

NEXT GENERATION ENERGY CORP.  
Form 10-K/A  
July 09, 2012

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-K/A  
(Amendment No. 1)

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-33039

NEXT GENERATION ENERGY CORP.

(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

88-0169543  
(I.R.S. Employer Identification  
No.)

P.O. Box 1575, Annandale, Virginia 22003  
(Address of principal executive offices) (Zip Code)

Company's telephone number, including area code: (703) 372-1282

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:  
Common Stock, \$0.01 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 Section 15(d) of the 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 past 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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers in response 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. \$489,856 based upon a market price of \$0.25 per share.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 33,853,237 shares as of May 18, 2012.

#### DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980). None.

EXPLANATORY NOTE

This Amendment No. 1 to the Registrant's Annual Report on Form 10-K for the period ending December 31, 2011 is being filed to change the accounting relating to certain shares and options issued by the Registrant in 2011, and related disclosures.

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## PART I

### CAUTIONARY NOTE CONCERNING FORWARD-LOOKING STATEMENTS:

Certain statements in this Form 10-K constitute forward-looking statements. Forward-looking statements include all statements that do not relate solely to the historical or current facts, and can be identified by the use of forward looking words such as “may”, “believe”, “will”, “expect”, “expected”, “project”, “anticipate”, “anticipated”, “estimates”, “plan”, “target”, “prospects” or “continue”. These forward looking statements are based on the current plans and expectations of our management and are subject to a number of uncertainties and risks that could significantly affect our current plans and expectations, as well as future results of operations and financial condition and may cause our actual results, performances or achievements to be materially different from any future results, performances or achievements expressed or implied by such forward-looking statements. This Form 10-K contains important information as to risk factors under Item 1A. Although we believe that the expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to have been correct. We do not assume any obligation to update these forward-looking statements to reflect actual results, changes in assumptions, or changes in other factors affecting such forward-looking statements.

### ITEM 1. BUSINESS.

#### Overview

Next Generation Energy Corp. (the “Company”) was incorporated on November 21, 1980, under the laws of the State of Nevada under the name Micro Tech Industries, Inc. On February 6, 1997, an unrelated third party purchased 85.72% of the outstanding stock of Micro Tech Industries, Inc. from its majority shareholder for \$50,000 in cash. Effective March 31, 1997, Micro Tech Industries, Inc. changed its name to Next Generation Media Corporation. Management believes that prior to February 6, 1997, the Company was a “shell” company for at least five years without assets and liabilities. Management is unaware of any operating history prior to February 6, 1997.

#### United Marketing Solutions, Inc.

The Company acquired United Marketing Solutions, Inc. (“United”) on April 1, 1999. Originally founded in 1981 as United Coupon Corporation, United operated within the cooperative direct mail industry for twenty years. United diversified and expanded its product lines and markets to evolve from a coupon company to a full-service marketing provider specializing in two communication mediums: direct mail and direct marketing. United offered advertising and marketing products and services through a network of franchisees in more than twenty states, with the largest concentration being in the northeast United States. United provided full-service design, layout, printing, packaging and distribution of marketing products and promotional coupons sold by the franchise network to local market businesses, services providers and professionals as resources to help them generate “trial and repeat” customers.

In the first quarter of 2010, the Company terminated operations at United as a result of continued operating losses, and litigation with its franchisees and vendors. On May 4, 2010, the Company conveyed its interest in United to Direct Mail Group, LLC for \$10. At the time of the conveyance, United had no active business and had lawsuits, judgments and other liabilities in excess of its assets. Direct Mail Group, LLC is owned by Darryl Reed, our chief executive officer.

## Oil and Gas Properties

After terminating operations at United, the Company entered the business of acquiring and holding interests in the energy business, including but not limited to owning natural gas and oil properties, natural gas and oil royalty interests in existing energy producing properties, ownership interests in proven reserves, and other activities associated with hydrocarbon energy markets. The Company's underlying strategy is to acquire energy properties that have high intrinsic future value when developed and to generate existing, reliable revenue streams from acquiring interests in operating and proven gas and oil wells.

The Company recently retained geologists to assist it in performing research, collecting and analyzing materials associated with properties it is considering for acquisition, partnerships or other vested interests. As needed, the Company will also engage the services of established professional services firms comprised of geologists, oil and gas field developers, attorneys, surveyors, etc. These professionals assist in performing a comprehensive analysis of potential acquisitions for inclusion in our portfolio.

### Acquisition of Knox Gas, LLC

On March 22, 2011, the Company purchased all of the membership interests of Knox Gas, LLC for \$500,000. The purchase price is payable pursuant to two promissory notes in the amount of \$250,000 each that are payable to Joel Sens and Barbara Reed. Mr. Sens is an officer and director of the Company. Ms. Reed is the spouse of Darryl Reed, who is an officer and director of the Company.

Knox Gas, LLC owns a lease of 100 acres, which contains five drilled wells; a lease of 20.2 acres, which contains two drilled wells; a lease of 700 acres which contains no wells, and a lease of 400 acres, which contains three drilled wells. The properties have been estimated to have a net present value of appraised at \$624,360 by an independent valuation firm. Data pertaining to the leases is set forth below:

Lessor	Acres	No. Wells	Date	Term	Delay Rental	Royalty
B. and S. Smith	100	5	6/3/2010	3 years	None	1/8th
B. and S. Smith	20.2	2	6/3/2010	3 years	None	1/8th
B. S. S. and H. Smith	700	0	6/3/2010	3 years	None	1/8th
W. Patterson	400	3	5/26/2010	3 years	None	1/4th

The Smith leases each provide that they may be extended for one year after the initial term of three years if there is a well capable of producing gas in paying quantities on the acreage that is not producing because of an inability to obtain a pipeline connection or market the gas, provided the Company pays the lessor \$200 per month for each month the well is shut-in. The Patterson also provides for extension of the lease under the same circumstances as the Smith leases, except that the monthly payment is \$400 per year instead of \$200 per month.

