

SARATOGA RESOURCES INC /TX
Form 10-K/A
May 20, 2009

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No.1

(Mark One)

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ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2008

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TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 1-32955

SARATOGA RESOURCES, INC.

(Exact name of registrant specified in its charter)

Texas

(State or other jurisdiction of incorporation or organization)

76-0314489

(I.R.S. Employer Identification No.)

**7500 San Felipe, Suite 675, Houston, Texas
77063**

(Address of principal executive offices)(Zip code)

Issuer's telephone number, including area code:

(713) 458-1560

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which each is registered
None	None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$0.001 par value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of accelerated filer, large accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on June 30, 2008, based on the closing sales price of the registrant's common stock on that date, was approximately \$1,350,000. Shares of common stock held by each current executive officer and director and by each person known by the registrant to own 5% or more of the outstanding common stock have been excluded from this computation in that such persons may be deemed to be affiliates.

The number of shares of the registrant's common stock, \$0.001 par value, outstanding as of March 31, 2009 was 16,882,792.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements include without limitation statements regarding our expectations and beliefs about the market and industry, our goals, plans, and expectations regarding our properties and drilling activities and results, our intentions and strategies regarding future acquisitions and sales of properties, our intentions and strategies regarding the formation of strategic relationships, our beliefs regarding the future success of our properties, our expectations and beliefs regarding competition, competitors, the basis of competition and our ability to compete, our beliefs and expectations regarding our ability to hire and retain personnel, our beliefs regarding period to period results of operations, our expectations regarding revenues, our expectations regarding future growth and financial performance, our beliefs and expectations regarding the adequacy of our facilities, and our beliefs and expectations regarding our financial position, ability to finance operations and growth and the amount of financing necessary to support operations. These statements are subject to risks and uncertainties that could cause actual results and events to differ materially. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this annual report on Form 10-K.

As used in this annual report on Form 10-K, unless the context otherwise requires, the terms we, us, the Company, Saratoga and Saratoga Resources refer to Saratoga Resources, Inc., a Texas corporation, and its subsidiaries.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A amends and restates certain disclosure items in our annual report on Form 10-K for the year ended December 31, 2008, which we originally filed on April 15, 2009.

On May 19, 2009, management concluded that the previously filed consolidated financial statements of the Company as of and for the year ended December 31, 2008 needed to be restated.

The restatement results from errors in accounting for the acquisition (the Harvest Acquisition) of Harvest Oil & Gas, LLC and The Harvest Group, LLC. The Company, in reporting the Harvest Acquisition in its Form 10-K for the year ended December 31, 2008, made certain estimates as permitted by SFAS No. 141 Business Combinations. Subsequent to filing the Form 10-K, the Company reassessed those estimates including the application of SFAS 109, Accounting for Income Taxes related to the Harvest Acquisition. During this reassessment, the Company identified an error whereby the tax basis of its oil and gas properties was not properly adjusted, resulting in an error in tax depletion, which caused the deferred tax assets to be overstated by \$3,663,471. In addition, the Company identified an error in the purchase price allocation related to the Harvest Acquisition. This error resulted in an overstatement of depletion and impairment expense by \$4,015,067 and \$978,221, respectively, which resulted in a corresponding understatement of net oil and gas properties of \$4,993,288, a \$3,865,729 overstatement of deferred tax liabilities and an overstatement of income tax expense of \$202,258. In addition, the revised statements of operations and cash flows reflect a reclassification of accretion expense from depletion, where it was previously reported.

Accordingly, this Form 10-K/A includes our restated financial statements for the year ended December 31, 2008 to correct our income tax expense, deferred tax asset and deferred tax liability, oil and gas properties, depletion and impairment expense, net income and retained earnings with accompanying notes. This Form 10-K/A also updates disclosure in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation to reflect the restated financial statements described above and in Item 9A. Controls and Procedures to reflect the re-evaluation of our disclosure controls and procedures and our internal control over financial reporting by our management, including our Chief Executive Officer and our Senior Financial Officer, in connection with the filing of this Form 10-K/A.

Except for the foregoing restated information, the Form 10-K/A continues to describe conditions as of the date of the original filing and we have not updated the disclosures contained herein to reflect events that occurred at a later date. Other events occurring after the original filing or other disclosures necessary to reflect subsequent events have been addressed in reports filed with the SEC subsequent to the date of the original filing. In addition, we have included as exhibits to this amendment new certifications of our Chief Executive Officer and Chief Financial Officer.

PART I

Item 1.

Business

As discussed elsewhere in this Form 10-K, Saratoga Resources, Inc. filed a voluntary petition for reorganization under Chapter 11 of the US Bankruptcy Code on March 31, 2009, which raises substantial doubt about its ability to continue as a going concern. The following discussion should be read in light of the foregoing.

General

Saratoga Resources, Inc. is an independent oil and natural gas company engaged in the production, development, acquisition and exploitation of natural gas and crude oil properties. Our principal properties were acquired in July 2008 and cover an estimated 33,000 gross acres (30,000 net), substantially all of which are held by production without near-term lease expirations, across 11 fields in the state waters of Louisiana. See Harvest Acquisition. Prior to the July 2008 acquisition of our Louisiana properties, our operations were focused on production, development, acquisition and exploitation of various mineral interests in the State of Texas.

Our total proved reserves as of December 31, 2008 were 76.7 Bcfe, consisting of 49.6 Bcf of natural gas and 4.5 MMbbls of oil. The PV-10 of our proved reserves at year-end was \$148.5 million before future income taxes, or \$97.9 million after future income taxes. During 2008, we added 14.4 Bcfe through purchases, extensions, discoveries and revisions and produced 5.0 Bcfe. Our average daily net production for December 2008 was 14.0 MMcfe/d, of which 58.7% was oil. We have 63 proved behind pipe and shut-in development opportunities in 6 fields, 35 proved undeveloped opportunities, 62 probable behind pipe and shut-in development opportunities and 6 probable undeveloped opportunities. We have also started full field studies at all of our fields.

Our principal and administrative offices are located at 7500 San Felipe, Suite 675, Houston, Texas. Our telephone number is (713) 458-1560.

Harvest Acquisition

In July 2008, we acquired (the Harvest Acquisition) all of the membership interest in Harvest Oil & Gas, LLC (Harvest Oil) and The Harvest Group, LLC (Harvest Group and, together with Harvest Oil, the Harvest Companies).

As consideration for the membership interests in the Harvest Companies, we paid to the former members of the Harvest Companies a combined purchase price of \$105,683,000 in cash and issued 4.9 million shares of our common stock. The cash portion of the purchase price included \$33,650,818 and \$30,000,000 paid by the Harvest Companies to pay a note payable to Macquarie Bank Limited (Macquarie) and to obtain a release of a net profits interest and an overriding royalty interest in the properties of the Harvest Companies held by Macquarie and its affiliates, respectively, which amounts we paid directly to Macquarie on behalf of the Harvest Companies at closing. Of the 4.9 million shares of common stock issued in the acquisitions, 3.3 million shares were issued directly to Macquarie Americas Corp., an affiliate of Macquarie, pursuant to an agreement between Macquarie and the members of the Harvest Companies relating to the release of the net profits interest and overriding royalty interest held by Macquarie.

In conjunction with the Harvest Acquisition, and to finance the acquisition and post-acquisition operations, in July 2008, we entered into a Credit Agreement (the Wayzata Credit Agreement) with Wayzata Investment Partners, LLC (Wayzata) and a separate Credit Agreement (the Revolving Credit Agreement) with Macquarie. We borrowed \$97,500,000 under the Wayzata Credit Agreement and approximately \$12,528,878 under the Revolving Credit Agreement to pay the purchase price of the Harvest Acquisition and associated costs.

The Harvest Companies were independent oil and natural gas companies engaged in the production, development, and exploitation of natural gas and crude oil properties, together covering an estimated 33,000 gross acres (30,000 net) across 11 fields in the state waters of Louisiana.

We retained the key management and operational team members of the Harvest Companies and, following the Harvest Acquisition, shifted the focus of our operations to the continued development and operations of the various holdings of the Harvest Companies.

Recent Developments

Our operations, financial position and outlook have been materially impacted by events following the Harvest Acquisition, including the following:

Declines in Oil and Natural Gas Prices. Late in the third quarter of 2008, accelerating during the fourth quarter of 2008, and continuing into the first quarter of 2009, the United States and global economies suffered severe disruptions in credit and financial markets that have been accompanied by economic contraction and a sharp drop in the price of oil and natural gas due to a projected decline in demand. While we entered into hedging transactions to reduce our exposure to commodity price risks, we are still subject to risks associated with declines in the price of oil and natural gas relating to unhedged production.

On July 14, 2008, the day of closing for the Harvest Acquisitions, crude oil prices closed at \$145.66 per barrel, while the Henry Hub spot price for natural gas averaged \$11.45 per thousand cubic feet (MCF). Oil had remained above \$100 per barrel for sixteen consecutive weeks at that time. Equivalent oil and natural gas prices in March 2009 are 63% and 65% respectively lower than they were when we closed the Harvest Acquisitions and entered into the Credit Agreements with Wayzata and Macquarie.

Notices of Default. Wayzata issued a notice of default, dated February 26, 2009, wherein it alleged nine non-monetary breaches of the Wayzata Credit Agreement, or events of default. Wayzata, in its notice of default, did not exercise any of its rights under the Wayzata Credit Agreement, but expressly reserved the right to do so. We disputed Wayzata's notice of default as premature and based on incomplete data and failure to take into account various developments and circumstances.

Macquarie also issued notice of default dated February 26, 2009, which was expressly based on Wayzata's Notice of Default. The Macquarie notice of default was triggered by cross default provisions in the Macquarie Credit Agreement defining an event of default as an event or condition occurring which permits the holder of any material debt to accelerate that obligation. Macquarie states in its notice of default that it is not initiating any action to exercise its rights and remedies available, though its right to do so is expressly reserved. As a result of the Macquarie notice of default, Macquarie rejected our requests to access additional credit available under the Revolving Credit Agreement, which restriction of credit potentially impaired our ability to continue our development program. We disputed the Macquarie notice of default.

Chapter 11 Filing. Following the receipt of the referenced notices of default from Wayzata and Macquarie, we entered into discussions with Wayzata seeking an amicable resolution and forbearance in order to cure the alleged covenant defaults and to access available credit under our Revolving Credit Agreement to continue pursuit of our ongoing drilling, workover and recompletion program. Despite management's efforts, management and our board of directors determined that a bankruptcy court reorganization would offer the best means of addressing our existing debt structure and realization of the long-term anticipated benefits of our drilling, workover and recompletion program. To that end, on March 31, 2009, we, and our principal operating subsidiaries, filed voluntary Chapter 11 petitions in the U.S. Bankruptcy Court for the Western District of Louisiana.

We intend, subject to bankruptcy court approval, to continue to operate our business and manage our properties as debtors in possession. While we believe that we have sufficient cash to operate our business in the immediate term, upon filing of the bankruptcy petitions, we began discussions with our senior secured lender, and other potential lenders, for new debtor-in-possession ("DIP") financing to supplement existing working capital. At March 31, 2009, we had cash on hand of approximately \$4.7 million.

We intend to use the Chapter 11 process to resolve issues with our lenders and to develop our holdings, continue to grow our production and revenues and reduce our operating expenses pending resolution of issues with our lenders. There is no assurance, however, that we will be able to successfully operate, or finance our operations, in bankruptcy or that we will be able to emerge from bankruptcy with our properties in tact or our current ownership structure.

Our Strategy

Subject to approval of the bankruptcy court, availability of adequate financing and ultimate emergence from bankruptcy, we intend to continue pursuit of our strategy of using our competitive strengths to increase our reserves, production and cash flow. The following are key elements of our strategy:

Grow Through Exploitation, Development and Exploration of Our Properties. We intend to focus our development and exploration efforts on our Louisiana properties. We believe that our extensive held by production acreage position will allow us to grow organically through lower-risk development drilling. We have attractive opportunities to expand our reserve base through field extensions, delineating deeper formations within existing fields and exploratory

drilling. Most of our locations also offer multiple stacked reservoir objectives with substantial behind pipe potential.

Actively Manage the Risks and Rewards of Our Drilling Program. We operate over 93% of the wells that comprise our proved reserves as of December 31, 2008, and we own net revenue interests in our properties that average approximately 74% on a net acreage leasehold basis. We believe operating our properties is important because it allows us to control the timing and costs in our drilling budget, as well as control operating costs and marketing of production. In addition, our high level of net revenue interests enhances our returns from each successful well we drill by giving us a higher percentage of cash flow generated. We believe our high level of net revenue interests provides us with a unique opportunity to retain a substantial economic interest in higher risk wells while mitigating the risk associated with these projects through farm-outs or promoted deals. Additionally, we will review and rationalize our properties on a continuous basis in order to optimize our existing asset base.

Leverage Technological Expertise. We believe that 3-D seismic analysis and other advanced technologies and production techniques are useful tools that help improve drilling results and ultimately enhance our production and returns. We either own or have licensed 3-D seismic data covering over 115 square miles in the Grand Bay and Vermillion 16 fields and intend to seek more seismic data in the future. We intend to utilize these technologies and production techniques in exploring for, developing and exploiting oil and natural gas properties to help us reduce drilling risks, lower finding costs and provide for more efficient production of oil and natural gas from our properties. We believe that the use of these technologies enhances our probability of locating and producing reserves that might not otherwise be discovered.

Pursue Opportunistic Acquisitions. We continually review opportunities to acquire producing properties, leasehold acreage and drilling prospects. We believe our relationship with Macquarie, which introduced us to the Harvest Companies, will provide us with first look opportunities relating to potential future acquisitions. When identifying acquisition candidates, we focus primarily on underdeveloped assets with significant growth potential. We seek acquisitions that will allow us to enhance and exploit properties without assuming significant geologic, exploration or integration risk.

Properties

The following table describes our properties and production profile at December 31, 2008.

Property	Natural Gas Equivalent (Bcfe)	% Gas	PV-10 ⁽¹⁾		Net Revenue Interest %	Net Producing Wells	Daily Net Production (Mcf/d) ⁽²⁾	Reserve Life Index ⁽³⁾ (Years)
			(dollars in thousands)	Net Acreage (estimated)				
Grand Bay	28.6	38%	\$ 55,191	16,024	18-72%	52	5,915	13
Vermillion 16	35.1	93%	79,392	4,094	70-85%	2	977	*
Other	13.1	46%	13,896	13,632	31-82%	27	7,147	5
All Properties	76.7	65%	\$ 148,479	33,750		81	14,039	15

* Not meaningful

(1)

Based on December 31, 2008 prices of \$42.70 per Bbl and \$5.63 per MMBtu.

