons to the jurisdiction of courts in the United States.

As a result of any of the foregoing we may lose some or all of our investment in Iraq or control over the investment or its returns. Our business and financial results would be adversely affected by any such event.

*Oil and gas markets have historically been unstable and their fluctuation may adversely affect the value and marketability of our investments.*

Global economic conditions, political conditions and other factors create an unstable market for the price of oil and natural gas. Oil and gas prices may fluctuate significantly in response to supply, demand, political, economic, weather and other factors. Such price fluctuation may affect the value of cash flow from producing properties and the value and marketability of our investments.

*We may not be able to be both cost-efficient and geographically diversified.*

While we will diversify our investments among different properties, prospects, and, possibly, geographic regions, the cost to acquire interests in and develop oil and gas prospects varies greatly in different geographic locations. Consequently, if we make investments in a limited geographic area, it may lower our cost per investment but would limit the diversity of our portfolio. Conversely, if we make investments in a number of different areas, our diversity would increase but at a greater cost to us.

*The profitability of any investment will be subject to the risk of loss due to damage to people or property arising from the hazards of drilling and operating prospects and wells.*

We intend to invest in leaseholds, titles, mineral interests, working interests, royalty interests and other energy exploration related assets. Numerous potential hazards accompany the development of these interests, including unexpected or unusual ground formations, pressures, blowouts, and pollution. Any of these hazards could injure or kill people or damage property, including causing surface damages, equipment damage, reservoir damage and reserve loss. If any of these potential hazards occur, the associated damages could exceed the value of our assets and any insurance coverage.

*Our activities will be subject to substantial environmental laws and regulations and the cost of complying with those laws and regulations may be significant.*

We will be subject to federal, state and local environmental laws, regulations and ordinances that may impose liability for the costs of cleaning up, and damages resulting from, past spills, disposals and other releases of hazardous substances. In particular, under applicable environmental laws, we may be responsible for certain costs associated with investigating and remediating environmental conditions and may be subject to associated liability, including lawsuits brought by private litigants, relating to prospects in which we own working interests. These obligations could arise regardless of whether the environmental conditions were created by us, a partner or by a prior owner or tenant. If we incur any such costs, our business and financial results may be adversely affected.

### **Risks Related to Our Stock**

*There is currently a limited market for our common stock, and any trading market that develops in the common stock may be highly illiquid and may not reflect the underlying value of our net assets or business prospects.*

There is currently a limited market for our common stock and an improved market for our common stock may not develop. Accordingly, purchasers of the shares offered hereby will be required to bear the economic consequences of holding such securities for an indefinite period of time. An active trading market for our common stock may not ever develop. Any trading market that does develop may be volatile, and significant competition to sell our common stock in any such trading market may exist, which could negatively affect the price of our common stock. As a result, the value of our common stock may decrease. Additionally, if a trading market does develop, such market may be highly illiquid, and our common stock may trade at a price that does not accurately reflect the underlying value of our net assets or business prospects. Investors are cautioned not to rely on the possibility that an active trading market may develop or on the prices at which our stock may trade in any market that does develop in making an investment decision.

*If our share price is volatile, we may be the target of securities litigation, which is costly and time-consuming to defend.*

In the past, following periods of market volatility in the price of a company's securities, security holders have often instituted class action litigation. If the market value of our common stock experiences adverse fluctuations and we become involved in this type of litigation, regardless of the outcome, we could incur substantial legal costs and our management's attention could be diverted from the operation of our business, causing our business to suffer.

*Our "blank check" preferred stock could be issued to prevent a business combination not desired by management or our current majority shareholders.*

Our articles of incorporation authorize the issuance of "blank check" preferred stock with such designations, rights and preferences as may be determined by our board of directors without shareholder approval. Our preferred stock could be utilized as a method of discouraging, delaying, or preventing a change in our control and as a method of preventing shareholders from receiving a premium for their shares in connection with a change of control.

*Future sales of our common stock in the public market could lower our stock price.*

We may sell additional shares of common stock in subsequent public or private offerings. We may also issue additional shares of common stock to finance future acquisitions. Such sales or issuances may be at prices less than the public trading price. We cannot predict the size of future issuances of our common stock or the effect, if any, that future issuances and sales of shares of our common stock will have on the market price of our common stock. Sales of substantial amounts of our common stock (including shares issued in connection with an acquisition), or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

*We presently do not intend to pay cash dividends on our common stock.*

We currently anticipate that no cash dividends will be paid on the common stock in the foreseeable future. While our dividend policy will be based on the operating results and capital needs of the business, it is anticipated that all earnings, if any, will be retained to finance the future expansion of the our business. Therefore, prospective investors who anticipate the need for immediate income by way of cash dividends from their investment should not purchase the shares offered in this offering.

## **FORWARD LOOKING STATEMENTS**

This Prospectus contains forward-looking statements. These statements relate to future events and/or future financial performance and involve known and unknown risks, uncertainties and other factors that may cause the actual results, levels of activity, performance or achievements of our business or the industry in which it operates to be materially different from any future results, levels of activity, performance or achievements expressed or implied by the forward-looking statements. These risks and other factors include those listed under “Risk Factors” and those described elsewhere in this prospectus.

In some cases, you can identify forward-looking statements by the Company’s use of terms such as “may,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” or the negative of these terms or other common terminology. These statements are only predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined under “Risk Factors.” These factors may cause the Company’s actual results to differ materially from any forward-looking statement.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. We do not intend to update any of the forward-looking statements after the date of this Prospectus to conform prior statements to actual results.

**USE OF PROCEEDS**

The selling stockholders will receive all of the proceeds from any sales of shares of our common stock. We will not receive any of the proceeds from any such sale by any selling stockholder. See "Selling Stockholders."

We will receive proceeds upon the exercise of the warrants. Any proceeds we receive upon exercise of the warrants will be used for evaluating, acquiring, drilling and completing prospects and to pay salary and administrative expenses.

**PRICE RANGE OF OUR COMMON STOCK AND DIVIDEND POLICY**

Shares of our common stock are traded on the National Association of Securities Dealers Inc. Over the Counter Bulletin Board under the symbol "CBRE.OB." Our common stock trades on a limited, sporadic and volatile basis. As of October 30, 2006, the last reported sales price of our common stock on the OTC Bulletin Board was \$2.30. As of October 30, 2006, there were 62,350,806 shares of our common stock outstanding that were held of record by 405 persons.

The following table sets forth, for the periods indicated, the range of high and low bid information for our common stock. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

	<b>Price Ranges</b>	
	<b>High</b>	<b>Low</b>
<b>Fiscal Year Ended December 31, 2003</b>		
First Quarter	0	0
Second Quarter	0	0
Third Quarter	0	0
Fourth Quarter	0	0
<b>Fiscal Year Ended December 31, 2004</b>		
First Quarter	0	0
Second Quarter	0	0
Third Quarter	0	0
Fourth Quarter	0	0
<b>Fiscal Year Ended December 31, 2005</b>		
First Quarter	0	0
Second Quarter	0	0
Third Quarter	0	0
Fourth Quarter	2.00	1.42
<b>Fiscal Year Ended December 31, 2006</b>		
First Quarter	3.00	1.55
Second Quarter	2.90	1.80
Third Quarter	2.80	1.81
Fourth Quarter (through October 30, 2006)	2.54	2.00

Holders of shares of common stock will be entitled to receive cash dividends when, as and if declared by our Board of Directors, out of funds legally available for payment thereof. However, if dividends are not declared by our Board of Directors, no dividends shall be paid. We have not paid any dividends on our common stock since our inception.

We do not anticipate that any cash dividends will be paid in the foreseeable future. While our dividend policy will be based on the operating results and capital needs of the business, we anticipate that all earnings, if any, will be retained to finance our future expansion. Therefore, prospective investors who anticipate the need for immediate income by

way of cash dividends from their investment should not purchase the shares offered by this prospectus.

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS**

The following discussion of our financial condition and results of operations should be read together with the consolidated financial statements and related notes that are included elsewhere in this prospectus. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors," "Disclosure Regarding Forward-Looking Statements" or in other parts of this prospectus. We undertake no obligation to update any information in our forward-looking statements except as required by law.

### **Overview**

We are engaged in oil and natural gas exploration and exploitation activities in the Barnett Shale development in Ft. Worth Basin located northern Texas, the Bakkan Shale development in the Williston Basin located in Montana and North Dakota, and the Fayetteville Shale development in the Arkoma Basin located in Arkansas. We have a limited operating history as our predecessor company for financial reporting purposes was formed on August 17, 2005. We are engaged in the acquisition, exploitation and development of producing and non-producing oil and gas-shale (source rock) properties in selected producing basins in North America. Our oil and gas business was commenced in August 2005. Most of our current activities are focused on the exploration and production of natural gas in the Barnett Shale development in Northern Texas and the Fayetteville Shale development in Arkansas.

Our current goals are to expand and develop our exploration and production business and our reserves by initially emphasizing the identification and development of shale gas opportunities in the Barnett Shale and the Fayetteville Shale. We believe both the Mississippian development of the Barnett Shale in the Ft. Worth Basin and the Fayetteville Shale development in the Arkoma Basin provides the greatest near term economic value to us.

We evaluate opportunities to purchase or sell oil and natural gas properties in the marketplace and could participate as a buyer or seller of properties at various times. We seek acquisitions that utilize our technical expertise or offer opportunities to expand our existing core areas.

#### *Acquisition, exploration and development.*

We follow the full cost method of accounting for oil and gas properties. Accordingly, all costs associated with acquisition, exploration, and development of oil and gas reserves, including directly related overhead costs and related asset retirement costs, are capitalized.

#### *General and administrative.*

General and administrative expenses consist primarily of salaries and benefits, office expense, professional services fees, and other corporate overhead costs. We anticipate increases in general and administrative expenses as we continue to increase our staff to expand our operations.

**Results of Operations**

We commenced our oil and gas operations in August 2005. Prior to that time we did not have any significant activities or assets. Consequently, we are not able to compare results of operations for the quarter ended June 30, 2006, for the quarter ended March 31, 2006 or the period ended December 31, 2005 to any earlier period.

**Selected Financial History**

Calibre Energy, Inc.  
Selected financial history for the period from August 17, 2005 (inception) to December 31, 2005  
and for the three months ended March 31, 2006 and  
for the six months ended June 30, 2006

	Six months ended June 30, 2006 (Unaudited)	Three months ended March 31, 2006 (Unaudited)	August 17 (inception)- December 31, 2005 (Audited)
Oil and Gas Revenue	\$ 129,899	\$ 39,342	\$ 20,778
Loss from operations	(1,328,295)	(697,726)	(1,943,885)
Net loss	(1,260,633)	(\$673,612)	(1,901,651)
Earnings per share:			
Basic and diluted	(0.02)	(0.01)	(0.05)
Total assets	18,794,006	13,498,242	7,938,869
Total long-term liabilities	-	-	-
Total liabilities	2,531,836	1,474,102	1,065,964
Common stock; \$.001 par value; 100,000,000 authorized; 56,600,806, 53,980,806, and 47,000,000 issued and outstanding	\$ 56,601	\$ 53,981	\$ 47,000
Preferred stock; \$.001 par value; 10,000,000 authorized; none issued	-	-	-
Dividends declared per common share		-	-

**Results of Operations for Six Months Period Ended June 30, 2006**

We commenced our oil and gas operations in August 2005. Prior to that time we did not have any significant activities or assets. Consequently, we are not able to compare results of operations for the six months ended June 30, 2006 to any earlier period.

*Net Sales.*

For the six months ended June 30, 2006, our oil and gas net sales were \$129,899. During the majority of the period, we had only two wells on production. However, at the end of the period, three new wells started commercial production. We are still in the operational development stage of our exploration program. Accordingly, we do not expect to generate substantial revenues during the majority of 2006 until the completion of the initial stages of our drilling program.

