

FOOTHILLS RESOURCES INC

Form 424B3

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Prospectus dated June 23, 2008

Prospectus

Foothills Resources, Inc.

48,700,960 shares of common stock, and

warrants to acquire 20,597,532 shares of common stock

This prospectus relates to the offering by the selling stockholders of Foothills Resources, Inc. of up to 48,700,960 shares of our common stock, par value \$0.001 per share. Those shares of common stock include 28,103,428 shares of common stock and 20,597,532 shares of common stock underlying warrants. In addition, we are registering the warrants to acquire 20,597,532 shares of common stock. We are registering the offer and sale of the common stock, including common stock underlying warrants, and the warrants, to satisfy registration rights we have granted to the selling stockholders.

We will not receive any proceeds from the sale of common stock or warrants by the selling stockholders. We may receive proceeds from the exercise price of the warrants if they are exercised by the holders thereof. We intend to use any proceeds received from the exercise of the warrants for working capital and general corporate purposes.

The selling stockholders have advised us that they will sell the shares of common stock and warrants from time to time in the open market, on the OTC Bulletin Board, in privately negotiated transactions or a combination of these methods, at market prices prevailing at the time of sale, at prices related to the prevailing market prices, at negotiated prices, or otherwise as described under the section of this prospectus titled Plan of Distribution.

Our common stock is traded on the OTC Bulletin Board under the symbol FTRS.OB . On June 20, 2008, the closing bid price of the common stock was \$0.48 per share.

Investing in our common stock involves risks. Before making any investment in our securities, you should read and carefully consider risks described in the Risk Factors beginning on page 2 of this prospectus.

You should rely only on the information contained in this prospectus or any prospectus supplement or amendment. We have not authorized anyone to provide you with different information.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus is dated June 23, 2008

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SUMMARY

This summary highlights information contained elsewhere in this prospectus but might not contain all of the information that is important to you. Before investing in our common stock, you should read the entire prospectus carefully, including the Risk Factors section and our financial statements and the note thereto included elsewhere in this prospectus.

For purposes of this prospectus, unless otherwise indicated or the context otherwise requires, all references herein to Foothills, we, us, our, and the Company refer to Foothills Resources Inc., a Nevada corporation, and our subsidiaries.

Our Company

Foothills Resources, Inc. is a growth-oriented independent energy company engaged in the acquisition, exploration, exploitation and development of oil and natural gas properties. The Company currently holds interests in properties in the Eel River Basin, in northern California, the Goose Creek Field and Goose Creek East Field, both in Harris County, Texas, the Cleveland Field, located in Liberty County, Texas, and the Saratoga Field located in Hardin County, Texas, and is planning to acquire interests in the Anadarko Basin in southwest Oklahoma.

Our business strategy is to identify and exploit low to moderate risk resources in existing producing areas that can be quickly developed and put on production at low cost, including the acquisition of producing properties with exploitation and exploration potential in these areas. We also intend to take advantage of our expertise to develop exploratory projects in focus areas and to participate with other companies in those areas to explore for oil and natural gas using state-of-the-art 3D seismic technology. Our management intends to use its extensive domestic and international oil and gas experience to establish and grow the Company.

Foothills Resources, Inc. took its present form on April 6, 2006, when our wholly-owned subsidiary, Brasada Acquisition Corp., and Brasada California, Inc. executed a Merger Agreement and Plan of Reorganization. On April 6, 2006, Brasada Acquisition Corp. merged with and into Brasada California, Inc., with Brasada remaining as the surviving corporation and our wholly-owned subsidiary. The holders of Brasada's issued and outstanding capital stock before the merger surrendered all of their issued and outstanding capital stock of Brasada and received 17,375,000 shares of our common stock, par value \$0.001 per share. Our stockholders before the merger retained 12,625,006 shares of common stock.

Contemporaneously with the closing of the Merger, we split-off another wholly-owned subsidiary, Foothills Leaseco, Inc., a Nevada corporation, through the sale of all of the outstanding capital stock of Foothills Leaseco, Inc. As a consequence of the sale of Foothills Leaseco, Inc., we discontinued all of our business operations which we conducted prior to the closing of the merger with Brasada, and spun off all material liabilities existing prior to that date, in any way related to our pre-closing business operations. As a result of these transactions, our business and operations changed from a pre-exploration stage company prior to the merger and split-off to a company engaged in the acquisition, exploration and development of oil and natural gas properties following the merger.

Our primary operations are now those formerly operated by Brasada California, Inc., as well as other business activities which we have developed since April 2006, as described in this Prospectus.

Corporate Information

Foothills Resources, Inc. was incorporated under the laws of the State of Nevada on November 17, 2000. Our principal executive offices are located at 4540 California Avenue, Suite 550, Bakersfield, California 93309. The telephone number at our principal executive offices is (661) 716-1320. Our website address is www.foothills-resources.com. Information contained on our website is not deemed part of this prospectus.

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The Offering

Common Stock Offered (1)	48,700,960 shares
Warrants Offered (2)	Warrants to acquire 20,597,532 shares
Offering Price	Market price or privately negotiated prices.
Common Stock Outstanding (3)	60,572,442 shares
Use of Proceeds	We will not receive any proceeds from the sale of the shares offered by the selling stockholders. Any proceeds we receive from the selling stockholders upon their exercise of warrants to purchase the shares included in the shares that are being offered by them hereunder will be used for general working capital purposes and capital expenditures.
OTC Bulletin Board Symbol	FTRS.OB
Risk Factors	An investment in our common stock involves a high degree of risk. You should carefully consider the risk factors set forth under Risk Factors beginning on page 2 and the other information contained in this prospectus before making an investment decision regarding our common stock.
(1) Includes 28,103,428 shares of common stock currently issued and outstanding and 20,597,532 shares of common stock issuable by us upon exercise of outstanding warrants to acquire our common stock.	
(2) We anticipate registering the warrants under the Securities Exchange Act of 1934, as	

amended, and seeking a separate listing of the warrants on a securities market or securities exchange to allow the holders of our warrants to trade the warrants separate from our common stock.

- (3) Includes 28,103,428 shares of common stock which will not be available to trade publicly until the registration statement of which this prospectus is a part is declared effective by the SEC. This number does not include shares of common stock underlying options outstanding under our equity incentive plan or shares of common stock issuable by us upon the exercise of our outstanding warrants, under which our stockholders and warrant holders have the

right to acquire
20,597,532
shares of
common stock.

RISK FACTORS

Several of the matters discussed in this prospectus contain forward-looking statements that involve risks and uncertainties. Factors associated with the forward-looking statements that could cause actual results to differ from those projected or forecasted in this prospectus are included in the statements below. In addition to other information contained in this prospectus, you should carefully consider the following cautionary statements and risk factors. The risks and uncertainties described below are not the only risks and uncertainties we face. If any of the following risks actually occur, our business, financial condition, and results of operations could suffer. In that event, the trading price of our common stock could decline and investors may lose all or part of their investment in our common stock. The risks discussed below also include forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements.

RISKS RELATED TO OUR BUSINESS

We have a limited operating history for you to evaluate our business. We may never attain profitability.

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We are engaged in the business of oil and gas exploration and development, and have limited current oil or natural gas operations. The business of acquiring, exploring for, developing and producing oil and natural gas reserves is inherently risky. As an oil and gas acquisition, exploration and development company with limited operating history, it is difficult for potential investors to evaluate our business. Our proposed operations are therefore subject to all of the risks inherent in light of the expenses, difficulties, complications and delays frequently encountered in connection with the formation of any new business, as well as those risks that are specific to the oil and gas industry. Investors should evaluate us in light of the delays, expenses, problems and uncertainties frequently encountered by companies developing markets for new products, services and technologies. We may never overcome these obstacles.

Our business is speculative and dependent upon the implementation of our business plan and our ability to enter into agreements with third parties for the rights to exploit potential oil and natural gas reserves on terms that will be commercially viable for us.

Our lack of diversification will increase the risk of an investment in Foothills, and our financial condition and results of operations may deteriorate if we fail to diversify.

Our business focus is on the oil and gas industry in a limited number of properties, initially in California, Oklahoma and Texas, with the intention of expanding elsewhere. Larger companies have the ability to manage their risk by diversification. However, we lack diversification, in terms of both the nature and geographic scope of our business. As a result, we will likely be impacted more acutely by factors affecting our industry or the regions in which we operate than we would if our business were more diversified, enhancing our risk profile. If we cannot diversify our operations, our financial condition and results of operations could deteriorate.

Strategic relationships upon which we may rely are subject to change, which may diminish our ability to conduct our operations.

Our ability to successfully acquire additional properties, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will depend on developing and maintaining close working relationships with industry participants and on our ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment. These realities are subject to change and may impair our ability to grow.

To develop our business, we will endeavor to use the business relationships of our management to enter into strategic relationships, which may take the form of joint ventures with other private parties and contractual arrangements with other oil and gas companies, including those that supply equipment and other resources that we will use in our business. We may not be able to establish these strategic relationships, or if established, we may not be able to maintain them. In addition, the dynamics of our relationships with strategic partners may require us to incur expenses or undertake activities we would not otherwise be inclined to in order to fulfill our obligations to these partners or maintain our relationships. If our strategic relationships are not established or maintained, our business prospects may be limited, which could diminish our ability to conduct our operations.

Competition in obtaining rights to explore and develop oil and gas reserves and to market our production may impair our business.

The oil and gas industry is highly competitive. Other oil and gas companies may seek to acquire oil and gas leases and other properties and services we will need to operate our business in the areas in which we expect to operate. This competition is increasingly intense as prices of oil and natural gas on the commodities markets have risen in recent years. Additionally, other companies engaged in our line of business may compete with us from time to time in obtaining capital from investors. Competitors include larger companies, which, in particular, may have access to greater resources, may be more successful in the recruitment and retention of qualified employees and may conduct their own refining and petroleum marketing operations, which may give them a competitive advantage. In addition, actual or potential competitors may be strengthened through the acquisition of additional assets and interests. If we are unable to compete effectively or adequately respond to competitive pressures, this inability may materially adversely affect our results of operation and financial condition.

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We may be unable to obtain additional capital that we will require to implement our business plan, which could restrict our ability to grow.

We expect that our current capital and our other existing resources will be sufficient only to provide a limited amount of working capital, and the revenues generated from our properties in Texas, California and Oklahoma alone will not be sufficient to fund both our continuing operations and our planned growth. We will require additional capital to continue to operate our business beyond the initial phase of our current properties, and to further expand our exploration and development programs to additional properties. We may be unable to obtain additional capital required.

Future acquisitions and future exploration, development, production and marketing activities, as well as our administrative requirements (such as salaries, insurance expenses and general overhead expenses, as well as legal compliance costs and accounting expenses) will require a substantial amount of additional capital and cash flow.

We may pursue sources of additional capital through various financing transactions or arrangements, including joint venturing of projects, debt financing, equity financing or other means. We may not be successful in locating suitable financing transactions in the time period required or at all, and we may not obtain the capital we require by other means. If we do not succeed in raising additional capital, our resources may not be sufficient to fund our operations going forward.

Any additional capital raised through the sale of equity may dilute the ownership percentage of our stockholders. This could also result in a decrease in the fair market value of our equity securities because our assets would be owned by a larger pool of outstanding equity. The terms of securities we issue in future capital transactions may be more favorable to our new investors, and may include preferences, superior voting rights and the issuance of warrants or other derivative securities, and issuances of incentive awards under equity employee incentive plans, which may have a further dilutive effect.

Our ability to obtain needed financing may be impaired by such factors as the capital markets (both generally and in the oil and gas industry in particular), our status as a new enterprise without a significant demonstrated operating history, the location of our oil and natural gas properties and prices of oil and natural gas on the commodities markets (which will impact the amount of asset-based financing available to us) and/or the loss of key management. Further, if oil and/or natural gas prices on the commodities markets decline, our revenues will likely decrease and such decreased revenues may increase our requirements for capital. If the amount of capital we are able to raise from financing activities, together with our revenues from operations, is not sufficient to satisfy our capital needs (even to the extent that we reduce our operations), we may be required to sell some of our assets or cease our operations.

We may incur substantial costs in pursuing future capital financing, including investment banking fees, legal fees, accounting fees, securities law compliance fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we may issue, such as convertible notes and warrants, which may adversely impact our financial condition.

Since commencing our present business activities in April 2006, our financing activities have consisted of the following transactions.

In April 2006, we closed a private offering of an aggregate of 17,142,857 units consisting of one share of our common stock and warrants to acquire three-quarters of a share of common stock for five years, at an exercise price of \$1.00 per whole share. In this offering, we received aggregate consideration of \$12,000,000. Some of the consideration for the units sold in this offering was in the form of debentures that we sold prior to the closing date of the offering to accredited investors. These debentures converted into units in the offering on a dollar-for-dollar basis upon the closing date of the offering.

In September 2006, we closed a private offering of units consisting of shares of our common stock and warrants to acquire our common stock. Each unit we sold in the offering consisted of one share of common stock and a warrant to acquire one-half share of common stock for five years at an exercise price of \$2.75 per share. On September 8, 2006, we received \$22,500,000 in proceeds from the offering, through the sale of 10,000,000 units, issuing to investors in the offering 10,000,000 shares of common stock and warrants to acquire 5,000,000 shares of common

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stock. On September 27, 2006, we received proceeds of an additional \$211,059 through the sale of an additional 93,804 units to additional investors in the offering.

To finance a portion of the acquisition of properties in Texas in September 2006, we executed a credit agreement with a financial institution, whereby we could borrow funds under a credit facility in an amount not to exceed \$42,500,000 (the Mezzanine Facility). The Mezzanine Facility was scheduled to terminate, and all amounts borrowed under the Mezzanine Facility were due and payable, on September 7, 2010. The interest rate on the Mezzanine Facility was initially the London Interbank Offered Rate (LIBOR) plus 700 basis points, and was increased by 100 basis points on each of September 22, 2006, October 23, 2006 and November 22, 2006 when we did not satisfy a requirement of the credit agreement to raise an additional \$5,000,000 in equity capital on or before those dates. We were required to make quarterly interest and principal payments on the Mezzanine Facility equal to the adjusted net cash flow attributable to the properties acquired in the acquisition. The Mezzanine Facility was secured by liens and security interests on substantially all of our assets, including 100% of our oil and gas reserves, and prohibited any dividends on or redemptions of our capital stock.

In December 2007, we entered into a Credit Agreement with various lenders and Wells Fargo Foothill, LLC, as agent (the Credit Facility). The Credit Facility provides for a \$50,000,000 term loan facility and a \$50,000,000 revolving credit facility, with an initial borrowing base of \$25,000,000 available under the revolving credit facility. We utilized \$52,564,000 of the proceeds of the Credit Facility to retire the Mezzanine Facility, including the repayment of the outstanding principal balance of \$42,500,000 and prepayment penalties and transaction costs totaling \$10,164,000. The Credit Facility matures in December 2012, with principal payments scheduled to commence in April 2010 based on 50% of our cash flow, net of capital expenditures. Interest on the revolving credit facility is payable at prime plus 0.75% or at LIBOR plus 2.00%, as we select from time to time, with an unused line fee of 0.50%. Interest on the term loan facility is payable at prime plus 5.25% or at LIBOR plus 6.50%, as we select from time to time, provided that the interest rate on the term loan facility will not be less than 10.50% in the event that LIBOR is less than 4.00%. The Credit Facility contains financial covenants pertaining to asset coverage, interest coverage and leverage ratios. Additionally, the Credit Facility has restrictions on the operations of our business, including restrictions on payment of dividends. Borrowings under the term loan facility carry prepayment penalties ranging from 1.00% to 2.00% in the first three years of the Credit Facility. Borrowings under the revolving credit facility may be repaid at any time without penalty. The Credit Facility is secured by liens and security interests on substantially all of our assets, including 100% of our oil and gas reserves. In connection with the Credit Facility, we issued to the lender under the term loan facility a ten-year warrant to purchase 2,580,159 shares of our common stock at an exercise price of \$0.01 per share.

Although we recorded a loss of \$17,593,000 in connection with the early retirement of the Mezzanine Facility, including \$10,164,000 in prepayment penalties and transaction costs, and \$7,429,000 of non-cash charges relating to the unamortized balances of debt discount and debt issue costs, we entered into the Credit Facility and retired the Mezzanine Facility because the Credit Facility is expected to provide us with significant liquidity for development activities, a substantial reduction in our weighted average cost of debt capital, increased operating flexibility through an improved covenant package, and enhanced ability to manage our cash position (and interest costs) through the revolving structure. We expect to be able to retire the amounts outstanding under the Credit Facility at or prior to its maturity from cash flow provided by operations from our proved oil and gas reserves, or from the proceeds of other financing transactions or arrangements, including joint venturing of projects, debt financing, equity financing or other means.

We may not be able to effectively manage our growth, which may harm our profitability.

Our strategy envisions expanding our business. If we fail to effectively manage our growth, our financial results could be adversely affected. Growth may place a strain on our management systems and resources. We must continue to refine and expand our business development capabilities, our systems and processes and our access to financing sources. As we grow, we must continue to hire, train, supervise and manage new employees. We cannot assure you that we will be able to:

meet our capital needs;

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expand our systems effectively or efficiently or in a timely manner;

allocate our human resources optimally;

identify and hire qualified employees or retain valued employees; or

incorporate effectively the components of any business that we may acquire in our effort to achieve growth. If we are unable to manage our growth, our operations and our financial results could be adversely affected by inefficiency, which could diminish our profitability.

Our business may suffer if we do not attract and retain talented personnel.

Our success will depend in large measure on the abilities, expertise, judgment, discretion, integrity and good faith of our management and other personnel in conducting the business of the Company. We have a small management team, and the loss of a key individual or inability to attract suitably qualified staff could materially adversely impact our business.

Our success depends on the ability of our management and employees to interpret market and geological data correctly and to interpret and respond to economic market and other conditions in order to locate and adopt appropriate investment opportunities, monitor such investments, and ultimately, if required, to successfully divest such investments. Further, no assurance can be given that our key personnel will continue their association or employment with us or that replacement personnel with comparable skills can be found. We have sought to and will continue to ensure that management and any key employees are appropriately compensated; however, their services cannot be guaranteed. If we are unable to attract and retain key personnel, our business may be adversely affected.

Our management team does not have extensive experience in public company matters, which could impair our ability to comply with legal and regulatory requirements.

Our management team has had limited U.S. public company management experience or responsibilities, which could impair our ability to comply with legal and regulatory requirements such as the Sarbanes-Oxley Act of 2002 and applicable federal securities laws including filing required reports and other information required on a timely basis. There can be no assurance that our management will be able to implement and effect programs and policies in an effective and timely manner that adequately respond to increased legal, regulatory compliance and reporting requirements imposed by such laws and regulations. Our failure to comply with such laws and regulations could lead to the imposition of fines and penalties and further result in the deterioration of our business.

Risks related to our prior business may adversely affect our business.