(2)

Average net production for December 2008.

(3)

Calculated by dividing total net proved reserves by current net production for December 2008.

Grand Bay Field. The Grand Bay Field is located in Plaquemines Parish, Louisiana, approximately 70 miles southeast of New Orleans, Louisiana. It is situated in a shallow open water and marsh environment on the east side of the Mississippi River. Gulf Oil discovered the field in 1938. Harvest Oil and Gas acquired the field in April 2005. A farmout was granted to Clayton Williams Energy, Inc. prior to the acquisition of the field by Harvest Oil, covering approximately 2,000 gross acres in the north-west portion of the field. Saratoga's ownership in Grand Bay ranges from 25% to 100% working interest and 18% to 72% net revenue interest. We are the operator of all of the Grand Bay Field property not subject to the Clayton Williams Energy, Inc. farmout.

The Grand Bay Field is a large, faulted anticlinal structure. It lies on a northwest/southeast trending, deep-seated salt ridge that also sets up Coquille Bay Field, to the northwest, and Romere Pass Field, to the southeast, Trapping is predominantly from intersecting fault closures associated with this anticlinal feature, although there are cases of stratigraphic trapping. The predominant drive mechanism is water drive. Some productive formations are clean, blocky sands with high-resistivity pay. Other laminated, low-resistivity sands are also productive. Shallow sands are predominantly gas-filled and associated with anomalous amplitudes. There are additional shallow amplitudes in the field that have not yet been drilled or logged.

Production has been from over 50 different sands between approximately 1,600 and 13,500 feet, subsea. We are evaluating shallow Pliocene gas potential as well as deeper oil and gas potential in the Tex W and Big Hum levels below 13,500 feet. Collarini Engineering began a full field study of the Grand Bay Field in October 2008 and this study is expected to continue into mid-2009. Our leases in the Grand Bay Field, which are all held by production, cover an estimated 17,544 gross acres (16,024 net).

Facilities include a central compressor station, four tank batteries, numerous gas lift manifolds and a bunk house, from which all field operations are controlled. Low pressure, high Btu-content gas at Grand Bay Field is used to lift oil and high pressure, lower Btu gas. We entered into a production tie-in agreement with Apache in late 2008 that improves field efficiencies and we continue to look for ways to decrease operating costs in all fields.

Vermilion 16 Field. The Vermilion 16 Field is located in state waters offshore Vermilion Parish, Louisiana, approximately 40 miles south of Lafayette, Louisiana. It is situated in approximately 12 feet of water, 0.5 miles offshore in the Gulf of Mexico. Saratoga is operator with a 60% to 100% working interest with a net revenue interest ranging from 46% to 81%.

The field is a four-way rollover anticline on the downthrown side of a down-to-the-south fault. There are multiple stacked reservoirs within the field. Pulsed neutron logging has been carried out to identify unswept hydrocarbons within existing wellbores. There are five wellbores associated with this field and a number of proved undeveloped drilling locations within the field. Nutech Energy Alliance began a full field study of the Vermilion 16 Field in October 2008 and this study is expected to continue into mid-2009. We licensed 25 square miles of 3D seismic data in 2008 and will use this data to better locate proposed development wells.

Facilities include a central facility and there are five wellbores associated with the field. Production from McMoRan Oil and Gas, LLC's King Kong wells, located 1.2 miles to the southwest of our platform in adjoining SL 17159, is processed at the Vermilion 16 platform, for which we receive revenues. The existing seven state leases cover an estimated 4,095 gross acres (4,095 net) and are all held by production.

Other Fields. We hold interests in eleven other fields, all in Louisiana state waters, with working interests ranging from 40% to 100%. The net revenue interest ranges from 31% to 82%, except for Breton Sound 31 Field, where we have a 36% net profits interest. The leases, which are all held by production, cover an estimated 15,441 gross acres (13,632 net).

Among the other fields in which we hold interests are the Main Pass and Breton Sound fields, which are a series of stratigraphic trap-type fields in the Middle Miocene trend that were discovered with 3D seismic technology. The reservoir drive mechanisms are water drive and combination water drive/pressure depletion. We installed a line heater at Main Pass 25 Field in late 2008, which allowed us to increase oil production from that field.

We also hold leasehold interests and a single operating well in Dawson County, Texas. We do not presently intend to conduct any further drilling or exploration operations on our Dawson County property.

Field Infrastructure

We own certain infrastructure assets serving our properties including approximately 85 miles of pipelines connecting several of the fields as well as outlying wellheads. There are seven platform facilities plus 81 active producing wellbores associated with these fields, including ten salt water disposal wells. In addition to serving our wells and improving field economics, we generate revenues from providing access to our infrastructure assets to third parties. Facilities at Grand Bay include four tank batteries, a compressor station, various flowlines and a bunk house. We receive third-party processing revenues from Clayton Williams Energy, Inc. and McMoRan Oil and Gas, LLC.

Natural Gas and Oil Reserves

Due to the inherent uncertainties and the limited nature of reservoir data, proved reserves are subject to change as additional information becomes available. The estimates of reserves, future cash flows and present value are based on various assumptions, including those prescribed by the Securities and Exchange Commission (SEC), and are inherently imprecise. Although we believe these estimates are reasonable, actual future production, cash flows, taxes, development expenditures, operating expenses and quantities of recoverable oil and natural gas reserves may vary substantially from these estimates. Also, the use of a 10% discount factor for reporting purposes may not necessarily represent the most appropriate discount factor, given actual interest rates and risks to which our business or the oil and natural gas industry in general are subject.

These calculations were prepared using standard geological and engineering methods generally accepted by the petroleum industry and in accordance with SEC financial accounting and reporting standards. The estimated present value of proved reserves does not include indirect expenses such as general and administrative expenses, debt service and future income tax expense or depletion, depreciation, and amortization.

In accordance with applicable financial accounting and reporting standards of the SEC, the estimates of our proved reserves and the present value of proved reserves set forth herein are made using oil and natural gas sales prices estimated to be in effect as of the date of such reserve estimates and are held constant throughout the life of the properties. Estimated quantities of proved reserves and their present value are affected by changes in oil and natural gas prices. The prices utilized for the purpose of estimating our proved reserves and the present value of proved reserves as of December 31, 2008 were a WTI Cushing spot price of \$42.70 per Bbl and a Henry Hub spot natural gas price of \$5.63 per MMBtu, adjusted by property for energy content, quality, transportation fees, and regional price differentials.

The following table sets forth our estimated net proved oil and natural gas reserves and the PV-10 value of such reserves as of December 31, 2008. The reserve data and the present value as of December 31, 2008 were prepared by Collarini Associates, independent petroleum engineers. The PV-10 value is not intended to represent the current market value of the estimated oil and natural gas reserves owned by us. For further information concerning the present value of future net revenues from these proved reserves, see Supplemental Oil and Gas Disclosures in the Notes to Consolidated and Consolidated Financial Statements.

	Oil	Natural Gas	Undiscounted Future Net Revenue	Present Value of Proved Reserves Discounted at 10% (1)
	(Mbbbl)	(MMcf)	(\$000 s)	(\$000 s)
Developed Producing	1,274	4,468	(302)	11,464
Developed Nonproducing	1,898	9,227	65,338	46,487
Proved Undeveloped	1,343	35,932	154,869	90,528
Total Proved	4,515	49,627	219,905	148,479

(1)

Management believes that the presentation of PV-10 may be considered a non-GAAP financial measure as defined in Item 10(e) of Regulation S-K. Therefore we have included a reconciliation of the measure to the most directly comparable GAAP financial measure (standardized measure of discounted future net cash flows in the table immediately below). Management believes that the presentation of PV-10 value provides useful information to investors because it is widely used by professional analysts and sophisticated investors in evaluating oil and gas companies. Because many factors that are unique to each individual company may impact the amount of future income taxes to be paid, the use of the pre-tax measure provides greater comparability when evaluating companies. It

is relevant and useful to investors for evaluating the relative monetary significance of our natural gas and oil properties. Further, investors may utilize the measure as a basis for comparison of the relative size and value of our reserves to other companies. Management also uses this pre-tax measure when assessing the potential return on investment related to its oil and gas properties and in evaluating acquisition candidates. The PV-10 value is not a measure of financial or operating performance under GAAP, nor is it intended to represent the current market value of the estimated oil and natural gas reserves owned by us. PV-10 should not be considered in isolation or as a substitute for the standardized measure of discounted future net cash flows as defined under GAAP.

The table below provides a reconciliation of PV-10 to the standardized measure of discounted future net cash flows.

	As of December 31, 2008
PV-10	\$ 148,479
Future income taxes, discounted at 10%	50,485
Standardized measure of discounted future net cash flows	\$ 97,994

Production and Price History

The table below sets forth certain information regarding the production volumes, revenue, average prices received and average production costs associated with our sale of oil and natural gas for the year ended December 31, 2008. As noted above, our principal operating assets as of December 31, 2008 were acquired on July 14, 2008. Prior to that date, our oil and natural gas properties consisted of holdings in a single prospect and well in Dawson County, Texas. Information regarding years prior to 2008 is not material and has been omitted.

	Combined For the Year Ended December 31, 2008	Successor July 15, 2008 December 31, 2008	Predecessor January 1, 2008 July 14, 2008
Net Production:			
Oil (Bbl)	571,975	230,671	341,304
Natural gas (Mcf)	1,612,470	644,985	967,485
Natural gas equivalent (Mcf)	5,044,320	2,029,011	3,015,309
Oil and natural gas sales Mmcfe (\$ 000 s)	\$ 68,899.3	\$ 22,423.7	\$ 46,475.6
Average sales price per Mmcfe	\$ 13.7	\$ 11.1	\$ 15.4
Oil and natural gas costs (\$ 000 s)			
Lease operating expenses	\$ 28,022.9	\$ 10,666.7	\$ 17,356.2
Production taxes	8,119.5	2,510.5	5,609.0
Total	\$ 36,142.4	\$ 13,177.2	\$ 22,965.2
Average production cost per Mcfe	\$ 7.17	\$ 6.50	\$ 7.62

Drilling Activity

During 2008, beginning with the Harvest Acquisition in July 2008, we drilled 1 productive developmental well in our Grand Bay field in which we own 100% working interest. That well was awaiting completion at December 31, 2008.

The following table sets forth certain information regarding the actual drilling results for 2008:

	Exploratory Wells ⁽¹⁾		Developmental Wells ⁽¹⁾	
	Gross	Net	Gross	Net
Productive	-	-	1	1
Dry	-	-	-	-

(1)

Gross wells represent the total number of wells in which we owned an interest; net wells represent the total of our net working interests owned in the wells.

At December 31, 2008, no wells were being drilled.

In addition to the developmental well drilled, during 2008 we recompleted three wells and performed a workover on one well.

The foregoing information should not be considered indicative of future drilling performance, nor should it be assumed that there is any necessary correlation between the number of productive wells drilled and the amount of oil and natural gas that may ultimately be recovered by us. We do not own any drilling rigs and all of our drilling activities are conducted by independent drilling contractors.

Acreage Position

The following table summarizes our gross and net developed and undeveloped oil and natural gas acreage under lease as of December 31, 2008.

	Developed acres		Undeveloped acres	
	Gross	Net	Gross	Net
Grand Bay	17,544	16,024	-	-
Vermilion 16	3,573	3,573	522	522
Other	15,441	13,632	-	-
Total	37,028	33,229	522	522

As is customary in the oil and natural 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.

Our oil and natural gas properties consist primarily of oil and natural gas wells and our interests in leasehold acreage, both developed and undeveloped.

Marketing and Customers

We market substantially all of our oil and natural gas production from the properties we operate pursuant to a marketing contract with Professional Oil and Gas Marketing, LLC (POGM) that expires March 31, 2010. POGM accounted for 100% of our gas, oil and condensate production revenues during fiscal 2008.

We believe there are numerous purchasers of oil and natural gas that would purchase all of our production in the absence of purchases by POGM. Therefore, the loss of POGM as a customer would not be expected to have a significant impact on our ability to market our oil and natural gas production or our results of operations.

Competition

We encounter intense competition from other oil and gas companies in all areas of our operations, including the acquisition of producing properties and undeveloped acreage. Our competitors include major integrated oil and gas companies, numerous independent oil and gas companies and individuals. Many of our competitors are large, well-established companies with substantially larger operating staffs and greater capital resources and have been engaged in the oil and gas business for a much longer time than our company. These companies may be able to pay more for productive oil and gas properties, exploratory prospects and to define, evaluate, bid for and purchase a greater number of properties and prospects than our financial or human resources permit. Our ability to acquire additional properties and to discover reserves in the future will be dependent upon our ability to evaluate and select suitable properties and to consummate transactions in this highly competitive environment.

Employees

As of December 31, 2008, we had 27 full time employees. We are not a party to any collective bargaining agreements and have not experienced any strikes or work stoppages. We believe our relationships with our employees are good. From time to time, we utilize the services of independent contractors to perform various field and other services.

Regulatory Matters

Regulation of Oil and Gas Production, Sales and Transportation

The oil and gas industry is subject to regulation by numerous national, state and local governmental agencies and departments. Compliance with these regulations is often difficult and costly and noncompliance could result in substantial penalties and risks. Most jurisdictions in which we operate also have statutes, rules, regulations or guidelines governing the conservation of natural resources, including the unitization or pooling of oil and gas properties and the establishment of maximum rates of production from oil and gas wells. Some jurisdictions also require the filing of drilling and operating permits, bonds and reports. The failure to comply with these statutes, rules and regulations could result in the imposition of fines and penalties and the suspension or cessation of operations in affected areas.

We operate various gathering systems and pipelines servicing the areas in which we operate. The United States Department of Transportation and certain governmental agencies regulate the safety and operating aspects of the transportation and storage activities of these facilities by prescribing standards. However, based on current standards concerning transportation and storage activities and any proposed or contemplated standards, we believe that the impact of such standards is not material to our operations, capital expenditures or financial position. All of our sales of our natural gas are currently deregulated, although governmental agencies may elect in the future to regulate certain sales.