*General and Administrative Expenses.*

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For the six months ended June 30, 2006, general and administrative expenses were \$1,346,222. A total of \$315,132 was for costs associated with our general and administrative expenses, \$420,810 was for professional fees principally associated with capital raising activities, and \$610,280 was for compensation expense.

*Net Loss.*

For the six months ended June 30, 2006, we had a net loss of \$1,260,633. The net loss is primarily attributable to minimal operating revenues to support general and administrative costs until such time as we achieve operating results from our drilling program.

**Results of Operations for Three Months Period Ended June 30, 2006**

We commenced our oil and gas operations in August 2005. Prior to that time we did not have any significant activities or assets. Consequently, we are not able to compare results of operations for the three months ended June 30, 2006 to any earlier period.

*Net Sales.*

For the three months ended June 30, 2006, our oil and gas net sales were \$90,761. Three additional wells began producing at the end of period which resulted in an increased revenue rate in the three month period ending June 30, 2006. We are still in the operational development stage of our exploration program. Accordingly, we do not expect to generate substantial revenues during the majority of 2006 until the completion of the initial stages of our drilling program.

*General and Administrative Expenses.*

For the three months ended June 30, 2006, general and administrative expenses were \$641,060. A total of \$171,086 was for costs associated with our continuing general and administrative expense, \$219,245 was for professional fees principally associated with capital raising activities, and \$250,729 was for compensation expense for employees. During the period, we incurred higher professional expenses as a result of higher third party investor relation fees and higher legal and accounting fees due to the preparation and filing of our registration statement on Form SB-2 with the Securities and Exchange Commission.

*Net Loss.*

For the three months ended June 30, 2006, we had a net loss \$587,020. Lower compensation expense and a slight improvement in revenues reduced the loss rate versus the prior period. The net loss is primarily attributable to minimal operating revenues to support general and administrative costs until such time as we achieve operating results from our drilling program.

**Liquidity and Capital Resources**

As of June 30, 2006, we had cash of \$4,649,432 and working capital of \$2,235,623. We expect to have monthly overhead costs of approximately \$200,000 per month for the next twelve months. Since our inception, our primary sources of liquidity have been generated by the sale of equity securities (including the issuance of securities in exchange for goods and services to third parties and to pay costs of employees). To date, the net proceeds from the sales of securities have been used to fund our exploration programs and our general and administrative costs including substantial costs for the registration of our securities. Our future liquidity and our liquidity in the next twelve months depend on the success of our exploration programs and our continued ability to obtain sources of capital to fund our continuing development.



On October 31, 2005, we raised an aggregate of \$8,000,000 (\$7,243,056 net of offering costs) through the sale of 20,000,000 shares of common stock and warrants to purchase 10,000,000 shares of common stock at an exercise price of \$0.75 and a term of 2 years. As of June 30, 2006, 400,000 warrants to purchase our common stock have been exercised on a cashless basis.

In March and April 2006, we raised an aggregate of \$11,560,000 (\$10,629,394 net of offering costs) through the sale of 5,780,000 shares of common stock and warrants to purchase 5,780,000 shares of common stock at an exercise price of \$2.75 and a term of 2 years.

#### **Cash flow from operating activities**

For the six month period ended June 30, 2006, cash flow from operating activities was \$308,594 primarily attributed to a net loss of \$1,260,633 in the period offset by an increase in accounts payable of \$1,433,603.

#### **Cash flow from investing activities**

For the six month period ended June 30, 2006, net cash used in investing activities was \$8,394,305, driven primarily by our investment in oil and gas properties in the Ft. Worth Basin and an initial investment in properties in the Arkhoma Basin.

#### **Cash flow from financing activities**

For the six month period ended June 30, 2006, net cash provided by financing activities was \$10,629,394, which was attributed to our sale of common stock and purchase warrants. At June 30, 2006, Calibre had received net proceeds from stock issuances of \$10,629,394 (gross proceeds of \$11,560,000 less \$930,606 of offering costs).

#### **Related Party Transactions**

We are party to a letter agreement with Kerogen Resources pursuant to which we are participating in the Reichmann project. During the six month period ending June 30, 2006, pursuant to such agreement we have paid \$3,068,182 to Kerogen, including \$1,706,539 in the three month period ending June 30, 2006. Kerogen then paid such amount to Reichmann Petroleum Corporation as reimbursement of operating expenses.

We have entered into a Participation Agreement with Kerogen Resources for the exploration and development of prospects in the South Fort Worth Basin. Pursuant to this agreement we are obligated to pay Kerogen Resources \$597,000 for its identification of prospects; we have paid Kerogen Resources \$500,000 of such amount to date, although no payments were made in the six months ending June 30, 2006 under this agreement. Additionally, during the six month period, we have advanced \$1,184,154 to Kerogen for participation in leases in the Hill County area of Texas, including \$517,517 in the three months ending June 30, 2006.

We have entered into a Participation Agreement with Kerogen Resources for the exploration and development of prospects in the Williston Basin. Pursuant to this agreement we are obligated to pay Kerogen Resources \$638,600 for its identification of prospects; we have paid Kerogen Resources \$550,000 of such amount to date. However, we made no payments to Kerogen during the six months ending June 30, 2006 in respect to this agreement.

We believe all of the transactions with related parties have been on terms no less favorable to us than those terms which may have been obtained from unrelated third parties.

### **Quarter Ended March 31, 2006**

#### *Oil and Gas Revenues.*

For the quarter ended March 31, 2006, our oil and gas sales were \$39,342, the majority of it coming from our first two producing wells in the Reichmann project. Oil and gas revenues are derived from our proportionate share of working interests in oil and gas properties.

#### *General and Administrative Expenses.*

For the three months ended March 31, 2006, general and administrative expenses were \$713,440. A total of \$311,866 was for actual costs associated with our general and administrative expense, \$246,568 was for professional fees, \$155,006 was for compensation expense.

#### *Net loss.*

For the three months ended March 31, 2006, we had a net loss of \$673,612 or (\$0.01) per share (basic and diluted). The net loss is primarily attributable to minimal operating revenues to support general and administrative costs until such time as we achieve operating results from our drilling program.

### **Liquidity and Capital Resources**

As of March 31, 2006, we had cash of \$4,308,654 and working capital of \$3,230,269. Since our inception, our primary sources of liquidity have been generated by the sale of equity securities (including the issuance of securities in exchange for goods and services to third parties and to pay costs of employees). To date, the net proceeds from the sales of securities have been used to fund our exploration programs and our general and administrative costs. Our future liquidity depends on the success of our exploration programs and our continued ability to obtain sources of capital to fund our continuing development.

On October 31, 2005, we raised an aggregate of \$8,000,000 (\$7,243,056 net of offering costs) through the sale of 20,000,000 shares of common stock and warrants to purchase 10,000,000 shares of common stock at an exercise price of \$0.75 and a term of 2 years. As of March 31, 2006, 400,000 warrants to purchase our common stock have been exercised.

In March and April 2006, we raised an aggregate of \$11,560,000 (\$10,668,000 net of offering costs) through the sale of 5,780,000 shares of common stock and warrants to purchase 5,780,000 shares of common stock at an exercise price of \$2.75 and a term of 2 years.

#### **Cash flow from operating activities**

For the three month period ending March 31, 2006 cash provided by (used in) operating activities was (141,946), primarily attributed to a net loss of \$673,612 in the period and to an increase in accounts payable of \$397,885.

### **Cash flow from investing activities**

For the three month period ending March 31, 2006, net cash provided by (used in) investing activities was (\$3,469,743), driven primarily by our investment in oil and gas properties in the Ft. Worth Basin.

### **Cash flow from financing activities**

For the three month period ending March 31, 2006, net cash provided by (used in) financing activities was \$5,814,594, which was attributed to our sale of common stock and purchase warrants. At March 31, 2006, Calibre had received net proceeds from stock issuances of \$5,814,594 (gross proceeds of \$6,320,000 less \$505,406 of offering costs).

### **Period Ended December 31, 2005**

#### *Oil and Gas Revenues.*

For the period from inception (August 17, 2005) to December 31, 2005 our oil and gas net sales were \$20,778, Oil and gas revenues are derived from our proportionate share of working interests in oil and gas properties.

#### *General and Administrative Expenses.*

For the period from inception (August 17, 2005) to December 31, 2005 general and administrative expenses were \$1,893,602. A total of \$273,585 was for actual costs associated with our general and administrative expense, \$115,517 was for salary and wages for employees, and \$1,504,500 since inception was a non-cash compensation expense associated with stock and options granted to our founders and management who we believe are key to the development of our business.

#### *Net loss.*

For the period from inception (August 17, 2005) to December 31, 2005, we had a net loss for the year ended December 31, 2005, of \$1,901,651 or (\$0.05) per share (basic and diluted).

### **Liquidity and Capital Resources**

Since our inception, our primary sources of liquidity have been generated by the sale of equity securities (including the issuance of securities in exchange for goods and services to third parties and to pay costs of employees).

On October 31, 2005, we raised an aggregate of \$8,000,000 (\$7,243,056 net of offering costs) through the sale of 20,000,000 shares of common stock and warrants to purchase 10,000,000 shares of common stock at an exercise price of \$0.75. The terms of the warrants are described in this prospectus under "Description of Securities." As of June 15, 2006, 400,000 warrants to purchase our common stock have been exercised. As of December 31, 2005, we had cash of \$2,105,749. In March and April 2006, we raised an aggregate of \$11,560,000 (\$10,668,000 net of offering costs) through the sale of 5,780,000 shares of common stock and warrants to purchase 5,780,000 shares of common stock at an exercise price of \$2.75. The terms of the Warrants are described in this prospectus under "Description of Securities."



**Cash flow from operating activities**

For the period from August 17, 2005 to December 31, 2005, cash provided by operating activities was 566,352 which consists of our net loss of \$1,901,651, the adjustment to for the non-cash expense of stock options granted for services and an increase in accounts payable of \$1,045,482.

**Cash flow from investing activities**

For the period from August 17, 2005 to December 31, 2005, net cash provided by investing activities was (\$5,730,659), driven primarily by our investment in oil and gas properties in the Ft. Worth Basin.

**Cash flow from financing activities**

For the period from August 17, 2005 to December 31, 2005, net cash provided by financing activities was \$7,270,056, which was attributed to our sale of common stock and purchase warrants. On October 31, 2005, we raised an aggregate of \$8,000,000 (\$7,243,056 net of offering costs) through the sale of 20,000,000 shares of common stock and warrants to purchase 10,000,000 shares of common stock at an exercise price of \$0.75.

**Future capital expenditures and commitments**

Expenditures for exploration and development of oil and natural gas properties and lands costs related to the acquisition of non-producing leasehold are the primary use of our capital resources. Our budgeted capital and exploration and development expenditures are expected to be approximately \$19.5 million in 2006 as follows (in millions):

	<b>Amount</b>
General & Administrative and Capital Costs	\$ 3.0
Exploration & development drilling	9.5
Land costs	6.5
Seismic	.5
<b>Total</b>	<b>\$ 19.5</b>

As of August 15, 2006, we believe that our remaining cash balance and revenues from existing projects will be sufficient to cover our current liabilities, obligations and contractual commitments for 2006 but will not be sufficient to fund all budgeted development and drilling of our existing projects, or to fund the acquisition of all budgeted land costs, as discussed above in our 2006 capital budget. We will need to raise additional capital through the sale of equity and/or debt securities to fully meet our 2006 capital budget. Failure to raise necessary capital or generate sufficient cash flow from operations in 2006 will cause us to curtail or eliminate certain development and drilling of existing and planned projects as well as a curtail the acquisition of land costs as highlighted in our 2006 capital budget.