Our business prior to the merger between our wholly-owned acquisition subsidiary and Foothills California, Inc. (formerly Brasada California, Inc.) in April 2006 involved mineral exploration. In 2001, we acquired a mining lease on a total of five unpatented lode mineral claims property located in the State of Nevada. Subsequent to our fiscal year ended December 31, 2004, we decided to abandon the property and terminate the claims and have since been in the process of reviewing other potential resource and non-resource assets for acquisition. We determined not to pursue the mineral exploration line of business following the April 2006 merger, but could still be subject to claims arising from our former business operations. These claims may arise from our operating activities (such as employee and labor matters), financing and credit arrangements or other commercial transactions. While no claims are pending and we have no actual knowledge of any threatened claims, it is possible that third parties may seek to make claims against us based on our former business operations. Even if any such asserted claims were without merit and we were ultimately found to have no liability for such claims, the defense costs and the distraction of management's attention may harm the growth and profitability of our business. While the relevant definitive agreements executed in connection with the merger provided indemnities to us for liabilities arising from our prior business activities, these indemnities may not be sufficient to fully protect us from all costs and expenses.

Our hedging activities could result in financial losses or could reduce our net income, which may adversely affect your investment in our common stock.

In connection with our credit facility with Wells Fargo Foothill, LLC, we are contractually obligated to enter into hedging contracts with the purpose and effect of fixing oil and natural gas prices on no less than 50% of projected

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oil and gas production from our proved developed producing oil and gas reserves. To comply with the requirements of our credit facility, and in order to manage our exposure to price risks in the marketing of our oil and natural gas production, we have entered into oil and natural gas price hedging arrangements with respect to a portion of our expected production. We may enter into additional hedging transactions in the future.

While intended to reduce the effects of volatile oil and natural gas prices, such transactions may limit our potential gains and increase our potential losses if oil and natural gas prices were to rise substantially over the price established by the hedge. In addition, such transactions may expose us to the risk of loss in certain circumstances, including instances in which:

our production is less than expected;

there is a widening of price differentials between delivery points for our production and the delivery point assumed in the hedge arrangement; or

the counterparties to our hedging agreements fail to perform under the contracts.

RISKS RELATED TO OUR INDUSTRY

Our exploration for oil and gas is risky and may not be commercially successful, and the 3D seismic data and other advanced technologies we use cannot eliminate exploration risk, which could impair our ability to generate revenues from our operations.

Our future success will depend on the success of our exploratory drilling program. Oil and gas exploration involves a high degree of risk. These risks are more acute in the early stages of exploration. Our expenditures on exploration may not result in new discoveries of oil or natural gas in commercially viable quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions, such as over-pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

Even when used and properly interpreted, 3D seismic data and visualization techniques only assist geoscientists in identifying subsurface structures and hydrocarbon indicators. They do not allow the interpreter to know conclusively if hydrocarbons are present or economically producible. In addition, the use of 3D seismic data becomes less reliable when used at increasing depths. We could incur losses as a result of expenditures on unsuccessful wells. If exploration costs exceed our estimates, or if our exploration efforts do not produce results which meet our expectations, our exploration efforts may not be commercially successful, which could adversely impact our ability to generate revenues from our operations.

We may not be able to develop oil and gas reserves on an economically viable basis, and our reserves and production may decline as a result.

If we succeed in discovering oil and/or natural gas reserves, we cannot assure that these reserves will be capable of production levels we project or in sufficient quantities to be commercially viable. On a long-term basis, our viability depends on our ability to find or acquire, develop and commercially produce additional oil and natural gas reserves. Without the addition of reserves through acquisition, exploration or development activities, our reserves and production will decline over time as reserves are produced. Our future reserves will depend not only on our ability to develop then-existing properties, but also on our ability to identify and acquire additional suitable producing properties or prospects, to find markets for the oil and natural gas we develop and to effectively distribute our production into our markets.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-downs of connected wells resulting from extreme weather conditions, problems in storage and distribution and adverse geological and mechanical conditions.

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While we will endeavor to effectively manage these conditions, we cannot be assured of doing so optimally, and we will not be able to eliminate them completely in any case. Therefore, these conditions could diminish our revenue and cash flow levels and result in the impairment of our oil and natural gas interests.

As further described under the section of this prospectus titled Business, in early 2008 we completed two wells that we previously drilled in the Eel River Basin in California. After perforating the indicated gas-bearing zones in both wells, we did not recover natural gas from either well. We temporarily suspended further testing on the two wells, and are in the process of performing stimulation programs to fracture the formations in the wells.

Estimates of oil and natural gas reserves that we make may be inaccurate and our actual revenues may be lower than our financial projections.

We will make estimates of oil and natural gas reserves, upon which we will base our financial projections. We will make these reserve estimates using various assumptions, including assumptions as to oil and natural gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. Some of these assumptions are inherently subjective, and the accuracy of our reserve estimates relies in part on the ability of our management team, engineers and other advisors to make accurate assumptions. Economic factors beyond our control, such as interest rates, will also impact the value of our reserves. The process of estimating oil and natural gas reserves is complex, and will require us to use significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each property. As a result, our reserve estimates will be inherently imprecise. Actual future production, oil and natural gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and natural gas reserves may vary substantially from those we estimate. If actual production results vary substantially from our reserve estimates, this could materially reduce our revenues and result in the impairment of our oil and natural gas interests.

Drilling new wells could result in new liabilities, which could endanger our interests in our properties and assets.

There are risks associated with the drilling of oil and natural gas wells, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, craterings, sour gas releases, fires and spills, among others. The occurrence of any of these events could significantly reduce our revenues or cause substantial losses, impairing our future operating results. We may become subject to liability for pollution, blow-outs or other hazards. We intend to obtain insurance with respect to these hazards; however, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. The payment of such liabilities could reduce the funds available to us or could, in an extreme case, result in a total loss of our properties and assets. Moreover, we may not be able to maintain adequate insurance in the future at rates that are considered reasonable. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations.

Decommissioning costs are unknown and may be substantial. Unplanned costs could divert resources from other projects.

We may become responsible for costs associated with abandoning and reclaiming wells, facilities and pipelines which we use for production of oil and natural gas reserves. Abandonment and reclamation of these facilities and the costs associated therewith is often referred to as decommissioning. We have not yet determined whether we will establish a cash reserve account for these potential costs in respect of any of our properties or facilities, or if we will satisfy such costs of decommissioning from the proceeds of production in accordance with the practice generally employed in onshore and offshore oilfield operations. If decommissioning is required before economic depletion of our properties or if our estimates of the costs of decommissioning exceed the value of the reserves remaining at any particular time to cover such decommissioning costs, we may have to draw on funds from other sources to satisfy

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such costs. The use of other funds to satisfy such decommissioning costs could impair our ability to focus capital investment in other areas of our business.

Our inability to obtain necessary facilities could hamper our operations.

Oil and gas exploration and development activities are dependent on the availability of drilling and related equipment, transportation, power and technical support in the particular areas where these activities will be conducted, and our access to these facilities may be limited. To the extent that we conduct our activities in remote areas, needed facilities may not be proximate to our operations, which will increase our expenses. Demand for such limited equipment and other facilities or access restrictions may affect the availability of such equipment to us and may delay exploration and development activities. The quality and reliability of necessary facilities may also be unpredictable and we may be required to make efforts to standardize our facilities, which may entail unanticipated costs and delays. Shortages and/or the unavailability of necessary equipment or other facilities will impair our activities, either by delaying our activities, increasing our costs or otherwise.

We may have difficulty distributing our production, which could harm our financial condition.

In order to sell the oil and natural gas that we are able to produce, we will have to make arrangements for storage and distribution to the market. We will rely on local infrastructure and the availability of transportation for storage and shipment of our products, but infrastructure development and storage and transportation facilities may be insufficient for our needs at commercially acceptable terms in the localities in which we operate. This could be particularly problematic to the extent that our operations are conducted in remote areas that are difficult to access, such as areas that are distant from shipping and/or pipeline facilities. These factors may affect our ability to explore and develop properties and to store and transport our oil and natural gas production and may increase our expenses. In the Eel River Basin in California, we have contractual rights to access existing natural gas transportation facilities. Depending on the success of our planned drilling, it is possible that we will be required to construct additional pipeline facilities in the future in order to have sufficient capacity to transport all of our natural gas production.

Furthermore, weather conditions or natural disasters, actions by companies doing business in one or more of the areas in which we will operate, or labor disputes may impair the distribution of oil and/or natural gas and in turn diminish our financial condition or ability to maintain our operations.

Prices and markets for oil and natural gas are unpredictable and tend to fluctuate significantly, which could reduce profitability, growth and the value of our business.

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond our control. World prices for oil and natural gas have fluctuated widely in recent years, and rose to record levels on a nominal basis in 2007. The average price for West Texas Intermediate oil in 1999 was \$22 per barrel. In 2002 it was \$27 per barrel. In 2005, it was \$57 per barrel. During 2007, the daily spot price of West Texas Intermediate oil, as reported by the *Wall Street Journal*, peaked at \$99, and as of May 15, 2008 was reported as \$124 per barrel. We expect that prices will fluctuate in the future. Price fluctuations will have a significant impact upon our revenue, the return from our reserves and on our financial condition generally. Price fluctuations for oil and natural gas commodities may also impact the investment market for companies engaged in the oil and gas industry. Prices may not remain at current levels. Future decreases in the prices of oil and natural gas may have a material adverse effect on our financial condition, the future results of our operations and quantities of reserves recoverable on an economic basis.

Increases in our operating expenses will impact our operating results and financial condition.

Exploration, development, production, marketing (including distribution costs) and regulatory compliance costs (including taxes) will substantially impact the net revenues we derive from the oil and natural gas that we produce. These costs are subject to fluctuations and variation in different locales in which we will operate, and we may not be able to predict or control these costs. If these costs exceed our expectations, this may adversely affect our results of operations. In addition, we may not be able to earn net revenue at our predicted levels, which may impact our ability to satisfy our obligations.

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Penalties we may incur could impair our business.

Failure to comply with government regulations could subject us to civil and criminal penalties, could require us to forfeit property rights, and may affect the value of our assets. We may also be required to take corrective actions, such as installing additional equipment or taking other actions, each of which could require us to make substantial capital expenditures. We could also be required to indemnify our employees in connection with any expenses or liabilities that they may incur individually in connection with regulatory action against them. As a result, our future business prospects could deteriorate due to regulatory constraints, and our profitability could be impaired by our obligation to provide such indemnification to our employees.

Environmental risks may adversely affect our business.

All phases of the oil and gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, state and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner we expect may result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require us to incur costs to remedy such discharge. The application of environmental laws to our business may cause us to curtail our production or increase the costs of our production, development or exploration activities.

Our insurance may be inadequate to cover liabilities we may incur.

Our involvement in the exploration for and development of oil and gas properties may result in our becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Although we expect to obtain insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances, be insurable or, in certain circumstances, we may choose not to obtain insurance to protect against specific risks due to the high premiums associated with such insurance or for other reasons. The payment of such uninsured liabilities would reduce the funds available to us. If we suffer a significant event or occurrence that is not fully insured, or if the insurer of such event is not solvent, we could be required to divert funds from capital investment or other uses towards covering our liability for such events.

Our business will suffer if we cannot obtain or maintain necessary licenses.

Our operations will require licenses, permits and in some cases renewals of licenses and permits from various governmental authorities. Our ability to obtain, sustain or renew such licenses and permits on acceptable terms is subject to change in regulations and policies and to the discretion of the applicable governments, among other factors. Our inability to obtain, or our loss of or denial of extension, to any of these licenses or permits could hamper our ability to produce revenues from our operations.

Challenges to our properties may impact our financial condition.

Title to oil and gas interests is often not capable of conclusive determination without incurring substantial expense. While we intend to make appropriate inquiries into the title of properties and other development rights we acquire, title defects may exist. In addition, we may be unable to obtain adequate insurance for title defects, on a commercially reasonable basis or at all. If title defects do exist, it is possible that we may lose all or a portion of our right, title and interests in and to the properties to which the title defects relate.

If our property rights are reduced, our ability to conduct our exploration, development and production activities may be impaired.

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We will rely on technology to conduct our business and our technology could become ineffective or obsolete.

We rely on technology, including geographic and seismic analysis techniques and economic models, to develop our reserve estimates and to guide our exploration, development and production activities. We will be required to continually enhance and update our technology to maintain its efficacy and to avoid obsolescence. The costs of doing so may be substantial, and may be higher than the costs that we anticipate for technology maintenance and development. If we are unable to maintain the efficacy of our technology, our ability to manage our business and to compete may be impaired. Further, even if we are able to maintain technical effectiveness, our technology may not be the most efficient means of reaching our objectives, in which case we may incur higher operating costs than we would were our technology more efficient.

RISKS RELATED TO OUR COMMON STOCK

There has been a limited trading market for our common stock and no market for our warrants.

There has been a limited trading market for our common stock on the Over-the-Counter Bulletin Board and no established market for the warrants. The lack of an active market may impair the ability of our investors to sell their shares of common stock or their warrants at the time they wish to sell them or at a price that they consider reasonable. The lack of an active market may also reduce the fair market value of the shares of common stock and warrants to be sold under this prospectus. An inactive market may also impair our ability to raise capital by selling shares of capital stock and may impair our ability to acquire other companies or technologies by using our common stock as consideration.

Investors may have difficulty trading and obtaining quotations for our common stock or warrants.

Our common stock is currently quoted on the Over-the-Counter Bulletin Board under the symbol FTRS.OB. Our warrants do not currently trade on any exchange or market. Our common stock has been actively traded for only a limited time, and the bid and ask prices for our common stock have fluctuated widely. As a result, investors may find it difficult to dispose of, or to obtain accurate quotations of the price of, our common stock and our warrants. This severely limits the liquidity of our common stock and our warrants, and would likely reduce the market price of our common stock and warrants, and hamper our ability to raise additional capital.

The market price of our common stock is, and is likely to continue to be, highly volatile and subject to wide fluctuations.

The market price of our common stock is likely to continue to be highly volatile and could be subject to wide fluctuations in response to a number of factors, some of which are beyond our control, including:

- dilution caused by our issuance of additional shares of common stock and other forms of equity securities, which we expect to make in connection with future capital financings to fund our operations and growth, to attract and retain valuable personnel and in connection with future strategic partnerships with other companies;

- announcements of new acquisitions, reserve discoveries or other business initiatives by our competitors;

- our ability to take advantage of new acquisitions (such as our acquisition of certain properties of TARH E&P Holdings, L.P.), reserve discoveries or other business initiatives;

- fluctuations in revenue from our oil and gas business as new reserves come to market;

- changes in the market for oil and natural gas commodities and/or in the capital markets generally;

- changes in the demand for oil and natural gas, including changes resulting from the introduction or expansion of alternative fuels;

- quarterly variations in our revenues and operating expenses;

- changes in the valuation of similarly situated companies, both in our industry and in other industries;

changes in analysts' estimates affecting our company, our competitors and/or our industry;

changes in the accounting methods used in or otherwise affecting our industry;

additions and departures of key personnel;

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announcements of technological innovations or new products available to the oil and gas industry;

announcements by relevant governments pertaining to incentives for alternative energy development programs;

fluctuations in interest rates and the availability of capital in the capital markets; and

significant sales of our common stock or warrants.

These and other factors are largely beyond our control, and the impact of these risks, singly or in the aggregate, may result in material adverse changes to the market price of our common stock and our warrants, and/or our results of operations and financial condition.

Our operating results may fluctuate significantly, and these fluctuations may cause the price of our common stock and our warrants to decline.

Our operating results will likely vary in the future primarily as the result of fluctuations in our revenues and operating expenses, including the coming to market of oil and natural gas reserves that we are able to develop, expenses that we incur, the prices of oil and natural gas in the commodities markets and other factors. If our results of operations do not meet the expectations of current or potential investors, the price of our common stock and our warrants may decline.

We do not expect to pay dividends in the foreseeable future.

We do not intend to declare dividends for the foreseeable future, as we anticipate that we will reinvest any future earnings in the development and growth of our business. Therefore, investors will not receive any funds unless they sell their common stock or warrants, and stockholders may be unable to sell their shares and warrants on favorable terms or at all. Investors cannot be assured of a positive return on investment or that they will not lose the entire amount of their investment in our common stock and warrants.

Stockholders will experience dilution upon the exercise of warrants and options.

As of March 31, 2008, there were 1,880,000 shares of common stock underlying options issued and outstanding and 23,177,691 shares of common stock underlying warrants issued and outstanding, which if exercised or converted, could decrease the net tangible book value of our common stock. In addition, there were 5,000,000 shares of common stock underlying equity-based incentive grants or awards that may be granted or awarded, of which equity-based incentive grants or awards for 141,176 shares of common stock have already been awarded, pursuant to the Company's 2007 Equity Incentive Plan. If the holders of those options exercise those options, stockholders may experience dilution in the net tangible book value of our common stock. Further, the sale or availability for sale of the underlying shares in the marketplace could depress our stock price. We have registered or agreed to register for resale the above-described warrants all of the shares of common stock underlying such warrants. Holders of registered underlying shares could resell the shares immediately upon registration, resulting in significant downward pressure on our stock price.

Directors and officers of the Company have a high concentration of common stock ownership.

Based on the 60,572,442 shares of common stock that were issued and outstanding as of March 31, 2008, our officers and directors beneficially owned approximately 25.0% of our outstanding common stock. Such a high level of ownership by such persons may have a significant effect in delaying, deferring or preventing any potential change in control of Foothills. Additionally, as a result of their high level of ownership, our officers and directors might be able to strongly influence the actions of the Company's board of directors and the outcome of actions brought to our stockholders for approval. Such a high level of ownership may adversely affect the voting and other rights of our stockholders.

Applicable SEC rules governing the trading of penny stocks limit the trading and liquidity of our common stock, which may affect the trading price of our common stock.

Shares of our common stock may be considered a penny stock and be subject to SEC rules and regulations which impose limitations upon the manner in which such shares may be publicly traded and regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks generally are equity securities with a price

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of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. The broker-dealer must also provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the penny stock rules generally require that prior to a transaction in a penny stock, the broker-dealer 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. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that becomes subject to the penny stock rules which may increase the difficulty investors may experience in attempting to liquidate an investment in our common stock or warrants.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This prospectus includes statements regarding our plans, goals, strategies, intent, beliefs or current expectations. These statements are expressed in good faith and based upon a reasonable basis when made, but there can be no assurance that these expectations will be achieved or accomplished. These forward looking statements can be identified by the use of terms and phrases such as "believe," "plan," "intend," "anticipate," "target," "estimate," "expect," "like," and/or future-tense or conditional constructions "may," "could," "should," etc. Items contemplating or making assumptions about, actual or potential future sales, market size, collaborations, and trends or operating results also constitute such forward-looking statements.

Although forward-looking statements in this prospectus reflect the good faith judgment of our management, forward-looking statements are inherently subject to known and unknown risks, business, economic and other risks and uncertainties that may cause actual results to be materially different from those discussed in these forward-looking statements. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this prospectus. We assume no obligation to update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this prospectus, other than as may be required by applicable law or regulation. Readers are urged to carefully review and consider the various disclosures made by us in our reports filed with the Securities and Exchange Commission which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operation and cash flows. If one or more of these risks or uncertainties materialize, or if the underlying assumptions prove incorrect, our actual results may vary materially from those expected or projected.

SELLING STOCKHOLDERS

This prospectus covers warrants and shares of our common stock, including shares underlying warrants, sold in our recent private equity offerings, in April 2006 and September 2006, to "accredited investors" as defined by Rule 501(a) under the Securities Act pursuant to an exemption from registration provided in Regulation D, Rule 506 under Section 4(2) of the Securities Act. The selling stockholders may from time to time offer and sell under this prospectus any or all of the warrants or shares of common stock listed opposite each of their names below. We are required, under registration rights agreements, to register for resale the warrants and the shares of our common stock described in the tables below.