Environmental Regulation

Various federal, state and local laws and regulations relating to the protection of the environment, including the discharge of materials into the environment, may affect our exploration, development and production operations and the costs of those operations. These laws and regulations, among other things, govern the amounts and types of substances that may be released into the environment, the issuance of permits to conduct exploration, drilling and production operations, the discharge and disposition of generated waste materials and waste management, the reclamation and abandonment of wells, sites and facilities, financial assurance under the Oil Pollution Act of 1990 and the remediation of contaminated sites. These laws and regulations may impose substantial liabilities for noncompliance and for any contamination resulting from our operations and may require the suspension or cessation of operations in affected areas.

The environmental laws and regulations applicable to us and our operations include, among others, the following United States federal laws and regulations:

Clean Air Act, and its amendments, which governs air emissions;

Clean Water Act, which governs discharges to waters of the United States;

Comprehensive Environmental Response, Compensation and Liability Act, which imposes liability where hazardous releases have occurred or are threatened to occur (commonly known as Superfund);

Resource Conservation and Recovery Act, which governs the management of solid waste;

Oil Pollution Act of 1990, which imposes liabilities resulting from discharges of oil into navigable waters of the United States;

Emergency Planning and Community Right-to-Know Act, which requires reporting of toxic chemical inventories;

Safe Drinking Water Act, which governs the underground injection and disposal of wastewater; and

U.S. Department of Interior regulations, which impose liability for pollution cleanup and damages.

We routinely obtain permits for our facilities and operations in accordance with these applicable laws and regulations on an ongoing basis. There are no known issues that have a significant adverse effect on the permitting process or permit compliance status of any of our facilities or operations.

The ultimate financial impact of these environmental laws and regulations is neither clearly known nor easily determined as new standards are enacted and new interpretations of existing standards are rendered. Environmental laws and regulations are expected to have an increasing impact on our operations. In addition, any non-compliance with such laws could subject us to material administrative, civil or criminal penalties, or other liabilities. Potential permitting costs are variable and directly associated with the type of facility and its geographic location. Costs, for example, may be incurred for air emission permits, spill contingency requirements, and discharge or injection permits. These costs are considered a normal, recurring cost of our ongoing operations and not an extraordinary cost of compliance with government regulations.

We are committed to the protection of the environment throughout our operations and believe our operations are in substantial compliance with applicable environmental laws and regulations. We believe environmental stewardship is an important part of our daily business and will continue to make expenditures on a regular basis relating to environmental compliance. We maintain insurance coverage for spills, pollution and certain other environmental risks, although we are not fully insured against all such risks. The insurance coverage maintained by us provides for the reimbursement to us of costs incurred for the containment and clean-up of materials that may be suddenly and accidentally released in the course of our operations, but such insurance does not fully insure pollution and similar environmental risks. We do not anticipate that it will be required under current environmental laws and regulations to expend amounts that will have a material adverse effect on our consolidated and combined financial position or our results of operations. However, since environmental costs and liabilities are inherent in our operations and in the operations of companies engaged in similar businesses and since regulatory requirements frequently change and may become more stringent, there can be no assurance that material costs and liabilities will not be incurred in the future. Such costs may result in increased costs of operations and acquisitions and decreased production.

Future Laws and Regulations

Recent scientific studies have suggested that emissions of certain gases, commonly referred to as greenhouse gases and including carbon dioxide and methane, may be contributing to warming of the Earth's atmosphere. In response to such studies, the U.S. Congress is actively considering legislation to restrict or regulate emissions of greenhouse gases. At least 17 states, as well as other regions, have already taken legal measures to reduce emissions of greenhouse gases, primarily through the planned development of greenhouse gas emissions inventories and regional greenhouse gas cap-and-trade programs. Also, as a result of the U.S. Supreme Court's decision on April 2, 2007 in *Massachusetts, et al. v. EPA*, the EPA may be required to regulate greenhouse gas emissions from mobile sources, *e.g.*, cars and trucks, even if Congress does not adopt new legislation specifically addressing emissions of greenhouse gases. The court's holding in *Massachusetts, et al. v. EPA*, that greenhouse gases fall under the federal Clean Air Act's definition of air pollutant, may lead to future regulation of greenhouse gas emissions from stationary sources under certain Clean Air Act programs. Other nations have already agreed to regulate emissions of greenhouse gases pursuant to the Kyoto Protocol, an international treaty pursuant to which participating countries, not including the United States, have agreed to reduce their emissions of greenhouse gases to below 1990 levels by 2012. Passage of climate-related legislation or other regulatory initiatives by Congress or various states of the U.S., or the adoption of regulations by the EPA and analogous state agencies that restrict emissions of greenhouse gases in areas in which we conduct business, may have an adverse effect on demand for our services or products and may result in compliance obligations with respect to the release, capture and use of carbon dioxide that could have an adverse effect on our operations.

Web Site Access to Reports

Our Web site address is *www.saratogaresources.net*. We make available, free of charge on or through our Web site, our annual report, Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and all amendments to these reports as soon as reasonably practicable after such material is electronically filed with, or furnished to, the United States Securities and Exchange Commission.

Item 1A. Risk Factors

Our business activities and the value of our securities are subject to significant hazards and risks, including those described below. If any of such events should occur, our business, financial condition, liquidity and/or results of operations could be materially harmed, and holders and purchasers of our securities could lose part or all of their investments.

Because we have a limited history operating our existing properties, you may not be able to evaluate our current and future business prospects accurately.

We acquired our principal properties in July 2008 and, accordingly, have a limited operating and financial history upon which you can base an evaluation of our current and future business. The results of exploration, development, production and operation of our properties may differ from that of prior owners.

Our pending bankruptcy and indebtedness may limit our ability to borrow additional funds or capitalize on acquisition or other business opportunities.

On March 31, 2009, we, and our principal subsidiaries, filed for protection under Chapter 11 of the U.S. Bankruptcy Code. Our bankruptcy filing was made after unsuccessful efforts to resolve certain alleged financial covenant defaults asserted by our second lien secured creditor and in the wake of Hurricanes Ike and Gustav and sharp declines in the price of oil and natural gas which, together, resulted in our revenues and net income being below that originally projected at the time of our acquisition of the Harvest Companies.

We have incurred substantial indebtedness in acquiring our properties. At December 31, 2008, our indebtedness under our revolving credit facility and term loan totaled \$110.0 million, including \$97.5 million of term loan which bears interest at 20% per annum. Additionally, we are presently seeking DIP financing to support our operations during the pendency of the Chapter 11 case.

Our leverage and the current and future restrictions contained in the agreements governing our indebtedness and any future DIP financing may reduce our ability to incur additional indebtedness, engage in certain transactions or capitalize on acquisition or other business opportunities. Our indebtedness and other financial obligations and restrictions, along with our operation under the oversight of the bankruptcy court, could have important consequences. For example, they could:

impair our ability to obtain additional financing in the future for capital expenditures, potential acquisitions, general corporate purposes or other purposes;

result in higher interest expense in the event of increases in interest rates since some of our debt is at variable rates of interest;

have a material adverse effect if we fail to comply with financial and restrictive covenants in any of our debt agreements, including an event of default if such event is not cured or waived;

require us to dedicate a substantial portion of future cash flow to payments of our indebtedness and other financial obligations, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate requirements;

limit our flexibility in planning for, or reacting to, changes in our business and industry; and

place us at a competitive disadvantage to those who have proportionately less debt.

If we are unable to obtain DIP financing on satisfactory terms, we may be unable to support our existing operations and development program during the pendency of the Chapter 11 case. Further, if we are unable to successfully restructure or refinance our debt in the Chapter 11 case, we may be required to liquidate some or all of our properties. In either of such events, we and our shareholders could suffer substantial impairment in the value of our holdings, including the potential complete loss of such holdings. There is no assurance that we will be able to secure DIP financing on acceptable terms, or at all, that we will be able to restructure or refinance our existing debt on acceptable terms, or at all, or that we will be able to successfully operate during the pendency of the Chapter 11 case or following the Chapter 11 case, any of which could result in a total loss to our company and our shareholders.

We expect to have substantial capital requirements, and we may be unable to obtain needed financing on satisfactory terms.

We expect to make substantial capital expenditures for the acquisition, development, production, exploration and abandonment of oil and gas properties. Our capital requirements will depend on numerous factors, and we cannot accurately predict the timing and amount of our capital requirements. We intend to primarily finance our capital expenditures through cash flow from operations, cash on hand and, during the pendency of the Chapter 11 case, DIP financing. However, if our capital requirements vary materially from those reflected in our projections, we may require additional financing. A decrease in expected revenues or adverse change in market conditions could make obtaining this financing economically unattractive or impossible. Without additional capital resources, we may be forced to limit or defer our planned natural gas and oil exploration and development program and this will adversely affect the recoverability and ultimate value of our natural gas and oil properties, in turn negatively affecting our business, financial condition and results of operations. As a result, we may lack the capital necessary to complete potential acquisitions or to capitalize on other business opportunities.

We have been, and may continue to be, adversely affected by general economic conditions

The disruption experienced in U.S. and global credit markets during second half of 2008 and subsequent global economic downturn has resulted in projected decreases in demand for oil and natural gas, resulting in a sharp drop in energy prices, and has affected the availability and cost of capital. Prolonged negative changes in domestic and global economic conditions or disruptions of the financial and credit markets may have a material adverse effect on our results of operations, financial condition and liquidity during, and following, the Chapter 11 case. At this time, it is unclear whether and to what extent the actions taken by the U.S. government to date and other measures being implemented or contemplated, will mitigate the effects of the crisis. From an operating standpoint, the current crisis has resulted in a steep decline in the price we receive for oil and natural gas and reduced revenues and profitability.

Our reduced profitability arising from the global economic disruption was a principal factor, along with the effects of hurricanes, in the alleged non-compliance with various financial covenants in our existing debt facilities and our filing for protection under the Chapter 11. Should the current crises continue for an extended period, our financial position may deteriorate along with our ability to operate in, and successfully emerge from, Chapter 11 and our ability to obtain financing to support operations during and following the Chapter 11 case, and the cost and terms of same, is unclear.

Risks Associated with Acquisitions and Our Risk Management Program

We may be unable to successfully integrate the operations of the properties we acquire.

We acquired our principal properties in July 2008 and our business plan includes pursuit of additional acquisitions of oil and natural gas properties in the future. Integration of the operations of the properties we acquire with our existing business will be a complex, time-consuming and costly process. Failure to successfully integrate the acquired

businesses and operations in a timely manner may have a material adverse effect on our business, financial condition, results of operations and cash flows. The difficulties of combining the acquired operations include, among other things:

operating a larger organization;

coordinating potentially geographically disparate organizations, systems and facilities;

integrating corporate, technological and administrative functions;

diverting management's attention from other business concerns;

an increase in our indebtedness; and

potential environmental or regulatory liabilities and title problems.

The process of integrating our operations could cause an interruption of, or loss of momentum in, the activities of our business. Members of our senior management may be required to devote considerable amounts of time to this integration process, which will decrease the time they will have to manage our business. If our senior management is not able to effectively manage the integration process, or if any business activities are interrupted as a result of the integration process, our business could suffer.

In addition, we face the risk of identifying, competing for and pursuing other acquisitions, which takes time and expense and diverts management's attention from other activities.

We may not realize all of the anticipated benefits from our acquisitions.

We may not realize all of the anticipated benefits from our prior acquisition and from future acquisitions, such as increased earnings, cost savings and revenue enhancements, for various reasons, including difficulties integrating operations and personnel, higher than unexpected acquisition and operating costs or other difficulties, unknown liabilities, inaccurate reserve estimates and fluctuations in market prices.

If we are unable to effectively manage the commodity price risk of our production if energy prices fall, we may not realize the anticipated cash flows from our acquisitions.

Compared to some other participants in the oil and gas industry, we are a relatively small company with modest resources. Therefore, there is the possibility that we may be required to either purchase relatively expensive put options, or commit to deliver future production, to manage the commodity price risk of our future production. To the extent that we commit to deliver future production, we may be forced to make cash deposits available to counterparties as they mark to market these financial hedges. This funding requirement may limit the level of commodity price risk management that we are prudently able to complete. In addition, we are unlikely to hedge undeveloped reserves to the same extent that we hedge the anticipated production from proved developed reserves. If we fail to manage the commodity price risk of our production and energy prices fall, we may not be able to realize the cash flows from our assets that are currently anticipated even if we are successful in increasing the production and ultimate recovery of reserves.

If we place hedges on future production and encounter difficulties meeting that production, we may not realize the originally anticipated cash flows.

Our assets consist of a mix of reserves, with some being developed while others are undeveloped. To the extent that we sell the production of these reserves on a forward-looking basis but do not realize that anticipated level of production, our cash flow may be adversely affected if energy prices rise above the prices for the forward-looking sales. In this case, we would be required to make payments to the purchaser of the forward-looking sale equal to the difference between the current commodity price and that in the sales contract multiplied by the physical volume of the shortfall. There is the risk that production estimates could be inaccurate or that storms or other unanticipated problems could cause the production to be less than the amount anticipated, causing us to make payments to the purchasers pursuant to the terms of the hedging contracts.

Risks Related to the Oil and Gas Business

Oil and natural gas prices are volatile, and a decline in oil and natural gas prices would affect our financial results and impede growth.

Our future revenues, profitability and cash flow will depend substantially upon the prices and demand for oil and natural gas. The markets for these commodities are volatile and even relatively modest drops in prices can affect our financial results and impede our growth. Prices for oil and natural gas fluctuate widely in response to relatively minor changes in the supply and demand for oil and natural gas, market uncertainty and a variety of additional factors beyond our control, such as:

domestic and foreign supplies of oil and natural gas;

price and quantity of foreign imports of oil and natural gas;

actions of the Organization of Petroleum Exporting Countries and other state-controlled oil companies relating to oil and natural gas price and production controls;

level of consumer product demand;

level of global oil and natural gas exploration and productivity;

domestic and foreign governmental regulations;

level of global oil and natural gas inventories;

political conditions in or affecting other oil-producing and natural gas-producing countries, including the current conflicts in the Middle East and conditions in South America and Russia;

weather conditions;

technological advances affecting oil and natural gas consumption;

overall U.S. and global economic conditions; and

price and availability of alternative fuels.

Further, oil prices and natural gas prices do not necessarily fluctuate in direct relationship to each other. Lower oil and natural gas prices may not only decrease our expected future revenues on a per unit basis but also may reduce the amount of oil and natural gas that we can produce economically. This may result in us having to make substantial downward adjustments to our estimated proved reserves and could have a material adverse effect on our financial condition and results of operations.