As a result, the actual amount and timing of our capital expenditures may differ materially from our estimates. Some of the other factors which may prevent us from meeting our 2006 capital budget are among other things, actual drilling results, cost overruns, the availability of drilling rigs and other services and equipment, regulatory, technological and competitive developments, and all such other assumptions referenced in this report.

**Hedging**

We did not hedge any of our oil or natural gas production during 2005 and have not entered into any such hedges from January 1, 2006 through the date of this filing.

**Contractual Commitments**

	<b>Total</b>	<b>Less Than 1 Year</b>	<b>Payments Due By Period</b>	
			<b>1-3 Years</b>	<b>3-5 Years</b>
<b>Contractual Obligations</b>				
<b>Operating Lease</b>				
<b>Contract Obligations</b>	\$ 522,817	\$ 190,257	\$ 195,253	\$ 137,307
<b>Drilling Wells in Progress</b>	\$ 3,490,000	\$ 3,490,000		
<b>Total</b>	\$ 4,012,817	\$ 3,680,257	\$ 195,253	\$ 137,307

As of August 1, 2006, all of our drilling well obligations are associated with the Reichmann Petroleum project. Our contract obligations are associated with our office leases in Washington, D.C. and Houston, TX. We had no long-term debt obligations, capital lease obligations, purchase obligations or other long-term liabilities reflected on the balance sheet.

**Off-Balance Sheet Arrangements**

As of June 15, 2006, we had no off-balance sheet arrangements.

**Related Party Transactions**

For more information on these transactions, please read "Certain Relationships and Related Party Transactions" in this prospectus.

**Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our most significant judgments and estimates used in preparation of our consolidated financial statements.

*Reverse Acquisition.* We treated the merger of Calibre Energy, Inc., a Delaware corporation, into a subsidiary of Hardwood Doors and Milling Specialties, Inc. as a reverse acquisition. Pursuant to the guidance in Appendix B of SEC Accounting Disclosure Rules and Practices Official Text, the "merger of a private operating company into a non-operating public shell corporation with nominal net assets typically results in the owners and management of the private company having actual or effective operating control of the combined company after the transaction, with the shareholders of the former public shell continuing only as passive investors. These transactions are considered by the staff to be capital transactions in substance, rather than business combinations. That is, the



transaction is equivalent to the issuance of stock by the private company for the net monetary assets of the shell corporation, accompanied by a recapitalization.” Accordingly, the reverse acquisition has been accounted for as a recapitalization. For accounting purposes, the original Calibre Energy, Inc. is considered the acquirer in the reverse acquisition. The historical financial statements are those of the original Calibre Energy, Inc. Earnings per share for periods prior to the merger are restated to reflect the number of equivalent shares received by the acquiring company.

*Revenue recognition.* We derive substantially all of our revenues from the sale of oil and natural gas. Oil and gas revenues are recorded in the month the product is delivered to the purchaser and title transfers. We generally receive payment from one to three months after the sale has occurred. Each month we estimate the volumes sold and the price at which they were sold to record revenue. Variances between estimated revenue and actual amounts are recorded in the month payment is received.

*Oil and Gas Properties.* We follow the full cost method of accounting for oil and gas properties. Accordingly, all costs associated with acquisition, exploration, and development of oil and gas reserves, including directly related overhead costs and related asset retirement costs, are capitalized.

All capitalized costs of oil and gas properties, including the estimated future costs to develop proved reserves, are amortized on the unit-of-production method using estimates of proved reserves. Investments in unproved properties and major development projects in progress are not amortized until proved reserves associated with the projects can be determined and are periodically assessed for impairment. If the results of an assessment indicate that the properties are impaired, such impairment is added to the costs being amortized and is subject to the ceiling test.

In addition, the capitalized costs are subject to a “ceiling test,” which basically limits such costs to the aggregate of the “estimated present value,” discounted at a 10-percent interest rate of future net revenues from proved reserves, based on current economic and operating conditions, plus the lower of cost or fair market value of unproved properties.

Sales of proved and unproved properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in income.

Abandonments of properties are accounted for as adjustments of capitalized costs with no loss recognized.

*Oil and Gas Properties Not Subject to Amortization.* We are currently participating in oil and gas exploration and development activities. As of December 31, 2005, substantially all of our activities are in a preliminary exploration and drilling stage. Upon completion of development of each property, we make an estimate of proved producing reserves associated with such property. Until such time, property, development and exploratory costs are excluded in computing amortization.

Calibre is currently participating in oil and gas exploration and development activities. At December 31, 2005, a determination could not be made about the extent of oil reserves that should be classified as proved reserves. Consequently, all the property, development and exploratory costs have been excluded in computing amortization. Calibre will begin to amortize these costs when these projects are evaluated, which is currently estimated to be at the end of 2006

Depreciation, depletion and amortization, or DD&A, of capitalized drilling and development costs of oil and natural gas properties are generally computed using the unit of production method on an individual property or unit basis based on total estimated proved developed oil and natural gas reserves. Amortization of producing leasehold is based on the unit-of-production method using total estimated proved reserves. In arriving at rates under the unit-of-production method, the quantities of recoverable oil and natural gas are established based on estimates made by our geologists and engineers and independent engineers. Service properties, equipment and other assets are depreciated using the straight-line method over estimated useful lives of 5 to 40 years. Upon sale or retirement of depreciable or depletable property, the cost and related accumulated DD&A are eliminated from the accounts and the resulting gain or loss is recognized.

Non-producing properties consist of undeveloped leasehold costs and costs associated with the purchase of certain proved undeveloped reserves. Undeveloped leasehold cost is expensed over the life of the lease or transferred to the associated producing properties. Individually significant non-producing properties are periodically assessed for impairment of value and a loss is recognized.

*Oil and natural gas reserves and standardized measure of future cash flows.* Our independent engineers and technical staff prepare the estimates of our oil and natural gas reserves and associated future net cash flows. Current accounting guidance allows only proved oil and natural gas reserves to be included in our financial statement disclosures. The SEC has defined proved reserves as the estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Even though our independent engineers and technical staff are knowledgeable and follow authoritative guidelines for estimating reserves, they must make a number of subjective assumptions based on professional judgments in developing the reserve estimates. Reserve estimates are updated at least annually and consider recent production levels and other technical information about each field. Periodic revisions to the estimated reserves and future cash flows may be necessary as a result of a number of factors, including reservoir performance, new drilling, oil and natural gas prices and cost changes, technological advances, new geological or geophysical data, or other economic factors. We cannot predict the amounts or timing of future reserve revisions. If such revisions are significant, they could significantly alter future DD&A and result in impairment of assets that may be material.

*Impairment of Long-Lived Assets.* We review long-lived assets and certain identifiable assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, further impairment analysis is performed. An impairment loss is measured as the amount by which the carrying amount exceeds the fair value of assets.

*Employee Stock Plan.* In December 2004, the FASB issued SFAS No.123R, "Accounting for Stock-Based Compensation" ("SFAS No. 123R"). SFAS No.123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No.123R requires that the fair value of such equity instruments be recognized as expense in the historical financial statements as services are performed. Prior to SFAS No.123R, only certain pro forma disclosures of fair value were required. SFAS No.123R shall be effective for small business issuers as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. Calibre will adopt SFAS No. 123R as of January 1, 2006.

We have a stock-based compensation plan, which is described more fully in Note 6. As permitted under generally accepted accounting principles, we account for the plan under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, stock-based employee compensation cost has been recognized, as all options granted under the plan had an exercise price less than the market value of the underlying common stock on the date of



grant, see note 5 for more information. There would be minimal effect on the net loss had compensation cost for the stock-based compensation plan been determined based on the grant date fair values of awards (the method described in FASB Statement No. 123, Accounting for Stock-Based Compensation).

*Consolidation of Variable Interest Entities.* In January 2003, the FASB issued Interpretation No. 46(R) (“FIN 46”), Consolidation of Variable Interest Entities. FIN 46 addresses consolidation by business enterprises of variable interest entities (formerly special purpose entities). In general, a variable interest entity is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights nor (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. The objective of FIN 46 is not to restrict the use of variable interest entities, but to improve financial reporting by companies involved with variable interest entities. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity’s activities or entitled to receive a majority of the entity’s residual returns or both. The consolidation requirements are effective for the first period that ends after March 15, 2004; we elected to adopt the requirements effective for the reporting period ending December 31, 2005. The adoption of FIN 46 had no effect on our consolidated financial statements.

### **Change of Accountants**

Effective April 7, 2006, our Board of Directors, determined to change our independent accountants and dismissed Jones Simkins, PC as our independent registered public accounting firm. The Audit Committee of the Board of Directors and the Board of Directors approved the decision to change independent auditors. Jones Simkins, PC had served as our Independent Registered Public Accountant since June 1, 2001 and audited our financial statements for the period June 1, 2001 through December 31, 2005.

During our two most recent fiscal years, ending December 31, 2004 and 2005, (i) there were no disagreements between us and Jones Simkins on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to the satisfaction of Jones Simkins would have caused Jones Simkins to make reference to the matter in its reports on our financial statements, and (ii) Jones Simkins’ report on our financial statements did not contain any adverse opinion or disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope, or accounting principles with the exception of the following “going concern” qualification:

“As of December 31, 2005, the Company’s revenue generating activities are not in place, and the Company has incurred losses since inception. These factors raise substantial doubt about the Company’s ability to continue as a going concern. Management intends to seek additional funding through business ventures. There can be no assurance that such funds will be available to the Company or available on terms acceptable to the Company. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.”

On April 4, 2006, our Audit Committee recommended the engagement of Malone & Bailey, PC as our independent registered public accounting firm. Our Board of Directors appointed Malone & Bailey as our Independent Registered Public Accountant effective April 7, 2006.

## OUR BUSINESS

### Industry

#### *US Gas Market*

Demand for natural gas in the United States has grown significantly in recent years. The Energy Information Administration in its Annual Energy Outlook 2004 estimates that natural gas demand in the United States could be 31.41 trillion cubic feet (“tcf”) by the year 2025. That is an increase of 40 percent over 2004 demand levels of 22.8 tcf. That is compared to an expected total energy consumption increase from all sources of 40 percent increasing from 97.7 quadrillion British thermal units (“BTU”) to 136.5 quadrillion BTUs by 2020. The Energy Information Administration predicts a 1.6 percent annual increase in total domestic energy demand over the next 21 years.

In 2006, total domestic energy demand is projected by Energy Information Administration to increase at an annual rate of about 1.4 percent, despite continued concerns about tight supplies and projected high prices for oil and natural gas. Prices for crude oil, petroleum products, and natural gas are projected to remain high through 2006 because of continuing tight international supplies and hurricane-induced supply losses.

#### *History of Gas Shale Development*

The first shale gas production in the United States came from the Appalachian Basin, where by 1926 the Devonian shale gas fields were the world’s largest known occurrence of natural gas. Presently, commercial gas shale production in North America is limited to the Barnett Shale in the Ft. Worth Basin, the Caney/Woodford and Fayetteville shales in the Arkoma Basin in Oklahoma and Arkansas, the Devonian shales in the Appalachian Basin, the Antrim shale in the Michigan Basin, the Floyd shale in the Black Warrior Basin, the Lewis shale in the San Juan Basin, the Bakkan shale in the Williston Basin, and the Mississippian/Devonian shales in the Delaware Basin. Numerous other basins with prospective shale gas exist, many of which are currently being explored.