Common Stock

The following table sets forth information about the number of shares of our common stock beneficially owned by each selling stockholder that may be offered from time to time under this prospectus. Certain selling stockholders may be deemed to be "underwriters" as defined in the Securities Act. Any profits realized by such selling stockholders may be deemed to be underwriting commissions.

The table below has been prepared based upon the information furnished to us by the selling stockholders as of

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March 31, 2008. The selling stockholders identified below may have sold, transferred or otherwise disposed of some or all of their shares since the date on which the information in the following table is presented in transactions exempt from or not subject to the registration requirements of the Securities Act. Information concerning the selling stockholders may change from time to time and, if necessary, we will amend or supplement this prospectus accordingly. We cannot provide an exact amount, but have provided an estimate, of the number of shares of common stock that will be held by the selling stockholders upon termination of this offering because the selling stockholders may offer some or all of their common stock under the offering contemplated by this prospectus. The total number of shares that may be sold hereunder will not exceed the number of shares offered hereby. Please read the section entitled **Plan of Distribution** in this prospectus.

We have been advised, as noted below in the footnotes to the table, 18 of the selling stockholders are broker-dealers and 8 of the selling stockholders are affiliates of broker-dealers. We have been advised that each of such selling stockholders purchased our common stock and warrants in the ordinary course of business, not for resale, and that none of such selling stockholders had, at the time of purchase, any agreements or understandings, directly or indirectly, with any person to distribute the related common stock.

The following table sets forth the name of each selling stockholder, the nature of any position, office, or other material relationship, if any, which the selling stockholder has had, within the past three years, with us or with any of our predecessors or affiliates, and the number of shares of our common stock beneficially owned by such stockholder before this offering. The number of shares owned are those beneficially owned, as determined under the rules of the SEC, and such information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares of common stock as to which a person has sole or shared voting power or investment power and any shares of common stock which the person has the right to acquire within 60 days through the exercise of any option, warrant or right, through conversion of any security or pursuant to the automatic termination of a power of attorney or revocation of a trust, discretionary account or similar arrangement.

Unless otherwise indicated, the stockholders listed in the table below acquired their shares in our private offerings in April 2006 and September 2006. Beneficial ownership is calculated based on 60,572,442 shares of our common stock outstanding as of March 31, 2008. Beneficial ownership is determined in accordance with Rule 13d-3 of the Securities and Exchange Commission. Shares underlying warrants or options exercisable within 60 days of March 31, 2008 are considered for the purpose of determining the percent of the class held by the holder of such warrants or options, but not for the purpose of computing the percentages held by others. The persons and entities named in the table have sole voting and sole investment power with respect to the shares set forth opposite the stockholder's name, subject to community property laws, where applicable, unless otherwise noted in the footnotes to the table. We have assumed all shares reflected on the table that were acquired in our private offerings will be sold from time to time. Because the selling stockholders may offer all or any portion of the common stock listed in the table below, no estimate can be given as to the amount of those shares of common stock acquired in our private offerings that will be held by the selling stockholders upon the termination of any sales of common stock.

	Shares of		Shares of	Percentage
	Common Stock		Common	of
	Owned Before		Stock	Common
	the		Owned	Stock
	Offering		Upon	Outstanding
	1,312,500		Completion	Upon
	Being Offered		of the	Completion
	1,312,500		Offering (a)	of
				Offering
0702119 BC Ltd. ¹	1,312,500	1,312,500		

1087741 Alberta Ltd. ²	80,000	80,000
719906 BC Ltd. ³	250,000	250,000
Adam S. Gottbetter ⁴	125,001	125,001
A.H. Investments ⁵	22,500	22,500
AK Asset Management ⁶	262,501	262,501
Alec Morrison & Sandra Morrison ⁷	99,999	99,999
Alfred Ricciardi ⁸	16,667	16,667
All Seasons Consulting Inc. ⁹	50,000	50,000
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	Shares of Common Stock Owned Before the Offering	Shares of Common Stock Being Offered	Shares of Common Stock Owned Upon Completion of the Offering (a)	Percentage of Common Stock Outstanding Upon Completion of Offering
Alvin L. Gray ¹⁰	133,200	133,200		
Andrew A. Schatte ¹¹	20,000	20,000		
Andrew Goodacre ¹²	62,500	62,500		
Anke Zenze ¹³	61,187	61,187		
Anthony Bobulinski ¹⁴	125,000	125,000		
Arn E. Schoch ¹⁵	124,962	124,962		
Atlantis Software Company Employee Profit Sharing Plan ¹⁶ !	49,999	49,999		
Centrum Bank AG ¹⁷	1,875,000	1,875,000		
Avtar Dhillon ¹⁸	62,500	62,500		
Baradaran Revocable Trust, Sharyar				
Baradaran Trustee ¹⁹	625,000	625,000		
Barbara S. Burkart ²⁰	7,000	7,000		
Barry Davis ²¹	250,000	250,000		
Barry Tucker ²²	62,500	62,500		
Ben T. Morris ²³ #	146,248	146,248		
Bentley N. Kerfoot ²⁴	104,000	104,000		
Bernard Bonertz ²⁵	25,000	25,000		
Besser Kapital Fund LTD ²⁶	75,012	75,012		
Bifrost Fund LP ²⁷	225,000	225,000		
Bill Haak and Johnnie S Haak ²⁸	79,301	79,301		
Blake Selig ²⁹	52,500	52,500		
BMO Nesbitt Burns I/T/F Balanced Natural Resource Fund ³⁰	66,666	66,666		
Bonner S. Ball ³¹	75,000	75,000		
Brad Deason ³² #	37,500	37,500		
Brad Gabel ³³	62,500	62,500		
Brede C. Klefos ³⁴ #	87,500	87,500		
Brian Hicks ³⁵	125,000	125,000		
Brian Kuhn ³⁶	262,500	262,500		
Bruce C. Gibbs and Lou Ann Gibbs ³⁷	70,000	70,000		
Bruce Nurse ³⁸	191,250	191,250		
Bruce R. McMaken ³⁹	34,286	34,286		
Brunella Jacs LLC ⁴⁰	250,005	250,005		
CamCap Energy Offshore Master Fund, L.P. ⁴¹	1,170,000	1,170,000		
	630,000	630,000		

CamCap Resources Offshore Master Fund,
L.P. ⁴²

Carl Pipes ⁴³	37,500	37,500
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Carmen Lanza ⁴⁴	62,512	62,512
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Carol C. Barbour ⁴⁵	37,500	37,500
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Carter D. Pope ⁴⁶	75,000	75,000
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Champion Construction Consultants, Inc. ⁴⁷	18,725	18,725
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	Shares of Common Stock Owned Before the Offering	Shares of Common Stock Being Offered	Shares of Common Stock Owned Upon Completion of the Offering (a)	Percentage of Common Stock Outstanding Upon Completion of Offering
Charbonneau Limited Partnership ⁴⁸	62,500	62,500		
Chester R. Cloudt ⁴⁹	50,000	50,000		
Chester R. Cloudt, Jr. ⁵⁰	25,000	25,000		
Chestnut Ridge Partners, L.P. ⁵¹	200,000	200,000		
Choregus Master Trust, Plan I, Money Purchase ⁵²	29,750	29,750		
Choregus Master Trust, Plan II, Profit Sharing ⁵³	29,750	29,750		
Christine M. Sanders ⁵⁴	22,500	22,500		
Christopher Neal Todd ⁵⁵	16,667	16,667		
Christopher Powell ⁵⁶	6,250	6,250		
Craig Taylor ⁵⁷	25,000	25,000		
Cranshire Capital, L.P. ⁵⁸	525,000	525,000		
Crimson Group, LTD ⁵⁹	23,325	23,325		
Curtis Conway ⁶⁰	350,000	350,000		
Curtis E. Smith and Mary H. Cummins Trust ⁶¹	52,500	52,500		
Dan Mechis ⁶²	20,000	20,000		
Danich Investments Ltd. ⁶³	62,500	62,500		
David A Melman ⁶⁴	87,500	87,500		
David B. Steffan, Jr. ⁶⁵	25,000	25,000		
David B. Steffan, Sr. ⁶⁶	5,250	5,250		
David Jensen ⁶⁷	32,933	32,933		
David Malm ⁶⁸	20,000	20,000		
Dennis B. Tower ⁶⁹	4,905,335	262,500	4,642,835	7.7%
Dennis Bleackley ⁷⁰	62,500	62,500		
Dennis H. Lundy ⁷¹	37,500	37,500		
DNG Capital Corp. ⁷²	50,000	50,000		
Don Sanders and Tanya Drury TTEES FBO Tanya Jo Drury Trust ⁷³	56,250	56,250		
Don Weir and Julie Ellen Weir ⁷⁴	239,995	239,995		
Donald V Weir TTEE Sanders 1998 Children s Trust DTD 12/01/1997 ⁷⁵	506,275	506,275		
Douglas Patterson ⁷⁶	3,375	3,375		
Dr. William Grose Agency ⁷⁷	26,666	26,666		
Earl Fawcett ⁷⁸	62,500	62,500		
Edmund H. Melhado ⁷⁹	75,000	75,000		

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Edward Antonsen ⁸⁰	80,000	80,000
Edward C. Kash ⁸¹	23,333	23,333
Edwin Freedman ⁸²	199,994	199,994
Emily H. Todd ⁸³	16,667	16,667
EPSILON Management LTD. ⁸⁴	37,506	37,506
Evonne Whelan ⁸⁵	37,500	37,500

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	Shares of Common Stock Owned Before the Offering	Shares of Common Stock Being Offered	Shares of Common Stock Owned Upon Completion of the Offering (a)	Percentage of Common Stock Outstanding Upon Completion of Offering
Ewan Downie ⁸⁶	80,000	80,000		
Francis P. Knuettel TTEE Francis P Knuettel Rev LVG TR UA DTD 3/7/03 ⁸⁷	125,001	125,001		
Frank J. Metyko, Jr. and Mark J. Metyko and Kurt F. Metyko TTEES Frank J. Metyko Residuary Trust DTD 10/08/84 ⁸⁸	26,666	26,666		
Frank Knuettel II Trustee, The Knuettel Family Trust ⁸⁹	43,750	43,750		
Frank Knuettel, II ⁹⁰	49,875	49,875		
Fred Hagans ⁹¹	139,994	139,994		
Friedrich Brenckman ⁹²	75,000	75,000		
G. Marie Smith ⁹³	106,500	106,500		
Gary E. Mintz ⁹⁴	262,500	262,500		
Gary Friedland ⁹⁵	18,750	18,750		
Gary Maynard ⁹⁶	33,750	33,750		
GEM Advisors ⁹⁷ #	500,000	500,000		
George L. Ball ⁹⁸ #	177,494	177,494		
Georges Antoun and Martha Antoun Ten Com ⁹⁹	46,667	46,667		
Gerald K. Bogen ¹⁰⁰	18,000	18,000		
Gloria D. Kelley ¹⁰¹	18,750	18,750		
Goldman, Sachs & Co. ¹⁰² #	8,000,000	8,000,000		
Grant E Sims and Patricia Sims JT TEN ¹⁰³	37,500	37,500		
Gregg Sedun ¹⁰⁴	250,000	250,000		
Gregory Selig Lewis ¹⁰⁵	62,501	62,501		
H. Alan Dill ¹⁰⁶	222,000	222,000		
H. Ben Taub ¹⁰⁷	45,000	45,000		
Hammonds Management Trust ¹⁰⁸	16,875	16,875		
Harry Edelson ¹⁰⁹	1,250,000	1,250,000		
Harry Gabel ¹¹⁰	62,500	62,500		
Hayden McIlroy ¹¹¹	212,500	212,500		
Hedge Capital Partners LLC ¹¹²	105,050	105,050		
Heimbuck Family Trust DTD 8/13/85 ¹¹³	104,168	104,168		
Herbert Lippin ¹¹⁴	22,500	22,500		
Hyman Gildenhorn and Vivian Gildenhorn ¹¹⁵	133,332	133,332		
Hypo Alpe-Adria-Bank ¹¹⁶	612,500	612,500		

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Don A. Sanders ¹¹⁷ #	506,275	506,275
Don S. Cook ¹¹⁸	26,666	26,666
Erik Klefos ¹¹⁹ #	87,500	87,500
Humbert B. Powell ¹²⁰ #	88,751	88,751
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			Percentage of Common Stock
	Shares of Common Stock Owned Before the Offering	Shares of Common Stock Being Offered	Shares of Common Stock Owned Upon Completion of the Offering (a)
			Upon Completion of Offering
Lewis S. Rosen ¹²¹	16,667	16,667	
Scott M. Marshall ¹²²	87,500	87,500	
William W. Sprague ¹²³	88,751	88,751	
J. Barrett Developments, Ltd. ¹²⁴	25,000	25,000	
Jack Coldwell ¹²⁵	62,500	62,500	
Jack Sheng ¹²⁶	40,000	40,000	
James T. Dilella Trust ¹²⁷	33,000	33,000	
Jamie Gilkison ¹²⁸	75,000	75,000	
Jan Bartholomew ¹²⁹ #	16,667	16,667	
Jan Rask ¹³⁰	217,500	217,500	
Jason M. Rimland ¹³¹	75,287	75,287	
Jeffrey Scott ¹³²	250,000	250,000	
Jerry F. and Nina L. Christopherson ¹³³	62,500	62,500	
JMC Investments Ltd. ¹³⁴	62,500	62,500	
Joe & Iola Bots ¹³⁵	62,500	62,500	
Joel Stuart ¹³⁶	18,750	18,750	
John A. Cary ¹³⁷	30,000	30,000	
John H. Malanga and Jodi F. Malanga, JT Ten Malanga ¹³⁸ #	77,501	77,501	
John M. Martineck ¹³⁹	137,500	137,500	
John N. Spiliotis ¹⁴⁰	16,667	16,667	
John Seaman ¹⁴¹	80,000	80,000	
John W. Lodge, III ¹⁴²	33,333	33,333	
Joseph Benjamin Johnson ¹⁴³	84,165	84,165	
Judy Kay Hunnemuller ¹⁴⁴	10,001	10,001	
Karl Antonius ¹⁴⁵	62,500	62,500	
Katherine U. Sanders ¹⁴⁶	397,475	397,475	
Kenneth R. Hartley Jr. ¹⁴⁷	33,750	33,750	
Kenneth S. Goodwin ¹⁴⁸	26,250	26,250	
Kevin Shugars, Lori Shugars ¹⁴⁹	33,750	33,750	
Knox Family Partnership, Lee M. Knox General Partner ¹⁵⁰	20,000	20,000	
LA Hougue Financial Management Services Limited ¹⁵¹	375,000	375,000	
Ladasa Investments Inc. ¹⁵²	250,000	250,000	
Larry Hunnemuller ¹⁵³	10,001	10,001	

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Lenny Olim ¹⁵⁴	52,500	52,500
Leon Frenkel ¹⁵⁵	225,000	225,000
Leonard C. Atkins ¹⁵⁶	37,500	37,500
Lisa Dawn Weir ¹⁵⁷	37,500	37,500
Louis Gleckel ¹⁵⁸	18,750	18,750
Louis Zehil ¹⁵⁹	66,666	66,666
M. Paul Tompkins ¹⁶⁰	100,000	100,000
M. St. John Dinsmore ¹⁶¹	37,500	37,500
Mark Emalfarb Custodian for Hailey Emalfarb ¹⁶²	187,500	187,500
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			Percentage of Common Stock
	Shares of Common Stock Owned Before the Offering	Shares of Common Stock Being Offered	Outstanding Upon Completion of Offering
Mark Emalfarb Guardian for Ashley Emalfarb ¹⁶³	187,500	187,500	
Mark Leszczynski ¹⁶⁴	21,000	21,000	
Mark Rousselot ¹⁶⁵	25,000	25,000	
Mary Harris Cooper ¹⁶⁶	26,666	26,666	
Matthew D. Myers ¹⁶⁷	17,250	17,250	
Max and Judy Poll Rev Trust ¹⁶⁸	33,333	33,333	
Melton Pipes ¹⁶⁹	22,500	22,500	
Meteoric L.P. ¹⁷⁰	120,000	120,000	
MGK Consulting Inc. ¹⁷¹	80,000	80,000	
Michael J. Burkart ¹⁷²	1,500	1,500	
Michael J. Burkart and Breanna A. Burkart ¹⁷³	5,000	5,000	
Michael J. Gaido, Jr. ¹⁷⁴	50,000	50,000	
Michael John Fanti ¹⁷⁵	20,000	20,000	
Michael S. Chadwick ¹⁷⁶ #	81,251	81,251	
Molly B. Jorgensen ¹⁷⁷	1,500	1,500	
Molly B. Jorgensen and Trent R. Jorgensen ¹⁷⁸	5,000	5,000	
Morton J. Weisberg ¹⁷⁹	16,650	16,650	
Mosby Lindsay Simmons III ¹⁸⁰	87,500	87,500	
Nadine C. Smith ¹⁸¹	375,000	375,000	
Natalie Dull ¹⁸²	43,750	43,750	
Nina Holdings, LLC ¹⁸³ !	500,000	500,000	
Nite Capital LP ¹⁸⁴	666,667	666,667	
Nunziata Holdings Inc. ¹⁸⁵	200,000	200,000	
NYBOR Group Inc. ¹⁸⁶	40,179	40,179	
Paula L. Santoski ¹⁸⁷	59,999	59,999	
Pauline Tower ¹⁸⁸	26,250	26,250	
Perfco Investments Ltd. ¹⁸⁹	250,000	250,000	
Philip M. Garner and Carol P. Garner ¹⁹⁰	60,000	60,000	
Professional Trading Services SA ¹⁹¹	1,250,000	1,250,000	
Randall W. Tower ¹⁹²	100,000	100,000	
Richard Lippin ¹⁹³	17,250	17,250	
Richard Macdermott ¹⁹⁴	62,500	62,500	
Richard W. Hodgman ¹⁹⁵	33,750	33,750	