The wells owned by Knox Gas were part of a larger field of 135 wells that was developed by Heartland Resources, Inc. and its subsidiaries (collectively, "Heartland"), and were operated by Heartland Operating Company, Inc., a subsidiary of Heartland Resources, Inc. On May 20, 2009, Heartland filed a Chapter 11 bankruptcy case in Kentucky, which was dismissed on April 26, 2011. The leases owned by Knox Gas consist of acreage previously leased by Heartland under leases that had terminated, and include the rights to all wells and equipment located on the properties. The remaining wells developed by Heartland were seized by creditors of Heartland, and are now owned by an entity formed by those creditors, who are trying to sell the wells or resume operations from the wells. The wells owned by the Company and by the creditors of Heartland are connected to a common gas gathering system that is connected to a pipeline. Because they use a common gas gathering system, it is not practical for the Company to resume operations from its wells without operations also resuming from the wells owned by Heartland creditors. As a result, we anticipate that the Company's wells will resume operations when the wells owned by the Heartland creditors begin operations.

The wells located on these properties produce natural gas primarily from the Mississippian Big Lime and Devonian Shale formations, with some production also from the Mississippian, Maxon and Silurian "Corniferous" formations.

#### Disposition of Interest in Dynatech, LLC

On March 22, 2011, the Company conveyed its 35% interest in Dynatech, LLC to Darryl Reed, the Company's chief executive officer, for \$10. At the time of the conveyance, Dynatech's only asset was an office building in Virginia. The office building's principal tenant was United Marketing Solutions, Inc., which went out of business in early 2010, and its other tenants had vacated the premises as well. As a result of the loss of tenants, Dynatech was unable to pay the mortgages on the property. As of December 31, 2010, the building had a book value of \$3,395,247 and was subject to indebtedness of \$4,200,000, plus interest.

#### Competition

The oil and natural gas business is highly competitive. We compete with private and public companies in all facets of the oil and gas business, including suppliers of energy and fuel to industrial, commercial and individual customers. Numerous independent oil and gas companies, oil and gas syndicates and major oil and gas companies actively seek out and bid for oil and gas prospects and properties as well as for the services of third-party providers, such as drilling companies, upon which we rely. Many of these companies not only explore for, produce and market oil and gas, but also carry out refining operations and market the resultant products on a worldwide basis. A substantial number of our competitors have longer operating histories and substantially greater financial and personnel resources than we do.

Competitive conditions may be substantially affected by various forms of energy legislation and regulation considered from time to time by the government of the United States and the states in which we have operations, as well as factors that we cannot control, including international political conditions, overall levels of supply and demand for oil and gas, and the markets for synthetic fuels and alternative energy sources. Intense competition occurs with respect to marketing, particularly of natural gas.

#### Markets and Major Customers

The operator of the Company's working interests is responsible for marketing all gas production.



### Seasonality of Business

Weather conditions affect the demand for, and prices of, natural gas and can also delay drilling activities, disrupting our overall business plans. Demand for natural gas is typically higher in the fourth and first quarters resulting in higher natural gas prices. Due to these seasonal fluctuations, results of operations for individual quarterly periods may not be indicative of the results that may be realized on an annual basis.

### Operational Risks

Oil and natural gas exploration and development involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that we will discover or acquire additional oil and natural gas in commercial quantities. Oil and natural gas operations also involve the risk that well fires, blowouts, equipment failure, human error and other circumstances may cause accidental leakage of toxic or hazardous materials, such as petroleum liquids or drilling fluids into the environment, or cause significant injury to persons or property. In such event, substantial liabilities to third parties or governmental entities may be incurred, the satisfaction of which could substantially reduce available cash and possibly result in loss of oil and natural gas properties. Such hazards may also cause damage to or destruction of wells, producing formations, production facilities and pipeline or other processing facilities.

As is common in the oil and natural gas industry, we will not insure fully against all risks associated with our business either because such insurance is not available or because we believe the premium costs are prohibitive. A loss not fully covered by insurance could have a materially adverse effect on our financial position and results of operations. For further discussion on risks see "Risk Factors" below.

### Regulation

General. The availability of a ready market for oil and gas production depends upon numerous factors beyond our control. These factors include local, state, federal and international regulation of oil and gas production and transportation, as well as regulations governing environmental quality and pollution control, state limits on allowable rates of production by a well or proration unit, the amount of oil and gas available for sale, the availability of adequate pipeline and other transportation and processing facilities, and the marketing of competitive fuels. For example, a productive gas well may be "shut-in" because of an over-supply of gas or lack of an available pipeline in the areas in which we may conduct operations. State and federal regulations are generally intended to prevent waste of oil and gas, protect rights to produce oil and gas between owners in a common reservoir, and control contamination of the environment. Pipelines and gas plants are also subject to the jurisdiction of various federal, state and local agencies that may affect the rates at which they are able to process or transport gas from our properties.

Applicable legislation is under constant review for amendment or expansion. These efforts frequently result in an increase in the regulatory burden on companies in our industry and a consequent increase in the cost of doing business and decrease in profitability. Numerous federal and state departments and agencies issue rules and regulations imposing additional burdens on the oil and gas industry that are often costly to comply with and carry substantial penalties for non-compliance. Our production operations may be affected by changing tax and other laws relating to the petroleum industry, constantly changing administrative regulations and possible interruptions or termination by government authorities.

**Sales of Oil and Natural Gas.** Sales of any oil that we produce will be affected by the availability, terms and costs of transportation. The rates, terms and conditions applicable to the interstate transportation of oil by pipelines are regulated by the Federal Energy Regulatory Commission (“FERC”) under the Interstate Commerce Act. FERC has implemented a simplified and generally applicable ratemaking methodology for interstate oil pipelines to fulfill the requirements of Title VIII of the Energy Policy Act of 1992 comprised of an indexing system to establish ceilings on interstate oil pipeline rates. FERC has announced several important transportation-related policy statements and rule changes, including a statement of policy and final rule issued February 25, 2000, concerning alternatives to its traditional cost-of-serve rate-making methodology to establish the rates interstate pipelines may charge for their services. The final rule revises FERC’s pricing policy and current regulatory framework to improve the efficiency of the market and further enhance competition in natural gas markets.

Sales of any natural gas that we produce will be affected by the availability, terms and costs of transportation. The rates, terms and conditions applicable to the interstate transportation of gas by pipelines are regulated by FERC under the Natural Gas Acts, as well as under Section 311 of the Natural Gas Policy Act. Since 1985, the FERC has implemented regulations intended to increase competition within the gas industry by making gas transportation more accessible to gas buyers and sellers on an open-access, non-discriminatory basis.