To attempt to reduce our price risk, we periodically enter into hedging transactions with respect to a portion of our expected future production. We cannot assure you that such transactions will reduce the risk or minimize the effect of any decline in oil or natural gas prices. Any substantial or extended decline in the prices of or demand for oil or natural gas would have a material adverse effect on our financial condition and results of operations.

Reserve estimates depend on many assumptions that may turn out to be inaccurate and any material inaccuracies in the reserve estimates or underlying assumptions of our properties will materially affect the quantities and present value of those reserves.

Estimating crude oil and natural gas reserves is complex and inherently imprecise. It requires interpretation of the available technical data and making many assumptions about future conditions, including price and other economic conditions. In preparing such estimates, projection of production rates, timing of development expenditures and available geological, geophysical, production and engineering data are analyzed. The extent, quality and reliability of this data can vary. This process also requires economic assumptions about matters such as oil and natural gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. If our interpretations or assumptions used in arriving at our reserve estimates prove to be inaccurate, the amount of oil and gas that will

ultimately be recovered may differ materially from the estimated quantities and net present value of reserves owned by us. Any inaccuracies in these interpretations or assumptions could also materially affect the estimated quantities of reserves shown in the reserve reports summarized herein. Actual future production, oil and natural gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and gas reserves most likely will vary from estimates. In addition, we may adjust estimates of proved reserves to reflect production history, results of exploration and development, prevailing oil and natural gas prices and other factors, many of which are beyond our control.

Unless we replace crude oil and natural gas reserves our future reserves and production will decline.

Our future crude oil and natural gas production will depend on our success in finding or acquiring additional reserves. If we are unable to replace reserves through drilling or acquisitions, our level of production and cash flows will be adversely affected. In general, production from oil and gas properties declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. Our total proved reserves decline as reserves are produced unless we conduct other successful exploration and development activities or acquire properties containing proved reserves, or both. Our ability to make the necessary capital investment to maintain or expand our asset base of oil and gas reserves would be impaired to the extent cash flow from operations is reduced and external sources of capital become limited or unavailable. We may not be successful in exploring for, developing or acquiring additional reserves. We also may not be successful in raising funds to acquire additional reserves.

Competition for oil and gas properties and prospects is intense and some of our competitors have larger financial, technical and personnel resources that could give them an advantage in evaluating and obtaining properties and prospects.

We operate in a highly competitive environment for reviewing prospects, acquiring properties, marketing oil and gas and securing trained personnel. Many of our competitors are major or independent oil and gas companies that possess and employ financial resources that allow them to obtain substantially greater technical and personnel resources than we. We actively compete with other companies when acquiring new leases or oil and gas properties. For example, new leases may be acquired through a sealed bid process and are generally awarded to the highest bidder. These additional resources can be particularly important in reviewing prospects and purchasing properties. Competitors may be able to evaluate, bid for and purchase a greater number of properties and prospects than our financial or personnel resources permit. Competitors may also be able to pay more for productive oil and gas properties and exploratory prospects than we are able or willing to pay. If we are unable to compete successfully in these areas in the future, our future revenues and growth may be diminished or restricted.

The unavailability or high cost of drilling rigs, equipment, supplies, personnel and oil field services could adversely affect our ability to execute exploration and exploitation plans on a timely basis and within budget, and consequently could adversely affect our anticipated cash flow.

We utilize third-party services to maximize the efficiency of our organization. The cost of oil field services typically fluctuates based on demand for those services. While we currently have excellent relationships with oil field service companies, there is no assurance that we will be able to contract for such services on a timely basis or that the cost of such services will remain at a satisfactory or affordable level. Shortages or the high cost of drilling rigs, equipment, supplies or personnel could delay or adversely affect our exploitation and exploration operations, which could have a material adverse effect on our business, financial condition or results of operations.

The geographic concentration of our properties subjects us to an increased risk of loss of revenue or curtailment of production from factors affecting the Louisiana Gulf Coast specifically.

The geographic concentration of our properties in the Louisiana Gulf Coast means that some or all of the properties could be affected should the region experience:

severe weather;

delays or decreases in production, the availability of equipment, facilities or services;

delays or decreases in the availability of capacity to transport, gather or process production; and/or

changes in the regulatory environment.

For example, the oil and gas properties that we acquired in July 2008 were damaged by Hurricanes Katrina, Rita, Gustav and Ike, which required the prior owners of the properties, in the case of Hurricanes Katrina and Rita, and us, in the case of Hurricanes Gustav and Ike, to spend a considerable amount of time and capital on inspections, repairs, debris removal, and the drilling of replacement wells. Although we maintain insurance coverage to cover a portion of these types of risks, there may be potential risks associated with our operations not covered by insurance. There also may be certain risks covered by insurance where the policy does not reimburse us for all of the costs related to a loss.

Because all or a number of the properties could experience any of the same conditions at the same time, these conditions could have a relatively greater impact on our results of operations than they might have on other producers who have properties over a wider geographic area.

Our future business will involve many uncertainties and operating risks that can prevent us from realizing profits and can cause substantial losses.

We engage in exploration and development drilling activities. Any such activities may be unsuccessful for many reasons. In addition to a failure to find oil or natural gas, drilling efforts can be affected by adverse weather conditions (such as hurricanes and tropical storms in the Gulf of Mexico), cost overruns, equipment shortages and mechanical difficulties. Therefore, the successful drilling of a gas or oil well does not ensure we will realize a profit on our investment. A variety of factors, both geological and market-related, could cause a well to become uneconomic or only marginally economic. In addition to their costs, unsuccessful wells could impede our efforts to replace reserves.

Our business involves a variety of inherent operating risks, including:

fires;

explosions;

blow-outs and surface cratering;

uncontrollable flows of gas, oil and formation water;

natural disasters, such as hurricanes and other adverse weather conditions;

pipe, cement, subsea well or pipeline failures;

casing collapses;

mechanical difficulties, such as lost or stuck oil field drilling and service tools;

abnormally pressured formations; and

environmental hazards, such as gas leaks, oil spills, pipeline ruptures and discharges of toxic gases.

If we experience any of these problems, well bores, platforms, gathering systems and processing facilities could be affected, which could adversely affect our ability to conduct operations. We could also incur substantial losses due to costs and/or liability incurred as a result of:

injury or loss of life;

severe damage to and destruction of property, natural resources and equipment;

pollution and other environmental damage;

clean-up responsibilities;

regulatory investigations and penalties;

suspension of our operations; and

repairs to resume operations.

The properties we acquire may not produce as projected, and we may be unable to determine reserve potential, identify liabilities associated with the acquired properties or obtain protection from sellers against such liabilities.

The properties we acquire may not produce as expected, may be in an unexpected condition and we may be subject to increased costs and liabilities, including environmental liabilities. Although we will review properties prior to

acquisition in a manner consistent with industry practices, such reviews are not capable of identifying all potential conditions. Generally, it is not feasible to review in depth every individual property involved in each acquisition. We focus our review efforts on the higher-value properties or properties with known adverse conditions and will sample the remainder. However, even a detailed review of records and properties may not necessarily reveal existing or potential problems or permit a buyer to become sufficiently familiar with the properties to fully assess their condition, any deficiencies, and development potential. Inspections may not be performed on every well, and environmental problems, such as ground water contamination, are not necessarily observable even when an inspection is undertaken.

Market conditions or transportation impediments may hinder access to oil and gas markets or delay production.

Market conditions, the unavailability of satisfactory oil and natural gas transportation or the remote location of our drilling operations may hinder our access to oil and natural gas markets or delay production. The availability of a ready market for oil and gas production depends on a number of factors, including the demand for and supply of oil and gas and the proximity of reserves to pipelines or trucking and terminal facilities. In offshore operations, the availability of a ready market depends on the proximity of and our ability to tie into existing production platforms that we own or operate or that are owned and operated by others and, where facilities are owned and operated by others, the ability to negotiate commercially satisfactory arrangements with the owners or operators. We may be required to shut in wells or delay initial production for lack of a market or because of inadequacy or unavailability of pipeline or gathering system capacity. When that occurs, we will be unable to realize revenue from those wells until the production can be tied to a gathering system. This can result in considerable delays from the initial discovery of a reservoir to the actual production of the oil and gas and realization of revenues.

We may not be the operator on all of our future properties and therefore may not be in a position to control the timing of development efforts, the associated costs, or the rate of production of the reserves on such properties.

As we carry out our planned drilling program, we will not serve as operator of all planned wells. We currently operate all of our properties. However, it is possible that we will not serve as operator of all of the properties we may acquire in the future. As a result, we may have limited ability to exercise influence over the operations of some non-operated properties or their associated costs. Dependence on the operator and other working interest owners for these projects, and limited ability to influence operations and associated costs could prevent the realization of targeted returns on capital in drilling or acquisition activities. The success and timing of development and exploitation activities on properties operated by others depend upon a number of factors that will be largely outside of our control, including:

the timing and amount of capital expenditures;

the availability of suitable drilling rigs, drilling equipment, support vessels, production and transportation infrastructure and qualified operating personnel;

the operator's expertise and financial resources;

approval of other participants in drilling wells;

selection of technology; and

the rate of production of the reserves.

Our insurance may not protect us against business and operating risks.

We maintain insurance for some, but not all, of the potential risks and liabilities associated with our business. For some risks, we may not obtain insurance if we believe the cost of available insurance is excessive relative to the risks presented. As a result of market conditions, premiums and deductibles for certain insurance policies can increase substantially, and in some instances, certain insurance policies are economically unavailable or available only for reduced amounts of coverage. As a result, we procure other desirable insurance on commercially reasonable terms, if possible. Although we will maintain insurance at levels we believe is appropriate and consistent with industry practice, we will not be fully insured against all risks, including high-cost business interruption insurance and drilling and completion risks that are generally not recoverable from third parties or insurance. In addition, pollution and environmental risks generally are not fully insurable. Losses and liabilities from uninsured and underinsured events and delay in the payment of insurance proceeds could have a material adverse effect on our financial condition and results of operations. As a result of a number of recent catastrophic events like the terrorist attacks on September 11, 2001 and Hurricanes Ivan, Katrina and Rita, insurance underwriters increased insurance premiums for many of the coverages historically maintained and issued general notices of cancellation and significant changes for a wide variety of insurance coverages. The oil and natural gas industry suffered extensive damage from Hurricanes Ivan, Katrina and Rita. As a result, insurance costs have increased significantly from the costs that similarly situated participants in this industry have historically incurred. Insurers are requiring higher retention levels and limit the amount of insurance proceeds that are available after a major wind storm in the event that damages are incurred. If storm activity in the future is as severe as it was in 2005, insurance underwriters may no longer insure Gulf of Mexico assets against weather-related damage. A number of industry participants have previously maintained business interruption insurance. This insurance may not be economically available in the future, which could adversely impact business prospects in the Gulf of Mexico and adversely impact our operations. If an accident or other event resulting in damage to our operations including severe weather, terrorist acts, war, civil disturbances, pollution or environmental damage occurs and is not fully covered by insurance or a recoverable indemnity from a customer, it could adversely affect our financial condition and results of operations. Moreover, we may not be able to maintain adequate insurance in the future at rates we consider reasonable or be able to obtain insurance against certain risks.

Our operations will be subject to environmental and other government laws and regulations that are costly and could potentially subject us to substantial liabilities.

Crude oil and natural gas exploration and production operations in the United States and the Gulf of Mexico are subject to extensive federal, state and local laws and regulations. Companies operating in the Gulf of Mexico are subject to laws and regulations addressing, among others, land use and lease permit restrictions, bonding and other financial assurance related to drilling and production activities, spacing of wells, unitization and pooling of properties, environmental and safety matters, plugging and abandonment of wells and associated infrastructure after production has ceased, operational reporting and taxation. Failure to comply with such laws and regulations can subject us to governmental sanctions, such as fines and penalties, as well as potential liability for personal injuries and property and natural resources damages. We may be required to make significant expenditures to comply with the requirements of these laws and regulations, and future laws or regulations, or any adverse change in the interpretation of existing laws and regulations, could increase such compliance costs. Regulatory requirements and restrictions could also delay or curtail our operations and could have a significant impact on our financial condition or results of operations.

Our oil and gas operations are subject to stringent laws and regulations relating to the release or disposal of materials into the environment or otherwise relating to environmental protection. These laws and regulations:

require the acquisition of a permit before drilling commences;

restrict the types, quantities and concentration of substances that can be released into the environment in connection with drilling and production activities;

limit or prohibit drilling activities on certain lands lying within wilderness, wetlands and other protected areas; and

impose substantial liabilities for pollution resulting from operations.

Failure to comply with these laws and regulations may result in:

the imposition of administrative, civil and/or criminal penalties;

incurring investigatory or remedial obligations; and

the imposition of injunctive relief.

Changes in environmental laws and regulations occur frequently, and any changes that result in more stringent or costly waste handling, storage, transport, disposal or cleanup requirements could require us to make significant expenditures to attain and maintain compliance and may otherwise have a material adverse effect on our industry in general and on our own results of operations, competitive position or financial condition. Although we intend to be in compliance in all material respects with all applicable environmental laws and regulations, we cannot assure you that we will be able to comply with existing or new regulations. In addition, the risk of accidental spills, leakages or other circumstances could expose us to extensive liability.

We are unable to predict the effect of additional environmental laws and regulations that may be adopted in the future, including whether any such laws or regulations would materially adversely increase our cost of doing business or affect operations in any area.

Under certain environmental laws that impose strict, joint and several liability, we may be required to remediate our contaminated properties regardless of whether such contamination resulted from the conduct of others or from consequences of our own actions that were or were not in compliance with all applicable laws at the time those actions were taken. In addition, claims for damages to persons or property may result from environmental and other impacts of our operations. Moreover, new or modified environmental, health or safety laws, regulations or enforcement policies could be more stringent and impose unforeseen liabilities or significantly increase compliance costs. Therefore, the costs to comply with environmental, health or safety laws or regulations or the liabilities incurred in connection with them could significantly and adversely affect our business, financial condition or results of operations. In addition, many countries as well as several states and regions of the U.S. have agreed to regulate emissions of greenhouse gases. Methane, a primary component of natural gas, and carbon dioxide, a byproduct of burning of natural gas and oil, are greenhouse gases. Regulation of greenhouse gases could adversely impact some of our operations and demand for some of our services or products in the future. See **Business** **Regulatory Matters**.