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Rick Berry ¹⁹⁶ !	16,667	16,667
RJS JR/PLS 1992 Trust FBO Robert J Santoski Jr, Paula Santoski TTEE ¹⁹⁷	16,667	16,667
Rob Anderson ¹⁹⁸ #	375,000	375,000
Robert Burschik ¹⁹⁹	262,425	262,425
Robert F. Ruth Jr. ²⁰⁰	108,000	108,000
Robert J. Gonzales ²⁰¹	122,500	122,500
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	Shares of Common Stock Owned Before the Offering	Shares of Common Stock Being Offered	Shares of Common Stock Owned Upon Completion of the Offering (a)	Percentage of Common Stock Outstanding Upon Completion of Offering
Robert Pedlow ²⁰²	87,500	87,500		
Robert Sarcher ²⁰³	175,000	175,000		
Robert Schiesser ²⁰⁴ #	250,250	250,250		
Robert W. Bomengen ²⁰⁵	21,506	21,506		
Robert Wilensky ²⁰⁶	15,000	15,000		
Rose Anna Marshall ²⁰⁷	70,000	70,000		
Rosebury, L.P. ²⁰⁸	90,000	90,000		
Roy Alan Price ²⁰⁹	30,000	30,000		
Rune Medhus & Elisa Medhus ²¹⁰ #	147,494	147,494		
Sam Belzberg ²¹¹	625,000	625,000		
Samuel Ginzburg ²¹²	25,008	25,008		
Sanders Morris Harris Inc. ²¹³ #	688,859	688,859		
Sanders Opportunity Fund (Institutional) L.P. ²¹⁴ #	1,209,353	1,209,353		
Sanders Opportunity Fund, L.P. ²¹⁵ #	378,138	378,138		
Sandra L. Acosta ²¹⁶	50,000	50,000		
Sanovest Holdings Ltd. ²¹⁷	500,000	500,000		
Scott Rapfogel ²¹⁸	87,500	87,500		
Leticia Turullos ²¹⁹	16,667	16,667		
Sierra Madre Development, LLC ²²⁰	18,725	18,725		
Lawrence R. Simonson ²²¹	62,500	62,500		
Stanley Katz ²²²	250,005	250,005		
SLS/PLS 1988 Trust FBO Samantha Leigh Santoski, Paula L Santoski TTEE ²²³	16,667	16,667		
Stephen Hanson ²²⁴	300,000	300,000		
Steve Perry ²²⁵	62,500	62,500		
Steven R. Hall ²²⁶	22,500	22,500		
Sue M. Harris Separate Property ²²⁷	33,333	33,333		
Sue Minton Harris TTEE Pinkye Lou Blair Estate Tr u/w Dtd 6/15/91 ²²⁸	33,333	33,333		
Susan S. Lehrer ²²⁹	16,667	16,667		
T. Scott O Keefe ²³⁰	162,499	162,499		
Tanya J. Drury ²³¹	56,250	56,250		
The Brewster Family Trust ²³²	62,500	62,500		
Thomas Asarch and Barbara Asarch ²³³	104,167	104,167		
Thomas E. Fish ²³⁴	375,000	375,000		

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Titus Harris, Jr. ^{235!}	33,333	33,333
Tom Juda and Nancy Juda ²³⁶	124,994	124,994
Tom Steffan ²³⁷	12,500	12,500
US Global Investors- Global Resources Fund ²³⁸	1,900,001	1,900,001
V MacLachlan Investments Corp. ^{239!}	375,000	375,000
Vicki T. Ruth ²⁴⁰	105,900	105,900
Vincent Vazquez ²⁴¹	174,000	174,000
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	Shares of Common Stock Owned Before the	Shares of Common Stock	Shares of Common Stock Owned Upon Completion of the Offering	Percentage of Common Stock Outstanding Upon Completion of Offering
	Offering	Being Offered	(a)	
W. Kirk Bosché ²⁴²	3,308,877	126,000	3,182,877	5.3%
Wayne C. Fox ²⁴³	15,000	15,000		
Wayne Hucik ²⁴⁴	62,500	62,500		
Weitzman Living Trust ²⁴⁵	75,000	75,000		
Whalehaven Capital Fund Limited ²⁴⁶	200,000	200,000		
William E. Grose ²⁴⁷	26,666	26,666		
William F. Burkart ²⁴⁸	53,000	53,000		
William L. Benson ²⁴⁹	18,000	18,000		
William Lowe ²⁵⁰	499,970	499,970		
William Sockman ²⁵¹	16,650	16,650		
Y&S Nazarian Revocable Trust ²⁵²	1,249,999	1,249,999		
Yarek Bartosz ²⁵³	62,500	62,500		
Yellowstone Limited Partnership ²⁵⁴	75,000	75,000		
Meridian Global Energy & Resources Fund LT ²⁵⁵	33,333	33,333		
E. Paul Jansen ²⁵⁶	7,500	7,500		
TARH E&P Holdings, L.P.	1,691,186	1,691,186		

The selling stockholder is a broker-dealer.

! The selling stockholder is an affiliate of a broker-dealer.

(a) Assumes all of the shares of common stock to be registered on this registration statement, including all shares of common stock

underlying
warrants held by
the selling
stockholders, are
sold in the
offering by the
selling
stockholders.

¹ Includes
750,000 shares
of common
stock and
warrants to
acquire an
additional
562,500 shares
of common
stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006
private offering.
Gary
Korzenowski
has the power to
vote and dispose
of the common
shares being
registered on
behalf of
0702119 BC
Ltd.

² Includes 45,714
shares of
common stock
and warrants to
acquire an
additional
34,286 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Mr. Wade
McBain has the
power to vote

and dispose of
the common
shares being
registered on
behalf of
1087741 Alberta
Ltd.

³ Includes
142,857 shares
of common
stock and
warrants to
acquire an
additional
107,143 shares
of common
stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006
private offering.
Mr. Tom
Kusumoto has
the power to
vote and dispose
of the common
shares being
registered on
behalf of 719906
BC Ltd.

⁴ Includes 71,429
shares of
common stock
and warrants to
acquire an
additional
53,572 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

⁵ Includes 15,000
shares of
common stock
and warrants to

acquire an additional 7,500 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering. Mr. Bennett Altarman, President of A.H. Investments, has the power to vote and dispose of the common shares being registered on behalf of A.H. Investments.

- ⁶ Includes 150,000 shares of common stock, 95,576 shares of common stock acquired pursuant to the exercise of warrants at an exercise price of \$1.00 per share, and warrants to acquire an additional 16,925 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Mr. Kolbinger has the power to vote and dispose of the common shares being registered on

behalf of AK
Asset
Management.

- ⁷ Includes 66,666 shares of common stock and warrants to acquire an additional 33,333 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

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- 8 Includes 11,111 shares of common stock and warrants to acquire an additional 5,556 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.
- 9 Includes 28,571 shares of common stock and warrants to acquire an additional 21,429 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Negar Towfigh, President of All Seasons Consulting, Inc. has the power to vote and dispose of the common shares being registered on behalf of All Seasons Consulting, Inc.
- 10 Includes 88,800 shares of common stock and warrants to acquire an additional 44,400 shares of common stock at

an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

¹¹ Includes 13,333
shares of
common stock
and warrants to
acquire an
additional 6,667
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

¹² Includes 35,714
shares of
common stock
and warrants to
acquire an
additional
26,786 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

¹³ Includes 34,964
shares of
common stock
and warrants to
acquire an
additional
26,223 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

¹⁴

Includes 71,429 shares of common stock and warrants to acquire an additional 53,571 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

15 Includes 71,407 shares of common stock and warrants to acquire an additional 53,555 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

16 Includes 28,571 shares of common stock and warrants to acquire an additional 21,428 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Rune Medhus has the power to vote and dispose of the common shares being registered on behalf of Atlantis Software Company

Employee Profit
Sharing Plan.

- 17 Includes
1,071,429 shares
of common
stock and
warrants to
acquire an
additional
803,571 shares
of common
stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006
private offering.
Gerhard Roosli
has the power to
vote and dispose
of the common
shares being
registered on
behalf of
Centrum Bank
AG.
- 18 Includes 35,714
shares of
common stock
and warrants to
acquire an
additional
26,786 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
- 19 Includes
357,143 shares
of common
stock and
warrants to
acquire an
additional
267,857 shares
of common

stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

²⁰ Includes 7,000 shares of common stock acquired in the April 2006 private offering.

²¹ Includes 142,857 shares of common stock and warrants to acquire an additional 107,143 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

²² Includes 35,714 shares of common stock and warrants to acquire an additional 26,786 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

²³ Includes 53,570 shares of common stock and warrants to acquire an additional 40,178 shares of

common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Also includes 35,000 shares of common stock and warrants to acquire an additional 17,500 shares of common stock at an exercise price of \$2.75 per share, acquired in the April 2006 private offering.

²⁴ Includes 69,333 shares of common stock and warrants to acquire an additional 34,667 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

²⁵ Includes 14,286 shares of common stock and warrants to acquire an additional 10,714 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

²⁶ Includes 50,008 shares of

common stock and warrants to acquire an additional 25,004 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering. Oliver Chaponnier and M. Montanari have the power to vote and dispose of the common shares being registered on behalf of Besser Kapital Fund LTD.

- ²⁷ Includes 150,000 shares of common stock and warrants to acquire an additional 75,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering. Peter Trapp, founding member of Bifrost Fund LP, has the power to vote and dispose of the common shares being registered on behalf of Bifrost Fund LP.

²⁸ Includes 35,715 shares of common stock and warrants to acquire an additional 26,786 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Also includes 11,200 shares of common stock and warrants to acquire an additional 5,600 shares of common stock at an exercise price of \$2.75 per share, acquired in the April 2006 private offering.

²⁹ Includes 30,000 shares of common stock and warrants to acquire an additional 22,500 shares of common

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stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006
private offering.

30 Includes 44,444
shares of
common stock
and warrants to
acquire an
additional
22,222 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.
Ralph Aldis,
portfolio
manager, has the
power to vote
and dispose of
the common
shares being
registered on
behalf of
Balanced
Natural
Resource Fund.

31 Includes 50,000
shares of
common stock
and warrants to
acquire an
additional
25,000 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

³² Includes 25,000 shares of common stock and warrants to acquire an additional 12,500 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

³³ Includes 35,714 shares of common stock and warrants to acquire an additional 26,786 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

³⁴ Includes 50,000 shares of common stock and warrants to acquire an additional 37,500 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

³⁵ Includes 71,429 shares of common stock and warrants to acquire an additional 53,571 shares of common stock at

an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

³⁶ Includes
150,000 shares
of common
stock and
warrants to
acquire an
additional
112,500 shares
of common
stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006
private offering.

³⁷ Includes 40,000
shares of
common stock
and warrants to
acquire an
additional
30,000 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

³⁸ Includes 75,000
shares of
common stock
and warrants to
acquire an
additional
56,250 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Also includes
40,000 shares of

common stock
and warrants to
acquire an
additional
20,000 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

³⁹ Includes
warrants to
acquire 26,786
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Also includes
5,000 shares of
common stock
and warrants to
acquire an
additional 2,500
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

⁴⁰ Includes
142,860 shares
of common
stock and
warrants to
acquire an
additional
107,145 shares
of common
stock at an
exercise price of
\$1.00 per share,
acquired in the

April 2006
private offering.
Stanley Katz has
the power to
vote and dispose
of the common
shares being
registered on
behalf of
Brunella Jacs,
LLC.

- 41 Includes
780,000 shares
of common
stock and
warrants to
acquire an
additional
390,000 shares
of common
stock at an
exercise price of
\$2.75 per share,
acquired in the
September 2006
private offering.
Roland A. von
Metzech,
managing
member of
CamCap Energy
Partners, the
General Partner
of CamCap
Energy Offshore
Master Fund,
L.P., has the
power to vote
and dispose of
the common
shares being
registered on
behalf of
CamCap Energy
Offshore Master
Fund, L.P.

- 42 Includes
420,000 shares
of common

stock and warrants to acquire an additional 210,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering. Roland A. von Metzech, managing member of CamCap Energy Partners, the General Partner of CamCap Resources Offshore Master Fund, L.P., has the power to vote and dispose of the common shares being registered on behalf of CamCap Resources Offshore Master Fund, L.P.

⁴³ Includes 25,000 shares of common stock and warrants to acquire an additional 12,500 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

⁴⁴ Includes 35,721 shares of

common stock
and warrants to
acquire an
additional
26,791 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

45 Includes 25,000
shares of
common stock
and warrants to
acquire an
additional
12,500 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

46 Includes 50,000
shares of
common stock
and warrants to
acquire an
additional
25,000 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

47 Includes 10,700
shares of
common stock
and warrants to
acquire an
additional 8,025
shares of
common stock at
an exercise price

of \$1.00 per
share, acquired
in the April 2006
private offering.
Gary Huel has
the power to
vote and dispose
of the common
shares being
registered on
behalf of
Champion
Construction
Consultants, Inc.

- ⁴⁸ Includes 35,714
shares of
common stock
and warrants to
acquire an
additional
26,786 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
A.J.
Charbonneau
and D. Davidson
have the power
to vote and
dispose of the
common shares
being registered
on behalf of
Charbonneau
Limited
Partnership.

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49 Includes 28,571 shares of common stock and warrants to acquire an additional 21,429 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

50 Includes 14,286 shares of common stock and warrants to acquire an additional 10,714 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

51 Includes 133,333 shares of common stock and warrants to acquire an additional 66,667 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering. Kenneth Holz has the power to vote and dispose of the common shares being registered on

behalf of
Chestnut Ridge
Partners, L.P.

52 Includes 17,000
shares of
common stock
and warrants to
acquire an
additional
12,750 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Christopher
Moyes has the
power to vote
and dispose of
the common
shares being
registered on
behalf of
Choregus Master
Trust, Plan I,
Money
Purchase.

53 Includes 17,000
shares of
common stock
and warrants to
acquire an
additional
12,750 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Christopher
Moyes has the
power to vote
and dispose of
the common
shares being
registered on
behalf of

Choregus Master
Trust, Plan II,
Profit Sharing.

54 Includes 15,000
shares of
common stock
and warrants to
acquire an
additional 7,500
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

55 Includes 11,111
shares of
common stock
and warrants to
acquire an
additional 5,556
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

56 Includes 3,571
shares of
common stock
and warrants to
acquire an
additional 2,679
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

57 Includes 14,286
shares of
common stock

and warrants to acquire an additional 10,714 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

58 Includes warrants to acquire 375,000 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Also includes 100,000 shares of common stock and warrants to acquire an additional 50,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering. Mitchell P. Kopin, President of Downsview Capital, Inc., the General Partner of Cranshire Capital, L.P., has the power to vote and dispose of the common shares being registered on behalf of Cranshire Capital, L.P.

59 Includes 15,550 shares of common stock and warrants to acquire an additional 7,775 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering. C. Dean Patrinely, President of Gator Enterprises, Inc., the General Partner of Crimson Group, LTD, has the power to vote and dispose of the common shares being registered on behalf of Crimson Group, LTD.

60 Includes 200,000 shares of common stock and warrants to acquire an additional 150,000 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

61 Includes 35,000 shares of

common stock
and warrants to
acquire an
additional
17,500 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

⁶² Includes 11,429
shares of
common stock
and warrants to
acquire an
additional 8,571
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

⁶³ Includes 35,714
shares of
common stock
and warrants to
acquire an
additional
26,786 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Danny Remenda
has the power to
vote and dispose
of the common
shares being
registered on
behalf of Danich
Investments Ltd.

⁶⁴ Includes 50,000
shares of

common stock and warrants to acquire an additional 37,500 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

⁶⁵ Includes 14,286 shares of common stock and warrants to acquire an additional 10,714 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

⁶⁶ Includes 3,000 shares of common stock and warrants to acquire an additional 2,250 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

⁶⁷ Includes 21,955 shares of common stock and warrants to acquire an additional 10,978 shares of common stock at an exercise price of \$2.75 per share, acquired

in the
September 2006
private offering.

⁶⁸ Includes 11,429
shares of
common stock
and warrants to
acquire an
additional 8,571
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

⁶⁹ Shares of
Common Stock
Owned Before
the Offering
includes 150,000
shares of
common stock
to be registered
hereunder,
4,642,835 shares
of common
stock not being
registered in this
prospectus, and

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warrants to
acquire an
additional
112,500 shares
of common
stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006
private offering.
Mr. Tower
serves as our
Chairman of the
Board and Chief
Executive
Officer and a
member of our
board of
directors.

70 Includes 35,714
shares of
common stock
and warrants to
acquire an
additional
26,786 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

71 Includes 21,429
shares of
common stock
and warrants to
acquire an
additional
16,071 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

⁷² Includes 28,571 shares of common stock and warrants to acquire an additional 21,429 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Nick Demare, President, has the power to vote and dispose of the common shares being registered on behalf of DNG Capital Corp.

⁷³ Includes 37,500 shares of common stock and warrants to acquire an additional 18,750 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

⁷⁴ Includes 107,140 shares of common stock and warrants to acquire an additional 80,355 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006

private offering.
Also includes
35,000 shares of
common stock
and warrants to
acquire an
additional
17,500 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

75 Includes
214,300 shares
of common
stock and
warrants to
acquire an
additional
160,725 shares
of common
stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006
private offering.
Also includes
87,500 shares of
common stock
and warrants to
acquire an
additional
43,750 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering

76 Includes 2,250
shares of
common stock
and warrants to
acquire an

additional 1,125
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

77 Includes 17,777
shares of
common stock
and warrants to
acquire an
additional 8,889
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

78 Includes 35,714
shares of
common stock
and warrants to
acquire an
additional
26,786 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

79 Includes 50,000
shares of
common stock
and warrants to
acquire an
additional
25,000 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the

September 2006
private offering.

80 Includes 45,714
shares of
common stock
and warrants to
acquire an
additional
34,286 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

81 Includes 15,555
shares of
common stock
and warrants to
acquire an
additional 7,778
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

82 Includes 71,425
shares of
common stock
and warrants to
acquire an
additional
53,569 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Also includes
50,000 shares of
common stock
and warrants to
acquire an
additional

25,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

83 Includes 11,111 shares of common stock and warrants to acquire an additional 5,556 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

84 Includes 25,004 shares of common stock and warrants to acquire an additional 12,502 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering. Olivier Chaponnier, Director, has the power to vote and dispose of the common shares being registered on behalf of EPSILON Management LTD.

85 Includes 21,429 shares of common stock and warrants to acquire an additional 16,071 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

86 Includes 45,714 shares of common stock and warrants to acquire an additional 34,286 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

87 Includes 71,429 shares of common stock and warrants to acquire an additional 53,572 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Mr. Knuettel serves on our board of directors.

88 Includes 17,777 shares of common stock and warrants to acquire an

additional 8,889
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

89 Includes 25,000
shares of
common stock
and warrants to
acquire an
additional
18,750 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

90 Includes 28,500
shares of
common stock
and warrants to
acquire an
additional
21,375 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

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91 Includes 71,425 shares of common stock and warrants to acquire an additional 53,569 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Also includes 10,000 shares of common stock and warrants to acquire an additional 5,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

92 Includes 50,000 shares of common stock and warrants to acquire an additional 25,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

93 Includes 58,000 shares of common stock, acquired in the April 2006 private offering,

and 43,500
shares of
common stock
acquired
pursuant to the
exercise of
warrants at an
exercise price of
\$1.00 per share.
Also includes
warrants to
acquire an
additional 5,000
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

94 Includes
150,000 shares
of common
stock and
warrants to
acquire an
additional
112,500 shares
of common
stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006
private offering.

95 Includes 12,500
shares of
common stock
and warrants to
acquire an
additional 6,250
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006

private offering.

96 Includes 22,500 shares of common stock and warrants to acquire an additional 11,250 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

97 Includes 500,000 shares of common stock issued to GEM Advisors in April 2006.

98 Includes 71,425 shares of common stock and warrants to acquire an additional 53,569 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Also includes 35,000 shares of common stock and warrants to acquire an additional 17,500 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

99 Includes 31,111 shares of common stock and warrants to acquire an additional 15,556 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

100 Includes 12,000 shares of common stock and warrants to acquire an additional 6,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

101 Includes 12,500 shares of common stock and warrants to acquire an additional 6,250 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

102 Includes 3,333,333 shares of common stock and warrants to

acquire an additional 4,666,667 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering. Colleen Foster, managing director, has the power to vote and dispose of the common shares being registered on behalf of Goldman, Sachs & Co.

¹⁰³ Includes 25,000 shares of common stock and warrants to acquire an additional 12,500 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

¹⁰⁴ Includes 142,857 shares of common stock and warrants to acquire an additional 107,143 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006

private offering.