**Pipelines.** Pipelines that we use to gather and transport our oil and gas will be subject to regulation by the Department of Transportation (“DOT”) under the Hazardous Liquids Pipeline Safety Act of 1979, as amended (“HLPSA”), relating to the design, installation, testing, construction, operation, replacement and management of pipeline facilities. The HLPSA requires pipeline operators to comply with regulations issued pursuant to HLPSA designed to permit access to and allowing copying of records and to make certain reports and provide information as required by the Secretary of Transportation.

**State Restrictions.** State regulatory authorities have established rules and regulations requiring permits for drilling operations, drilling bonds and reports concerning operations. Many states have statutes and regulations governing various environmental and conservation matters, including the unitization or pooling of oil and gas properties and establishment of maximum rates of production from oil and gas wells, and restricting production to the market demand for oil and gas. Such statutes and regulations may limit the rate at which oil and gas could otherwise be produced from our properties.

Most states impose a production or severance tax with respect to the production and sale of crude oil, natural gas and natural gas liquids within their respective jurisdictions. State production taxes are generally applied as a percentage of production or sales. In addition, in the event we conduct operations on federal or state oil and gas leases, such operations must comply with numerous regulatory restrictions, including various nondiscrimination statutes, royalty and related valuation requirements, and certain of such operations must be conducted pursuant to certain on-site security regulations and other appropriate permits issued by the Bureau of Land Management or the Minerals Management Service or other appropriate federal or state agencies.

**Other.** Oil and gas rights may be held by individuals and corporations, and, in certain circumstances, by governments having jurisdiction over the area in which such rights are located. As a general rule, parties holding such rights grant licenses or leases to third parties, such as us, to facilitate the exploration and development of these rights. The terms of the licenses and leases are generally established to require timely development. Notwithstanding the ownership of oil and gas rights, the government of the jurisdiction in which the rights are located generally retains authority over the manner of development of those rights.

## Environmental

General. Our activities are subject to local, state and federal laws and regulations governing environmental quality and pollution control in the United States. The exploration, drilling and production from wells, natural gas facilities, including the operation and construction of pipelines, plants and other facilities for transporting, processing, treating or storing natural gas and other products, are subject to stringent environmental regulation by state and federal authorities, including the Environmental Protection Agency (“EPA”). Such regulation can increase our cost of planning, designing, installing and operating such facilities.

Significant fines and penalties may be imposed for the failure to comply with environmental laws and regulations. Some environmental laws provide for joint and several strict liability for remediation of releases of hazardous substances, rendering a person liable for environmental damage without regard to negligence or fault on the part of such person. In addition, we may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances, such as oil and gas related products.

Waste Disposal. We may generate wastes, including hazardous wastes, that are subject to the federal Resource Conservation and Recovery Act (“RCRA”) and comparable state statutes. The EPA has limited the disposal options for certain wastes that are designated as hazardous under RCRA (“Hazardous Wastes”). Furthermore, it is possible that certain wastes generated by our oil and gas operations that are currently exempt from treatment as Hazardous Wastes may in the future be designated as Hazardous Wastes, and therefore be subject to more rigorous and costly operating and disposal requirements.

CERCLA. The federal Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), also known as the “Superfund” law, generally imposes joint and several liability for costs of investigation and remediation and for natural resource damages, without regard to fault or the legality of the original conduct, on certain classes of persons with respect to the release into the environment of substances designated under CERCLA as hazardous substances (“Hazardous Substances”). These classes of persons or so-called potentially responsible parties include the current and certain past owners and operators of a facility where there is or has been a release or threat of release of a Hazardous Substance and persons who disposed of or arranged for the disposal of the Hazardous Substances found at such a facility. CERCLA also authorizes the EPA and, in some cases, third parties to take action in response to threats to the public health or the environment and to seek to recover from the potentially responsible parties the costs of such action. Although CERCLA generally exempts petroleum from the definition of Hazardous Substances, we may have generated and may generate wastes that fall within CERCLA’s definition of Hazardous Substances.

Air Emissions. Our operations may be subject to local, state and federal regulations for the control of emissions of air pollution. Major sources of air pollutants are subject to more stringent, federally imposed permitting requirements, including additional permits. Producing wells may generate volatile organic compounds and nitrogen oxides. If ozone problems are not resolved by the deadlines imposed by the federal Clean Air Act, or on schedule to meet the standards, even more restrictive requirements may be imposed, including financial penalties based upon the quantity of ozone producing emissions. If we fail to comply strictly with applicable air pollution regulations or permits, we may be subject to monetary fines and be required to correct any identified deficiencies. Alternatively, regulatory agencies could require us to forego construction, modification or operation of certain air emission sources.

Clean Water Act. The Clean Water Act requires permits for operations that discharge into waters of the United States. Such permitting has been a frequent subject of litigation by environmental advocacy groups, which has resulted, and may in the future result, in declines in such permits or extensive delays in receiving them. This may result in delays in, or in some instances preclude, the commencement or continuation of development or production operations. Adverse outcomes in lawsuits challenging permits or failure to comply with applicable regulations could result in the suspension, denial, or revocation of required permits, which could have a material adverse impact on our cash flows, results of operations, or financial condition.

We believe that we are in substantial compliance with current applicable environmental laws and regulations and that, absent the occurrence of an extraordinary event, compliance with existing local, state, federal and international laws, rules and regulations governing the release of materials in the environment or otherwise relating to the protection of the environment will not have a material effect upon our business, financial condition or results of operations.

#### Research and Development Expenditures

We have not incurred any research or development expenditures in the last two fiscal years.

#### Patents and Trademarks

We do not own, either legally or beneficially, any patents or trademarks.

#### Employees and Consultants

At April 13, 2012, we had three employees.

We have no collective bargaining agreements with our employees, and believe all consulting and employment agreements relationships are satisfactory. We hire independent contractors on an as-needed basis, and we may retain additional employees and consultants during the next twelve months, including additional executive management personnel with substantial experience in the oil and gas exploration and development business.