Other Risks

We depend on key personnel, the loss of any of whom could materially adversely affect future operations.

Our success will depend to a large extent upon the efforts and abilities of our executive officers and key operations personnel. The loss of the services of one or more of these key employees could have a material adverse effect on us. Our business will also be dependent upon our ability to attract and retain qualified personnel. Acquiring and keeping these personnel could prove more difficult or cost substantially more than estimated. This could cause us to incur greater costs, or prevent us from pursuing our exploitation strategy as quickly as we would otherwise wish to do.

Unanticipated decommissioning costs could materially adversely affect our future financial position and results of operations.

We may become responsible for unanticipated costs associated with abandoning and reclaiming wells, facilities and pipelines. Abandonment and reclamation of facilities and the costs associated therewith is often referred to as decommissioning. Should decommissioning be required that is not presently anticipated or the decommissioning be accelerated, such costs may exceed the value of reserves remaining at any particular time. We may have to draw on funds from other sources to satisfy such costs. The use of other funds to satisfy such decommissioning costs could have a material adverse effect on our financial position and results of operations.

If we are unable to acquire or renew permits and approvals required for operations, we may be forced to suspend or cease operations altogether.

The construction and operation of energy projects require numerous permits and approvals from governmental agencies. We may not be able to obtain all necessary permits and approvals, and as a result our operations may be adversely affected. In addition, obtaining all necessary permits and approvals may necessitate substantial expenditures and may create a risk of expensive delays or loss of value if a project is unable to function as planned due to changing requirements or local opposition.

Item 1B. Unresolved Staff Comments

Not applicable

Item 2.

Properties

A description of our properties is included in Item 1. Business.

Item 3.

Legal Proceedings

We may from time to time be a party to lawsuits incidental to our business. As of March 31, 2009, except as noted below, we were not aware of any current, pending, or threatened litigation or proceedings that could have a material adverse effect on our results of operations, cash flows or financial condition.

On March 31, 2009, we, and our principal operating subsidiaries, filed petitions under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the Western District of Louisiana, Lafayette Division (Case Nos. 09-50397, 09-50398, 09-50399, 09-50400 and 09-50401). See Item 1. Business Recent Developments Chapter 11 Filing.

Item 4.

Submission of Matters to a Vote of Security Holders

On October 21, 2008, the holders of 8,536,275 shares of our common stock, or 50.6% of the outstanding shares, approved by written consent the adoption of the Saratoga Resources, Inc. 2008 Long-Term Incentive Plan.

PART II

Item 5.

Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is traded on the OTC Bulletin Board under the symbol SROEQ.OB. Prior to our March 31, 2009 filing for protection under Chapter 11, our common stock traded under the symbol SROE.OB. The following table sets forth the range of high and low sale prices of our common stock for each quarter during the past two fiscal years.

		High	Low
Calendar Year 2008	Fourth Quarter	\$3.75	\$1.50
	Third Quarter	4.00	0.75
	Second Quarter	0.95	0.17
	First Quarter	4.00	0.25
Calendar Year 2007	Fourth Quarter	\$4.00	\$0.15
	Third Quarter	0.15	0.12
	Second Quarter	0.25	0.15
	First Quarter	0.20	0.15

At April 6, 2009, the closing price of our common stock on the OTC Bulletin Board was \$0.30.

Holders

As of April 6, 2009, there were approximately 1,347 record holders of our common stock.

Dividends

We have not declared or paid any dividends on our common stock since our inception, and we do not anticipate declaring or paying any dividends on our common stock for the foreseeable future. We currently intend to retain any future earnings to finance future growth. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements and other factors the board of directors considers relevant. In addition, our ability to declare and pay dividends is restricted by our governing statute, as well as the terms of our existing credit facilities.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2008 with respect to the shares of our common stock that may be issued under our existing equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders ⁽¹⁾			3,000,000
Equity compensation plans not approved by security holders ⁽²⁾			1,430,000
Total			4,430,000

(1)

Consists of shares reserved for issuance under the Saratoga Resources, Inc. 2008 Long-Term Incentive Plan.

(2)

Consists of 1,430,000 shares reserved for issuance under the Saratoga Resources, Inc. 2006 Employee and Consultant Stock Plan (the 2006 Plan).

2006 Employee and Consultant Stock Plan. The 2006 Employee and Consultant Stock Plan was adopted by our board of directors in January 2006 as an equity-based plan to provide incentives to, and to attract, motivate and retain employees and consultants.

The 2006 Plan is administered by the Compensation Committee of our board of directors and enables the committee to make stock grants. We initially reserved 1,200,000 shares of common stock for issuance under the 2006 Plan. In October 2007, the 2006 Plan was amended to increase the shares reserved thereunder to 2,525,000.

2008 Long-Term Incentive Plan. The 2008 Long-term Incentive Plan was adopted by our board of directors in October 2008 as an equity-based compensation plan to provide incentives to, and to attract, motivate and retain the highest qualified employees, non-employee directors and other third-party service providers. The 2008 Plan enables our Board of Directors to provide equity-based incentives through awards of options, stock appreciation rights, restricted stock, restricted stock units and other stock or performance-based awards.

Under the 2008 Plan, awards may be granted from time to time to eligible persons, consisting generally of officers, directors, employees and consultants, all generally in the discretion of the Compensation Committee of the board of directors, which is responsible for administering the 2008 Plan. We have initially reserved 3,000,000 shares of common stock for issuance under the 2008 Plan, subject to adjustment to protect against dilution in the event of certain changes in our capitalization. Shareholders holding greater than 50% of our common stock approved the 2008 Plan by written consent.

Unregistered Sale of Equity Securities

In December 2008, pursuant to the terms of the appointment of Marvin Chronister as a director and chairman of the Audit Committee of our board of directors, we issued 10,000 shares of common stock to Mr. Chronister as consideration for his services as chairmen of the Audit Committee during the second and third quarters of 2008.

The securities described above were issued pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

Item 6.

Selected Financial Data

Not applicable.

Item 7.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The accompanying consolidated and combined financial statements have been prepared assuming that Saratoga Resources, Inc. will continue as a going concern. As discussed in Note 3 to the financial statements, Saratoga Resources, Inc. filed a voluntary petition for reorganization under Chapter 11 of the US Bankruptcy Code on March 31, 2009, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 1. The consolidated and combined financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty. The following discussion should be read in light of the foregoing.

Restatement of Financial Statements

On May 19, 2009, management concluded that the previously filed consolidated financial statements of the Company as of and for the year ended December 31, 2008 needed to be restated.

The restatement results from errors in accounting for the acquisition (the Harvest Acquisition) of Harvest Oil & Gas, LLC and The Harvest Group, LLC. The Company, in reporting the Harvest Acquisition in its Form 10-K for the year ended December 31, 2008, made certain estimates as permitted by SFAS No. 141 Business Combinations. Subsequent to filing the Form 10-K, the Company reassessed those estimates including the application of SFAS 109, Accounting for Income Taxes related to the Harvest Acquisition. During this reassessment, the Company identified an error whereby the tax basis of its oil and gas properties was not properly adjusted resulting in an error in tax depletion, which caused the deferred tax assets to be overstated by \$3,663,471. In addition, the Company identified an error in the purchase price allocation related to the Harvest Acquisition. This error resulted in an overstatement of depletion and impairment expense by \$4,015,067 and \$978,221, respectively, which resulted in a corresponding understatement of net oil and gas properties of \$4,993,288, a \$3,865,729 overstatement of deferred tax liabilities and an overstatement of income tax expense of \$202,258. In addition, the revised statements of operations and cash flows will reflect a reclassification of accretion expense from depletion, where it was previously reported.

As a result of the restatement, net income for the year ended December 31, 2008 was increased by \$5,195,546.

The following is a summary of the effect of the restatement on the consolidated financial statements and net income per share amounts affected on our previously reported consolidated financial statements:

**RESTATED
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2008
(SUCCESSOR)**

	As Reported		Adjustments		Restated
ASSETS					
Property and equipment:					
Oil and gas properties - proved (successful efforts method) \$	151,047,857	\$	3,401,489	\$	154,449,346
Total property and equipment	151,552,327		3,401,489		154,953,816
Less: Accumulated depreciation, depletion and amortization	(8,610,002)		1,591,799		(7,018,203)
Total property and equipment, net	142,942,325		4,993,288		147,935,613
Other assets, net	7,742,360		(3,663,471)		4,078,889
Total assets	\$ 175,082,908	\$	1,329,817	\$	176,412,725
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Deferred taxes	\$ 13,798,077	\$	(3,865,729)	\$	9,932,348
Total current liabilities	28,997,285		(3,865,729)		25,131,556
Stockholders' equity (deficit):					
Retained earnings	8,917,685		5,195,546		14,113,231
Total stockholders' equity	28,244,221		5,195,546		33,439,767
Total liabilities and stockholders' equity	\$ 175,082,908	\$	1,329,817	\$	176,412,725

RESTATED
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE PERIOD JULY 15, 2008 TO DECEMBER 31, 2008
(SUCCESSOR)

	As Reported	Adjustments	Restated
Operating Expense:			
Depreciation, depletion and amortization	\$ 9,873,998	\$ (4,549,235)	\$ 5,324,763
Accretion expense	-	534,168	534,168
Impairments	2,671,661	(978,221)	1,693,440
Total operating expenses	29,587,922	(4,993,288)	24,594,634
Operating income (loss)	(5,744,469)	4,993,288	(751,181)
Net income (loss) before income taxes	23,105,928	4,993,288	28,099,216
Income tax provision (benefit):			
Current	473,125	(3,859,397)	(3,386,272)
Deferred	10,041,087	3,657,139	13,698,226
Net income	\$ 12,591,716	\$ 5,195,546	\$ 17,787,262
Net Income per share:			
Basic	\$ 0.95	\$ 0.39	\$ 1.35
Diluted	\$ 0.88	\$ 0.36	\$ 1.24

RESTATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIOD JULY 15, 2008 TO DECEMBER 31, 2008
(SUCCESSOR)

	As Reported	Adjustments	Restated
Cash flows from operating activities:			
Net income (loss)	\$ 12,591,716	\$ 5,195,546	\$ 17,787,262

Adjustments to reconcile net loss to net cash used in operating activities:

Depreciation, depletion and amortization	9,873,998	(4,549,235)	5,324,763
Accretion expense	-	534,168	534,168
Impairments	2,671,661	(978,221)	1,693,440
Deferred taxes	10,041,087	(202,258)	9,838,829
Net cash provided by operating activities	\$ 15,005,948	\$ -	\$ 15,005,948

General

Saratoga Resources, Inc. (Successor Company) is an independent oil and natural gas company engaged in the production, development, acquisition and exploitation of natural gas and crude oil properties. Since 1996, and before our completion of the Harvest Acquisitions (as defined below) in July 2008, our operations and operating assets were limited to (1) ownership of a working interest in the Red Hawk Fusselman and Red Hawk Mississippian fields, including the Adcock Farms No. 1 well, in Dawson County, Texas, (2) rights in approximately 27 square miles of 3D seismic data in the area including the Company s Dawson County well, (3) a license to approximately 2,000 miles of 2D seismic data in the U.S. gulf coast region, and (4) a 50% working interest in a 160 acre leasehold, running through October 2009, in Dawson County, Texas, adjoining the Adcock Farms No. 1 well site.

In October 2007, we entered into separate Purchase and Sale Agreements, each as amended, to acquire all the membership interests of Harvest Oil & Gas, LLC and The Harvest Group, LLC (the Harvest Acquisitions), and in July 2008 we completed the Harvest Acquisitions. Since completion of the Harvest Acquisitions, we are principally focused on exploration, exploitation, and development of natural gas and crude oil properties in the state waters of Louisiana. Our properties provide us with a valuable reserve base, an extensive portfolio of lower-risk drilling opportunities and a proved reserve commodity mix that is 67% natural gas and 33% oil.

At December 31, 2008, our principal properties covered approximately 37,080 gross acres (33,750 net), substantially all of which were held by production without near-term lease expirations, across 13 fields in the state waters of Louisiana. We own working interests in our properties ranging from 25% to 100%, with our average working interest on a net acreage leasehold basis being approximately 94%. Our net revenue interests in our properties range from 18% to 82%, with our average net revenue interest on a net acreage leasehold basis being approximately 94%. We operate over 90% of the wells that comprise our PV-10, enabling us to more effectively manage our operating costs, capital expenditures and the timing and method of development of our properties. Following the Harvest Acquisitions and prior to the market disruption that occurred during the fourth quarter of 2008, we began an active development program to exploit these opportunities. Most of our properties offer multiple stacked reservoir objectives with substantial behind pipe potential. We have identified multiple prospects on our acreage and have initiated an aggressive development program to exploit these opportunities. We believe this development program will enable us to significantly grow our reserves, production and cash flow.

As of January 1, 2009, based on reserve reports prepared by independent petroleum engineers, we had 76.7 Bcfe of proved reserves, of which 65% were natural gas and 53% were proved developed. The PV-10 of these proved reserves as of that date were \$148.5 million before future estimated income taxes. Our average daily net production for December 2008 was 14.0 MMcfe/d, of which 58.7% was oil.

Prior to the Harvest Acquisitions, we had minimal operations. Accordingly, the results of operations included in this Form 10-K for the year ended December 31, 2007 and for the period from January 1, 2008 to July 14, 2008 represent the combined operations the Harvest Acquisitions, as predecessor. The consolidated results of operations for the period from July 14, 2008 to December 31, 2008 represent our consolidated results subsequent to the Harvest Acquisition, as successor.

2008 and 2009 Developments

Harvest Acquisitions

In July 2008, we acquired all of the membership interest in Harvest Oil & Gas, LLC (Harvest Oil) and The Harvest Group, LLC (Harvest Group and, together with Harvest Oil, the Harvest Companies or the Predecessor Companies).

As consideration for the membership interests in the Harvest Companies, we paid to the former members of the Harvest Companies a combined purchase price of \$105,683,000 in cash and issued 4.9 million shares of our common stock. The cash portion of the purchase price included \$33,650,818 and \$30,000,000 paid by the Harvest Companies to pay a note payable to Macquarie Bank Limited (Macquarie) and to obtain a release of a net profits interest and an overriding royalty interest in the properties of the Harvest Companies held by Macquarie and its affiliates, respectively, which amounts we paid directly to Macquarie on behalf of the Harvest Companies at closing. Of the 4.9 million shares of common stock issued in the acquisitions, 3.3 million shares were issued directly to Macquarie Americas Corp., an affiliate of Macquarie, pursuant to an agreement between Macquarie and the members of the Harvest Companies relating to the release of the net profits interest and overriding royalty interest held by Macquarie.