¹⁰⁵ Includes 35,715 shares of common stock and warrants to acquire an additional 26,786 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

¹⁰⁶ Includes 148,000 shares of common stock and warrants to acquire an additional 74,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

¹⁰⁷ Includes 30,000 shares of common stock and warrants to acquire an additional 15,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

¹⁰⁸ Includes 11,250 shares of common stock and warrants to

acquire an additional 5,625 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering. Ronnie D. Hammonds has the power to vote and dispose of the common shares being registered on behalf of Hammonds Management Trust.

¹⁰⁹ Includes 714,286 shares of common stock and warrants to acquire an additional 535,714 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

¹¹⁰ Includes 35,714 shares of common stock and warrants to acquire an additional 26,786 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

111 Includes
100,000 shares
of common
stock and
warrants to
acquire an
additional
75,000 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Also includes
25,000 shares of
common stock
and warrants to
acquire an
additional
12,500 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

112 Includes 51,479
shares of
common stock
and warrants to
acquire an
additional
53,571 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Allan Rothstein,
managing
member, has the
power to vote
and dispose of
the common
shares being
registered on

behalf of

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Hedge Capital
Partners.

- 113 Includes 50,000 shares of common stock and warrants to acquire an additional 37,500 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Also includes 11,112 shares of common stock and warrants to acquire an additional 5,556 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering. Jeff Heim buck, trustee, has the power to vote and dispose of the common shares being registered on behalf of the Heim buck Family Trust.
- 114 Includes 15,000 shares of common stock and warrants to acquire an additional 7,500 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

115 Includes 88,888 shares of common stock and warrants to acquire an additional 44,444 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

116 Includes 350,000 shares of common stock and warrants to acquire an additional 262,500 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. P. Mast and E. Beck have the power to vote and dispose of the common shares being registered on behalf of Hypo Alpe-Adria-Bank.

117 Includes 214,300 shares of common stock and warrants to acquire an additional 160,725 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Also includes 87,500 shares of common stock and warrants to acquire an additional 43,750

shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

118 Includes 17,777 shares of common stock and warrants to acquire an additional 8,889 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

119 Includes 50,000 shares of common stock and warrants to acquire an additional 37,500 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

120 Includes 35,715 shares of common stock and warrants to acquire an additional 26,786 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Includes 17,500 shares of common stock and warrants to acquire an additional 8,750

shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

¹²¹ Includes 11,111 shares of common stock and warrants to acquire an additional 5,556 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

¹²² Includes 50,000 shares of common stock and warrants to acquire an additional 37,500 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

¹²³ Includes 35,715 shares of common stock and warrants to acquire an additional 26,786 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Also includes 17,500 shares of common stock and warrants to acquire an additional 8,750

shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

¹²⁴ Includes 14,286 shares of common stock and warrants to acquire an additional 10,714 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Werner Henzler has the power to vote and dispose of the common shares being registered on behalf of J. Barrett Developments Ltd.

¹²⁵ Includes 35,714 shares of common stock and warrants to acquire an additional 26,786 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

¹²⁶ Includes 22,857 shares of common stock and warrants to acquire an additional 17,143 shares of common stock at an exercise price of

\$1.00 per share,
acquired in the
April 2006 private
offering.

127 Includes 22,000
shares of common
stock and warrants
to acquire an
additional 11,000
shares of common
stock at an
exercise price of
\$2.75 per share,
acquired in the
September 2006
private offering.

128 Includes 42,857
shares of common
stock and warrants
to acquire an
additional 32,143
shares of common
stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006 private
offering.

129 Includes 11,111
shares of common
stock and warrants
to acquire an
additional 5,556
shares of common
stock at an
exercise price of
\$2.75 per share,
acquired in the
September 2006
private offering.

130 Includes 85,714
shares of common
stock and warrants
to acquire an
additional 64,286
shares of common
stock at an

exercise price of
\$1.00 per share,
acquired in the
April 2006 private
offering. Includes
45,000 shares of
common stock and
warrants to
acquire an
additional 22,500
shares of common
stock at an
exercise price of
\$2.75 per share,
acquired in the
September 2006
private offering.

¹³¹ Includes 43,021
shares of common
stock and warrants
to acquire an
additional 32,266
shares of common
stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006 private
offering.

¹³² Includes 142,857
shares of common
stock and warrants
to acquire an
additional 107,143
shares of common

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stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006
private offering.

133 Includes 35,714
shares of
common stock
and warrants to
acquire an
additional
26,786 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

134 Includes 35,714
shares of
common stock
and warrants to
acquire an
additional
26,786 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Brian Carpenter,
President, has
the power to
vote and dispose
of the common
shares being
registered on
behalf of JMC
Investments,
Ltd.

135 Includes 35,714
shares of
common stock
and warrants to

acquire an additional 26,786 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

¹³⁶ Includes 12,500 shares of common stock and warrants to acquire an additional 6,250 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

¹³⁷ Includes 20,000 shares of common stock and warrants to acquire an additional 10,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

¹³⁸ Includes 35,715 shares of common stock and warrants to acquire an additional 26,786 shares of common stock at an exercise price of \$1.00 per share, acquired

in the April 2006 private offering. Also includes 10,000 shares of common stock and warrants to acquire an additional 5,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

¹³⁹ Includes 21,429 shares of common stock and warrants to acquire an additional 16,072 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Also includes 66,666 shares of common stock and warrants to acquire an additional 44,444 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

¹⁴⁰ Includes 11,111 shares of common stock and warrants to acquire an additional 5,556

shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

¹⁴¹ Includes 45,714
shares of
common stock
and warrants to
acquire an
additional
34,286 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

¹⁴² Includes 22,222
shares of
common stock
and warrants to
acquire an
additional
11,111 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

¹⁴³ Includes 21,429
shares of
common stock
and warrants to
acquire an
additional
16,071 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

Also includes
31,110 shares of
common stock
and warrants to
acquire an
additional
15,555 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

¹⁴⁴ Includes 6,667
shares of
common stock
and warrants to
acquire an
additional 3,334
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

¹⁴⁵ Includes 35,714
shares of
common stock
and warrants to
acquire an
additional
26,786 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

¹⁴⁶ Includes
160,700 shares
of common
stock and
warrants to
acquire an
additional

120,525 shares
of common
stock at an
exercise price of
\$1.00 per share,
acquired in the
April 1, 2006
offering.

Includes 77,500
shares of
common stock
and warrants to
acquire an
additional
38,750 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

¹⁴⁷ Includes 22,500
shares of
common stock
and warrants to
acquire an
additional
11,250 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

¹⁴⁸ Includes 15,000
shares of
common stock
and warrants to
acquire an
additional
11,250 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

¹⁴⁹ Includes 22,500 shares of common stock and warrants to acquire an additional 11,250 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

¹⁵⁰ Includes 13,333 shares of common stock and warrants to acquire an additional 6,667 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

¹⁵¹ Includes 214,286 shares of common stock and warrants to acquire an additional 160,714 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. J B Rimeur has the power to vote and dispose of the common shares being

registered on
behalf of LA
Hougue
Financial
Management
Services
Limited.

¹⁵² Includes
142,857 shares
of common
stock and
warrants to
acquire an
additional
107,143 shares
of common
stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006
private offering.
Gerald
Wittenberg has
the power to
vote and dispose
of the shares
being registered
on behalf of
Ladasa
Investments, Inc.

¹⁵³ Includes 6,667
shares of
common stock
and warrants to
acquire an
additional 3,334
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

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154 Includes 30,000 shares of common stock and warrants to acquire an additional 22,500 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

155 Includes 150,000 shares of common stock and warrants to acquire an additional 75,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

156 Includes 25,000 shares of common stock and warrants to acquire an additional 12,500 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

157 Includes 25,000 shares of common stock and warrants to

acquire an additional 12,500 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

¹⁵⁸ Includes 12,500 shares of common stock and warrants to acquire an additional 6,250 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

¹⁵⁹ Includes 44,444 shares of common stock and warrants to acquire an additional 22,222 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

¹⁶⁰ Includes 57,143 shares of common stock and warrants to acquire an additional 42,857 shares of common stock at an exercise price of \$1.00 per

share, acquired
in the April 2006
private offering.

¹⁶¹ Includes 25,000
shares of
common stock
and warrants to
acquire an
additional
12,500 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

¹⁶² Includes
107,143 shares
of common
stock and
warrants to
acquire an
additional
80,357 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

¹⁶³ Includes
107,143 shares
of common
stock and
warrants to
acquire an
additional
80,357 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

¹⁶⁴ Includes 14,000
shares of

common stock
and warrants to
acquire an
additional 7,000
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

¹⁶⁵ Includes 14,286
shares of
common stock
and warrants to
acquire an
additional
10,714 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

¹⁶⁶ Includes 17,777
shares of
common stock
and warrants to
acquire an
additional 8,889
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

¹⁶⁷ Includes 11,500
shares of
common stock
and warrants to
acquire an
additional 5,750
shares of
common stock at
an exercise price

of \$2.75 per
share, acquired
in the
September 2006
private offering.

¹⁶⁸ Includes 22,222
shares of
common stock
and warrants to
acquire an
additional
11,111 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

¹⁶⁹ Includes 15,000
shares of
common stock
and warrants to
acquire an
additional 7,500
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

¹⁷⁰ Includes 80,000
shares of
common stock
and warrants to
acquire an
additional
40,000 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.
Montague Guild,

Jr., CEO of
Guild
Investment
Management,
Inc., the General
Partner of
Meteoric L.P.,
has the power to
vote and dispose
of the common
shares being
registered on
behalf of
Meteoric L.P.

¹⁷¹ Includes 45,714
shares of
common stock
and warrants to
acquire an
additional
34,286 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Jason Gigliotti,
President, has
the power to
vote and dispose
of the common
shares being
registered on
behalf of MGK
Consulting, Inc.

¹⁷² Includes 1,500
shares of
common stock
acquired in the
April 2006
private offering.

¹⁷³ Includes 5,000
shares of
common stock
acquired in the
April 2006
private offering.

174 Includes 33,333 shares of common stock and warrants to acquire an additional 16,667 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

175 Includes 11,429 shares of common stock and warrants to acquire an additional 8,571 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

176 Includes 35,715 shares of common stock and warrants to acquire an additional 26,786 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Also includes 12,500 shares of common stock and warrants to acquire an additional 6,250 shares of common stock at

an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

¹⁷⁷ Includes 1,500
shares of
common stock
acquired in the
April 2006
private offering.

¹⁷⁸ Includes 5,000
shares of
common stock
acquired in the
April 2006
private offering.

¹⁷⁹ Includes 11,100
shares of
common stock
and warrants to
acquire an
additional 5,550
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

¹⁸⁰ Includes 50,000
shares of
common stock
and warrants to
acquire an
additional
37,500 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

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- 181 Includes
214,286 shares
of common
stock and
warrants to
acquire an
additional
160,714 shares
of common
stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006
private offering.
- 182 Includes 25,000
shares of
common stock
and warrants to
acquire an
additional
18,750 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
- 183 Includes
285,714 shares
of common
stock and
warrants to
acquire an
additional
214,286 shares
of common
stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006
private offering.
William
McCluskey has
the power to
vote and dispose

of the common shares being registered on behalf of Nina Holdings, LLC.

¹⁸⁴ Includes 285,714 shares of common stock and warrants to acquire an additional 214,286 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Also includes 111,111 shares of common stock and warrants to acquire an additional 55,556 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering. Keith A. Goodman, Manager and General Partner, has the power to vote and dispose of the common shares being registered on behalf of Nite Capital LP.

¹⁸⁵ Includes 114,286 shares of common

stock and warrants to acquire an additional 85,714 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. David Craven has the power to vote and dispose of the common shares being registered on behalf of Nunziata Holdings Inc.

¹⁸⁶ Includes warrants to acquire 40,179 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Robyn Schreiber, President, has the power to vote and dispose of the common shares being registered on behalf of NYBOR Group Inc.

¹⁸⁷ Includes 39,999 shares of common stock and warrants to acquire an additional 20,000 shares of common stock at

an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

188 Includes 15,000
shares of
common stock
and warrants to
acquire an
additional
11,250 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
by Dennis
Tower in the
April 2006
private offering
and transferred
to Pauline
Tower.

189 Includes
142,857 shares
of common
stock and
warrants to
acquire an
additional
107,143 shares
of common
stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006
private offering.
Walter Dawson
has the power to
vote and dispose
of the common
shares being
registered on
behalf of Perfco
Investments Ltd.

190

Includes 40,000 shares of common stock and warrants to acquire an additional 20,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

¹⁹¹ Includes 714,286 shares of common stock and warrants to acquire an additional 535,714 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Dr. Rene Simon has the power to vote and dispose of the common shares being registered on behalf of Professional Trading Services SA.

¹⁹² Includes 57,143 shares of common stock and warrants to acquire an additional 42,857 shares of common stock at an exercise price of \$1.00 per

share, acquired
in the April 2006
private offering.

¹⁹³ Includes 11,500
shares of
common stock
and warrants to
acquire an
additional 5,750
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

¹⁹⁴ Includes 35,714
shares of
common stock
and warrants to
acquire an
additional
26,786 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

¹⁹⁵ Includes 22,500
shares of
common stock
and warrants to
acquire an
additional
11,250 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

¹⁹⁶ Includes 11,111
shares of
common stock

and warrants to acquire an additional 5,556 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

¹⁹⁷ Includes 11,111 shares of common stock and warrants to acquire an additional 5,556 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

¹⁹⁸ Includes 214,286 shares of common stock and warrants to acquire an additional 160,714 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

¹⁹⁹ Includes 149,957 shares of common stock and warrants to acquire an additional 112,468 shares

of common
stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006
private offering.

²⁰⁰ Includes 72,000
shares of
common stock
and warrants to
acquire an
additional
36,000 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

²⁰¹ Includes 70,000
shares of
common stock
and warrants to
acquire an
additional
52,500 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

²⁰² Includes 50,000
shares of
common stock
and warrants to
acquire an
additional
37,500 shares of
common

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stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006
private offering.

203 Includes
100,000 shares
of common
stock and
warrants to
acquire an
additional
75,000 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

204 Includes
143,000 shares
of common
stock and
warrants to
acquire an
additional
107,250 shares
of common
stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006
private offering.

205 Includes 12,289
shares of
common stock
and warrants to
acquire an
additional 9,217
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired

in the April 2006
private offering.

²⁰⁶ Includes 10,000
shares of
common stock
and warrants to
acquire an
additional 5,000
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

²⁰⁷ Includes 40,000
shares of
common stock
and warrants to
acquire an
additional
30,000 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

²⁰⁸ Includes 60,000
shares of
common stock
and warrants to
acquire an
additional
30,000 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.
Anthony R.
Danaher, the
President of
Guild
Investment

Management,
Inc., the General
Partner of
Rosebury, L.P.
has the power to
vote and dispose
of the common
shares being
registered on
behalf of
Rosebury, L.P.

209 Includes 20,000
shares of
common stock
and warrants to
acquire an
additional
10,000 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

210 Includes 71,425
shares of
common stock
and warrants to
acquire an
additional
53,569 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Also includes
15,000 shares of
common stock
and warrants to
acquire an
additional 7,500
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired

in the
September 2006
private offering.

- 211 Includes
357,143 shares
of common
stock and
warrants to
acquire an
additional
267,857 shares
of common
stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006
private offering.
- 212 Includes 14,290
shares of
common stock
and warrants to
acquire an
additional
10,718 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
- 213 Includes
123,215 shares
of common
stock and
warrants to
acquire an
additional
92,411 shares of
common stock at
an exercise price
of \$1.00 per
share, which
were issued as
consideration for
services
provided by
Sanders Morris

Harris Inc. in the April 2006 private offering of our securities. Also includes a warrant to purchase 466,666 shares of common stock at an exercise price of \$2.25 issued on September 8, 2006 and a warrant to purchase 6,567 shares of common stock at an exercise price of \$2.25 issued on September 27, 2006, each of which was issued as consideration for services provided by Sanders Morris Harris Inc. in the September 2006 private offering of our securities. Ben T. Morris has the power to vote and dispose of the common shares being registered on behalf of Sanders Morris Harris Inc.

²¹⁴ Includes 544,140 shares of common stock and warrants to acquire an additional 408,105 shares

of common
stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006
private offering.
Also includes
171,405 shares
of common
stock and
warrants to
acquire an
additional
85,703 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.
Brad Sanders,
fund
administrator,
has the power to
vote and dispose
of the common
shares being
registered on
behalf of
Sanders
Opportunity
Fund
(Institutional)
L.P.

- ²¹⁵ Includes
170,140 shares
of common
stock and
warrants to
acquire an
additional
127,605 shares
of common
stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006

private offering.
Also includes
53,595 shares of
common stock
and warrants to
acquire an
additional
26,798 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.
Brad Sanders,
fund
administrator,
has the power to
vote and dispose
of the common
shares being
registered on
behalf of
Sanders
Opportunity
Fund, L.P.

²¹⁶ Includes 28,571
shares of
common stock
and warrants to
acquire an
additional
21,429 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

²¹⁷ Includes
285,714 shares
of common
stock and
warrants to
acquire an
additional
214,286 shares
of common

stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Tom and Hydri Kusumoto have the power to vote and dispose of the common shares being registered on behalf of Sanovest Holdings Ltd.

218 Includes 50,000 shares of common stock and warrants to acquire an additional 37,500 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

219 Includes 11,111 shares of common stock and warrants to acquire an additional 5,556 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

220 Includes 10,700 shares of common stock and warrants to acquire an

additional 8,025
shares of
common

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stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Joseph Barnett has the power to vote and dispose of the common shares being registered on behalf of Sierra Madre Development, LLC.

221 Includes 35,714 shares of common stock and warrants to acquire an additional 26,786 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

222 Includes 142,860 shares of common stock and warrants to acquire an additional 107,145 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

223 Includes 11,111 shares of

common stock
and warrants to
acquire an
additional 5,556
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

224 Includes
171,429 shares
of common
stock and
warrants to
acquire an
additional
128,571 shares
of common
stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006
private offering.

225 Includes 35,714
shares of
common stock
and warrants to
acquire an
additional
26,786 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

226 Includes 15,000
shares of
common stock
and warrants to
acquire an
additional 7,500
shares of
common stock at

an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

227 Includes 22,222
shares of
common stock
and warrants to
acquire an
additional
11,111 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

228 Includes 22,222
shares of
common stock
and warrants to
acquire an
additional
11,111 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

229 Includes 11,111
shares of
common stock
and warrants to
acquire an
additional 5,556
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

²³⁰ Includes 71,428 shares of common stock and warrants to acquire an additional 53,571 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Also includes 25,000 shares of common stock and warrants to acquire an additional 12,500 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

²³¹ Includes 37,500 shares of common stock and warrants to acquire an additional 18,750 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

²³² Includes 35,714 shares of common stock and warrants to acquire an additional 26,786 shares of

common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Jim Brewster has the power to vote and dispose of the common shares being registered on behalf of the Brewster Family Trust.

²³³ Includes 50,000 shares of common stock and warrants to acquire an additional 37,500 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Also includes 11,111 shares of common stock and warrants to acquire an additional 5,556 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

²³⁴ Includes 214,286 shares of common stock and warrants to acquire an additional

160,714 shares
of common
stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006
private offering.