#### ITEM 1A. RISK FACTORS.

**We Have a History of Losses and no Revenue to Date from our Oil and Gas Operations, Which May Negatively Impact Our Ability to Achieve Our Business Objectives.**

Since entering the oil and gas business in 2010, we have experienced losses from our operations. Our ability to become profitable will be dependent on the receipt of revenues from our oil and gas wells greater than our operational expenses. We did not actually acquire any oil and gas properties until 2011, and we have not received any revenues from the wells on our properties. We purchased the oil and gas rights to 1,220 acres of land in Knox County, Kentucky in 2011, which contains ten shut-in wells. Our wells are connected to a gas gathering system that we share with approximately 125 other wells that are owned by the creditors of the former operator of the field. We do not need any additional capital to resume operations at the shut-in wells; however, we are dependent on the owner of the other 125 wells in the field resuming operations, over which we have no control, before we can resume operations at our wells. Our geologist estimates that more wells could be drilled in our field, and we would need capital to drill the wells if we decide to drill them ourselves. We also need additional capital to make other acquisitions of oil and gas properties. If we cannot raise funds on acceptable terms, we may not be able to execute on our business plan, take advantage of future opportunities, or respond to competitive pressures or unanticipated requirements. This may seriously harm our business, financial condition and results of operations.



**We have a Limited Operating History as an Oil and Gas Exploration Company, Which May Hinder our Ability to Successfully Meet Our Objectives.**

We have a limited operating history as an oil and gas company upon which to base an evaluation of our current business and future prospects. We have only been actively engaged in the oil and gas and development business since 2010 and do not have an established history of locating and developing properties that have oil and gas reserves. As a result, our ability to succeed in the oil and gas business is unproven. In addition, because of our limited operating history, we have limited insight into trends that may emerge and affect our business. We may make errors in predicting and reacting to relevant business trends and will be subject to the risks, uncertainties and difficulties frequently encountered by early-stage companies such as ours. We may not be able to successfully address any or all of these risks and uncertainties. Failure to adequately do so could cause our business, results of operations and financial condition to suffer. However, to date we have not had difficulty retaining experienced individuals on an independent contractor basis.

**Our Proposed Operations Require Significant Capital Expenditures for Which We Do Not Have Sufficient Funding, And If We Do Not Obtain Additional Financing We May Lose Attractive Investment Opportunities.**

While we do not need any additional capital to resume operations at our existing wells, we need additional capital to make additional acquisitions of oil and gas properties. If we cannot obtain financing on reasonable terms, we may not be able to grow our business to a scale that will be profitable.

**We May Be Forced To Raise Capital On Terms That Are Dilutive To Existing Shareholders.**

We must locate external sources of financing to meet our capital requirements to acquire new oil and gas properties and invest in the wells drilled on our current property, because we do not have the existing resources to meet those capital requirements. We are actively considering the following methods of obtaining the capital we need:

- private placements of our common stock,
- sales of interests in entities established to own and hold producing wells,
- private offerings in ventures set up specifically to drill wells, or
- lines of credit from financial institutions or private individual investors.

Any of these methods may result in substantial dilution to existing shareholders, either in the form of the issuance of new share at less than market value or promises of rates of return to the new investor that depresses future earnings for existing shareholders. If we obtain financing through a line of credit, we will likely be required to pledge all of our assets, which could result in the loss of our properties if we default on the loan. We may not be able to locate new financing on terms that are not prejudicial to existing shareholders.

The Successful Implementation of Our Business Plan Is Subject To Normal Risks In The Drilling Of Gas Wells, Which if Not Adequately Managed Could Result In The Loss Of Our Investment In Wells.

The business of exploring for and producing oil and gas involves a substantial risk of investment loss. Drilling gas wells involves the risk that the wells may be unproductive or that, although productive, the wells may not produce gas in economic quantities. In addition, the availability of drilling rigs and the cost and timing of drilling, completing and, if warranted, operating wells is often uncertain. Other hazards, such as unusual or unexpected geological formations, pressures, fires, blowouts, loss of circulation of drilling fluids or other conditions may substantially delay or prevent completion of any well. Adverse weather conditions can also hinder drilling operations. A productive well may become uneconomic if water or other deleterious substances are encountered that impair or prevent the production of oil or gas from the well. In addition, production from any well may be unmarketable if it is impregnated with water or other deleterious substances. We may not be able to produce oil and gas in economic quantities from each of the wells in which we participate. Any of these factors could result in a total loss of our investment in a particular well.

The Successful Implementation of Our Business Plan Is Subject To Risks In The Marketing Of Gas Produced From Our Wells, Which if Not Adequately Managed Could Result In The Loss Of Our Investment In Our Properties.

Even if our wells produce gas, the marketability of gas may be influenced by numerous factors beyond our control. These factors include the proximity and capacity of gas gathering systems, pipelines and processing equipment, market fluctuations in oil and gas prices, taxes, royalties, land tenure, allowable production and environmental protection. We cannot predict how these factors may affect our business. Our oil and gas properties are connected to a gas gathering system which is connected to a pipeline. Our wells are currently shut-in as a result of the bankruptcy of the prior operator. We expect that the other wells in the field and the gas gathering system will be purchased by another operator and reopened in the near future, but we cannot assure that will happen. Until another operator purchases the other wells in the field and turns them on, there is nothing that we can do resume operations at our wells.

The Oil And Gas Exploration And Production Industry Historically Is A Cyclical Industry And Market Fluctuations In The Prices Of Oil And Gas Could Adversely Affect Our Business.

Prices for oil and gas tend to fluctuate significantly in response to factors beyond our control. These factors include, but are not limited to:

weather conditions in the United States and elsewhere;

economic conditions, including demand for petroleum-based products, in the United States and elsewhere;

actions by OPEC, the Organization of Petroleum Exporting Countries;  
political instability in the Middle East and other major oil and gas producing regions;  
governmental regulations, both domestic and foreign;  
domestic and foreign tax policy;  
the pace adopted by foreign governments for the exploration, development, and production of their national reserves;  
the price of foreign imports of oil and gas;  
the cost of exploring for, producing and delivering oil and gas;  
the discovery rate of new oil and gas reserves;  
the rate of decline of existing and new oil and gas reserves;  
available pipeline and other oil and gas transportation capacity;  
the ability of oil and gas companies to raise capital;  
the overall supply and demand for oil and gas; and  
the availability of alternate fuel sources.