In conjunction with the Harvest Acquisitions, and to finance the acquisitions and post-acquisition operations, in July 2008, we entered into a Credit Agreement (the Wayzata Credit Agreement) with Wayzata Investment Partners, LLC (Wayzata) and a separate Credit Agreement (the Revolving Credit Agreement) with Macquarie. We borrowed \$97,500,000 under the Wayzata Credit Agreement and approximately \$12,528,878 under the Revolving Credit Agreement to pay the purchase price of the Harvest Acquisitions and associated costs.

Wayzata Credit Agreement

In conjunction with the Harvest Acquisitions, on July 14, 2008, we entered into the Wayzata Credit Agreement pursuant to which Wayzata, or other lenders (together, the Wayzata Lenders), agreed to provide loans to us in an amount up to, and did loan to us, \$97,500,000 to be used to fund the acquisition of the Harvest Companies.

Pursuant to the terms of the Wayzata Credit Agreement, we granted to the Wayzata Lenders a second lien on substantially all of our assets, and each of our subsidiaries, including the Harvest Companies, agreed to guaranty all amounts owing under the Wayzata Credit Agreement.

Loans made under the Wayzata Credit Agreement bear interest at 20% per annum and are due and payable in monthly installments of interest only with the principal being due and payable in full on July 14, 2011.

Pursuant to the terms of the Wayzata Credit Agreement, we issued to the Wayzata Lenders a warrant to purchase 805,515 shares of our common stock exercisable for a period of five years at a price of \$0.01 per share.

The Wayzata Credit Agreement includes normal covenants and credit conditions and is subject to the terms of an Intercreditor Agreement with us and Macquarie.

Revolving Credit Agreement

In conjunction with the Harvest Acquisitions, on July 14, 2008, we entered into the Revolving Credit Agreement pursuant to which we assumed and restated the existing Macquarie credit facilities of the Harvest Companies and Macquarie, or other lenders (together, the Revolving Credit Lenders), agreed to provide a revolving credit loan facility in an amount up to \$25,000,000. Simultaneous with execution of the Revolving Credit Agreement, we borrowed \$12,528,878 under the revolving credit facilities to pay amounts due with respect to the acquisition of the Harvest Companies and related transaction costs. Additionally, letters of credit of the Harvest Companies, totaling \$11.5 million, remained outstanding following the acquisition and reduce available borrowing under the revolving credit facility.

Pursuant to the terms of the Revolving Credit Agreement, we granted to the Revolving Credit Lenders a first lien on substantially all of our assets, and each of our subsidiaries, including the Harvest Companies, agreed to guaranty all amounts owing under the Revolving Credit Agreement.

Loans made under the Revolving Credit Agreement are subject to borrowing base requirements and bear interest at varying rates based on percentage usage of the borrowing base and margins ranging from 2.25% to 2.75% over the applicable LIBOR Rate, as defined in the Revolving Credit Agreement, and 0.75% to 1.25% over the applicable prime rate. Interest on the revolving credit facility is due monthly with respect to prime rate based loans and at the end of each applicable interest period with respect to Eurodollar loans. Loans under the Revolving Credit Agreement mature on April 1, 2011.

Pursuant to the terms of the Revolving Credit Agreement, we will pay certain administrative fees, letter of credit fees and other fees and expenses in connection with maintenance and advances under the Revolving Credit Agreement.

The Revolving Credit Agreement includes normal covenants and credit conditions and is subject to the terms of the Intercreditor Agreement with us and the Wayzata Lenders.

Renewal and Extension of Shareholder Loan and Accrued Salaries of Officers

In conjunction with the Harvest Acquisitions and the related financing, at closing, we repaid \$100,000 of advances from Thomas Cooke, our Chairman, Chief Executive Officer and principal shareholder. The balance owing to Mr. Cooke, totaling \$463,412, plus accrued salary in the amount of \$157,500, was renewed and extended pursuant to a Subordinated Promissory Note, providing for payment of equal monthly installments of \$17,247, plus interest at 10% per annum, over three years.

Accrued salary in the amount of \$157,500 owed to Andy Clifford, our President was renewed and extended pursuant to a Subordinated Promissory Note providing for payment of equal monthly installments of \$4,375, plus interest at 10%, over three years.

Employment Agreement and Stock Grant

In connection with the Harvest Acquisitions, we appointed Barry Salsbury as President of the Harvest Companies, our principal operating subsidiaries, in order to facility the orderly transition of operations following the Harvest Acquisitions. Mr. Salsbury co-founded and has served as President of the Harvest Companies.

We entered into an employment agreement and restricted stock agreement with Mr. Salsbury. Under the terms of Mr. Salsbury's employment agreement, Mr. Salsbury agreed to serve as President of the Harvest Companies for a term of three years and was entitled to a base salary of \$165,000 per year plus participation in our executive benefit programs. Under the terms of a restricted stock agreement, Mr. Salsbury was issued 500,000 shares of common stock, of which 200,000 shares were subject to forfeiture in the event that Mr. Salsbury was not continuing in his service as President of the Harvest Companies on January 14, 2009 and 200,000 shares were subject to forfeiture in the event that Mr. Salsbury was not continuing in his service as President of the Harvest Companies on July 14, 2009. In February 2009, following the mutual determination that the post-Harvest Acquisition management transition had been completed, Mr. Salsbury retired as President of the Harvest Companies and the 200,000 unvested shares of restricted stock issued to Mr. Salsbury were cancelled.

Hurricanes Gustav and Ike.

In September 2008, Hurricanes Gustav and Ike resulted in interruptions in production from, and damage to, our south Louisiana fields. Electrical outages, road and waterway closures and similar disruption of critical third-party services resulted in a temporary decline in product sales estimated at 19.4 Mbbls of oil and 113.1 Mmcf of natural gas during August and September 2008 resulting in a reduction in revenues estimated at \$3,098,600.

Inspections to date have revealed damage to our facilities with damage assessments to date estimated at approximately \$1,500,000. The Company carries property damage insurance on its south Louisiana operations in the amount of \$10,000,000 subject to a deductible of \$1,000,000 per event. The total impact to the Company arising from the hurricane damage will not be known until the actual cost of the damage is finalized and claims filed.

Macroeconomic Impact on Oil and Natural Gas Prices

Late in the third quarter of 2008 and accelerating during the early fourth quarter of 2008, the United States and global economies suffered a severe disruption in credit and financial markets that have been accompanied by economic contraction and a sharp drop in the price of oil and natural gas due to a projected decline in demand for oil and natural gas. While we enter into hedging transactions to reduce our exposure to commodity price risks, we are subject to risks associated with declines in the price of oil and natural gas relating to our unhedged production. Any prolonged decrease in the price of oil and natural gas could have a material adverse effect on our revenues, profitability and cash flows and our financial condition and borrowing capacity. As a result of the economic events of the fourth quarter of 2008, our oil and gas revenues and profitability during the fourth quarter of 2008 were adversely impacted and are expected to continue to be adversely impacted for the foreseeable future. We, in turn, have scaled back our drilling and development plans for 2009.

On July 14, 2008, the day of closing for the Harvest Acquisitions, crude oil prices closed at \$145.66 per barrel, while the Henry Hub spot price for natural gas averaged \$11.45 per thousand cubic feet (MCF). Oil had remained above \$100 per barrel for sixteen consecutive weeks at that time. Equivalent oil and natural gas prices in March 2009 are 63% and 65% respectively lower than they were when we closed the Harvest Acquisitions and entered into the Credit Agreements with Wayzata and Macquarie.

Notices of Default.

Wayzata issued a notice of default, dated February 26, 2009, wherein it alleged nine non-monetary breaches of the Wayzata Credit Agreement, or events of default. Wayzata, in its notice of default, did not exercise any of its rights under the Wayzata Credit Agreement, but expressly reserved the right to do so. We disputed Wayzata's notice of default as premature and based on incomplete data and failure to take into account various developments and circumstances.

Macquarie also issued a notice of default dated February 26, 2009, which was expressly based on Wayzata's Notice of Default. The Macquarie notice of default was triggered by cross default provisions in the Macquarie Credit Agreement defining an event of default as an event or condition occurring which permits the holder of any material debt to accelerate that obligation. Macquarie stated in its notice of default that it was not initiating any action to exercise its rights and remedies available, though its right to do so were expressly reserved. As a result of the Macquarie notice of default, Macquarie rejected our requests to access additional credit available under the Revolving Credit Agreement, which restriction of credit potentially impaired our ability to continue our development program. We disputed the Macquarie notice of default.

Chapter 11 Filing.

Following the receipt of the referenced notices of default from Wayzata and Macquarie, we entered into discussions with Wayzata seeking an amicable resolution and forbearance in order to cure the alleged covenant defaults and to access available credit under our Revolving Credit Agreement to continue pursuit of our ongoing drilling, workover and recompletion program. Despite management's efforts, management and our board of directors determined that a bankruptcy court reorganization would offer the best means of addressing our existing debt structure and realization of the long term anticipated benefits of our drilling, workover and recompletion program. To that end, on March 31, 2009, we, and our principal operating subsidiaries, filed voluntary Chapter 11 petitions in the U.S. Bankruptcy Court for the Western District of Louisiana.

We intend, subject to bankruptcy court approval, to continue to operate our business and manage our properties as debtors in possession. While we believe that we have sufficient cash to operate our business in the immediate term, upon filing of the bankruptcy petitions, we began discussions with our senior secured lender, and other potential lenders, for new debtor-in-possession (DIP) financing to supplement existing working capital. At March 31, 2009, we had cash on hand of approximately \$4.7 million.

We intend to use the Chapter 11 process to resolve issues with our lenders and to develop our holdings, continue to grow our production and revenues and reduce our operating expenses pending resolution of issues with our lenders. There is no assurance, however, that we will be able to successfully operate, or finance our operations, in bankruptcy or that we will be able to emerge from bankruptcy with our properties in tact or our current ownership structure.

Drilling and Development Activities

During 2008, we began implementation of a plan to further develop the assets acquired in the Harvest Acquisition. During 2008, we successfully recompleted three wells, did a workover on one well and successfully drilled a developmental well in the Grand Bay Field which was awaiting completion at December 31, 2008. We had no dry holes during 2008 and no wells were being drilled at December 31, 2008.

In addition to the recompletion, workover and developmental drilling work undertaken during 2008, we engaged two geological and engineering firms to perform full field studies in the Grand Bay and Vermilion 16 fields in order to maximize our potential recoveries from those fields. Those studies were ongoing at December 31, 2008.

At and for the year ended December 31, 2008, we had approximately 81 wells in production, including 80 wells in Louisiana and one well in Texas.

Critical Accounting Policies

We prepare our consolidated and combined financial statements in this report using accounting principles that are generally accepted in the United States (GAAP). GAAP represents a comprehensive set of accounting and disclosure rules and requirements. We must make judgments, estimates, and in certain circumstances, choices between acceptable GAAP alternatives as we apply these rules and requirements. The most critical estimate we make is the engineering estimate of proved oil and gas reserves. This estimate affects the application of the successful efforts method of accounting, the calculation of depreciation, depletion, and amortization of oil and gas properties and the estimate of the impairment of our oil and gas properties. It also affects the estimated lives used to determine asset retirement obligations. In addition, the estimates of proved oil and gas reserves are the basis for the related standardized measure of discounted future net cash flows.

Estimated Proved Oil and Gas Reserves

The evaluation of our oil and gas reserves is critical to management of our operations and ultimately our economic success. Decisions such as whether development of a property should proceed and what technical methods are available for development are based on an evaluation of reserves. These oil and gas reserve quantities are also used as the basis of calculating the unit-of-production rates for depreciation, evaluating impairment and estimating the life of our producing oil and gas properties in our asset retirement obligations. Our proved reserves are classified as either proved developed or proved undeveloped. Proved developed reserves are those reserves which can be expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves include reserves expected to be recovered from new wells from undrilled proven reservoirs or from existing wells where a significant major expenditure is required for completion and production.

Independent reserve engineers prepare the estimates of our oil and gas reserves presented in this report based on guidelines promulgated under GAAP and in accordance with the rules and regulations of the Securities and Exchange Commission. The evaluation of our reserves by the independent reserve engineers involves their rigorous examination of our technical evaluation and extrapolations of well information such as flow rates and reservoir pressure declines as well as other technical information and measurements. Reservoir engineers interpret these data to determine the nature of the reservoir and ultimately the quantity of proved oil and gas reserves attributable to a specific property. Our proved reserves in this report include only quantities that we expect to recover commercially using current prices, costs, existing regulatory practices and technology. While we are reasonably certain that the proved reserves will be produced, the timing and ultimate recovery can be effected by a number of factors including completion of development projects, reservoir performance, regulatory approvals and changes in projections of long-term oil and gas prices. Revisions can include upward or downward changes in the previously estimated volumes of proved reserves for existing fields due to evaluation of (1) already available geologic, reservoir, or production data or (2) new geologic or reservoir data obtained from wells. Revisions can also include changes associated with significant changes in development strategy, oil and gas prices, or production equipment/facility capacity.

Standardized measure of discounted future net cash flows

The standardized measure of discounted future net cash flows relies on these estimates of oil and gas reserves using commodity prices and costs at year-end. In our 2008 year-end reserve report, we used December 31, 2008 a Light Crude price of \$42.70 per Bbl, and a Henry Hub price of \$5.63 per MMBtu adjusted by property for energy content, quality, transportation fees, and regional price differentials. While we believe that future operating costs can be reasonably estimated, future prices are difficult to estimate since the market prices are influenced by events beyond our control. Future global economic and political events will most likely result in significant fluctuations in future oil prices.

Revenue Recognition

The Company recognizes oil and gas revenue from its interests in producing wells as the oil and gas is sold. Revenue from the purchase, transportation, and sale of natural gas is recognized upon completion of the sale and when transported volumes are delivered. The Company recognizes revenue related to gas balancing agreements based on the entitlement method. The Company's net imbalance position at December 31, 2008, was immaterial.