Gas shales are currently one of the most active drilling plays in the United States as a result of high gas prices, the success of such wells in the Barnett Shale in the Fort Worth Basin, technological advancements in drilling and completions, and predicted near-term shortages of natural gas. Furthermore, gas shale development may also be supported by the fact current wells are often behind pipe in developed basins where conventional production is declining, an underutilized gathering infrastructure exists and markets are accessible.

The Barnett Shale serves as source, seal, and reservoir to a world-class, unconventional natural-gas accumulation in the Ft. Worth Basin of north-central Texas. The formation is a lithologically complex interval of low permeability that requires artificial stimulation to produce. Shale depths range from 3,500 to 9,000 feet, with 200 to 400 feet of gross pay, 85% of which may be productive. Initial production was confined to a limited portion of the northern basin where the Barnett Shale is relatively thick (in excess of 300ft), organic rich (present-day total organic carbon in excess of 3.0%), thermally mature (vitrinite reflectance in excess of 1.1%), and enclosed by dense limestone units able to contain induced fractures. However, the area of production has expanded into Tarrant, Johnson, Hill, Sommerville, Hood, and Bosque Counties. Thermal maturities are key to economic viability with oil-bearing shales in the northwest of the basin grading to dry gas towards the southeast. As of the end of 2005, there have been more than 4,600 wells drilled and completed in the Barnett Shale that produce more than 1.2 billion cubic feet (“bcf”) of gas per day. Cumulative gas production from Barnett Shale wells through 2004 was about 1.2 tcf of gas.



## **Business Strategy**

Our goal is to expand and develop our exploration and production business and our reserves by initially emphasizing the identification and development of oil and gas opportunities in the Barnett Shale, the Fayetteville Shale and Kurdistan Iraq. We believe that both the Mississippian developments of the Barnett Shale in the Ft. Worth Basin and the Fayetteville Shale development in the Arkoma Basin provide the greatest near term economic value to us. Calibre's expansion into Iraqi Kurdistan, a country with the world's fourth largest proven oil reserves, builds on the Company's drilling and leasing activities focused in the Barnett Shale in North Texas initiated in 2005.

Because the experience of our current management team and project partners, we have the potential to execute quickly in identifying opportunities and capturing a land position. Some exploration and production companies take up to one year to obtain rights to the land and an additional year to evaluate the land for the first well. We believe we can shorten the total time for obtaining rights and evaluation to one year and then commence development in the second year.

## **Our Projects**

Currently our growth depends heavily on the performance of our operating partners, to execute drilling and completion programs in an environment where shortages of equipment and talent are resulting in the escalation of costs. We have no current capability to act as an operator at this time as additional legal, land, drilling, and completion personnel will also be required for us to expand our operations and to act as an operator. Our senior management team will have to hire additional expertise in operations and finance to make a successful transition into a full operating company. However, in the future we will seek to operate wells in which we own an interest as we believe that by controlling operations, we will be able to more effectively manage the cost and timing of exploration and development of our properties, including the drilling and fracture stimulation methods used.

### *Projects with Kerogen Resources*

We are currently participating in three projects with Kerogen Resources, Inc., a small, privately held, recently formed exploration and production company, located in Houston, Texas. These are as follows:

#### *Reichmann Petroleum Corporation Project*

The first project is a joint venture with Kerogen Resources, Crosby Minerals and Reichmann Petroleum Corporation to explore, acquire and develop properties located in the Barnett Shale in the Ft. Worth Basin of North Texas. In October 2005 we acquired, through Kerogen Resources, a 12.5% working interest in 6,190 net acres of leasehold interests in Parker, Tarrant, Denton, and Johnson Counties, Texas. Subsequent to the initial acquisition, we purchased a 25% working interest in 443 net acres of leasehold interests from Reichmann Petroleum in Johnson County, Texas. Kerogen Resources provides the technical guidance for the project and in exchange will receive 12.5% of our working interest in each well drilled. As of June 15, 2006, we have paid Kerogen a total \$6,708,758, of which \$3,529,098 was for the 12.5% working interest in the initial 6,190 acres, prepayment of drilling costs on 12 wells and for the 25% working interest in the leasehold interest in Johnson County and \$1,655,401 was for operating costs (ie, drilling and completion costs) of the JV since the original payment. Kerogen then paid such amounts to Reichmann Petroleum Corporation as reimbursement of leasehold costs, drilling and operating expenses. As of June 15, 2006, our net acreage position subject to the Reichmann agreement is 773.94 net acres. As of June 15, 2006, we owed of \$1,910,667 as our share of the development and operating costs for the wells in this joint venture.

As of June 15, 2006, Calibre has participated in 22 gross wells. Four wells are currently producing, nine wells have been drilled, completed and fraced and are waiting to be hooked up to a pipeline, four wells have been drilled, completed and are cleaning up after being frac prior to being hooked up to a gas gathering line, three wells have been drilled to total depth, completed and are waiting to be fraced, and two wells are currently drilling. "Frac" or Fracture stimulation is a method of stimulating production by opening new flow channels in the rock surrounding a production well by pumping proppant, a granular substance that is carried into the formation by the fracturing fluid and helps keep the cracks open after a fracture treatment, and fluid into the well at high pressure and volume.

#### *South Ft. Worth Basin Project*

In October 2005, we entered into a Participation Agreement for the exploration and development of wells in a portion of the South Ft. Worth Basin with Kerogen Resources, Wynn Crosby Energy, Inc. ("Crosby"), and Triangle USA ("Triangle"). The agreement covers a five county area of approximately 1.5 million acres and consists of all lands in these counties outside areas of mutual interest covered by the Reichmann project. Kerogen Resources is expected to generate shale gas prospects in the area subject to the agreement. Calibre is obligated to pay Kerogen Resources \$597,600 for its generation of shale gas prospects within the five county area. As of June 15, 2006 Calibre has paid \$500,000 of this amount and the balance is due upon the delivery of Kerogen Resources' technical report.

The Participation Agreement is for a two year term. Kerogen Resources, as the technical partner in charge of generating the prospect areas, pays 10% of the costs in exchange for a 16% working interest. Each of Triangle and us will pay 30% of costs for a 27% working interest and Crosby, as operator, will pay 30% of costs for a 30% working interest. Crosby intends to purchase three drilling rigs, which are to be dedicated to this project. The agreement would bind all parties to the same area of mutual interest. Each party is permitted to obtain oil and gas leases in the territory, but must offer to assign to the other parties the percentage interest in the leases described above. Prospects are defined by agreement of the parties. The operator of a lease may require the other parties to advance payments for their respective percentages of the costs for leases or drilling of the lease.

Crosby has engaged 12 independent land brokers to identify leases for purchase. As of June 15, 2006, Crosby has leased approximately 11,710.87 net leasehold acres. Our net leasehold position pursuant to this agreement is 3,161.93 acres. We have advanced \$1,184,154 to Kerogen for participation in these leases in the Ft. Worth Basin of Texas. We anticipate Calibre will acquire an additional 5,000 to 7,500 net leasehold acres under the Participation Agreement in the next six months. Additionally, Kerogen has acquired a 12 square mile 3D seismic program over part of our joint leasehold position and we have elected to participate for our share of the costs of the seismic program. We anticipate that we will acquire additional 3D seismic over our other leasehold interests in 2006.

#### *Williston Basin Project*

On September 20, 2005 we entered into a Participation Agreement with Kerogen Resources covering all of the Williston Basin. Under this agreement, we are obligated to pay Kerogen Resources the sum of \$638,600 for generation of shale gas prospects in the Williston Basin. As of June 15, 2006 Calibre has paid \$550,000 to Kerogen Resources and the balance is due upon the delivery of Kerogen Resources' technical report. As of June 15, 2006 no acreage has been leased pursuant to this agreement. Kerogen Resources, as the technical partner in charge of generating the prospect areas, will pay 70% of the costs for a 73% working interest in the leasehold interests acquired subject to the agreement, and we pay 30% of the costs for a 27% working interest. Each party will control their own leases with obligations to offer any leases acquired to the rest of the group pro-rata. Prospects are defined based on land and range from 25,000 to 45,000 acres each. The operator on a lease may required participating parties to advance funds for leases or drilling.

*Additional Acreage*

In addition to the three joint venture projects with Kerogen Resources, as of June 15, 2006, we have acquired 5,318 gross leasehold acres and 3,417 net acres in the Barnett Shale outside of the areas covered by the Reichmann Petroleum JV, the South Ft. Worth Basin project and the Williston Basin project. We anticipate that we will commence development activities on these leases in the third quarter of 2006. Additionally, as of June 15, 2006, we have acquired 2,636 gross leasehold acres and 1,771 net leasehold acres in the Fayetteville Shale development in the Arkoma Basin in Arkansas.

“Gross leasehold acres” means the total number of acres in which we have a working interest. “Net leasehold acres” means the sum of the fractional working interests we have in the gross leasehold interests.

*Bina Bawi Project*

On September 13, 2006, we entered into a Novation and Amendment Agreement ("Novation Agreement") among Hawler Energy, Ltd. ("Hawler Energy"), a Cayman Islands company, A & T Petroleum Company, Ltd. ("A & T"), a Cayman Islands company, and Hillwood Energy, Ltd. ("Hillwood"), a Cayman Islands company. Pursuant to the Novation Agreement we became parties to the Exploration and Production Sharing Agreement ("the EPSA") dated March 29, 2006 between A&T, Hawler and the Oil and Gas Petroleum Establishment of the Kurdistan Regional Government (the "OGE"). Our admission as a party to the EPSA is subject to the approval of the OGE. We have applied to the OGE for such approval.

The Bana-Bawu structure (also known as Bina Bawi) structure is a 30 kilometer by 10 kilometer surface anticline, which may contain primary oil reserves within the Triassic reservoir objective and secondary reserve potential in the Lower Cretaceous and Jurassic sections of the structure. An initial exploration well (Bina Bawi-1) is expected to be drilled to a target depth of 3,050 meters.

Pursuant to the terms of the EPSA, the OGE grants the other parties the right to explore and produce oil and natural gas from certain territory that includes the Bana-Bawu. Upon receipt of the OGE's approval of our becoming a party to the EPSA, we will have a 10% participating interest in the wells drilled pursuant to the EPSA. The EPSA requires the parties to conduct certain survey work, drill one exploratory well and, if the exploratory well is determined to be sufficiently profitable, to conduct certain seismic surveys. The total estimated cost for all parties in the EPSA of the initial survey work and the exploratory well is \$2.7 million; the estimated cost of the seismic surveys is approximately \$4.0 million. The EPSA requires the parties thereto to pay OGE a bonus of \$2.5 million upon a "Commercial Discovery," as defined in the EPSA, and to pay other cash bonuses and royalties upon achieving certain production levels.

We have entered into a separate letter agreement with Hawler Energy pursuant to which, in consideration of Hawler Energy's assignment to us of the 10% working interest through the Novation Agreement, we agreed to pay Hawler Energy \$2 million on execution of the letter agreement and \$1 million upon completion of the first well under the EPSA, whether it is capable of production or a dry hole. In addition we agreed to pay 20% of all billings, including cash calls, made to Hawler Energy by A&T, as operator, after August 1, 2006 and we further agreed to pay Hawler Energy the remaining 80% of all such billings until the total of such payments equals \$2.5 million. Upon OGE approval of the assignment to us and payment of \$2.5 million as provided in the prior sentence, we will be obligated to pay the future costs properly payable by the holder of a 10% participating interest in the project.

We also have entered into a letter agreement with Hawler Energy pursuant to which each party grants the other party the right to participate in the next acquisition by the party of any rights or interests for the exploration or production of oil and gas in the area of the Kurdistan Regional Government of Iraq; provided however such area does not include that area pursuant to which Hawler Energy has already granted certain rights to other third parties. Pursuant to this letter agreement we will have the right to obtain a 9% interest in such an acquisition by Hawler Energy and Hawler

Energy will have the right to obtain a 91% interest in such an interest by us.