Changes in commodity prices may significantly affect our capital resources, liquidity and expected operating results. Price changes will directly affect revenues and can indirectly impact expected production by changing the amount of funds available to reinvest in exploration and development activities. Reductions in oil and gas prices not only reduce revenues and profits, but could also reduce the quantities of reserves that are commercially recoverable. Significant declines in prices could result in non-cash charges to earnings due to impairment. We do not currently engage in any hedging program to mitigate our exposure to fluctuations in oil and gas prices.

Changes in commodity prices may also significantly affect our ability to estimate the value of producing properties for acquisition and divestiture and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on the value of the properties. Price volatility also makes it difficult to budget for and project the return on acquisitions and the development and exploitation of projects. We expect that commodity prices will continue to fluctuate significantly in the future.



The Unavailability Or High Cost Of Drilling Rigs, Equipment, Supplies, Personnel And Oil Field Services Could Adversely Affect Our Ability To Execute Our Exploration And Development Plans On A Timely Basis And Within Our Budget.

Our only oil and gas properties are located in Kentucky. The industry may experience shortages in the Kentucky region, and cost increases, of drilling rigs, equipment, supplies or personnel, which could delay or adversely affect our exploitation and exploration operations, and could have a material adverse effect on our business, financial condition and results of operations.

We May Be Required To Write-Down The Carrying Values And/Or Estimates Of Total Reserves Of Our Oil And Gas Properties, Resulting In a Decreased Asset Base

Accounting rules applicable to us require that we review periodically the carrying value of our oil and gas properties for possible impairment. Based on specific market factors and circumstances at the time of prospective impairment reviews and the continuing evaluation of development plans, production data, economics and other factors, we may be required to write down the carrying value of our oil and gas properties.

Title Deficiencies Could Render Our Properties Worthless

The existence of a material title deficiency can render a given property worthless and can result in a large expense to our business. We elected not to obtain title insurance when we purchased our existing oil and gas properties. As a result, we may be unaware of deficiencies in the marketability of the title to our properties, and such deficiencies may render properties worthless. While our deeds typically provide a title warranty, and the right to recover our damages from the grantor in the event of a title deficiency, the grantor may not have the financial resources to repay our investment in the property.

The Oil And Gas Industry Is Highly Competitive, and We May Not Have Sufficient Resources to Compete Effectively

The oil and gas industry is highly competitive. We compete with oil and natural gas companies and other individual producers and operators, many of which have longer operating histories and substantially greater financial and other resources than we do, as well as companies in other industries supplying energy, fuel and other needs to consumers. Our larger competitors, by reason of their size and relative financial strength, can more easily access capital markets than we can and may enjoy a competitive advantage in the recruitment of qualified personnel. They may be able to absorb the burden of any changes in laws and regulation in the jurisdictions in which we do business and handle longer periods of reduced prices for oil and gas more easily than we can. Our competitors may be able to pay more for oil and gas leases and properties and may be able to define, evaluate, bid for and purchase a greater number of leases and properties than we can. Further, these companies may enjoy technological advantages and may be able to implement new technologies more rapidly than we can. Our ability to acquire additional properties in the future will depend upon our ability to conduct efficient operations, evaluate and select suitable properties, implement advanced technologies and consummate transactions in a highly competitive environment.

If We Or Our Operators Fail To Maintain Adequate Insurance, Our Business Could Be Materially And Adversely Affected

Our operations are subject to risks such as blowouts, cratering, explosions, uncontrollable flows of oil, gas or well fluids, fires, pollution, earthquakes and other environmental risks. These risks could result in substantial losses due to injury and loss of life, severe damage to and destruction of property and equipment, pollution and other environmental damage, and suspension of operations. We could be liable for environmental damages caused by previous property

owners. As a result, substantial liabilities to third parties or governmental entities may be incurred, the payment of which could have a material adverse effect on our financial condition and results of operations.

**We Have A Very Small Management Team And The Loss Of Any Member Of This Team May Prevent Us From Implementing Our Business Plan In A Timely Manner.**

We have three executive officers and a limited number of additional consultants. Our success depends largely upon the continued services of Darryl Reed and Joel Sens, our only officers. We do not maintain key person life insurance policies on the lives of any of our officers. The loss of any of our officers could seriously harm our business, financial condition and results of operations. In such an event, we may not be able to recruit personnel to replace our officers in a timely manner, or at all, on acceptable terms.

**Some Of Our Management Has Substantial Outside Business Interests, Which May Impair Their Ability To Manage Our Business.**

Our executive officers have outside business interests, and do not devote 100% of their working time to our business. Mr. Reed has substantial outside business interests, and estimates that he spends about 90% of his working time on our affairs. Mr. Sens also has outside business interests, and estimates that he spends about 50% of his working time on our affairs. The fact that Messrs. Reed and Sens have outside business interests could lessen their focus on our business.

**Our Officers And Directors Have Voting Control Over Us, And Outside Shareholders Will Have Little Voice In Management.**

Darryl Reed and Joel Sens currently control us by virtue of their ownership of 29,910,009 shares of our common stock, which is 88.4% of our outstanding common stock, which is likely sufficient to control the outcome of any shareholder vote.

**If We Fail To Maintain Adequate Insurance, Our Business Could Be Materially And Adversely Affected.**

Our operations are subject to risks typical of the oil and gas industry, such as mine collapses, flooding, explosions, fires, pollution, earthquakes and other environmental risks. These risks could result in substantial losses due to injury and loss of life, severe damage to and destruction of property and equipment, pollution and other environmental damage, and suspension of operations. We could be liable for environmental damages caused by previous property owners. As a result, substantial liabilities to third parties or governmental entities may be incurred, the payment of which could have a material adverse effect on our financial condition and results of operations. We currently carry general liability and worker's compensation insurance, but we do not carry insurance against environmental claims. We consider our coverage adequate for our current operations. We expect to increase our insurance coverage when we begin actively producing oil and gas from our properties.

### Complying With Environmental And Other Government Regulations Could Be Costly And Could Negatively Impact Our Production.

The oil and gas business is governed by numerous laws and regulations at various levels of government. These laws and regulations govern the operation and maintenance of any wells on our properties, the discharge of materials into the environment and other environmental protection issues. Such laws and regulations may, among other potential consequences, require that any operator of wells on our properties acquire permits before commencing operations and restrict the substances that can be released into the environment with oil and gas production activities.