Derivative Instruments

We account for our derivative activities under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS Nos. 137, 138 and 149. The statement, as amended, establishes accounting and reporting standards requiring that every derivative instrument be recorded on the balance sheet as either an asset or a liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Substantially all of the derivative instruments that we utilize are to manage the price risk attributable to our expected oil and gas production.

We do not designate any future price risk management activities as accounting hedges under SFAS No. 133, and, accordingly, account for them using the mark-to-market accounting method. Under this method, the contracts are carried at their fair value on our consolidated and combined balance sheets under the captions *Derivative assets* and *Derivative liabilities*. Derivative assets and liabilities with the same counterparty and subject to contractual terms which provide for net settlement are reported on a net basis on our consolidated and combined balance sheets. We recognize all unrealized and realized gains and losses related to these contracts on our consolidated and combined statements of income under the caption *Commodity derivative income (expense)*.

As of July 1, 2008, Saratoga adopted Financial Accounting Standards Board (FASB) Staff Position (FSP) FASB Interpretation (FIN) No. 39-1, "Amendment of FASB Interpretation No. 39," (FSP FIN No. 39-1) which effectively amends FIN No. 39, "Offsetting of Amounts Related to Certain Contracts." FSP FIN No. 39-1 permits the netting of fair values of derivative assets and liabilities for financial reporting purposes, if such assets and liabilities are with the same counterparty and subject to a master netting arrangement. Saratoga has elected to employ net presentation of derivative assets and liabilities when FSP FIN No. 39-1 conditions are met. FSP FIN No. 39-1 also requires that when derivative assets and liabilities are presented net, the fair value of the right to reclaim collateral assets (receivable) or the obligation to return cash collateral (payable) is also offset against the net fair value of the corresponding derivative. The Company routinely exercises its contractual right to net realized gains against realized losses when settling with its swap and option counterparties.

See Note 7, *Commodity Derivative Instruments*, for a more detailed discussion of our hedging activities.

Oil and Gas Exploration and Development

Oil and gas exploration and development costs are accounted for using the successful efforts method of accounting.

Property Acquisition Costs

Oil and gas leasehold acquisition costs are capitalized and included in the balance sheet caption properties, plants and equipment. Leasehold impairment is recognized based on exploratory experience and management's judgment. Upon achievement of all conditions necessary for the classification of reserves as proved, the associated leasehold costs are reclassified to proved properties.

Exploratory Costs

Geological and geophysical costs and the costs of carrying and retaining undeveloped properties are expensed as incurred. Exploratory well costs are capitalized, or suspended, on the balance sheet pending further evaluation of whether economically recoverable reserves have been found. If economically recoverable reserves are not found, exploratory well costs are expensed as dry holes. If exploratory wells encounter potentially economic quantities of oil and gas, the well costs remain capitalized on the balance sheet as long as sufficient progress assessing the reserves and the economic and operating viability of the project is being made. For complex exploratory discoveries, it is not unusual to have exploratory wells remain suspended on the balance sheet for several years while we perform additional appraisal drilling and seismic work on the potential oil and gas field, or while we seek government or co-venturer approval of development plans or seek environmental permitting. Once all required approvals and permits have been obtained, the projects are moved into the development phase, and the oil and gas reserves are designated as proved reserves.

Development Costs

Costs incurred to drill and equip development wells, including unsuccessful development wells, are capitalized.

Depletion and Amortization

Leasehold costs of producing properties are depleted using the unit-of-production method based on estimated proved oil and gas reserves. Amortization of intangible development costs is based on the unit-of-production method using estimated proved developed oil and gas reserves

Depreciation of Other Property and Equipment

Furniture, fixtures, equipment, and other are depreciated using the straight-line method over the estimated useful lives of the assets. The estimated life of these assets range from three to five years.

Impairment of Properties, Plants and Equipment

Properties, plants and equipment used in operations are assessed for impairment whenever changes in facts and circumstances indicate a possible significant deterioration in the future cash flows expected to be generated by an asset group. If, upon review, the sum of the undiscounted pretax cash flows is less than the carrying value of the asset group, the carrying value is written down to estimated fair value through additional amortization or depreciation provisions and reported as impairments in the periods in which the determination of the impairment is made. Individual assets are grouped for impairment purposes at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets generally on a field-by-field basis for exploration and production assets, at an entire complex level for refining assets or at a site level for retail stores. Because there usually is a lack of quoted market prices for long-lived assets, the fair value of impaired assets is determined based on the present values of expected future cash flows using discount rates commensurate with the risks involved in the asset group or based on a multiple of operating cash flow validated with historical market transactions of similar assets where possible. Long-lived assets committed by management for disposal within one year are accounted for at the lower of amortized cost or fair value, less cost to sell.

The expected future cash flows used for impairment reviews and related fair value calculations are based on estimated future production volumes, prices and costs, considering all available evidence at the date of review. If the future production price risk has been hedged, the hedged price is used in the calculations for the period and quantities hedged. The impairment review includes cash flows from proved developed and undeveloped reserves, including any

development expenditures necessary to achieve that production. Additionally, when probable reserves exist, an appropriate risk-adjusted amount of these reserves may be included in the impairment calculation. The price and cost outlook assumptions used in impairment reviews differ from the assumptions used in the Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserve Quantities. In that disclosure, SFAS No. 69, Disclosures about Oil and Gas Producing Activities, requires inclusion of only proved reserves and the use of prices and costs at the balance sheet date, with no projection for future changes in assumptions.

Asset Retirement Obligations and Environmental Costs

We record the fair value of legal obligations to retire and remove long-lived assets in the period in which the obligation is incurred (typically when the asset is installed at the production location). When the liability is initially recorded, we capitalize this cost by increasing the carrying amount of the related properties, plants and equipment. Over time the liability is increased for the change in its present value, and the capitalized cost in properties, plants and equipment is depreciated over the useful life of the related asset. See Note 9 Asset Retirement Obligations for additional information.

Environmental expenditures are expensed or capitalized, depending upon their future economic benefit. Expenditures that relate to an existing condition caused by past operations, and do not have a future economic benefit, are expensed. Liabilities for environmental expenditures are recorded on an undiscounted basis (unless acquired in a purchase business combination) when environmental assessments or cleanups are probable and the costs can be reasonably estimated. Recoveries of environmental remediation costs from other parties, such as state reimbursement funds, are recorded as assets when their receipt is probable and estimable.

Stock Based Compensation

Effective January 1, 2006, the Company adopted SFAS No. 123(R), *Share-Based Payment*. SFAS 123(R) replaced SFAS No. 123 and supersedes APB Opinion No. 25. SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The pro forma disclosures previously permitted under SFAS 123 are no longer an alternative to financial statement recognition. The Company adopted SFAS 123(R) using the modified prospective method which requires the application of the accounting standard as of January 1, 2006. The consolidated and combined financial statements for the years ended December 31, 2008 and 2007 reflect the impact of adopting SFAS 123(R).

Income Taxes

Deferred income taxes are based on the difference between the financial reporting and tax basis of assets and liabilities. The deferred income tax provision represents the change during the reporting period in the deferred tax assets and deferred tax liabilities, net of the effect of acquisitions and dispositions. Deferred income tax assets include tax loss and credit carryforwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion of all of the deferred tax assets will be not be realized. Significant judgment is required in assessing the timing and amounts of deductible and taxable items. We establish reserves when, despite our belief that our tax return positions are fully supportable, we believe that certain positions may be challenged and potentially disallowed. When facts and circumstances change, we adjust these reserves through our provision for income taxes.

To the extent interest and penalties may be assessed by taxing authorities on any underpayment of income tax, such amounts have been accrued and are classified as a component of income tax expense in our Statement of Operations.

The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an Interpretation of FASB Statement No. 109, (FIN 48) on January 1, 2007. The adoption did not result in a material adjustment to the Company's tax liability for unrecognized income tax benefits. If applicable, the Company would recognize interest and penalties related to uncertain tax positions in interest expense. As of December 31, 2008, the Company had not accrued interest or penalties related to uncertain tax positions. The tax years 2005-2008 remain open to examination for federal income tax purposes and by the other major taxing jurisdictions to which we are subject.

In May 2007, the FASB issued FSP No. FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48*, (FIN 48-1) which amends FIN 48 and provides guidance concerning how an entity should determine whether a tax position is effectively, rather than the previously required ultimately, settled for the purpose of recognizing previously unrecognized tax benefits. In addition, FIN 48-1 provides guidance on determining whether a tax position has been

effectively settled. The guidance in FIN 48-1 is effective upon the initial January 1, 2007 adoption of FIN 48. Companies that have not applied this guidance must retroactively apply the provisions of this FSP to the date of the initial adoption of FIN 48. The Company has adopted FIN 48-1 and no retroactive adjustments were necessary.

Results of Operations**Year Ended December 31, 2008 Compared to Year Ended December 31, 2007**

The following table sets forth the audited combined results of operations for the year ended December 31, 2008, which includes the Successor Company for the period July 15, 2008 to December 31, 2008 and the Predecessor Companies for the period January 1, 2008 to July 14, 2008, together with the audited combined results of operations of Predecessor Companies for the year ended December 31, 2007.

	Successor	Predecessor	Combined	Predecessor
	July 15, 2008	January 1, 2008	For the Year	For the Year
	December 31,	July 14, 2008	Ended	Ended
	2008		December	December
	(Restated)		31, 2008	31, 2007
			(Restated)	
Revenues:				
Oil and gas revenues	\$ 22,423,746	\$ 46,475,559	\$ 68,899,305	\$ 57,414,900
Other revenues	1,419,707	1,116,318	2,536,025	339,778
Total revenues	23,843,453	47,591,877	71,435,330	57,754,678
Operating Expense:				
Lease operating expense	10,666,669	17,356,190	28,022,859	25,180,731
Depreciation, depletion and amortization	5,324,763	2,521,020	7,845,783	7,402,479
Accretion expense	534,168	837,094	1,371,262	1,226,443
General and administrative	3,865,046	3,992,925	7,857,971	2,172,332
Impairments	1,693,440	-	1,693,440	-
Taxes other than income	2,510,548	5,609,040	8,119,588	5,769,828
Total operating expenses	24,594,634	30,316,269	54,910,903	41,751,813
Operating income (loss)	(751,181)	17,275,608	16,524,427	16,002,865
Other income (expense):				
Commodity derivative income (expense), net	39,133,737	(19,060,603)	20,073,134	(12,019,439)

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Interest income	67,578	47,836	115,414	181,304
Interest expense	(10,350,918)	(4,971,970)	(15,322,888)	(11,138,562)
Total other income (expense)	28,850,397	(23,984,737)	4,865,660	(22,976,697)
Net income (loss) before income taxes	28,099,216	(6,709,129)	21,390,087	(6,973,832)
Income tax provision (benefit):				
Current	(3,386,272)	-	(3,386,272)	-
Deferred	13,698,226	-	13,698,226	-
Net income (loss)	\$ 17,787,762	\$ (6,709,129)	\$ 11,078,133	\$ (6,973,832)

Oil and Gas Revenue

Oil and gas revenue for the year ended 2008 increased to \$68,899,305 from \$57,414,900 in 2007. The increases in revenue were attributable to higher hydrocarbon prices during the first three quarters of 2008. The following table discloses the net oil and natural gas production volumes, sales, and average sales prices for the years ended December 31, 2008 and 2007:

	2008	2007
Oil and gas production (Mmcf)	5,044	6,779
Oil and gas revenues (in 000 \$)	\$ 68,899	\$ 57,415
Price per Mcfe	\$ 13.66	\$ 8.47

Average daily production for the years ended 2008 and 2007 was approximately 18.6 MMcf and 13.8 MMcf, respectively. Average daily production reflects the effects of Hurricanes Gustav and Ike that resulted in production declines during August and September 2008 estimated at 19.4 MBbls of oil and 113.1MMcf of natural gas, or an estimated loss of revenues for 2008 of \$3,098,600. The temporary declines in production attributable to Hurricanes Gustav and Ike were offset by additional production brought on line during the fourth quarter of 2008 following commencement of our drilling and development program.

As a result of the sharp worldwide economic decline during the second half of 2008, our average prices realized from the sale of oil and gas declined markedly in the fourth quarter of 2008 to \$57.95 per barrel of oil and \$7.31 per Mcf of gas or \$8.88 per Mcfe.

Operating Expenses

Operating expenses increased to \$54,910,903 for 2008 from \$41,751,813 in 2007. The following table sets forth the components of operating expenses for 2008 and 2007:

	Combined	Predecessor
	2008	2007
Lease operating expense	\$ 28,022,859	\$ 25,180,731
Depreciation, depletion and amortization	7,845,783	7,402,479
Accretion expense	1,371,261	1,226,443
General and administrative expenses	7,857,971	2,172,332

Impairments	1,693,440	-
Production and severance taxes	8,119,588	5,769,828
	\$ 54,910,903	\$ 41,751,813

As more fully described below, the increase in operating expenses was attributable to the increase in the scope of operations during 2008, an increase in the basis of the oil and gas properties relating to the Harvest Acquisition resulting in an increase in depreciation, depletions and amortization expense, the operation and support of the properties of the Harvest Companies, an increase in overhead in the period leading up to the Harvest Acquisitions and costs associated with transition of management and control of the Harvest Companies.

Lease Operating Expenses

Lease operating expenses for 2008 increased to \$28,022,859, or \$5.56 per Mcfe, from \$25,180,731 in 2007, or \$3.71 per Mcfe. The increase in lease operating expenses was attributable to the impacts of hurricanes Gustav and Ike. Operating costs in our fields are relatively high due to water handling, the need for gas lift to maintain oil production and due to the need for marine transportation in the shallow water, bay environment. We are actively engaged in field management efforts to reduce our lease operating expenses on a per Mcfe basis.

Depreciation, Depletion and Amortization (DD&A)

Depreciation, depletion and amortization totaled \$7,845,783 for 2008, as compared to \$7,402,479 for 2007. The increase is due to the acquisition of the Harvest Companies during the third quarter 2008 and development programs during the fourth quarter 2008 which increased the basis of the oil and gas properties from \$40,756,840 at December 31, 2007 to \$154,449,346 at December 31, 2008. Depreciation, depletion and amortization is computed on the units-of-production method separately on each individual property. DD&A expense includes the accrual of future plugging and abandonment costs. The Company accounts for future plugging and abandonment costs in accordance with SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 requires legal obligations associated with the retirement of long-lived assets (i.e., future plugging and abandonment costs) to be recognized at their fair value at the time the obligations are incurred. Upon initial recognition of the liability, that cost should be capitalized as part of the related long-lived asset and allocated to expense over the useful life of the asset. The estimate of future plugging and abandonment costs is highly subjective.