### Employees

As of June 15, 2006 we employed five people, none of which are subject to a collective bargaining agreement. We consider our relations with our employees to be good.

### Properties

*Reserves.* As of June 15, 2006, we have 4 producing wells in which we have an interest and have recently commenced production. Our net working interest in each of these wells is 10.9375%.

The following table presents summary data with respect to our estimated net proved oil and natural gas reserves as of the dates indicated. Our reserve estimates as of December 31, 2005 are based primarily on reserve reports prepared by Ryder Scott Company, L.P., our independent reserve engineers. In preparing its reports, Ryder Scott Company, L.P. evaluated properties representing approximately 100% of our PV-10 as of December 31, 2005. All calculations of estimated net proved reserves have been made in accordance with the rules and regulations of the Securities and Exchange Commission, or the SEC.

	<b>Gas (Mcf)</b>	<b>Oil (MBbls)</b>
Total Proved Reserves:		
Balance, August 17, 2005	—	—
Extensions, discoveries and improved production	69,000	
Production	(3,000)	—
Balance, December 31, 2005	66,000	—

*Well Status Summary.* The well status of our drilling operations is as follows:

	<b>Number of Gross Wells</b>
Producing	4
Fraced & Waiting on Gas Line Hookup	9
Drilled, Completed, Fraced and Cleaning Up	4
Waiting on Fracture Treatment	3
Drilling	2
<b>Total</b>	<b>22</b>

In addition, we have interest in four wells that are currently producing, nine wells that have been drilled, completed and fraced and are waiting to be hooked up to a pipeline, four wells that have been drilled, completed and are cleaning up after being frac prior to being hooked up to a gas gathering line, three wells that have been drilled to total depth, completed and are waiting to be fraced, and two wells that are currently drilling. Our gross and net gas well ownership position is as follows:

	<b>Gross Wells</b>	<b>Net Wells</b>
Reichmann Petroleum Corporation Project	22	2.54

During the period ending December 31, 2005, the average sales price per unit of gas produced was \$6.63 and the average lifting costs was \$4.30. Our production has only recently commenced.

*Developed and Undeveloped Leasehold.* As of June 15, 2006, We have the following developed and undeveloped leasehold interests:

Developed Acreage

	<b>Gross Leasehold</b>	<b>Net Leasehold</b>
Reichmann Petroleum Corporation Project	303	33
Total	303	33

Undeveloped Acreage

	<b>Gross Leasehold</b>	<b>Net Leasehold</b>
Reichmann Petroleum Corporation Project	6,330	741
So. Ft. Worth Basin Project	11,711	3,162
Other Ft. Worth Basin	5,316	3,417
Williston Basin Project	0	0
Arkoma Basin	2,636	1,771
Total	25,993	9,088

Our oil and gas properties consist primarily of working interests in oil and gas wells and our ownership of interests in leasehold acreage, both developed and undeveloped. The table above summarizes our gross and net developed and

undeveloped oil and natural gas acreage under lease or option as of June 1, 2006. A developed acre is considered to be an acre spaced or assignable to productive wells. A gross acre is an acre in which a working interest is owned. A net acre is the result that is obtained when our fractional

ownership working interest is multiplied by gross acres. The number of net acres is the sum of the fractional working interests owned in gross acres expressed as whole numbers and fractions thereof. Undeveloped acreage is considered to be those lease acres on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil or natural gas, regardless of whether that acreage contains proved reserves, but does not include undrilled acreage held by production under the terms of a lease. As is customary in the oil and gas industry, we can generally retain our interest in undeveloped acreage by drilling activity that establishes commercial production sufficient to maintain the leases or by paying delay rentals during the remaining primary term of leases. The oil and natural gas leases in which we have an interest are for varying primary terms, and if production under a lease continues from our developed lease acreage beyond the primary term, we are entitled to hold the lease for as long as oil or natural gas is produced.

*Office Lease.* Calibre Energy, Inc. also leases 2,360 square feet of office space in Washington, D.C. that serves as its corporate office. The lease is at market rates and expires in October 2008. Additionally, Calibre has an operations office of 4,000 square feet in Houston, Texas.. The lease is at market rates and expires in August 30, 2011.

## **Government Regulation**

### *Regulation of transportation of oil*

Sales of crude oil, condensate and natural gas liquids are not currently regulated and are made at negotiated prices. Nevertheless, Congress could reenact price controls in the future.

Our sales of crude oil are affected by the availability, terms and cost of transportation. The transportation of oil in common carrier pipelines is also subject to rate regulation. The Federal Energy Regulatory Commission, or the FERC, regulates interstate oil pipeline transportation rates under the Interstate Commerce Act. In general, interstate oil pipeline rates must be cost-based, although settlement rates agreed to by all shippers are permitted and market-based rates may be permitted in certain circumstances. Effective January 1, 1995, the FERC implemented regulations establishing an indexing system (based on inflation) for transportation rates for oil that allowed for an increase or decrease in the cost of transporting oil to the purchaser. A review of these regulations by the FERC in 2000 was successfully challenged on appeal by an association of oil pipelines. On remand, the FERC in February 2003 increased the index slightly, effective July 2001. Intrastate oil pipeline transportation rates are subject to regulation by state regulatory commissions. The basis for intrastate oil pipeline regulation, and the degree of regulatory oversight and scrutiny given to intrastate oil pipeline rates, varies from state to state. Insofar as effective interstate and intrastate rates are equally applicable to all comparable shippers, we believe that the regulation of oil transportation rates will not affect our operations in any way that is of material difference from those of our competitors.

Further, interstate and intrastate common carrier oil pipelines must provide service on a non-discriminatory basis. Under this open access standard, common carriers must offer service to all similarly situated shippers requesting service on the same terms and under the same rates. When oil pipelines operate at full capacity, access is governed by prorationing provisions set forth in the pipelines' published tariffs. Accordingly, we believe that access to oil pipeline transportation services generally will be available to us to the same extent as to our competitors.

### *Regulation of transportation and sale of natural gas*

Historically, the transportation and sale for resale of natural gas in interstate commerce have been regulated pursuant to the Natural Gas Act of 1938, the Natural Gas Policy Act of 1978 and regulations issued under those Acts by the FERC. In the past, the federal government has regulated the prices at which natural gas could be sold. While sales by producers of natural gas can currently be made at uncontrolled market prices, Congress could reenact price controls in the future. Deregulation of wellhead natural gas sales began with the enactment of the Natural Gas Policy Act. In 1989, Congress enacted the Natural Gas Wellhead Decontrol Act. The Decontrol Act removed all Natural Gas Act and Natural Gas Policy Act price and non-price controls affecting wellhead sales of natural gas effective January 1, 1993.

FERC regulates interstate natural gas transportation rates and service conditions, which affects the marketing of natural gas that we produce, as well as the revenues we receive for sales of our natural gas. Since 1985, the FERC has endeavored to make natural gas transportation more accessible to natural gas buyers and sellers on an open and non-discriminatory basis. The FERC has stated that open access policies are necessary to improve the competitive structure of the interstate natural gas pipeline industry and to create a regulatory framework that will put natural gas sellers into more direct contractual relations with natural gas buyers by, among other things, unbundling the sale of natural gas from the sale of transportation and storage services. Beginning in 1992, the FERC issued Order No. 636 and a series of related orders to implement its open access policies. As a result of the Order No. 636 program, the marketing and pricing of natural gas have been significantly altered. The interstate pipelines' traditional role as wholesalers of natural gas has been eliminated and replaced by a structure under which pipelines provide transportation and storage service on an open access basis to others who buy and sell natural gas. Although the FERC's orders do not directly regulate natural gas producers, they are intended to foster increased competition within all phases of the natural gas industry.

In 2000, the FERC issued Order No. 637 and subsequent orders, which imposed a number of additional reforms designed to enhance competition in natural gas markets. Among other things, Order No. 637 effected changes in FERC regulations relating to scheduling procedures, capacity segmentation, penalties, rights of first refusal and information reporting. Most pipelines' tariff filings to implement the requirements of Order No. 637 have been accepted by the FERC and placed into effect.

Gathering service, which occurs upstream of jurisdictional transmission services, is regulated by the states on shore and in state waters. Although its policy is still in flux, FERC has reclassified certain jurisdictional transmission facilities as non-jurisdictional gathering facilities, which may increase our costs of getting gas to point of sale locations.

Intrastate natural gas transportation is also subject to regulation by state regulatory agencies. The basis for intrastate regulation of natural gas transportation and the degree of regulatory oversight and scrutiny given to intrastate natural gas pipeline rates and services varies from state to state. Insofar as such regulation within a particular state will generally affect all intrastate natural gas shippers within the state on a comparable basis, we believe that the regulation of similarly situated intrastate natural gas transportation in any states in which we operate and ship natural gas on an intrastate basis will not affect our operations in any way that is of material difference from those of our competitors. Like the regulation of interstate transportation rates, the regulation of intrastate transportation rates affects the marketing of natural gas that we produce, as well as the revenues we receive for sales of our natural gas.

#### *Regulation of production*

The production of oil and natural gas is subject to regulation under a wide range of local, state and federal statutes, rules, orders and regulations. Federal, state and local statutes and regulations require permits for drilling operations, drilling bonds and reports concerning operations. Such regulations govern conservation matters, including provisions for the unitization or pooling of oil and natural gas properties, the establishment of maximum allowable rates of production from oil and natural gas wells, the regulation of well spacing, and plugging and abandonment of wells. The effect of these regulations is to limit the amount of oil and natural gas that we can produce from our wells and to limit the number of wells or the locations at which we can drill, although we can apply for exceptions to such regulations or



to have reductions in well spacing. Moreover, each state generally imposes a production or severance tax with respect to the production and sale of oil, natural gas and natural gas liquids within its jurisdiction.

The failure to comply with these rules and regulations can result in substantial penalties. Our competitors in the oil and natural gas industry are subject to the same regulatory requirements and restrictions that affect our operations.

*Environmental, health and safety regulation*

*General.* Our operations are subject to stringent and complex federal, state, local and provincial laws and regulations governing environmental protection, health and safety, including the discharge of materials into the environment. These laws and regulations may, among other things:

- require the acquisition of various permits before drilling commences;
- restrict the types, quantities and concentration of various substances that can be released into the environment in connection with oil and natural gas drilling, production and transportation activities;
- limit or prohibit drilling activities on certain lands lying within wilderness, wetlands and other protected areas; and
  - require remedial measures to mitigate pollution from former and ongoing operations, such as requirements to close pits and plug abandoned wells.

These laws and regulations may also restrict the rate of oil and natural gas production below the rate that would otherwise be possible. The regulatory burden on the oil and gas industry increases the cost of doing business in the industry and consequently affects profitability. Additionally, Congress and federal and state agencies frequently revise environmental, health and safety laws and regulations, and any changes that result in more stringent and costly waste handling, disposal and cleanup requirements for the oil and gas industry could have a significant impact on our operating costs.

The following is a summary of the existing material environmental, health and safety laws and regulations to which our business operations are subject.

*Waste handling.* The Resource Conservation and Recovery Act, or RCRA, and comparable state statutes, regulate the generation, transportation, treatment, storage, disposal and cleanup of hazardous and non-hazardous wastes. Under the auspices of the federal Environmental Protection Agency, or EPA, the individual states administer some or all of the provisions of RCRA, sometimes in conjunction with their own, more stringent requirements. Drilling fluids, produced waters and most of the other wastes associated with the exploration, development and production of crude oil or natural gas are currently regulated under RCRA's non-hazardous waste provisions. However, it is possible that certain oil and natural gas exploration and production wastes now classified as non-hazardous could be classified as hazardous wastes in the future. Any such change could result in an increase in our costs to manage and dispose of wastes, which could have a material adverse effect on our results of operations and financial position.