Our failure to comply with applicable laws and regulations could result in damages or claims for personal injury, clean-up costs and other environmental and property damages, as well as administrative, civil and criminal penalties. We do not currently carry insurance coverage for sudden and accidental environmental damages as well as environmental damage that occurs over time. While we do not believe we need environmental insurance based on our current operations, we will reconsider our decision to not have environmental coverage prior to the time we begin to operate wells on our properties. However, we do not believe that insurance coverage for the full potential liability of environmental damages is available at a reasonable cost, and therefore there is a good possibility that we will not procure insurance for environmental liabilities. Accordingly, we could be liable, or could be required to cease production on properties, if environmental damage occurs.

The costs of complying with environmental laws and regulations in the future may harm our business. Furthermore, future changes in environmental laws and regulations could occur that result in stricter standards and enforcement, larger fines and liability, and increased capital expenditures and operating costs, any of which could have a material adverse effect on our financial condition or results of operations.

### There Is A Limited Market For Our Common Stock

The trading market for our common stock is limited. Our common stock is not yet eligible for trading on any national or regional securities exchange or the Nasdaq Stock Market. Though we have plans to migrate to a national securities exchange, we have yet to be successful in this endeavor. Our common stock is currently eligible only for trading on the Pink Sheets and the OTC Bulletin Board. This market tends to be substantially less liquid than national and regional securities exchanges or the Nasdaq Stock Market. We cannot provide you with any assurance that a more active trading market for our common stock will develop, or if such a market develops, that it will be sustained.

Our Common Stock is Subject to the “Penny Stock” Rules of the SEC and the Trading Market in Our Securities is Limited, Which Makes Transactions in Our Stock Cumbersome and May Reduce the Value of an Investment in Our Stock.

The Securities and Exchange Commission has adopted Rule 15g-9 which establishes the definition of a “penny stock,” for the purposes relevant to us, as any equity security that has a market price of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

that a broker or dealer approve a person’s account for transactions in penny stocks; and

the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.



In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

obtain financial information and investment experience objectives of the person; and

make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the Commission relating to the penny stock market, which, in highlight form:

sets forth the basis on which the broker or dealer made the suitability determination; and

that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

**We Incur Significant Costs As A Result Of Operating As A Public Company. We May Not Have Sufficient Personnel For Our Financial Reporting Responsibilities, Which May Result In The Untimely Close Of Our Books And Record And Delays In The Preparation Of Financial Statements And Related Disclosures.**

As a registered public company, we experienced an increase in legal, accounting and other expenses. In addition, the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), as well as new rules subsequently implemented by the SEC, has imposed various requirements on public companies, including requiring changes in corporate governance practices. Our management and other personnel need to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations will increase our legal and financial compliance costs and make some activities more time-consuming and costly.

If we are not able to comply with the requirements of Sarbanes-Oxley Act, or if we or our independent registered public accounting firm identifies additional deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline and we could be subject to sanctions or investigations by the SEC and other regulatory authorities.

**We Have Weaknesses In Our Internal Controls.**

The Sarbanes-Oxley Act requires, among other things, that we report on the effectiveness of our internal control over financial reporting and disclosure controls and procedures. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses. If we or our independent registered public accounting firm identifies additional deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline and we could be subject to sanctions or investigations by the SEC and other regulatory authorities.

**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

Not applicable.

**ITEM 2. PROPERTIES.**

A description of our oil and gas properties is included in Item 1. Description of Business, and is incorporated herein by reference.

We occupy 1,222 square feet of office space at 7351 (N) Lockport Place, Lorton, VA 22079 that is leased by a company owned by Darryl Reed. Our share of the rent for the space is \$1,300 per month. The lease expires December 31, 2012.

We believe that we have satisfactory title to the properties owned and used in our business, subject to liens for taxes not yet payable, liens incident to minor encumbrances, liens for credit arrangements and easements and restrictions that do not materially detract from the value of these properties, our interests in these properties, or the use of these properties in our business. We believe that our properties are adequate and suitable for us to conduct business in the future.

**ITEM 3. LEGAL PROCEEDINGS.**

We are not a party to any material legal proceedings at this time.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES.**

During 2010 and 2011, our Common Stock was traded on the OTC Bulletin Board under the symbol "NGMC." The following table summarizes the low and high prices for our common stock for each of the calendar quarters of 2010 and 2011.

	2010		2011	
	High	Low	High	Low
First Quarter	30.00	6.50	0.50	0.2178

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Second Quarter	20.00	3.50	1.00	0.17
Third Quarter	--	--	0.60	0.03
Fourth Quarter	0.50	0.10	0.12	0.041



There were 98 shareholders of record of the common stock as of December 31, 2011. This number does not include an indeterminate number of shareholders whose shares are held by brokers in "street name." All share prices have been adjusted for a 1 for 1,000 reverse stock split that we effected on May 18, 2010.

Our common stock is subject to rules adopted by the Securities and Exchange Commission ("Commission") regulating broker dealer practices in connection with transactions in "penny stocks." Those disclosure rules applicable to "penny stocks" require a broker dealer, prior to a transaction in a "penny stock" not otherwise exempt from the rules, to deliver a standardized disclosure document prepared by the Commission. That disclosure document advises an investor that investment in "penny stocks" can be very risky and that the investor's salesperson or broker is not an impartial advisor, but rather paid to sell the shares. The disclosure contains further warnings for the investor to exercise caution in connection with an investment in "penny stocks," to independently investigate the security, as well as the salesperson the investor is working with and to understand the risky nature of an investment in this security. The broker dealer must also provide the customer with certain other information and must make a special written determination that the "penny stock" is a suitable investment for the purchaser, and receive the purchaser's written agreement to the transaction. Further, the rules require that, following the proposed transaction, the broker provide the customer with monthly account statements containing market information about the prices of the securities. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for our common stock. Many brokers may be unwilling to engage in transactions in our common stock because of the added disclosure requirements, thereby making it more difficult for stockholders to dispose of their shares.

#### Dividend Policy

We have not declared any cash dividends on our Common Stock during our fiscal years ended on December 31, 2011 or 2010. Our Board of Directors has made no determination to date to declare cash dividends during the foreseeable future, but is not likely to do so. There are no restrictions on our ability to pay dividends.

#### Securities Issued in Unregistered Transactions

During the quarter ended December 31, 2011, we issued 150,000 shares of common stock valued at \$12,000 as consideration to extend the maturity date of a loan.