Accretion expense

Accretion expense for 2008 increased to \$1,371,261, from \$1,226,443 in 2007. The increase in accretion expense was attributed to an increase in the discount rate due to the higher interest rate we incurred during the financing of the Predecessor Companies.

General and Administrative Expenses and Other

General and administrative expense increased from \$2,172,332 for 2007 to \$7,857,971 for 2008. The increase in general and administrative expense in 2008 related principally to the assumption of the corporate overhead of the Harvest Companies following the Harvest Acquisitions and the incurrence of certain transition costs following the acquisition. Included in general and administrative expenses during 2008 were non-cash compensation charges totaling \$1,547,763 attributable to equity based stock awards made in contemplation of, or in connection with, the Harvest Acquisitions.

Impairments

Impairments increased to \$1,693,440 for 2008 from \$0 for 2007. The increase is due to significantly lower oil and gas commodity prices at year-end 2008.

Production and Ad Valorem Taxes

Production and Ad Valorem Taxes increased to \$8,119,588 for 2008 from \$5,769,828 for 2007. The increase is due to the increase in oil and gas revenues during 2008.

Other Income (Expense), Net

Net other income (expenses) totaled \$4,865,660 of income for 2008 and \$(22,976,697) of expenses in 2007. The following table sets forth the components of net other income (expenses) for 2008 and 2007:

	Combined	Predecessor
	2008	2007
Commodity derivative income (expense) \$	20,073,134	\$ (12,019,439)
Interest income	115,414	181,304
Interest expense	(15,322,888)	(11,138,562)
	\$ 4,865,660	\$ (22,976,697)

As more fully described below, the changes in other income (expense), net, was principally attributable to a decrease in commodity pricing during the fourth quarter of 2008 which resulted in an increase in commodity derivative income. The increase in interest expense during 2008 was attributable to the debt financing for the Harvest Acquisitions.

Commodity Derivative Income (Expense)

Commodity derivative income increased to a gain of \$20,073,134 for 2008 from a loss of \$(12,019,439) for 2007. Pursuant to the terms of the Wayzata Credit Agreement and the Revolving Credit Agreement, we have entered into certain derivative contracts and entered into additional derivative contracts during September 2008 to reduce the impact of changes in the prices of oil and natural gas. The commodity derivative income during 2008 reflects the extreme volatility of crude oil and natural gas prices during 2008, in particular, the sharp drop in oil and gas prices during the fourth quarter of 2008.

Interest Income (Expense), Net

Interest income (expense), net, reflects interest incurred on debt under the Wayzata Credit Agreement and the Revolving Credit Agreement. Net interest expense increased to \$15,322,888 in 2008 from \$11,138,562 in 2007. The increase in net interest expense was attributable to the incurrence of approximately \$110 million of debt in connection with the Harvest Acquisitions.

Income Tax Provision.

Our income tax provision increased to \$10,311,954 for 2008 from \$0 in 2007. The income tax provision for 2008 was attributable to the successor company reporting taxes as a c-corporation following the Harvest Acquisition which was previously operated as a limited liability company.

The effective tax rate for 2008 was 37%. Our effective tax rates were different than our federal statutory tax rate due to state income taxes associated with income from various locations in which we have operations. Estimates of future taxable income can be significantly affected by changes in oil and natural gas prices, the timing, amount, and location of future production and future operating expenses and capital costs.

Financial Condition

Liquidity and Capital Resources.

Our principal requirements for capital are to fund our day-to-day operations and exploration, development and acquisition activities and to satisfy our contractual obligations, primarily for the repayment of debt and any amounts

owing during the period related to our hedging positions. We expect to fund our operations and capital expenditures and satisfy our debt service obligations through operating cash flow, borrowings under our Revolving Credit Agreement and cash on hand.

However, as noted, Wayzata has alleged certain financial covenant defaults that we dispute. As a result of Wayzata's notice of default, Macquarie has provided a notice of default and has denied our requests to draw additional borrowings under our Revolving Credit Agreement. As a result of such notices of default and our inability to arrive at a mutually acceptable forbearance agreement with Wayzata and Macquarie, on March 31, 2009, we filed petitions for protection under Chapter 11. Pending our establishment of a DIP financing facility, we will not have access to further borrowing which may result in curtailment of certain planned operations.

We had a cash balance of \$5,677,994 and a working capital deficit of \$(10,528,527) at December 31, 2008 as compared to a cash balance of \$4,207,149 and a working capital deficit of \$(30,566,357) at December 31, 2007. The working capital deficit for 2007 was attributed to the debt under the Revolving Credit Agreement being classified as a current liability. At December 31, 2007 and 2008, we were considered in default and the bank had not waived the covenants that were considered in default.

Net cash flow from operations was a positive \$15,005,948 for the Successor Company for the period July 15, 2008 to December 31, 2008 and \$10,114,083 for the Predecessor Companies for the period January 1, 2008 to July 14, 2008 for a combined total of \$25,120,031 for 2008 compared to \$17,039,417 for 2007 for the Predecessor Companies.

Net cash flow from financing activities totaled \$1,320,464 for the Successor Company for the period July 15, 2008 to December 31, 2008 and net cash flow used in financing activities for the Predecessor Companies for the period January 1, 2008 to July 14, 2008 was \$6,043,276 for a combined total used in financing activities of \$4,722,812 during 2008, primarily from distributions made to the principal owners of the Predecessor Companies and repayments of debt. Net cash used in investing activities was \$10,675,277 for the Successor Company for the period July 15, 2008 to December 31, 2008 and \$5,214,956 for the Predecessor Companies for the period January 1, 2008 to July 14, 2008 for a combined total of \$15,890,233 during 2008, primarily relating to the payment for the acquisitions and additions to the oil and gas properties.

We have incurred substantial indebtedness in connection with the Harvest Acquisitions, including amounts borrowed under our Wayzata Credit Agreement and our Revolving Credit Agreement. At December 31, 2008, we had \$108.7 million of indebtedness outstanding, consisting of \$95.8 million (includes debt discount of \$1.7 million) under the Wayzata Credit Agreement, \$12.5 million under the Revolving Credit Agreement and \$0.7 million under shareholder loans.

We believe that our cash flows from operations and cash on hand are sufficient to support our liquidity needs for 2009 and beyond. However, with the steep drop in oil and natural gas prices during the second half of 2008 and the unavailability of borrowings under our Revolving Credit Facility, we do not believe that our operations and available resources will support our planned exploration, development and acquisition activities during 2009 and, accordingly, we plan to defer our planned activities in that regard until market conditions improve and are undertaking cost cutting efforts to improve profitability and cash flow. Further, while we believe that our current operating cash flows will be adequate to support existing operations and service existing indebtedness, reduced revenues and profitability resulting from lower oil and natural gas prices have resulted in our lenders providing the previously described notices of noncompliance with certain financial covenants under our existing credit facilities. While we are attempting to restructure or refinance our debt under our Chapter 11 case, there is no assurance that we will be able to arrive at a satisfactory arrangement to restructure our current debt in which case we may be required to seek additional financing to refinance that debt or risk liquidation of our assets on terms that will likely not be in the best interests of our shareholders. We have no commitments to provide capital or financing if needed to retire our existing indebtedness and, given the current condition of the capital and credit markets, there is no assurance that any such capital or financing will be available on acceptable terms, or at all, if needed.

Debt

Outstanding debt at December 31, 2008, totaling \$108.7 million, consisted of (1) \$97.5 million less debt discount of \$1.7 million owing to Wayzata under the Wayzata Credit Agreement, (2) \$12.5 million owing to Macquarie under the Revolving Credit Agreement and (3) \$0.7 million owed to affiliates under promissory notes.

As part of the Harvest Acquisitions, we assumed and amended the existing credit facilities of the Harvest Companies with Macquarie, entered into the Wayzata Credit Agreement pursuant to which we borrowed \$97.5 million and borrowed \$12.5 million under the Revolving Credit Agreement. The amounts owing under the prior credit facilities of the Harvest Companies with Macquarie were repaid in full from proceeds of the Harvest Acquisitions.

The Revolving Credit Agreement provides for reserve-based loans of up to \$25 million (including up to \$13 million which will be available toward outstanding letters of credit), is secured by a first priority security interest in, and first lien on, substantially all of our assets and matures in 2011. Loans under the revolving credit facility are subject to borrowing base requirements and bear interest at varying rates based on percentage of borrowing base and margins ranging from 2.25% to 2.75% over the applicable LIBOR rate or 0.75% to 1.25% over the applicable prime rate. Interest on the revolving credit facility is due monthly with respect to prime rate based loans and at the end of each applicable interest period with respect to Eurodollar loans.

Letters of credit totaling approximately \$11.5 million were outstanding at December 31, 2008 and reduce amounts available to be drawn under the Revolving Credit Agreement.

The \$97.5 million term credit facility is secured by a second lien on substantially all of our assets and matures on July 14, 2011. Loans under the facility bear interest at 20% per annum. Interest is due in monthly installments and the principal is due in full at maturity.

In conjunction with the Harvest Acquisitions and the related financing, at closing, we repaid \$100,000 of advances from Thomas Cooke, our Chairman, Chief Executive Officer and principal shareholder. The balance owing to Mr. Cooke, totaling \$463,412, plus accrued salary in the amount of \$157,500, was renewed and extended pursuant to a Subordinated Promissory Note, providing for payment of equal monthly installments of \$17,247, including interest at 10% per annum, over three years. The balance owing to Mr. Cooke as of December 31, 2008 was \$586,416.

Accrued salary in the amount of \$157,500 owed to Andy Clifford, our President was renewed and extended pursuant to a Subordinated Promissory Note providing for payment of equal monthly installments of \$4,375, including interest at 10%, over three years. The balance owing to Mr. Clifford as of December 31, 2008 was \$135,625.

Capital Expenditures and Commitments

Our capital spending for 2008 was \$116,358,276 which included the acquisition of the Harvest Companies for \$103,652,560 in net cash. The balance of our capital spending during 2008 related principally to our drilling, development, recompletion and workover budget.

During 2008, our capital expenditures for drilling, development, recompletion and workover projects totaled \$12.2 million.

In light of the our pending Chapter 11 case, the current economic outlook and commodity prices, we intend to limit our 2009 capital expenditures to a level that can be funded with cash flow from operations. Subject to the availability of DIP financing, we may, however, expand our capital expenditures based on improvements in commodity prices and the general economic outlook. Our 2009 capital budget, which at this time is expected to be approximately \$9.2 million, will focus on those projects that we believe will generate and lay the foundation for production growth. We have the operational flexibility to react quickly with our capital expenditures to changes in our cash flows from operations. Actual levels of capital expenditures in any year may vary significantly due to many factors, including the extent to which properties are acquired, drilling results, oil and gas prices, industry conditions and the prices and availability of goods and services.

The following table details our long-term debt and contractual obligations as of December 31, 2008:

Payments due by period

	Total	2009	2010	2011	2012	2013	Thereafter
Debt (includes discount of \$1,740,250)	\$ -	\$ -	\$ 110,028,878	\$ -	\$ -	\$ -	\$ -
Debt related parties (includes current portion)	-	276,718	410,826	-	-	-	-
Operating leases	795,200	217,275	428,543	149,382	-	-	-
Capital leases	-	-	-	-	-	-	-
Asset retirement obligations	-	-	1,980,000	1,220,000	26,388,000	-	-
Performance bonds	-	-	-	-	-	-	-
Total	\$ 795,200	\$ 493,993	\$ 112,848,247	\$ 1,369,382	\$ 26,388,000	\$ -	\$ -

Risk Management Activities Commodity Derivative Instruments

Due to the volatility of oil and natural gas prices and requirements under our Revolving Credit Agreement, we periodically enter into price-risk management transactions (e.g., swaps, and floors) for a portion of our oil and natural gas production. In certain cases, this allows us to achieve a more predictable cash flow, as well as to reduce exposure from price fluctuations. The commodity derivative instruments apply to only a portion of our production, and provide only partial price protection against declines in oil and natural gas prices, and may partially limit our potential gains from future increases in prices. None of these instruments are used for trading purposes.

In accordance with the terms of our Revolving Credit Agreement, we have entered into commodity derivative agreements. At December 31, 2008, commodity derivative instruments were in place covering approximately 53% of our projected crude oil and natural gas sales over the next 3 years. See Note 7 Commodity Derivative Instruments to our consolidated and combined financial statements for further information.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements or guarantees of third party obligations at December 31, 2008.

Inflation

We believe that inflation has not had a significant impact on our operations since inception.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Commodity Price Risk

Our major market-risk exposure is the commodity pricing applicable to our oil and natural gas production. Realized commodity prices received for such production are primarily driven by the prevailing worldwide price for crude oil and spot prices applicable to natural gas. Prices have fluctuated significantly during the last five years and such volatility is expected to continue, and the range of such price movement is not predictable with any degree of certainty. In the normal course of business we periodically enter into commodity derivative transactions, including fixed price and ratio swaps to mitigate exposure to commodity price movements, but not for trading or speculative purposes.

Due to the instability of prices and to achieve a more predictable cash flow, prior to the Harvest Acquisition, the Harvest Companies put in place natural gas and crude oil derivative instruments for a portion of their production through December 2011. We assumed those commodity derivative instruments pursuant to the Harvest Acquisitions. Pursuant to the terms of our Revolving Credit Agreement, we are required to hedge between 60% and 80% of our proved developed production. Following the Harvest Acquisitions, we put in place additional commodity derivative instruments to comply with the terms of our Revolving Credit Agreement bringing our derivative position at December 31, 2008 to approximately 76% of crude oil volumes and 51% of natural gas volumes. Please refer to Note 6 Commodity Derivative Instruments to the consolidated and combined financial statements included herein for additional information on our commodity derivative instruments and activity.

As of December 31, 2008, we had entered into the following natural gas derivative instruments:

	NYMEX Contract Price Per MMBtu					
	Fixed-Price Swaps		Put Options		Call Options	
		Weighted Average	Volume in	Weighted Average	Volume in	Weighted Average Strike Price
Period	MMBtu	Fixed Price	MMBtus	Stike Price	MMBtus	
2009	101,375	\$ 7.14				