235 Includes 22,222
shares of
common stock
and warrants to
acquire an
additional
11,111 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

236 Includes 71,425
shares of
common stock
and warrants to
acquire an
additional
53,569 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

237 Includes 7,143
shares of
common stock
and warrants to
acquire an
additional 5,357
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

238 Includes
 1,266,667 shares
 of common
 stock and
 warrants to
 acquire an
 additional
 633,334 shares
 of common
 stock at an
 exercise price of
 \$2.75 per share,
 acquired in the
 September 2006
 private offering.
 Ralph Aldis,
 portfolio
 manager, has the
 power to vote
 and dispose of
 the common
 shares being
 registered on
 behalf of US
 Global Investors
 Global
 Resources Fund.

239 Includes
 214,286 shares
 of common
 stock and
 warrants to
 acquire an
 additional
 160,714 shares
 of common
 stock at an
 exercise price of
 \$1.00 per share,
 acquired in the
 April 2006
 private offering.
 Peter M. Brown,
 President, has
 the power to
 vote and dispose
 of the common
 shares being
 registered on

behalf of V
Maclachlan
Investments
Corp.

²⁴⁰ Includes 70,600 shares of common stock and warrants to acquire an additional 35,300 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

²⁴¹ Includes 16,000 shares of common stock and warrants to acquire an additional 8,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering. Also includes 85,714 shares of common stock and warrants to acquire an additional 64,286 shares of common

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stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006
private offering.

242 Includes 72,000
shares of
common stock
to be registered
hereunder,
3182,877 shares
of common
stock not being
registered in this
prospectus, and
warrants to
acquire an
additional
54,000 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Mr. Bosché
serves as our
Chief Financial
Officer,
Treasurer and
Secretary.

243 Includes 10,000
shares of
common stock
and warrants to
acquire an
additional 5,000
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

²⁴⁴ Includes 35,714 shares of common stock and warrants to acquire an additional 26,786 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

²⁴⁵ Includes 50,000 shares of common stock and warrants to acquire an additional 25,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

²⁴⁶ Includes 133,333 shares of common stock and warrants to acquire an additional 66,667 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering. Brian Mazella, CFO, has the power to vote and dispose of the common shares being registered on

behalf of
Whalehaven
Capital Fund
Limited.

²⁴⁷ Includes 17,777
shares of
common stock
and warrants to
acquire an
additional 8,889
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

²⁴⁸ Includes 26,000
shares of
common stock
and warrants to
acquire an
additional
27,000 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

²⁴⁹ Includes 12,000
shares of
common stock
and warrants to
acquire an
additional 6,000
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

²⁵⁰ Includes
285,697 shares

of common
stock and
warrants to
acquire an
additional
214,273 shares
of common
stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006
private offering.

251 Includes 11,100
shares of
common stock
and warrants to
acquire an
additional 5,550
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

252 Includes
714,285 shares
of common
stock and
warrants to
acquire an
additional
535,714 shares
of common
stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006
private offering.
Younes
Nazarian has the
power to vote
and dispose of
the common
shares being
registered on

behalf of Y&S
Nazarian
Revocable Trust.

253 Includes 35,714
shares of
common stock
and warrants to
acquire an
additional
26,786 shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

254 Includes 50,000
shares of
common stock
and warrants to
acquire an
additional
25,000 shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.
Gary E. Mintz,
General Partner,
has the power to
vote and dispose
of the common
shares being
registered on
behalf of
Yellowstone
Limited
Partnership.

255 Includes 22,222
shares of
common stock
and warrants to
acquire an
additional
11,111 shares of

common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.
Ralph Aldis,
portfolio
manager, has the
power to vote
and dispose of
the common
shares being
registered on
behalf of
Meridian Global
Energy &
Resources Fund.

²⁵⁶ Includes 5,000
shares of
common stock
and warrants to
acquire an
additional 2,500
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

Warrants

The following table sets forth information about the number of shares of common stock underlying the warrants which are beneficially owned by each selling stockholder and which may be offered from time to time under this prospectus. Certain selling stockholders may be deemed to be underwriters as defined in the Securities Act. Any profits realized by the selling stockholder may be deemed to be underwriting commissions.

The table below has been prepared based upon information provided to us by the selling stockholders, as well as our books and records, including our warrant ledger, as of March 31, 2008. The selling stockholders identified below may have sold, transferred or otherwise disposed of some or all of their warrants since the date on which the information in the following table is presented, in transactions exempt from or not subject to the registration requirements of the Securities Act. Information concerning the selling stockholders may change from time to time and, if necessary, we will amend or supplement this prospectus accordingly. We cannot give an estimate as to whether the selling stockholders will exercise or sell the warrants that will be held by the selling stockholders upon

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termination of this offering because the selling stockholders may sell or exercise their warrants, in whole or in part, under the offering contemplated by this prospectus. The total number of shares underlying warrants that may be sold hereunder will not exceed the shares of common stock underlying warrants listed in the table below. Please read the section entitled "Plan of Distribution" in this prospectus.

We have been advised, as noted below in the footnotes to the table, 18 of the selling stockholders are broker-dealers and 8 of the selling stockholders are affiliates of broker-dealers. We have been advised that each of such selling stockholders purchased our warrants in the ordinary course of business, not for resale, and that none of such selling stockholders had, at the time of purchase, any agreements or understandings, directly or indirectly, with any person to distribute the related warrants.

The following table sets forth the name of each selling stockholder, the nature of any position, office, or other material relationship, if any, which the selling stockholder has had, within the past three years, with us or with any of our predecessors or affiliates, and the number of shares of our common stock underlying the warrants beneficially owned by such stockholder before this offering. The warrants owned for the purposes of this table are those that are beneficially owned, as determined under the rules of the SEC, and such information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any warrants as to which a person has sole or shared voting power or investment power and any warrants which the person has the right to acquire within 60 days through the conversion of any security or pursuant to the automatic termination of a power of attorney or revocation of a trust, discretionary account or similar arrangement.

Unless otherwise indicated, the stockholders listed in the table below acquired their warrants in the private offerings of our securities in April 2006 and September 2006. The percentage of common stock underlying outstanding warrants is based upon a total of 20,597,532 shares of common stock underlying outstanding warrants. We have assumed all warrants reflected in the following table will be exercised or sold from time to time by the selling stockholders. Because the selling stockholders may offer all of their warrants, in whole or in part, listed in the table below, no estimate can be given as to the number of shares of common stock underlying warrants that will be held by the selling stockholders upon the termination of any sales of their warrants.

	Shares Underlying Warrants for Common Stock Owned Before the Offering	Shares Underlying Warrants for Common Stock Being Offered	Warrants for Common Stock Owned Upon Completion of the Offering (a)	Percentage of Common Stock Outstanding Upon Completion of Offering
0702119 BC Ltd. ¹	562,500	562,500		
1087741 Alberta Ltd. ²	34,286	34,286		
719906 BC Ltd. ³	107,143	107,143		
Adam S. Gottbetter ⁴	53,572	53,572		
A.H. Investments ⁵	7,500	7,500		
AK Asset Management ⁶	16,925	16,925		
Alec Morrison & Sandra Morrison ⁷	33,333	33,333		
Alfred Ricciardi ⁸	5,556	5,556		
All Seasons Consulting Inc. ⁹	21,429	21,429		
Alvin L. Gray ¹⁰	44,400	44,400		
Andrew A. Schatte ¹¹	6,667	6,667		
Andrew Goodacre ¹²	26,786	26,786		
Anke Zenze ¹³	26,223	26,223		

Anthony Bobulinski ¹⁴	53,571	53,571
Arn E. Schoch ¹⁵	53,555	53,555
Atlantis Software Company Employee Profit Sharing Plan ¹⁶ !	21,428	21,428
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	Shares Underlying Warrants for Common Stock Owned Before the Offering	Shares Underlying Warrants for Common Stock Being Offered	Warrants for Common Stock Owned Upon Completion of the Offering (a)	Percentage of Common Stock Outstanding Upon Completion of Offering
Centrum Bank AG ¹⁷	803,571	803,571		
Avtar Dhillon ¹⁸	26,786	26,786		
Baradaran Revocable Trust, Sharyar Baradaran Trustee ¹⁹	267,857	267,857		
Barry Davis ²⁰	107,143	107,143		
Barry Tucker ²¹	26,786	26,786		
Ben T. Morris ²² #	57,678	57,678		
Bentley N. Kerfoot ²³	34,667	34,667		
Bernard Bonertz ²⁴	10,714	10,714		
Besser Kapital Fund LTD ²⁵	25,004	25,004		
Bifrost Fund LP ²⁶	75,000	75,000		
Bill Haak and Johnnie S Haak ²⁷	32,386	32,386		
Blake Selig ²⁸	22,500	22,500		
BMO Nesbitt Burns I/T/F Balanced Natural Resource Fund ²⁹	22,222	22,222		
Bonner S. Ball ³⁰	25,000	25,000		
Brad Deason ³¹ #	12,500	12,500		
Brad Gabel ³²	26,786	26,786		
Brede C. Klefos ³³ #	37,500	37,500		
Brian Hicks ³⁴	53,571	53,571		
Brian Kuhn ³⁵	112,500	112,500		
Bruce C. Gibbs and Lou Ann Gibbs ³⁶	30,000	30,000		
Bruce Nurse ³⁷	76,250	76,250		
Bruce R. McMaken ³⁸	29,286	29,286		
Brunella Jacs LLC ³⁹	107,145	107,145		
CamCap Energy Offshore Master Fund, L.P. ⁴⁰	390,000	390,000		
CamCap Resources Offshore Master Fund, L.P. ⁴¹	210,000	210,000		
Carl Pipes ⁴²	12,500	12,500		
Carmen Lanza ⁴³	26,791	26,791		
Carol C. Barbour ⁴⁴	12,500	12,500		
Carter D. Pope ⁴⁵	25,000	25,000		
Champion Construction Consultants, Inc. ⁴⁶	8,025	8,025		
Charbonneau Limited Partnership ⁴⁷	26,786	26,786		
Chester R. Cloudt ⁴⁸	21,429	21,429		
Chester R. Cloudt, Jr. ⁴⁹	10,714	10,714		

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	Shares Underlying Warrants for Common Stock Owned Before the Offering	Shares Underlying Warrants for Common Stock Being Offered	Warrants for Common Stock Owned Upon Completion of the Offering (a)	Percentage of Common Stock Outstanding Upon Completion of Offering
Chestnut Ridge Partners, L.P. ⁵⁰	66,667	66,667		
Choregus Master Trust, Plan I, Money Purchase ⁵¹	12,750	12,750		
Choregus Master Trust, Plan II, Profit Sharing ⁵²	12,750	12,750		
Christine M. Sanders ⁵³	7,500	7,500		
Christopher Neal Todd ⁵⁴	5,556	5,556		
Christopher Powell ⁵⁵	2,679	2,679		
Craig Taylor ⁵⁶	10,714	10,714		
Cranshire Capital, L.P. ⁵⁷	425,000	425,000		
Crimson Group, LTD ⁵⁸	7,775	7,775		
Curtis Conway ⁵⁹	150,000	150,000		
Curtis E. Smith and Mary H. Cummins Trust ⁶⁰	17,500	17,500		
Dan Mechis ⁶¹	8,571	8,571		
Danich Investments Ltd. ⁶²	26,786	26,786		
David A Melman ⁶³	37,500	37,500		
David B. Steffan, Jr. ⁶⁴	10,714	10,714		
David B. Steffan, Sr. ⁶⁵	2,250	2,250		
David Jensen ⁶⁶	10,978	10,978		
David Malm ⁶⁷	8,571	8,571		
Dennis B. Tower ⁶⁸	112,500	112,500		
Dennis Bleackley ⁶⁹	26,786	26,786		
Dennis H. Lundy ⁷⁰	16,071	16,071		
DNG Capital Corp. ⁷¹	21,429	21,429		
Don Sanders and Tanya Drury TTEES FBO ⁷²	18,750	18,750		
Don Weir and Julie Ellen Weir ⁷³ !	97,855	97,855		
Donald V Weir TTEE Sanders 1998 Children s Trust DTD 12/01/97 ⁷⁴ !	204,475	204,475		
Douglas Patterson ⁷⁵	1,125	1,125		
Dr. William Grose Agency ⁷⁶	8,889	8,889		
Earl Fawcett ⁷⁷	26,786	26,786		
Edmund H. Melhado ⁷⁸	25,000	25,000		
Edward Antonsen ⁷⁹	34,286	34,286		
Edward C. Kash ⁸⁰	7,778	7,778		
Edwin Freedman ⁸¹	78,569	78,569		
Emily H. Todd ⁸²	5,556	5,556		

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	Shares Underlying Warrants for Common Stock Owned Before the Offering	Shares Underlying Warrants for Common Stock Being Offered	Warrants for Common Stock Owned Upon Completion of the Offering (a)	Percentage of Common Stock Outstanding Upon Completion of Offering
EPSILON Management LTD. ⁸³	12,502	12,502		
Evonne Whelan ⁸⁴	16,071	16,071		
Ewan Downie ⁸⁵	34,286	34,286		
Francis P. Knuettel TTEE Francis P Knuettel Rev LVG TR UA DTD 3/7/03 ⁸⁶	53,572	53,572		
Frank J. Metyko, Jr. and Mark J. Metyko and Kurt F. Metyko TTEES Frank J. Metyko Residuary Trust DTD 10/08/84 ⁸⁷	8,889	8,889		
Frank Knuettel II Trustee The Knuettel Family Trust ⁸⁸	18,750	18,750		
Frank Knuettel, II ⁸⁹	21,375	21,375		
Fred Hagans ⁹⁰	58,569	58,569		
Friedrich Brenckman ⁹¹	25,000	25,000		
G. Marie Smith ⁹²	5,000	5,000		
Gary E. Mintz ⁹³	112,500	112,500		
Gary Friedland ⁹⁴	6,250	6,250		
Gary Maynard ⁹⁵	11,250	11,250		
George L. Ball ⁹⁶ #	71,069	71,069		
Georges Antoun and Martha Antoun ⁹⁷	15,556	15,556		
Gerald K. Bogen ⁹⁸	6,000	6,000		
Gloria D. Kelley ⁹⁹	6,250	6,250		
Goldman, Sachs & Co. ¹⁰⁰ #	4,666,667	4,666,667		
Grant E Sims and Patricia Sims ¹⁰¹	12,500	12,500		
Gregg Sedun ¹⁰²	107,143	107,143		
Gregory Selig Lewis ¹⁰³	26,786	26,786		
H. Alan Dill ¹⁰⁴	74,000	74,000		
H. Ben Taub ¹⁰⁵	15,000	15,000		
Hammonds Management Trust ¹⁰⁶	5,625	5,625		
Harry Edelson ¹⁰⁷	535,714	535,714		
Harry Gabel ¹⁰⁸	26,786	26,786		
Hayden McIlroy ¹⁰⁹	87,500	87,500		
Hedge Capital Partners LLC ¹¹⁰	53,571	53,571		
Heimbuck Family Trust DTD 8/13/85 ¹¹¹	43,056	43,056		
Herbert Lippin ¹¹²	7,500	7,500		
	44,444	44,444		

Hyman Gildenhorn and Vivian
Gildenhorn¹¹³

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	Shares Underlying Warrants for Common Stock Owned Before the Offering	Shares Underlying Warrants for Common Stock Being Offered	Warrants for Common Stock Owned Upon Completion of the Offering (a)	Percentage of Common Stock Outstanding Upon Completion of Offering
Hypo Alpe-Adria-Bank ¹¹⁴	262,500	262,500		
Don A. Sanders ¹¹⁵ #	204,475	204,475		
Don S. Cook ¹¹⁶	8,889	8,889		
Erik Klefos ¹¹⁷ #	37,500	37,500		
Humbert B. Powell ¹¹⁸ #	35,536	35,536		
Lewis S. Rosen ¹¹⁹	5,556	5,556		
Scott M. Marshall ¹²⁰	37,500	37,500		
William W. Sprague ¹²¹ !	35,536	35,536		
J. Barrett Developments, Ltd. ¹²²	10,714	10,714		
Jack Coldwell ¹²³	26,786	26,786		
Jack Sheng ¹²⁴	17,143	17,143		
James T. Dilella Trust ¹²⁵	11,000	11,000		
Jamie Gilkison ¹²⁶	32,143	32,143		
Jan Bartholomew ¹²⁷ #	5,556	5,556		
Jan Rask ¹²⁸	86,786	86,786		
Jason M. Rimland ¹²⁹	32,266	32,266		
Jeffrey Scott ¹³⁰	107,143	107,143		
Jerry F. and Nina L. Christopherson ¹³¹	26,786	26,786		
JMC Investments Ltd. ¹³²	26,786	26,786		
Joe & Iola Bots ¹³³	26,786	26,786		
Joel Stuart ¹³⁴	6,250	6,250		
John A. Cary ¹³⁵	10,000	10,000		
John H. Malanga and Jodi F. Malanga, JT Ten Malanga ¹³⁶ #	31,786	31,786		
John M. Martineck ¹³⁷	49,405	49,405		
John N. Spiliotis ¹³⁸	5,556	5,556		
John Seaman ¹³⁹	34,286	34,286		
John W. Lodge, III ¹⁴⁰	11,111	11,111		
Joseph Benjamin Johnson ¹⁴¹	31,626	31,626		
Judy Kay Hunnemuller ¹⁴²	3,334	3,334		
Karl Antonius ¹⁴³	26,786	26,786		
Katherine U. Sanders ¹⁴⁴ !	159,275	159,275		
Kenneth R. Hartley Jr. ¹⁴⁵	11,250	11,250		
Kenneth S. Goodwin ¹⁴⁶	11,250	11,250		
Kevin Shugars, Lori Shugars ¹⁴⁷	11,250	11,250		
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	Shares Underlying Warrants for Common Stock Owned Before the Offering	Shares Underlying Warrants for Common Stock Being Offered	Warrants for Common Stock Owned Upon Completion of the Offering (a)	Percentage of Common Stock Outstanding Upon Completion of Offering
Knox Family Partnership, Lee M. Knox General Partner ¹⁴⁸	6,667	6,667		
LA Hougue Financial Management Services Limited ¹⁴⁹	160,714	160,714		
Ladasa Investments Inc. ¹⁵⁰	107,143	107,143		
Larry Hunnemuller ¹⁵¹	3,334	3,334		
Lenny Olim ¹⁵²	22,500	22,500		
Leon Frenkel ¹⁵³	75,000	75,000		
Leonard C. Atkins ¹⁵⁴	12,500	12,500		
Lisa Dawn Weir ¹⁵⁵	12,500	12,500		
Louis Gleckel ¹⁵⁶	6,250	6,250		
Louis Zehil ¹⁵⁷	22,222	22,222		
M. Paul Tompkins ¹⁵⁸	42,857	42,857		
M. St. John Dinsmore ¹⁵⁹	12,500	12,500		
Mark Emalfarb Custodian for Hailey Emalfarb ¹⁶⁰	80,357	80,357		
Mark Emalfarb Guardian for Ashley Emalfarb ¹⁶¹	80,357	80,357		
Mark Leszczynski ¹⁶²	7,000	7,000		
Mark Rousselot ¹⁶³	10,714	10,714		
Mary Harris Cooper ¹⁶⁴	8,889	8,889		
Matthew D. Myers ¹⁶⁵	5,750	5,750		
Max and Judy Poll Rev Trust ¹⁶⁶	11,111	11,111		
Melton Pipes ¹⁶⁷	7,500	7,500		
Meteoric L.P. ¹⁶⁸	40,000	40,000		
MGK Consulting Inc. ¹⁶⁹	34,286	34,286		
Michael J. Gaido, Jr. ¹⁷⁰	16,667	16,667		
Michael John Fanti ¹⁷¹	8,571	8,571		
Michael S. Chadwick ¹⁷² #	33,036	33,036		
Morton J. Weisberg ¹⁷³	5,550	5,550		
Mosby Lindsay Simmons III ¹⁷⁴	37,500	37,500		
Nadine C. Smith ¹⁷⁵	160,714	160,714		
Natalie Dull ¹⁷⁶	18,750	18,750		
Nina Holdings, LLC ¹⁷⁷ !	214,286	214,286		
Nite Capital LP ¹⁷⁸	269,842	269,842		
Nunziata Holdings Inc. ¹⁷⁹	85,714	85,714		
NYBOR Group Inc. ¹⁸⁰	40,179	40,179		