#### Issuer Purchases of Equity Securities

During the quarter ended December 31, 2011, we did not purchase any outstanding securities.

## ITEM 6. SELECTED FINANCIAL DATA.

Because we are a smaller reporting company, we are not required to provide the information called for by this Item.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

### Disclosure Regarding Forward Looking Statements

This Annual Report on Form 10-K includes forward looking statements ("Forward Looking Statements"). All statements other than statements of historical fact included in this report are Forward Looking Statements. In the normal course of our business, we, in an effort to help keep our shareholders and the public informed about our operations, may from time-to-time issue certain statements, either in writing or orally, that contain or may contain Forward-Looking Statements. Although we believe that the expectations reflected in such Forward Looking Statements are reasonable, we can give no assurance that such expectations will prove to have been correct. Generally, these statements relate to business plans or strategies, projected or anticipated benefits or other consequences of such plans or strategies, past and possible future, of acquisitions and projected or anticipated benefits from acquisitions made by or to be made by us, or projections involving anticipated revenues, earnings, levels of capital expenditures or other aspects of operating results. All phases of our operations are subject to a number of uncertainties, risks and other influences, many of which are outside of our control and any one of which, or a combination of which, could materially affect the results of our proposed operations and whether Forward Looking Statements made by us ultimately prove to be accurate. Such important factors ("Important Factors") and other factors could cause actual results to differ materially from our expectations are disclosed in this report, including those factors discussed in "Item 1A. Risk Factors." All prior and subsequent written and oral Forward Looking Statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the Important Factors described below that could cause actual results to differ materially from our expectations as set forth in any Forward Looking Statement made by or on behalf of us.

### Overview

During the quarter ended March 30, 2010, the Company decided to cease operations at its United Marketing Solutions, Inc. subsidiary because of continued operating losses and the termination of all franchise relationships. As a result of the termination of operations, the Company decided to dispose of United Marketing Solutions, Inc.

Since termination of operations at United Marketing Solutions, Inc., the Company has decided to acquire a portfolio of properties that contain valuable natural resources, such as natural gas, oil and coal. The Company's strategy is to acquire properties that are distressed, undervalued or underutilized at prices it believes are below fair market value. The Company will then provide long term leases to leading natural gas, oil field development firms and coal extractors (lessees) to efficiently extract the resources while Company focuses on growing its portfolio of properties.

## Results of Operations

### Fiscal Years ended December 31, 2011 and 2010

During the years ended December 31, 2011 and 2010, we had \$0 and \$0 of revenues, respectively. In early 2010, we terminated operations at our United Marketing Solutions, Inc. subsidiary. In late 2010, we lost all of our tenants in our rental real estate, and therefore decided to dispose of it in the first quarter of 2011. In 2010, we decided to go into the business of acquiring oil and gas properties, but only made our first acquisition of non-revenue producing properties in the first quarter of 2011. As a result, revenues in the years ended December 31, 2010 and 2011 are not reflective of future revenues.

During the years ended December 31, 2011 and 2010, we incurred operating expenses of \$736,989 and \$686,662, respectively. Our operating expenses decreased primarily as a result of decreased compensation expense paid for by the issuance of shares of common stock and stock options.

We reported loss from continued operations during the years ended December 31, 2011 and 2010 of (\$736,989) and (\$686,662), respectively. The decreased operating loss in 2011 as compared to 2010 was attributable to decreased general and administrative expenses resulting from decreased issuances of common stock and stock options for services in 2011 as compared to 2010.

We incurred other expenses during the years ended December 31, 2011 and 2010 of (\$175,112) and (\$681,841), respectively. The significant decrease in other expenses was largely attributable to a charge of \$600,000 that we took in 2010 connection with the expiration of option that we purchased to acquire certain oil and gas rights.

We reported net losses during the years ended December 31, 2011 and 2010 of (\$979,279) and (\$1,559,528), respectively. The decreased loss in 2011 as compared to 2010 was largely attributable to our decreased other expenses in 2010 as compared to 2011.

### Liquidity and Sources of Capital

The following table sets forth the major sources and uses of cash for the years ended December 31, 2011 and 2010:

	Fiscal Year ended December 31,	
	2011	2010
Net cash provided by (used) in operating activities	(236,004 )	39,491
Net cash provided by (used) in investing activities	(522,343 )	(790,000 )
Net cash provided by (used) in financing activities	765,965	750,000
Net (decrease) increase in unrestricted cash and cash equivalents	7,618	(509 )

### Comparison of 2011 and 2010

In the year ended December 31, 2011 and 2010, we financed our operations primarily through the issuance of notes and the issuance of common stock for services.

Operating activities provided \$39,491 of cash in 2010, but used (\$236,004) of cash in 2011. Major non-cash items that affected our cash flow from operations in 2010 were \$600,000 for the write-off of an investment in an option to acquire oil and gas properties, \$241,000 for shares issued for compensation, and \$99,165 for the value of stock options issued in 2010. Our operating assets and liabilities supplied \$608,854 of cash, most of which resulted from an increase in accounts payable of \$297,682 and accrued expenses of \$534,295 and a reclassification of our interest in

Dynatech as net assets held for disposal of (\$225,083).

Major non-cash items that affected our cash flow from operations in 2011 were \$172,000 for the value of common stock issued for compensation, \$600,000 for the value of common stock issued for accrued wages, \$60,420 from the cancellation of indebtedness, \$126,590 for the issuance of stock options, \$74,833 for depreciation and amortization, and \$73,880 for a loan fee to extend the maturity date of convertible debt. Our operating assets and liabilities used (\$385,688) of cash, most of which resulted from a reduction of accrued expenses of (\$443,198), which resulted when we settled accrued expenses by the issuance of 10,000,000 shares of common stock.

Investing activities provided (used) (\$522,343) of cash in 2011, as compared to (\$790,000) of cash in 2010. In 2011, investing activities consumed cash as a result of two acquisitions of oil and gas properties. In 2010, investing activities consumed cash as a result of \$600,000 used to acquire an option to acquire some oil and gas properties and \$190,000 loaned to Seawright Holdings, Inc.