*Comprehensive Environmental Response, Compensation and Liability Act.* The Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, also known as the Superfund law, imposes joint and several liability, without regard to fault or legality of conduct, in connection with the release of a hazardous substance into the environment. Persons potentially liable under CERCLA include the current or former owner or operator of the site where the release occurred and anyone who disposed or arranged for the disposal of a hazardous substance to the site where the release occurred. Under CERCLA, such persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, damages to natural resources and the costs of certain health studies. In addition, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment.

We own and lease, and may in the future operate, numerous properties that have been used for oil and natural gas exploitation and production for many years. Hazardous substances may have been released on, at or under the properties owned, leased or operated by us, or on, at or under other locations, including off-site locations, where such substances have been taken for disposal. In addition, some of our properties have been or are operated by third parties or by previous owners or operators whose handling, treatment and disposal of hazardous substances were not under our control. These properties and the substances disposed or released on, at or under them may be subject to CERCLA, RCRA and analogous state laws. In certain circumstances, we could be responsible for the removal of previously disposed substances and wastes, remediate contaminated property or perform remedial plugging or pit closure operations to prevent future contamination. In addition, federal and state trustees can also seek substantial compensation for damages to natural resources resulting from spills or releases.

*Water discharges.* The Federal Water Pollution Control Act, or the Clean Water Act, and analogous state laws, impose restrictions and strict controls with respect to the discharge of pollutants, including oil and other substances generated by our operations, into waters of the United States or state waters. Under these laws, the discharge of pollutants into regulated waters is prohibited except in accordance with the terms of a permit issued by EPA or an analogous state agency. Federal and state regulatory agencies can impose administrative, civil and criminal penalties for non-compliance with discharge permits or other requirements of the Clean Water Act and analogous state laws and regulations.

The Safe Drinking Water Act, or SDWA, and analogous state laws impose requirements relating to underground injection activities. Under these laws, the EPA and state environmental agencies have adopted regulations relating to permitting, testing, monitoring, record keeping and reporting of injection well activities, as well as prohibitions against the migration of injected fluids into underground sources of drinking water.

*Air emissions.* The Federal Clean Air Act and comparable state laws regulate emissions of various air pollutants through air emissions permitting programs and the imposition of other requirements. In addition, EPA and certain states have developed and continue to develop stringent regulations governing emissions of toxic air pollutants at specified sources. Federal and state regulatory agencies can impose administrative, civil and criminal penalties for non-compliance with air permits or other requirements of the Federal Clean Air Act and analogous state laws and regulations.

The Kyoto Protocol to the United Nations Framework Convention on Climate Change became effective in February 2005. Under the Protocol, participating nations are required to implement programs to reduce emissions of certain gases, generally referred to as greenhouse gases, that are suspected of contributing to global warming. The United States is not currently a participant in the Protocol, and Congress has not acted upon recent proposed legislation directed at reducing greenhouse gas emissions. However, there has been support in various regions of the country for legislation that requires reductions in greenhouse gas emissions, and some states have already adopted legislation addressing greenhouse gas emissions from various sources, primarily power plants. The oil and natural gas industry is a direct source of certain greenhouse gas emissions, namely carbon dioxide and methane, and future restrictions on such emissions could impact our future operations.



*National Environmental Policy Act.* Oil and natural gas exploration and production activities on federal lands are subject to the National Environmental Policy Act, or NEPA. NEPA requires federal agencies, including the Department of Interior, to evaluate major agency actions that have the potential to significantly impact the environment. In the course of such evaluations, an agency will prepare an Environmental Assessment that assesses the potential direct, indirect and cumulative impacts of a proposed project and, if necessary, will prepare a more detailed Environmental Impact Statement that may be made available for public review and comment. All exploration and production activities on federal lands require governmental permits that are subject to the requirements of NEPA. This process has the potential to delay the development of oil and natural gas projects on federal lands.

*Health, safety and disclosure regulation.* We are subject to the requirements of the federal Occupational Safety and Health Act (OSHA) and comparable state statutes. The OSHA hazard communication standard, the Emergency Planning and Community Right to Know Act and similar state statutes require that we organize and/or disclose information about hazardous materials stored, used or produced in our operations.

We expect to incur capital and other expenditures related to environmental compliance. Although we believe that our compliance with existing requirements will not have a material adverse impact on our financial condition and results of operations, we cannot assure you that the passage of more stringent laws or regulations in the future will not have an negative impact on our financial position or results of operation.

**Legal Proceedings.**

We are not currently a party to any legal proceedings.

**MANAGEMENT**

The following table sets forth certain information regarding our current directors and executive officers.

Our executive officers are elected by the board of directors and serve at the discretion of the board. All of the current directors serve until the next annual stockholders' meeting or until their successors have been duly elected and qualified.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Prentis B. Tomlinson, Jr.	63	President, CEO and Chairman of the Board
Edward L. Moses, Jr.	67	Vice Chairman, Director
O. Oliver Pennington	35	Vice President and Chief Financial Officer
William B. Nunnallee	59	Vice President of Land
W. Richard Anderson	50	Director
Derek L. Buntain	64	Director
Kirwin L. Drouet	57	Director

The following biographies describe the business experience of our executive officers and directors. Each of our officers and directors were appointed to their positions on January 27, 2006 in connection with the merger of our subsidiary, Calibre Acquisition Co., with the predecessor of our business.

**Prentis B. Tomlinson, Jr.**, President, Chairman and CEO. Mr. Tomlinson has over 30 years of experience in the energy industry, and is a second-generation oil and gas man who traces his roots back to Tomlinson Geophysical Service, founded in 1937 by P. B. Tomlinson, Sr. Mr. Tomlinson has founded a number of companies in the energy sector, including exploration and production companies, a crude trading company and an oilfield service company, TGS Geophysical, Inc., which merged with Nopec in 1997 to form TGS Nopec (OSE: TGS). Since 2001 Mr. Tomlinson has been a private investor. In 2004 Mr. Tomlinson helped to found, and remains a significant shareholder in, a drilling technology company based in Houston, Texas, Particle Drilling Technologies, Inc. (www.particledrilling.com) (Nasdaq: PDRT). Since February 2006, Mr. Tomlinson has also served as Chairman and CEO of Standard Drilling, Inc, a privately held land drilling company based in Houston, Texas. See "Certain Relationships and Related Party Transactions."

**Edward L. Moses, Jr.**, Vice Chairman and Director. Mr. Moses has over 40 years experience in the oil and gas industry beginning as a roustabout and roughneck for drilling contractors while studying for his B.S. in Petroleum Engineering at Texas A&M University. After receiving his engineering degree in 1958, Mr. Moses joined The Superior Oil Company where he was Manager of Domestic and International Drilling Operations. He left Superior Oil in 1976 to work as an independent consultant where he and his partners provided consulting and turnkey drilling services throughout the Gulf Coast, South Texas, and North Sea areas as well as India and Central America. Mr. Moses joined Deep Tech companies in 1989 as Vice President, Engineering. Before leaving Deep Tech in 1998, he served as Senior Vice President of North Atlantic Pipeline Partners, L.P.; Senior Vice President of Tatham Offshore Canada, Limited; Managing Director of Deepwater Production Systems, Inc.; and Executive Vice President of RIGCO North American, L.L.C. From 1998 until 2000, Mr. Moses was the Chairman and Chief Executive Officer of Prime Natural Resources, Inc. a Houston based exploration and production company. From 1998 until 2005 he was a Director of Horizon Offshore (Nasdaq: HOFF). Since 2000 Mr. Moses has been a private investor. He is a Professional Engineer in Texas and Louisiana, member of Society of Petroleum Engineers, Texas Society of Professional Engineers, and a Director of Spindletop (Association). Since February 2006, Mr. Moses has also served as Vice Chairman of Standard Drilling.



**O. Oliver Pennington, III**, Vice President and Chief Financial Officer. Mr. Pennington has over 11 years of experience in the financial industry and can trace his roots in the oil and gas business through his grandfather, Arthur Buzzini, back to the mid-1930s. From July 2005 until December of 2005 Mr. Pennington was a private investor. From January 2003 until June 2005, Mr. Pennington was employed as a partner and senior member of the investment team of Sthenos Capital Limited, a hedge fund based in London. From September 2002 until January 2005, Mr. Pennington was a private investor. From August 1996 until September of 2002 as the Head of International Trading, analyst and member of the international investment team at Kingdon Capital Management Corp., a hedge fund based in New York. Mr. Pennington started his career as a trader for AIM Management, an asset management company based in Houston. Since February 2006, Mr. Pennington has also served as CFO of Standard Drilling. See "Certain Relationships and Related Party Transactions."

**William B. Nunnallee**, Vice President of Land. Mr. Nunnallee has been providing services to the exploration industry as an Independent Petroleum Landman for over 30 years. In 1976, he entered the petroleum industry under the tutelage of his father, Bert M. Nunnallee, now deceased, a then practicing oil and gas attorney. Mr. Nunnallee earned a B.B.A., conferred with business honors and majoring in Petroleum Land Management, from the University of Houston - Downtown. He is a member of The Honor Society of *Phi Kappa Phi* and *Beta Gamma Sigma*, Honor Society for Collegiate Schools of Business. Since 1989, Mr. Nunnallee has provided petroleum land & administration services over oil and gas properties owned by trusts created under the wills of Judge J. A. Elkins, and wife, Isabel M. Elkins, comprised of producing and nonproducing royalty, overriding royalty, mineral and working interests situated in 50 counties in the State of Texas, as well as the states of Louisiana, Oklahoma, Mississippi, Arkansas, Florida and Michigan.

**W. Richard Anderson**, Director for Calibre Energy, Inc. Since 2002, Mr. Anderson has served as President and Chief Executive Officer of Prime Natural Resources, Inc. and was formerly its Chief Financial Officer (1998-2002). Prime Natural Resources [www.primenri.com](http://www.primenri.com) is a closely held exploration and production company. Prior to his employment at Prime, he was employed by Hein & Associates, LLP, a certified public accounting firm, where he served as a partner from 1989 to January 1995 and as a managing partner from January 1995 until October 1998. Since 1999, Mr. Anderson has served as a Director of Boots & Coots International Well Control [www.bootsandcoots.com](http://www.bootsandcoots.com) (AMEX: WEL), Chairman the Audit Committee, and member of the Compensation Committee. Mr. Anderson also formerly served as a Director and Chairman of the Audit Committees of Grant Geophysical, Inc [www.grantgeo.com](http://www.grantgeo.com)., and its subsidiary Solid State Geophysical, Inc.(TSE), Professional Geophysics, Inc., and Seis Pros, Inc. [www.seispros.com](http://www.seispros.com).

**Derek L. Buntain**, Director for Calibre Energy, Inc. Mr. Buntain currently serves as the President of the Dundee Bank, a deposit taking institution which manages funds and trusts, provides mutual fund administration services to the offshore mutual and hedge fund industries, and operates a merchant banking portfolio. Mr. Buntain also serves as the President of Goodman & Company Limited (Bermuda) which structures tax efficient vehicles for international clients, manages their investments and provides investment management to mutual funds. Over his 40 year career, Mr. Buntain has served as the Vice Chairman of Targa International Limited (1993-1996), a venture capital firm. Chairman of Pythonic Trading Company Limited (1989-1993), which traded physical food commodities world-wide. President of Canadian Express Limited (1987-1989). Director of Institutional Sales and Trading for Merrill Lynch Canada Inc. (1974-1984) and Director of Corporate Finance for Merrill Lynch Canada Inc. (1984-1987). Mr Buntain began his career in 1964 at Burns Bros. and Denton Lt. as a research analyst, rose to Director of Research from 1970-1972 and served as Director of Equity Trading from 1972-1974. In addition, Mr. Buntain holds a number of directorships in both public and private companies and has served on audit, pension, human resource, corporate governance, compensation and stock buy-back committees of those companies.