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	Shares Underlying Warrants for Common Stock Owned Before the Offering	Shares Underlying Warrants for Common Stock Being Offered	Warrants for Common Stock Owned Upon Completion of the Offering (a)	Percentage of Common Stock Outstanding Upon Completion of Offering
Paula L. Santoski ¹⁸¹	20,000	20,000		
Pauline Tower ¹⁸²	11,250	11,250		
Perfco Investments Ltd. ¹⁸³	107,143	107,143		
Philip M. Garner and Carol P. Garner ¹⁸⁴	20,000	20,000		
Professional Trading Services SA ¹⁸⁵	535,714	535,714		
Randall W. Tower ¹⁸⁶	42,857	42,857		
Richard Lippin ¹⁸⁷	5,750	5,750		
Richard Macdermott ¹⁸⁸	26,786	26,786		
Richard W. Hodgman ¹⁸⁹	11,250	11,250		
Rick Berry ¹⁹⁰	5,556	5,556		
RJS JR/PLS 1992 Trust FBO Robert J Santoski Jr, Paula Santoski TTEE ¹⁹¹	5,556	5,556		
Rob Anderson ¹⁹² #	160,714	160,714		
Robert Burschik ¹⁹³	112,468	112,468		
Robert F. Ruth Jr. ¹⁹⁴	36,000	36,000		
Robert J. Gonzales ¹⁹⁵	52,500	52,500		
Robert Pedlow ¹⁹⁶	37,500	37,500		
Robert Sarcher ¹⁹⁷	75,000	75,000		
Robert Schiesser ¹⁹⁸ #	107,250	107,250		
Robert W. Bomengen ¹⁹⁹	9,217	9,217		
Robert Wilensky ²⁰⁰	5,000	5,000		
Rose Anna Marshall ²⁰¹	30,000	30,000		
Rosebury, L.P. ²⁰²	30,000	30,000		
Roy Alan Price ²⁰³	10,000	10,000		
Rune Medhus & Elisa Medhus ²⁰⁴ #	61,069	61,069		
Sam Belzberg ²⁰⁵	267,857	267,857		
Samuel Ginzburg ²⁰⁶	10,718	10,718		
Sanders Morris Harris Inc. ²⁰⁷ #	565,644	565,644		
Sanders Opportunity Fund (Institutional) L.P. ²⁰⁸ #	493,808	493,808		
Sanders Opportunity Fund, L.P. ²⁰⁹ #	154,403	154,403		
Sandra L. Acosta ²¹⁰	21,429	21,429		
Sanovest Holdings Ltd. ²¹¹	214,286	214,286		
Scott Rapfogel ²¹²	37,500	37,500		
Leticia Turullos ²¹³	5,556	5,556		

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	Shares Underlying Warrants for Common Stock Owned Before the Offering	Shares Underlying Warrants for Common Stock Being Offered	Warrants for Common Stock Owned Upon Completion of the Offering (a)	Percentage of Common Stock Outstanding Upon Completion of Offering
Sierra Madre Development, LLC ²¹⁴	8,025	8,025		
Simonson, Lawrence R. TTEE of the Lawrence R. Simonson Revocable Trust U/T/A 12/18/02 ²¹⁵	26,786	26,786		
Stanley Katz ²¹⁶	107,145	107,145		
Samantha Leigh Santoski ²¹⁷	5,556	5,556		
Stephen Hanson ²¹⁸	128,571	128,571		
Steve Perry ²¹⁹	26,786	26,786		
Steven R. Hall ²²⁰	7,500	7,500		
Sue M. Harris Separate Property ²²¹	11,111	11,111		
Sue Minton Harris TTEE Pinkye Lou Blair Estate Tr u/w Dtd 6/15/91 ²²²	11,111	11,111		
Susan S. Lehrer ²²³	5,556	5,556		
T. Scott O'Keefe ²²⁴	66,071	66,071		
Tanya J. Drury ²²⁵	18,750	18,750		
The Brewster Family Trust ²²⁶	26,786	26,786		
Thomas Asarch and Barbara Asarch Ten Com ²²⁷	43,056	43,056		
Thomas E. Fish ²²⁸	160,714	160,714		
Titus Harris, Jr. ²²⁹	11,111	11,111		
Tom Juda and Nancy Juda Co-Trustees Tom Juda and Nancy Juda Living Trust DTD 5/3/95 ²³⁰	53,569	53,569		
Tom Steffan ²³¹	5,357	5,357		
US Global Investors- Global Resources Fund ²³²	633,334	633,334		
V MacLachlan Investments Corp. ²³³	160,714	160,714		
Vicki T. Ruth ²³⁴	35,300	35,300		
Vincent Vazquez ²³⁵	72,286	72,286		
W. Kirk Bosché ²³⁶	54,000	54,000		
Wayne C. Fox ²³⁷	5,000	5,000		
Wayne Hucik ²³⁸	26,786	26,786		
Weitzman Living Trust ²³⁹	25,000	25,000		
Whalehaven Capital Fund Limited ²⁴⁰	66,667	66,667		

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	Shares Underlying Warrants for Common Stock Owned Before the Offering	Shares Underlying Warrants for Common Stock Being Offered	Warrants for Common Stock Owned Upon Completion of the Offering (a)	Percentage of Common Stock Outstanding Upon Completion of Offering
William E. Grose ²⁴¹	8,889	8,889		
William F. Burkart ²⁴²	27,000	27,000		
William L. Benson ²⁴³	6,000	6,000		
William Lowe ²⁴⁴	214,273	214,273		
William Sockman ²⁴⁵	5,550	5,550		
Y&S Nazarian Revocable Trust ²⁴⁶	535,714	535,714		
Yarek Bartosz ²⁴⁷	26,786	26,786		
Yellowstone Limited Partnership ²⁴⁸	25,000	25,000		
Meridian Global Energy & Resources Fund LT ²⁴⁹	11,111	11,111		
E. Paul Jansen ²⁵⁰	2,500	2,500		

The selling stockholder is a broker-dealer.

! The selling stockholder is an affiliate of a broker-dealer.

(a) Assumes all of the warrants to be registered on this registration statement are sold in the offering by the selling stockholders.

¹ Includes warrants to acquire 562,500 shares of common stock at an exercise price of \$1.00 per

share, acquired
in the April 2006
private offering.

Gary
Korzenowski
has the power to
vote and dispose
of the common
shares being
registered on
behalf of
0702119 BC
Ltd.

- ² Includes
warrants to
acquire 34,286
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Wade McBain
has the power to
vote and dispose
of the common
shares being
registered on
behalf of
1087741 Alberta
Ltd.

- ³ Includes
warrants to
acquire 107,143
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Tom Kusumoto
has the power to
vote and dispose
of the common
shares being
registered on
behalf of 719906

BC Ltd.

4 Includes warrants to acquire 53,572 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

5 Includes warrants to acquire 7,500 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering. Bennett Altarman, President of A.H. Investments, has the power to vote and dispose of the common shares being registered on behalf of A.H. Investments.

6 Includes warrants to acquire 16,925 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Mr. Kolbinger has the power to vote and dispose of the common

shares being
registered on
behalf of AK
Asset
Management.

7 Includes
warrants to
acquire 33,333
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

8 Includes
warrants to
acquire 5,556
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

9 Includes
warrants to
acquire 21,429
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Negar Towfigh,
President of All
Seasons
Consulting, Inc.
has the power to
vote and dispose
of the common
shares being
registered on
behalf of All
Seasons

Consulting, Inc.

- ¹⁰ Includes warrants to acquire 44,400 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

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- 11 Includes warrants to acquire 6,667 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.
- 12 Includes warrants to acquire 26,786 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.
- 13 Includes warrants to acquire 26,223 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.
- 14 Includes warrants to acquire 53,571 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.
- 15 Includes warrants to acquire 53,555 shares of

common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

16 Includes warrants to acquire 21,428 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Rune Medhus has the power to vote and dispose of the common shares being registered on behalf of Atlantis Software Company Employee Profit Sharing Plan.

17 Includes warrants to acquire 803,572 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Gerhard Roosli has the power to vote and dispose of the common shares being registered on behalf of Centrum Bank AG.

18

Includes
warrants to
acquire 26,786
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

19 Includes
warrants to
acquire 267,857
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

20 Includes
warrants to
acquire 107,143
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

21 Includes
warrants to
acquire 26,786
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

22 Includes
warrants to
acquire 40,178
shares of
common stock at
an exercise price
of \$1.00 per

share, acquired
in the April 2006
private offering.
Also includes
warrants to
acquire 17,500
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the April 2006
private offering.

23 Includes
warrants to
acquire 34,667
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

24 Includes
warrants to
acquire 10,714
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

25 Includes
warrants to
acquire 25,004
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.
Oliver
Chaponnier and
M. Montanari

have the power
to vote and
dispose of the
common shares
being registered
on behalf of
Besser Kapital
Fund LTD.

- 26 Includes
warrants to
acquire 75,000
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.
Peter Trapp,
founding
member of
Bifrost Fund LP,
has the power to
vote and dispose
of the common
shares being
registered on
behalf of Bifrost
Fund LP.

- 27 Includes
warrants to
acquire 26,786
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Also includes
warrants to
acquire 5,600
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the April 2006

private offering.

28 Includes warrants to acquire 22,500 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

29 Includes warrants to acquire 22,222 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering. Ralph Aldis, portfolio manager, has the power to vote and dispose of the common shares being registered on behalf of Balanced Natural Resource Fund.

30 Includes warrants to acquire 25,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

31 Includes warrants to

acquire 12,500
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

32 Includes
warrants to
acquire 26,786
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

33 Includes
warrants to
acquire 37,500
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

34 Includes
warrants to
acquire 53,571
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

35 Includes
warrants to
acquire 112,500
shares of
common stock at
an exercise price
of \$1.00 per
share,

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acquired in the
April 2006
private offering.

36 Includes
warrants to
acquire 30,000
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

37 Includes
warrants to
acquire 56,250
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Also includes
warrants to
acquire 20,000
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

38 Includes
warrants to
acquire 26,786
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Also includes
warrants to

acquire 20,000
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

39 Includes
warrants to
acquire 107,145
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Stanley Katz has
the power to
vote and dispose
of the common
shares being
registered on
behalf of
Brunella Jacs
LLC.

40 Includes
warrants to
acquire 390,000
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.
Roland A. von
Metzech,
managing
member of
CamCap Energy
Partners, the
General Partner
of CamCap
Energy Offshore
Master Fund,

L.P., has the power to vote and dispose of the common shares being registered on behalf of CamCap Energy Offshore Master Fund, L.P.

41 Includes warrants to acquire 210,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering. Roland A. von Metzech, managing member of CamCap Energy Partners, the General Partner of CamCap Resources Offshore Master Fund, L.P., has the power to vote and dispose of the common shares being registered on behalf of CamCap Resources Offshore Master Fund, L.P.

42 Includes warrants to acquire 12,500 shares of common stock at an exercise price of \$2.75 per

share, acquired
in the
September 2006
private offering.

43 Includes
warrants to
acquire 26,791
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

44 Includes
warrants to
acquire 12,500
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

45 Includes
warrants to
acquire 25,000
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

46 Includes
warrants to
acquire 8,025
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Gary Huel has

the power to
vote and dispose
of the common
shares being
registered on
behalf of
Champion
Construction
Consultants, Inc.

47 Includes
warrants to
acquire 26,786
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
A.J.
Charbonneau
and D. Davidson
have the power
to vote and
dispose of the
common shares
being registered
on behalf of
Charbonneau
Limited
Partnership.

48 Includes
warrants to
acquire 21,429
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

49 Includes
warrants to
acquire 10,714
shares of
common stock at
an exercise price
of \$1.00 per

share, acquired
in the April 2006
private offering.

50 Includes
warrants to
acquire 66,667
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.
Kenneth Holz
has the power to
vote and dispose
of the common
shares being
registered on
behalf of
Chestnut Ridge
Partners, L.P.

51 Includes
warrants to
acquire 12,750
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Christopher
Moyes has the
power to vote
and dispose of
the common
shares being
registered on
behalf of
Choregus Master
Trust, Plan I,
Money
Purchase.

52 Includes
warrants to
acquire 12,750

shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Christopher
Moyes has the
power to vote
and dispose of
the common
shares being
registered on
behalf of
Choregus Master
Trust, Plan II,
Profit Sharing.

53 Includes
warrants to
acquire 7,500
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

54 Includes
warrants to
acquire 5,556
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

55 Includes
warrants to
acquire 2,679
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired

in the April 2006
private offering.

- ⁵⁶ Includes
warrants to
acquire 10,714
shares of
common stock at
an exercise price
of \$1.00 per
share,

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acquired in the
April 2006
private offering.

- 57 Includes
warrants to
acquire 375,000
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Also includes
warrants to
acquire 50,000
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.
Mitchell P.
Kopin, President
of Downsvew
Capital, Inc., the
General Partner
of Cranshire
Capital, L.P.,
has the power to
vote and dispose
of the common
shares being
registered on
behalf of
Cranshire
Capital, L.P.

- 58 Includes
warrants to
acquire 7,775
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired

in the
September 2006
private offering.
C. Dean
Patrineu,
President of
Gatol
Enterprises, Inc.,
the General
Partner of
Crimson Group,
LTD, has the
power to vote
and dispose of
the common
shares being
registered on
behalf of
Crimson Group,
LTD.

59 Includes
warrants to
acquire 150,000
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

60 Includes
warrants to
acquire 17,500
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

61 Includes
warrants to
acquire 8,571
shares of
common stock at
an exercise price
of \$1.00 per

share, acquired
in the April 2006
private offering.

62 Includes
warrants to
acquire 26,786
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Danny Remenda
has the power to
vote and dispose
of the common
shares being
registered on
behalf of Danich
Investments Ltd.

63 Includes
warrants to
acquire 37,500
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

64 Includes
warrants to
acquire 10,714
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

65 Includes
warrants to
acquire 2,250
shares of
common stock at
an exercise price

of \$1.00 per
share, acquired
in the April 2006
private offering.

66 Includes
warrants to
acquire 10,978
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

67 Includes
warrants to
acquire 8,571
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

68 Includes
warrants to
acquire 112,500
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Mr. Tower
serves as our
Chairman of the
Board and Chief
Executive
Officer and a
member of our
board of
directors.

69 Includes
warrants to
acquire 26,786

shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

70 Includes
warrants to
acquire 16,071
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

71 Includes
warrants to
acquire 21,429
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Nick Demare,
President, has
the power to
vote and dispose
of the common
shares being
registered on
behalf of DNG
Capital Corp.

72 Includes
warrants to
acquire 18,750
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

73 Includes warrants to acquire 80,355 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Also includes warrants to acquire 17,500 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

74 Includes warrants to acquire 160,725 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Also includes warrants to acquire 43,750 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

75 Includes warrants to acquire 1,125 shares of common stock at an exercise price of \$2.75 per

share, acquired
in the
September 2006
private offering.

76 Includes
warrants to
acquire 8,889
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

77 Includes
warrants to
acquire 26,786
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

78 Includes
warrants to
acquire 25,000
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

79 Includes
warrants to
acquire 34,286
shares of
common stock at
an exercise price
of \$1.00 per
share,

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acquired in the
April 2006
private offering.

80 Includes
warrants to
acquire 7,778
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

81 Includes
warrants to
acquire 53,569
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Also includes
warrants to
acquire 25,000
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

82 Includes
warrants to
acquire 5,556
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

83 Includes warrants to acquire 12,502 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering. Olivier Chaponnier, Director, has the power to vote and dispose of the common shares being registered on behalf of EPSILON Management LTD.

84 Includes warrants to acquire 16,071 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

85 Includes warrants to acquire 34,286 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

86 Includes warrants to acquire 53,572 shares of

common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Mr. Knuettel serves on our board of directors.

87 Includes warrants to acquire 8,889 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

88 Includes warrants to acquire 18,750 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

89 Includes warrants to acquire 21,375 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

90 Includes warrants to acquire 53,569 shares of common stock at an exercise price

of \$1.00 per share, acquired in the April 2006 private offering. Also includes warrants to acquire 5,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

91 Includes warrants to acquire 25,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

92 Includes warrants to acquire 5,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

93 Includes warrants to acquire 112,500 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

94 Includes warrants to acquire 6,250 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

95 Includes warrants to acquire 11,250 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

96 Includes warrants to acquire 53,569 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Also includes warrants to acquire 17,500 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

97 Includes warrants to acquire 15,556 shares of common stock at

an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

98 Includes
warrants to
acquire 6,000
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

99 Includes
warrants to
acquire 6,250
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

100 Includes
warrants to
acquire
4,666,667 shares
of common
stock at an
exercise price of
\$2.75 per share,
acquired in the
September 2006
private offering.
Colleen Foster,
managing
director, has the
power to vote
and dispose of
the common
shares being
registered on
behalf of

Goldman, Sachs
& Co.

¹⁰¹ Includes warrants to acquire 12,500 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

¹⁰² Includes warrants to acquire 107,143 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

¹⁰³ Includes warrants to acquire 26,786 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

¹⁰⁴ Includes warrants to acquire 74,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

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105 Includes warrants to acquire 15,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

106 Includes warrants to acquire 5,625 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering. Ronnie D. Hammonds has the power to vote and dispose of the common shares being registered on behalf of Hammonds Management Trust.

107 Includes warrants to acquire 535,714 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

108 Includes warrants to acquire 26,786 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

109 Includes warrants to acquire 75,000 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Also includes warrants to acquire 12,500 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

110 Includes warrants to acquire 53,571 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Allan Rothstein, managing member, has the power to vote and dispose of the common shares being registered on behalf of Hedge Capital Partners.

111 Includes warrants to acquire 37,500 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Also includes warrants to acquire 5,556

shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering. Jeff Heim buck, trustee, has the power to vote and dispose of the common shares being registered on behalf of the Heim buck Family Trust.

¹¹² Includes warrants to acquire 7,500 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

¹¹³ Includes warrants to acquire 44,444 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

¹¹⁴ Includes warrants to acquire 262,500 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. P. Mast and E. Beck have the power to vote and dispose of the common shares being registered

on behalf of Hypo
Alpe-Adria-Bank.

115 Includes warrants to acquire 160,725 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Also includes warrants to acquire 43,750 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

116 Includes warrants to acquire 8,889 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

117 Includes warrants to acquire 37,500 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

118 Includes warrants to acquire 26,786 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Also

includes warrants
to acquire 8,750
shares of common
stock at an
exercise price of
\$2.75 per share,
acquired in the
September 2006
private offering.