Financing activities supplied \$765,965 of cash in 2011 as compared to \$750,000 of cash in 2010. Most of the cash supplied in 2011 was derived from a loan of \$500,000 issued to acquire some oil and gas properties for an equal amount, the issuance of \$88,000 of convertible notes, and \$172,965 from the exercise of stock options. Most of the cash supplied in 2010 was derived from a loan of \$600,000 issued to acquire an option to acquire some oil and gas properties for an equal amount, and \$150,000 received upon issuance of a convertible note to an investor.

#### Liquidity

Our balance sheet as of December 31, 2011 reflects cash of \$7,618, current assets of \$223,393, current liabilities of \$507,566, and a working capital deficit of (\$284,173).

The Company will need to raise capital to meet its working capital and financing needs. Our ability to become profitable is dependent on the receipt of revenues from our oil and gas wells greater than our operational expenses. We acquired our first oil and gas properties in March 2011, which consist of ten shut-in wells which are not currently generating any revenues. Our wells are connected to a gas gathering system that we share with approximately 125 other wells that are owned by the creditors of the former operator of the field. We do not need any additional capital to resume operations at the shut-in wells; however, we are dependent on the owner of the other 125 wells in the field resuming operations, over which we have no control, before we can resume operations at our wells. In addition, our geologist estimates that more wells could be drilled on our leases, and we would need capital to drill the wells if we decide to drill them ourselves. In 2011, we also acquired royalty interests in four wells on three properties, which have produced minimal revenues for us to date.

We need to raise additional capital in order to make additional acquisitions of oil and gas properties. In addition, we need to raise additional capital to finance our ongoing legal, auditing and administrative costs until we generate sufficient revenues from our oil and gas properties to pay those expenses. While we expect to pay for certain of our ongoing administrative expenses through the deferral of salaries or the issuance of shares of common stock to satisfy the expense, there are some expenses that we cannot defer and cannot satisfy from the issuance of common stock. We estimate that we will need to raise approximately \$75,000 to pay expenses that we will incur over the next year which cannot be deferred or satisfied with common stock.

### Going Concern

Our financial statements have been presented on the basis that we continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements, we incurred a net operating loss in the years ended December 31, 2010 and 2011, and have no revenues for 2010 or 2011. These factors create an uncertainty about our ability to continue as a going concern. We are currently trying to raise capital through a private offering of preferred stock. Our ability to continue as a going concern is dependent on the success of this plan. The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

### Critical Accounting Estimates

Our significant accounting policies are described in Note 2 of Notes to Financial Statements. At this time, we are not required to make any material estimates and assumptions that affect the reported amounts and related disclosures of assets, liabilities, revenue, and expenses. However, as we begin actual oil and gas operations, we will be required to make estimates and assumptions typical of other companies in the oil and gas business.

For example, we will be required to make critical accounting estimates related to future oil and gas prices, obligations for environmental, reclamation, and closure matters, mineral reserves, and accounting for business combinations. The estimates will require us to rely upon assumptions that were highly uncertain at the time the accounting estimates are made, and changes in them are reasonably likely to occur from period to period. Changes in estimates used in these and other items could have a material impact on our financial statements in the future.

Our estimates will be based on our experience and our interpretation of economic, political, regulatory, and other factors that affect our business prospects. Actual results may differ significantly from our estimates.

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements required by Article 8 of Regulation S-X are attached hereto as Exhibit A.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

During the two fiscal years ended December 31, 2011, there has not been any change in accountants, or any disagreement on any matter of accounting principles or practices, financial statement disclosures or auditing scope or procedure with our auditors.

**ITEM 9A. CONTROLS AND PROCEDURES.**

**Management's Report on Internal Control over Financial Reporting and Remediation Initiatives**

**Evaluation of Disclosure Controls and Procedures**

Darryl Reed, our chief executive officer and chief financial officer, is responsible for establishing and maintaining our disclosure controls and procedures. Disclosure controls and procedures means controls and other procedures that are designed to ensure that information we are required to disclose in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and to ensure that information required to be disclosed by us in those reports is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our chief executive officer and chief financial officer evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of December 31, 2011. Based on that evaluation, our chief executive officer and chief financial officer concluded that, as of the evaluation date, such controls and procedures were not effective as described below.

**Changes in internal controls**

There were no changes in our internal controls over financial reporting that occurred during the quarter ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of our principal executive officer and principal financial officer and implemented by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements in accordance with U.S. generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and directors; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2011 we conducted an evaluation, under the supervision and with the participation of our chief executive officer (our principle executive officer), our chief operating officer and our chief financial officer (also our principal financial and accounting officer) of the effectiveness of our internal control over financial reporting based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or the COSO Framework. Management's assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of those controls.

#### Material Weaknesses

Based upon this assessment, management concluded that our internal control over financial reporting was not effective as of December 31, 2011, due to control deficiencies in three areas that we believe should be considered material weaknesses. A material weakness is defined within the Public Company Accounting Oversight Board's Auditing Standard No. 5 as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

1. The company did not sufficiently segregate duties over incompatible functions at the corporate headquarters.

The company's inability to sufficiently segregate duties is due to a staff vacancy at the corporate headquarters. Management does not expect to fill the vacancy until its level of operations increases enough to justify the cost.

2. In conjunction with the lack of segregation of duties, the company did not institute specific anti-fraud controls.

While management found no evidence of fraudulent activity, the chief accounting officer has access to both accounting records and corporate assets, principally the operating bank account. Management believes this exposure to fraudulent activity is not material either to the operations of the company or to the financial reporting; however, management has instituted key controls specifically designed to prevent and detect—on a timely basis—any potential loss due to fraudulent activity.



In addition, management is in the process of instituting whistle-blower policies and procedures, see material weakness 3, following. This policy and procedure will further strengthen the anti-fraud controls at the corporate headquarters.

3. The company had not instituted, as of December 31, 2011, a whistle-blower policy and procedure as required by Section 301 of the Sarbanes-Oxley Act.

Management has drafted a whistle-blower policy, and will communicate the policy as soon as it is approved by the Board of Directors. In addition, management is compiling specific procedures for its board members to independently investigate and resolve any issues or concerns raised.

#### Limitations on Effectiveness of Controls and Procedures

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

#### ITEM 9A(T). CONTROLS AND PROCEDURES.

None.

#### ITEM 9B. OTHER INFORMATION.

None.

PART III