**Kirwin L. Drouet**, Director for Calibre Energy, Inc. Kirwin L. Drouet has 34 years of experience in accounting, finance and entrepreneurial activities. Mr. Drouet began his career in 1972 at Arthur Andersen & Co. and left as an Experienced Audit Manager in 1981. Since 1999, he has served as consultant to ARTA Equity Advisors LLC, a private investment company based in Houston, Texas and President of Rice Exploration Company, a privately-held



company he founded in 1984. Mr. Drouet also served as the Chief Financial Officer of nXp Technologies (2001-2006), a privately-held provider of content filtering and internet access control software. In addition, Mr. Drouet has served as Chief Financial Officer of Molecular Electronics Corp. (2001), a privately-held nanotechnology company; and Chief Operating Officer of iExalt, Inc. (1999-2000), a public internet services company. Prior to Mr. Drouet's affiliation with ARTA Equity Advisors LLC, he served as Executive Vice President, Chief Financial Officer and Chief Operating Officer of Stellar Event & Presentation Resources, Inc. / The Abbey Group, Inc. (1995-1999); Vice President of Control and Administration and Chief Financial Officer of MAXXAM Property Co. (1993-1995), a wholly owned subsidiary of MAXXAM, Inc.; Vice President of Finance and Chief Financial Officer of Sam Houston Race Park, Inc. (1990-1994); and Vice President of Finance and member of the Board of Directors of Odyssey Energy, Inc. (1981-1984), a privately-held exploration company. Mr. Drouet is the Initial Founder of Rice Exploration Co. and Sam Houston Race Park, Inc. In addition, Mr. Drouet is a Certified Public Accountant in the State of Texas and a member of a number of professional organizations. He most recently served as a member of the Board of Directors and Secretary/Treasurer of the Jones Graduate School Partners at Rice University (2004-2006).

### **Committees of the Board of Directors**

We currently have an audit committee, a compensation committee, a nominating and corporate governance committee and a conflicts committee.

*Audit Committee.* The audit committee selects, on behalf of our board of directors, an independent public accounting firm to be engaged to audit our financial statements, discuss with the independent auditors their independence, review and discuss the audited financial statements with the independent auditors and management and recommend to our board of directors whether the audited financials should be included in our Annual Reports to be filed with the Securities and Exchange Commission. The audit committee operates pursuant to a written charter, which was adopted February 3, 2005. The current members of the audit committee are Mr. Anderson, as Chairman, and Messrs. Buntain and Drouet.

All of the current members of the audit committee are non-employee directors who: (1) meet the criteria for independence set forth in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (2) have not participated in the preparation of our financial statements or the financial statements of Hardwood Doors and Milling Specialties, Inc.; and (3) are able to read and understand fundamental financial statements, including a balance sheet, income statement and cash flow statement. The board has determined that Mr. Anderson qualifies as an "Audit Committee Financial Expert" as defined by item 401(e) of Regulation S-B of the Exchange Act.

*Compensation Committee.* The compensation committee reviews and either approves, on behalf of our board of directors, or recommends to the board of directors for approval (1) the annual salaries and other compensation of our executive officers and (2) individual stock and stock option grants. The compensation committee also provides assistance and recommendations with respect to our compensation policies and practices and assists with the administration of our compensation plans. The members of our compensation committee have been found by the Board of Directors to be "independent directors" using the criteria for independence set forth in Rule 10A-3(b)(1) under the Exchange Act, and are neither an officer nor employee of us or our subsidiary. The compensation committee operates pursuant to a written charter, which was adopted August 11, 2004. The current members of the compensation committee are Mr. Drouet, as Chairman, Mr. Buntain and Mr. Anderson.

*Nominating and Corporate Governance Committee.* The nominating and corporate governance committee assists our board of directors in fulfilling its responsibilities by: identifying and approving individuals qualified to serve as members of our board of directors, selecting director nominees for our annual meetings of shareholders, evaluating the performance of our board of directors, and developing and recommending to our board of directors corporate governance guidelines and oversight with respect to corporate governance and ethical conduct. Mr. Anderson, as Chairman, and Messrs. Buntain and Drouet are the current members of the nominating and corporate governance committee; they have been found by the Board of Directors to be "independent directors" using the criteria for independence set forth in Rule 10A-3(b)(1) under the Exchange Act. This committee operates pursuant to a written charter adopted on April 4, 2006.

*Conflicts Committee.* The conflicts committee reviews and resolves conflict issues that arise in connection with transactions or other activities involving other companies in which one or more of our officers or directors has an interest as a director, officer and/or stockholder. The members of the conflicts committee are also charged with overseeing the amount of time devoted to the management of our business by officers and directors who are also employed by Standard Drilling. The conflicts committee is comprised of Mr. Drouet. This committee operates pursuant to a written charter adopted on October 30, 2006.

*Compensation Committee Interlocks And Insider Participation.* During the year ended December 31, 2005, we did not have a compensation committee because Luke Frazier served as our sole officer and director. Following our acquisition of Calibre Energy, Inc. in January 2006 and the appointment of our current Board of Directors, our Board of Directors formed a compensation committee comprised of Mr. Anderson. Since then Mr. Drouet and Mr. Buntain have also been appointed to the compensation committee. None of the committee members have ever been an employee of Calibre Energy, Inc. None of our executive officers serve as a member of the board of directors or compensation committee of any entity that has any executive officer serving as a member of our Board of Directors or compensation committee.

## **Compensation of Directors**

On April 4, 2006, the compensation committee (the "Committee") of our Board of Directors recommended that the Board approve new compensation for Board members to be effective as of January 1, 2006. The new compensation was approved by the Board on April 25, 2006. Under new compensation program, non-employee directors will receive an annual retainer of \$20,000 and \$1,500 for each formal Board meeting attended. In addition, each non-employee director who is also a committee member will receive an annual committee retainer fee of \$2,500 and \$750 for each formal committee meeting attended. Each non-employee director who is also a committee chair will

receive an additional annual retainer of \$2,500. In addition, each non-employee director will be granted 20,000

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shares of restricted common stock and an option for 25,000 shares of common stock. In addition, any new non-employee directors will be granted 20,000 shares of restricted common stock an option to purchase 25,000 shares of the common stock at the market price at the time of grant as a one time award upon joining the Board. All option awards will be non-qualified stock options and, together with all awards of restricted stock, will be issued pursuant to equity compensation plans in effect at the time of the award and will be exercisable for a ten-year period from the date of grant of the award. The restricted stock and option awards will vest in 50% installments on each December 31.

## EXECUTIVE COMPENSATION

The following tables set forth certain information regarding our CEO and each of our most highly-compensated officers whose total annual salary and bonus for the period ending December 31, 2005 exceeded \$100,000.

### Summary Compensation Table

Name and Principal Position (1)	Year	Annual Compensation		Long Term Compensation Awards	
		Salary (\$)	Bonus (\$)	Securities Underlying Options (#)	All Other Compensation (\$)
Prentis B. Tomlinson(2) President and Chief Executive Officer	2005	\$ 15,000	-	4,000,000	-
	2004	-	-		-
	2003	-	-		-
O. Oliver Pennington, III (2) Chief Financial Officer	2005	-	-	1,000,000	-
	2004	-	-		-
	2003	-	-		-
William B. Nunnallee (3) Vice President of Land	2005	\$ -	-	-	-
	2004	-	-		-
	2003	-	-		-

(1) Luke Frazier was the sole officer for Hardwood Doors and Milling Speciality during 2003, 2004, and 2005, and received no compensation during those years. Mr. Frazier resigned as an officer and director on January, 27, 2006.

(2) Each executive served for less than a full year in 2005. See "Executive Employment Contracts" for a discussion of Annual Salary and options.

(3) Mr. Nunnallee became an executive officer in 2006. See "Executive Employment Contracts" for a discussion of Annual Salary and options.

### Option Grants in Fiscal Year Ending December 31, 2005

(Individual Grants)

Name	Number of Securities Options Granted	% of Total Options Granted to Fiscal Year	Exercise/Base Price (\$/Share)	Expiration Date
Prentis B. Tomlinson	4,000,000	62%	\$0.05	August 2015
O. Oliver Pennington	1,000,000	16%	\$0.24	December 2015
William B. Nunnallee	-	-	-	-

### Options Exercises and First Quarter 2006 Quarter End Values

Name	Number of Shares Underlying Unexercised Options at March 31 2006		Value of Unexercised In-the-Money Options at March 31 2006 (1)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Prentis B. Tomlinson (1)	4,000,000	0	\$10,800,000	\$0
O. Oliver Pennington, III (2)	500,000	500,000	\$1,255,000	\$1,255,000
William B. Nunnallee (3)	-	-	-	-

(1) The value of "in-the-money" stock options represents the difference between the \$0.05 exercise price of such options and the fair market value of \$2.75 per share of common stock as of March 31, 2006, the closing price of the common stock reported on the OTC Bulletin Board.

(2) The value of "in-the-money" stock options represents the difference between the \$0.24 exercise price of such options and the fair market value of \$2.75 per share of common stock as of March 31, 2006, the closing price of the common stock reported on the OTC Bulletin Board.

(3) Mr. Nunnallee became an executive officer in 2006.

No options were exercised during the fiscal year ended December 31, 2005. No stock appreciation rights were outstanding at the end of the 2005 fiscal year.

### Executive Employment Contracts

During the fiscal years ended December 31, 2003, 2004, 2005 and through January 27, 2006, neither Luke Frazier, our sole director and officer during such years and period, received any compensation from us. Set forth below is a

summary of the material terms of the compensation and employment agreements made between us and our executive officers.

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*Prentis B. Tomlinson, Jr.* Mr. Tomlinson entered into an employment agreement effective October 1, 2005. The agreement has a three year term and provides that Mr. Tomlinson will serve as President and CEO. Mr. Tomlinson receives an annual base salary of \$180,000, which may be further increased at our discretion. Notwithstanding the above, the base salary of Mr. Tomlinson shall be increased to \$360,000 on the third anniversary date from the effective date of the agreement. Mr. Tomlinson has also received the following stock options pursuant to the agreement: non-statutory options to purchase 4,000,000 shares of our common stock at a price of \$.05 per share, which options are fully vested and shall survive Mr. Tomlinson termination date. Mr. Tomlinson is entitled to participate in any employee benefit plans that are made available to our employees.

*Edward L. Moses, Jr.* Mr. Moses entered into an employment agreement effective October 1, 2005. The agreement has a three year term and provides that Mr. Moses will serve as Vice Chairman. Mr. Moses receives an annual base salary of \$120,000, which may be increased at our discretion. Mr. Moses has also received the following stock options pursuant to the agreement: non-statutory options to purchase 750,000 shares of our common stock at a price of \$0.05 per share, which options are fully vested. Mr. Moses is entitled to participate in our employee benefit plans are made available to our employees.

*O. Oliver Pennington, III.* Mr. Pennington entered into an employment agreement effective December 28, 2005. The agreement has a three year term and provides that Mr. Pennington will serve as Vice President and Chief Financial Officer. Mr. Pennington receives an annual base salary of \$200,000, which may be increased at our discretion. Mr. Pennington has also received the following stock options pursuant to the agreement: non-statutory options to purchase 500,000 shares of our common stock at a price of \$.24 per share, which options are fully vested and has received incentive stock options to purchase 500,000 shares of our common stock at a price of \$.24 pursuant to our qualified stock option plan that shall vest over a four year period. Mr. Pennington is entitled to participate in our employee benefit plans are made available to our employees.

*William B. Nunnallee.* Mr. Nunnallee entered into an employment agreement effective June 13, 2006. The agreement has a three-year term and provides that Mr. Nunnallee will serve as Vice President of Land. Mr. Nunnallee receives an annual base salary of \$150,000, which may be increased at our discretion and an automobile allowance of \$1,000 per month. Mr. Nunnallee also received the following stock option pursuant to the agreement: non-qualified options to purchase 300,000 shares of our common stock at a price of \$2.40 per share. Such options are fully vested, and Mr. Nunnallee is entitled to participate in other employee benefit plans that we may adopt.

*Other Employment Agreement Terms.* Each of the foregoing employment agreements also include the following terms:

During the term of the agreement, we may terminate the employee's employment at any time by giving three months written notice. Additionally, we may terminate the employee's employment for cause upon written notice by the company. The employee may terminate his employment for "Good Reason" when there is a decrease in his base salary, or a materially adverse diminution of the overall level of his responsibilities, or a material breach by us of any term or provision of the employment agreement or after a change of control, or any personal reason that the Board or the Compensation Committee of the Board in its discretion determines shall constitute "Good Reason."

In the event of a "Change of Control" (as defined below), if the employee is terminated without cause or he terminates his employment for good reason at any time during the three year period following the Change of Control, the employee will be entitled to the following: all outstanding stock options granted on or prior to the Change of Control shall become immediately exercisable and shall remain exercisable for a period of three years, a lump-sum payment equal to three times the employee's then current base

salary, a lump-sum payment equal to three times the highest annual bonus allowed under the Executive Bonus Plan during the three year period preceding the date of the Change of Control, and continued medial and dental coverage for three years from the termination date at no cost to the employee.

For purposes of the agreement, a "Change of Control" means: a tender offer for more than 25% of the outstanding voting securities of the company; the company is merged or consolidated with another corporation, and as a result of the transaction, less than 75% of the outstanding voting securities of the resulting corporations are beneficially owned by stockholders of the company immediately prior to the transaction; the company sells all or substantially all of its assets to another entity that is not a wholly-owned subsidiary; during any 15-month period, individuals who at the beginning of such period constituted the board of directors of the company (including any new member whose election was approved by at least 2/3 of the members of the board of directors then still in office who were members at the beginning of such period) cease for any reason to constitute at least a majority of the board of directors; the Compensation Committee of the Board of Directors determines, in its sole discretion, that a change of control has occurred; or 80% or more of the outstanding voting securities of the company are acquired by any person or entity other than the company, its subsidiaries or its affiliates.

The employment agreement with each of these employees requires them to devote such of his business time, attention and energies to the business of the Company as are reasonably necessary to perform his duties under this Agreement. The agreements also restrict the employee from engaging in any other business activity, whether or not pursued for gain, profit or other pecuniary advantage, which would impair his ability to fulfill his duties to the Company under this Agreement, without the prior written consent of the Board. As disclosed herein, each of these officers and employees is concurrently serving as an officer or employee of Standard Drilling, Inc. Such service has been approved by the Company's Board of Directors.

Mr. Tomlinson, Mr. Moses and Mr. Pennington, as well as our Controller Mr. Frey, are also employed by Standard Drilling, Inc. and serve as its Chairman and CEO, President, CFO and treasurer, respectively. In addition to these individuals, Standard Drilling has a number of other officers, including several vice presidents, and its own staff. Standard Drilling pays the officers salaries comparable to, and in some cases greater than, the salaries we pay them. Currently, Mr. Tomlinson and Mr. Moses are paid approximately \$20,000 more per year by Standard Drilling than by us. As a result, each of these officers devotes some of their business time to the management of our business and some to the management of Standard Drilling's business. Because of our relatively small sizes and the early stages of business development, neither we nor Standard Drilling have developed rigid management processes or procedures. Our management does not divide its time between our business and Standard Drilling's business on any fixed schedule, but rather based on the particular needs of each company on a day-to-day basis. As a result, the amount of time devoted to the management of our business and the management of Standard Drilling's business by each of these officers fluctuates from day to day and week to week. Each of the officers has significant discretion as to whether to devote time to management of our business or to management of Standard Drilling's business. In addition, our officers and directors directly or indirectly own approximately 34% of Standard Drilling, and approximately 38% of our outstanding common stock. As a result of the salaries paid to them by, their fiduciary duties to, and their ownership of a substantial interest in, Standard Drilling, or for any other reason, one or more of our officers may devote his time exclusively to the management of Standard Drilling for an extended period of time. These officers, together with Mr. Anderson, who is also a director of Standard Drilling, and Mr. Buntain, who is a stockholder of Standard Drilling, currently constitute 80% of the members of our Board of Directors. Because, as described above, there are no specific time requirements governing whether our officers are devoting sufficient time to managing our business, the supervision of these officers' performance by directors without any conflict of interest regarding Standard Drilling is likely to be limited to the oversight provided by Mr. Drouet.





**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth the number of shares of our common stock beneficially owned as of June 15, 2006 by:

- those persons or groups known to beneficially own more than 5% of our common stock;
  - each of our executive officers and directors; and
  - all of our directors and executive officers as a group.

For purposes of this table, beneficial ownership is determined in accordance with Rule 13d-3 promulgated under the Securities Exchange Act of 1934. Except as indicated below, the security holders listed possess sole voting and investment power with respect to the shares beneficially owned by that person.

<u>Name and Address</u> <sup>(1)</sup>	<u>Common Stock</u>	<u>Ownership (%)</u> <sup>(2)</sup>
Prentis B. Tomlinson, Jr. <sup>(3)</sup>	20,060,000	32.17%
Edward L. Moses, Jr. <sup>(4)</sup>	1,500,000	2.38%
W. Richard Anderson <sup>(4)</sup>	400,000	*
O. Oliver Pennington, III <sup>(4)</sup>	500,000	*
Derek L. Buntain <sup>(5)</sup>	843,750	*
William B. Nunnallee <sup>(4)</sup>	200,000	*
Kirwin L. Drouet	-	*
All executive officers and directors as a group (7 persons):	24,143,750	37.11%

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\* Represents less than 1% of the issued and outstanding shares of common stock.

(1) Except as otherwise noted, the street address of the named beneficial owner is 1667 K Street, NW, Suite 1230, Washington, DC 20006.

(2) Based on a total of (i) 62,350,806 shares of common stock issued and outstanding on October 30, 2006, plus (ii) shares that may be issued upon exercise of options that are exercisable within 60 days.

(3) Includes (i) 4,540,000 shares of stock owned directly, (ii) 15,250,000 shares of stock held by Calibre Energy Partners, LLC., which Mr. Tomlinson controls, and (iii) 270,000 shares of common stock to be issued upon the exercise of warrants.

(4) Represents shares of common stock that may be acquired upon exercise of options in the next 60 days.

(5) Includes (i) 562,500 shares of stock held by Balmoral Holdings, Ltd which Mr. Buntain controls, plus (ii) 281,250 shares of common stock to be issued upon the exercise of warrants.

**SELLING STOCKHOLDERS**

No stockholder may offer or sell shares of our common stock under this prospectus unless such stockholder has notified us of his or her intention to sell shares of our common stock and this prospectus has been declared effective by the SEC, and remains effective at the time such selling stockholder offers or sells such shares. We are required to amend this prospectus to reflect material developments in our business, financial position and results of operations. Each time we file an amendment to this prospectus with the SEC, it must first be declared effective prior to the offer or sale of shares of our common stock by the selling stockholders.

The common stock covered by this prospectus is to be offered for the account of the selling stockholders in the following table. The selling stockholders may from time to time sell all, some or none of the shares of common stock offered by this prospectus.

The following table, which we have prepared based on information provided to us by the applicable selling stockholder, sets forth the name, the number of shares of common stock beneficially owned by the selling stockholders intending to sell our common stock and the number of shares of common stock to be offered. Unless set forth below, none of the selling stockholders selling in connection with the prospectus has held any position or office with, been employed by, or otherwise has had a material relationship with us or any of our affiliates during the three years prior to the date of the prospectus.

Name of Selling Stockholder	Footnote	Number of Shares of Common Stock Beneficially Owned (1)	Number of Shares of Common Stock Offered Hereunder	Number and % of Outstanding Shares of Common Stock Owned After Completion of Offering	
				Number	% (2)
Calibre Energy Partners, LLC		15,250,000	15,250,000	0	*
International Capital Advisory, Inc.	(3)	1,796,025	1,796,025	0	*
Greg Reid		15,000	15,000	0	*
Ross Geiger		20,000	20,000	0	*
Tracy Black		20,000	20,000	0	*
Jonpol Investments, Ltd.	(4)	1,500,000	1,500,000	0	*
Sherrie Ann Pollock		1,500,000	1,500,000	0	*
Rob Pollock		1,500,000	1,500,000	0	*
Mark Monaghan		500,000	500,000	0	*
Laura Bester		500,000	500,000	0	*
Richard D. Hutcheon	(5)	375,000	375,000	0	*
Maynard Young	(6)	187,500	187,500	0	*
Hybrid Investments, Ltd.	(7)	750,000	750,000	0	*
BMO Nesbitt Burns ITF Sheldon Taerk a/c 405-110005-29	(8)	112,500	112,500	0	*

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Beads A. D'Cruz	(9)	75,000	75,000	0	*
Blue Sky Private Equity, Inc.	(10)	937,500	937,500	0	*

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Name of Selling Stockholder	Footnote	Number of Shares of Common Stock Beneficially Owned (1)	Number of Shares of Common Stock Offered Hereunder	Number and % of Outstanding Shares of Common Stock Owned After Completion of Offering	
				Number	% (2)
Donald R. Hutcheon	(11)	37,500	37,500	0	*
G. Scott Paterson	(12)	187,500	187,500	0	*
Danya Ossip-Richmor	(13)	37,500	37,500	0	*
Amanda Lisus	(14)	462,500	462,500	0	*
David Meyerowitz	(15)	150,000	150,000	0	*
Peter Turk	(16)	225,000	225,000	0	*
Gail Cooper	(17)	187,500	187,500	0	*
Philip Turk & Nanci Turk	(18)	187,500	187,500	0	*
Daniel Rappaport	(19)	93,750	93,750	0	*
Joseph H. Levitan	(20)	225,000	225,000	0	*
Haywood Securities Inc ITF Laura Bester Acct. #TM12210C	(21)	750,000	750,000	0	*
Stephen Bloom	(22)	93,750	93,750	0	*
Art Heller Enterprises	(23)	187,500	187,500	0	*
Barbra H. Miller	(24)	75,000	75,000	0	*
Investor Company ITF Acct. #5N0843F 10.1	(25)	1,028,018	1,028,018		
		Amendment to Employment Agreement, dated April 1, 2015, between Diamond Offshore Management Company and Beth G. Gordon (incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q for the			

	quarterly period ended March 31, 2015).
10.2*	Separation Agreement and General Release, dated March 30, 2015, between Diamond Offshore Management Company and John M. Vecchio.
31.1*	Rule 13a-14(a) Certification of the Chief Executive Officer.
31.2*	Rule 13a-14(a) Certification of the Chief Financial Officer.
32.1*	Section 1350 Certification of the Chief Executive Officer and Chief Financial Officer.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL

	Taxonomy Calculation Linkbase Document.
101.LAB*	XBRL Taxonomy Label Linkbase Document.
101.PRE*	XBRL Presentation Linkbase Document.
101.DEF*	XBRL Definition Linkbase Document.

\* Filed or  
furnished  
herewith.