119 Includes warrants
to acquire 5,556
shares of common
stock at an
exercise price of
\$2.75 per share,
acquired in the
September 2006
private offering.

120 Includes warrants
to acquire 37,500
shares of common
stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006 private
offering.

121 Includes warrants
to acquire 26,786
shares of common
stock at an
exercise price of
\$1.00 per share,
acquired in the
April 2006 private
offering. Also
includes warrants
to acquire 8,750
shares of common
stock at an
exercise price of
\$2.75 per share,
acquired in the
September 2006
private offering.

122 Includes warrants
to acquire 10,714

shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Werner Henzler has the power to vote and dispose of the common shares being registered on behalf of J. Barrett Developments Ltd.

¹²³ Includes warrants to acquire 26,786 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

¹²⁴ Includes warrants to acquire 17,143 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

¹²⁵ Includes warrants to acquire 11,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

¹²⁶ Includes warrants to acquire 32,143 shares of common stock at an

exercise price of
\$1.00 per share,
acquired in the
April 2006 private
offering.

¹²⁷ Includes warrants
to acquire 5,556
shares of common
stock at an
exercise price of
\$2.75 per share,
acquired

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in the
September 2006
private offering.

128 Includes
warrants to
acquire 64,286
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Includes
warrants to
acquire 22,500
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

129 Includes
warrants to
acquire 32,266
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

130 Includes
warrants to
acquire 107,143
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

131

Includes
warrants to
acquire 26,786
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

¹³² Includes
warrants to
acquire 26,786
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Brian Carpenter,
President, has
the power to
vote and dispose
of the common
shares being
registered on
behalf of JMC
Investments,
Ltd.

¹³³ Includes
warrants to
acquire 26,786
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

¹³⁴ Includes
warrants to
acquire 6,250
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired

in the
September 2006
private offering.

135 Includes
warrants to
acquire 10,000
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

136 Includes
warrants to
acquire 26,786
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Also includes
warrants to
acquire 5,000
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

137 Includes
warrants to
acquire 16,072
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Also includes
warrants to
acquire 33,333

shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

138 Includes
warrants to
acquire 5,556
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

139 Includes
warrants to
acquire 34,286
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

140 Includes
warrants to
acquire 11,111
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

141 Includes
warrants to
acquire 16,071
shares of
common stock at
an exercise price
of \$1.00 per

share, acquired
in the April 2006
private offering.
Also includes
warrants to
acquire 15,555
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

142 Includes
warrants to
acquire 3,334
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

143 Includes
warrants to
acquire 26,786
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

144 Includes
warrants to
acquire 120,525
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Includes
warrants to
acquire 38,750

shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

145 Includes
warrants to
acquire 11,250
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

146 Includes
warrants to
acquire 11,250
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

147 Includes
warrants to
acquire 11,250
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

148 Includes
warrants to
acquire 6,667
shares of
common stock at
an exercise price
of \$2.75 per

share, acquired
in the
September 2006
private offering.

149 Includes
warrants to
acquire 160,714
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
J B Rimeur has
the power to
vote and dispose
of the common
shares being
registered on
behalf of LA
Hougue
Financial
Management
Services
Limited.

150 Includes
warrants to
acquire 107,143
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Gerald
Wittenberg has
the power to
vote and dispose
of the common
shares being
registered on
behalf of Ladasa
Investments, Inc.

151 Includes
warrants to
acquire 3,334

shares of
common stock at
an exercise price
of \$2.75 per
share, acquired

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in the
September 2006
private offering.

152 Includes
warrants to
acquire 22,500
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

153 Includes
warrants to
acquire 75,000
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

154 Includes
warrants to
acquire 12,500
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

155 Includes
warrants to
acquire 12,500
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006

private offering.

156 Includes
warrants to
acquire 6,250
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

157 Includes
warrants to
acquire 22,222
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

158 Includes
warrants to
acquire 42,857
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

159 Includes
warrants to
acquire 12,500
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

160 Includes
warrants to

acquire 80,357
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

¹⁶¹ Includes
warrants to
acquire 80,357
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

¹⁶² Includes
warrants to
acquire 7,000
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

¹⁶³ Includes
warrants to
acquire 10,714
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

¹⁶⁴ Includes
warrants to
acquire 8,889
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired

in the
September 2006
private offering.

165 Includes
warrants to
acquire 5,750
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

166 Includes
warrants to
acquire 11,111
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

167 Includes
warrants to
acquire 7,500
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

168 Includes
warrants to
acquire 40,000
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

Montague Guild,
Jr., CEO of
Guild
Investment
Management,
Inc., the General
Partner of
Meteoric L.P.
has the power to
vote and dispose
of the common
shares being
registered on
behalf of
Meteoric L.P.

¹⁶⁹ Includes
warrants to
acquire 34,286
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Jason Gigliotti
has the power to
vote and dispose
of the common
shares being
registered on
behalf of MGK
Consulting, Inc.

¹⁷⁰ Includes
warrants to
acquire 16,667
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

¹⁷¹ Includes
warrants to
acquire 8,571
shares of

common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

172 Includes warrants to acquire 26,786 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Also includes warrants to acquire 6,250 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

173 Includes warrants to acquire 5,550 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

174 Includes warrants to acquire 37,500 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

¹⁷⁵ Includes warrants to acquire 160,714 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

¹⁷⁶ Includes warrants to acquire 18,750 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

¹⁷⁷ Includes warrants to acquire 214,286 shares of common stock at an exercise price of \$1.00 per share,

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acquired in the April 2006 private offering. William McCluskey has the power to vote and dispose of the common shares being registered on behalf of Nina Holdings, LLC.

178 Includes warrants to acquire 214,286 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Also includes warrants to acquire 55,556 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering. Keith A. Goodman, Manager and General Partner, has the power to vote and dispose of the common shares being registered on behalf of Nite Capital LP.

179 Includes warrants to acquire 85,714

shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
David Craven
has the power to
vote and dispose
of the common
shares being
registered on
behalf of
Nunziata
Holdings Inc.

180 Includes
warrants to
acquire 40,178
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Robyn
Schreiber,
President, has
the power to
vote and dispose
of the common
shares being
registered on
behalf of
NYBOR Group
Inc.

181 Includes
warrants to
acquire 20,000
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

182 Includes warrants to acquire 11,250 shares of common stock at an exercise price of \$1.00 per share, acquired by Dennis Tower in the April 2006 private offering and transferred to Pauline Tower.

183 Includes warrants to acquire 107,143 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Walter Dawson has the power to vote and dispose of the common shares being registered on behalf of Perfco Investments Ltd.

184 Includes warrants to acquire 20,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

185 Includes warrants to acquire 535,714 shares of

common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Dr. Rene Simon has the power to vote and dispose of the common shares being registered on behalf of Professional Trading Services SA.

186 Includes warrants to acquire 42,857 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

187 Includes warrants to acquire 5,750 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

188 Includes warrants to acquire 26,786 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

189 Includes warrants to acquire 11,250 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

190 Includes warrants to acquire 5,556 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

191 Includes warrants to acquire 5,556 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

192 Includes warrants to acquire 160,714 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

193 Includes warrants to acquire 112,468 shares of

common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

194 Includes
warrants to
acquire 36,000
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

195 Includes
warrants to
acquire 52,500
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

196 Includes
warrants to
acquire 37,500
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

197 Includes
warrants to
acquire 75,000
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

¹⁹⁸ Includes warrants to acquire 107,250 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

¹⁹⁹ Includes warrants to acquire 9,217 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

²⁰⁰ Includes warrants to acquire 5,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

²⁰¹ Includes warrants to acquire 30,000 shares of common stock at an exercise price of \$1.00 per share,

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acquired in the
April 2006
private offering.

202 Includes
warrants to
acquire 30,000
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.
Anthony R.
Danaher, the
President of
Guild
Investment
Management,
Inc., the General
Partner of
Rosebury, L.P.
has the power to
vote and dispose
of the common
shares being
registered on
behalf of
Rosebury, L.P.

203 Includes
warrants to
acquire 10,000
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

204 Includes
warrants to
acquire 53,569
shares of
common stock at

an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Also includes
warrants to
acquire 7,500
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

205 Includes
warrants to
acquire 267,857
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

206 Includes
warrants to
acquire 10,718
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

207 Includes a
warrant to
acquire 92,411
shares of
common stock at
an exercise price
of \$1.00 per
share, which was
issued as
consideration for
services
provided by

Sanders Morris
Harris Inc. in the
April 2006
private offering
of our securities.
Also includes a
warrant to
purchase
466,666 shares
of common
stock at an
exercise price of
\$2.25 issued on
September 8,
2006 and a
warrant to
purchase 6,567
shares of
common stock at
an exercise price
of \$2.25 issued
on
September 27,
2006, each of
which was
issued as
consideration for
services
provided by
Sanders Morris
Harris Inc. in the
September 2006
private offering
of our securities.
Ben T. Morris
has the power to
vote and dispose
of the common
shares being
registered on
behalf of
Sanders Morris
Harris Inc.

²⁰⁸ Includes
warrants to
acquire 408,105
shares of
common stock at
an exercise price
of \$1.00 per

share, acquired
in the April 2006
private offering.
Also includes
warrants to
acquire 85,703
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

209 Includes
warrants to
acquire 127,605
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Also includes
warrants to
acquire 26,798
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.
Brad Sanders,
fund
administrator,
has the power to
vote and dispose
of the common
shares being
registered on
behalf of
Sanders
Opportunity
Fund
(Institutional)
L.P.

210 Includes warrants to acquire 21,429 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

211 Includes warrants to acquire 214,286 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Tom and Hydri Kusumoto have the power to vote and dispose of the common shares being registered on behalf of Sanovest Holdings Ltd.

212 Includes warrants to acquire 37,500 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

213 Includes warrants to acquire 5,556 shares of common stock at an exercise price of \$2.75 per share, acquired

in the
September 2006
private offering.

214 Includes
warrants to
acquire 8,025
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Joseph Barnett
has the power to
vote and dispose
of the common
shares being
registered on
behalf of Sierra
Madre
Development,
LLC.

215 Includes
warrants to
acquire 26,786
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

216 Includes
warrants to
acquire 107,145
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

217 Includes
warrants to
acquire 5,556
shares of

common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

218 Includes
warrants to
acquire 128,571
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

219 Includes
warrants to
acquire 26,786
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

220 Includes
warrants to
acquire 7,500
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

221 Includes
warrants to
acquire 11,111
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the

September 2006
private offering.

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222 Includes
warrants to
acquire 11,111
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

223 Includes
warrants to
acquire 5,556
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

224 Includes
warrants to
acquire 53,571
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Also includes
warrants to
acquire 12,500
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

225 Includes
warrants to
acquire 18,750

shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

226 Includes
warrants to
acquire 26,786
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Jim Brewster
has the power to
vote and dispose
of the common
shares being
registered on
behalf of the
Brewster Family
Trust.

227 Includes
warrants to
acquire 37,500
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.
Also includes
warrants to
acquire 5,556
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

228 Includes warrants to acquire 160,714 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

229 Includes warrants to acquire 11,111 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

230 Includes warrants to acquire 53,569 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

231 Includes warrants to acquire 5,357 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

232 Includes warrants to acquire 633,334 shares of common stock at an exercise price

of \$2.75 per share, acquired in the September 2006 private offering. Ralph Aldis, portfolio manager, has the power to vote and dispose of the common shares being registered on behalf of US Global Investors Global Resources Fund.

²³³ Includes warrants to acquire 160,714 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Peter M. Brown, President, has the power to vote and dispose of the common shares being registered on behalf of V Maclachlan Investments Corp.

²³⁴ Includes warrants to acquire 35,300 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

235 Includes warrants to acquire 8,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering. Also includes warrants to acquire 64,286 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

236 Includes warrants to acquire 54,000 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Mr. Bosché serves as our Chief Financial Officer, Treasurer and Secretary.

237 Includes warrants to acquire 5,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

238 Includes warrants to acquire 26,786 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

239 Includes warrants to acquire 25,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering.

240 Includes warrants to acquire 66,667 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering. Brian Mazella, CFO, has the power to vote and dispose of the common shares being registered on behalf of Whalehaven Capital Fund Limited.

241 Includes warrants to acquire 8,889 shares of

common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

242 Includes
warrants to
acquire 27,000
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

243 Includes
warrants to
acquire 6,000
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

244 Includes
warrants to
acquire 214,273
shares of
common stock at
an exercise price
of \$1.00 per
share, acquired
in the April 2006
private offering.

245 Includes
warrants to
acquire 5,550
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the

September 2006
private offering.

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246 Includes warrants to acquire 535,714 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering. Younes Nazarian has the power to vote and dispose of the common shares being registered on behalf of Y&S Nazarian Revocable Trust.

247 Includes warrants to acquire 26,786 shares of common stock at an exercise price of \$1.00 per share, acquired in the April 2006 private offering.

248 Includes warrants to acquire 25,000 shares of common stock at an exercise price of \$2.75 per share, acquired in the September 2006 private offering. Gary E. Mintz, General Partner, has the power to vote and dispose of the common shares being

registered on
behalf of
Yellowstone
Limited
Partnership.

249 Includes
warrants to
acquire 11,111
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.

250 Includes
warrants to
acquire 2,500
shares of
common stock at
an exercise price
of \$2.75 per
share, acquired
in the
September 2006
private offering.
Ralph Aldis,
portfolio
manager, has the
power to vote
and dispose of
the common
shares being
registered on
behalf of
Meridian Global
Energy &
Resources Fund.

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USE OF PROCEEDS

We will not receive proceeds from the sale of common stock or warrants under this prospectus. We will receive approximately \$35,271,182 from the selling stockholders if they exercise their warrants in full. The selling stockholders who hold warrants may exercise their warrants at any time until their expiration, as further described in the Description of Securities. Because the warrant holders may sell the warrants or exercise the warrants in their own discretion, we cannot plan on specific uses of proceeds beyond application of proceeds to general corporate purposes. We have agreed to bear the expenses in connection with the registration of the common stock and warrants being offered hereby by the selling stockholders.

DETERMINATION OF OFFERING PRICE

The selling stockholders will determine at what price they may sell the offered shares and warrants, and such sales may be made at prevailing market prices, or at privately negotiated prices.

PLAN OF DISTRIBUTION

The selling stockholders and any of their pledgees, donees, transferees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling stockholders may use any one or more of the following methods when selling shares:

- on any national securities exchange or quotation service on which the securities may be listed or quoted at the time of sale;

- in the over-the-counter market;

- in transactions otherwise than on these exchanges or systems or in the over-the-counter market;

- through the writing of options, whether such options are listed on an options exchange or otherwise;

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;

- an exchange distribution in accordance with the rules of the applicable exchange;

- privately negotiated transactions;

- to cover short sales made after the date this Registration Statement is declared effective by the SEC;

- sales pursuant to Rule 144;

- broker-dealers may agree with the selling securityholders to sell a specified number of such shares at a stipulated price per share;

- a combination of any such methods of sale; and

- any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

Broker-dealers engaged by the selling stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling stockholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved. The selling stockholders may from time to time pledge or grant a security interest in some or all of the shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell shares of common stock from time to time under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus.

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Upon a selling stockholder's notification of the Company that any material arrangement has been entered into with a broker-dealer for the sale of such stockholder's common stock through a block trade, special offering, exchange distribution or secondary distribution or a purchase by a broker or dealer, a supplement to this prospectus will be filed, if required, pursuant to Rule 424(b) under the Securities Act disclosing (i) the name of each such selling stockholder and of the participating broker-dealer(s), (ii) the number of shares involved, (iii) the price at which such shares of common stock were sold, (iv) the commissions paid or discounts or concessions allowed to such broker-dealer(s), where applicable, (v) that such broker-dealer(s) did not conduct any investigation to verify the information set out or incorporated by reference in this prospectus, and (vi) other facts material to the transaction. In addition, upon the Company being notified in writing by a Selling Stockholder that a donee or pledgee intends to sell more than 500 shares of common stock, a supplement to this prospectus will be filed if then required in accordance with applicable securities law.

The selling stockholders also may transfer the shares of common stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The selling stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be underwriters within the meaning of the Securities Act, in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Discounts, concessions, commissions and similar selling expenses, if any, that can be attributed to the sale of Securities will be paid by the selling stockholder and/or the purchasers. Each selling stockholder has represented and warranted to the Company that it acquired the securities subject to this registration statement in the ordinary course of such selling stockholder's business and, at the time of its purchase of such securities such selling stockholder had no agreements or understandings, directly or indirectly, with any person to distribute any such securities.

The Company has advised each selling stockholder that it may not use shares registered on this registration statement to cover short sales of common stock made prior to the date on which this registration statement shall have been declared effective by the Securities and Exchange Commission. If a selling stockholder uses this prospectus for any sale of the common stock, it will be subject to the prospectus delivery requirements of the Securities Act. The selling stockholders will be responsible to comply with the applicable provisions of the Securities Act and the Securities Exchange Act, and the rules and regulations thereunder promulgated, including, without limitation, Regulation M, as applicable to such selling stockholders in connection with resales of their respective shares under this registration statement.

The Company is required to pay all fees and expenses incident to the registration of the shares, but the Company will not receive any proceeds from the sale of the common stock. The Company has agreed to indemnify the selling stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act. The Company has agreed with the selling stockholders to keep the registration statement of which this prospectus constitutes a part effective until the earlier of two years from the effective date of the registration statement, the date on which the shares may be sold pursuant to Rule 144, and the date on which the shares have been sold or otherwise disposed.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock has been quoted on the Over-the-Counter Bulletin Board under the symbol FTRS.OB since December 23, 2004, but has only been actively traded since April 7, 2006. The following table shows, for the periods indicated since April 7, 2006, the high and low closing sales prices of our common stock:

Fiscal Period	High	Low
2008:		
First Quarter 2008	\$1.04	\$0.51
2007:		
Fourth Quarter 2007	\$1.11	\$0.79

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Fiscal Period	High	Low
Third Quarter 2007	\$ 1.32	\$ 0.81
Second Quarter 2007	\$ 1.50	\$ 0.86
First Quarter 2007	\$ 2.10	\$ 1.02
2006:		
Fourth Quarter 2006	\$ 2.41	\$ 1.15
Third Quarter 2006	\$ 3.88	\$ 2.08
Second Quarter 2006 (from April 7)	\$ 4.16	\$ 1.67

As of March 31, 2008, there were 60,572,442 shares of our common stock issued and outstanding.

As of March 31, 2008, there were approximately 233 holders of record of shares of our common stock.

Equity Compensation Plan

Securities authorized for issuance under equity compensation plans as of December 31, 2007 are as follows:

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)) (c)
Equity compensation plans approved by security holders		\$	4,848,824
Equity compensation plans not approved by security holders			2,000,000
Total		\$	6,848,824

Equity compensation plans not approved by our stockholders consists of our 2006 Equity Incentive Plan, under which our board of directors is authorized to issue options or other rights to acquire up to 2,000,000 shares of our common stock. During 2007, we determined that the 2006 Equity Incentive Plan did not meet certain qualifications required under state laws. Although the board of directors reserved a total of 2,000,000 shares of our common stock for issuance under the 2006 Equity Incentive Plan, we do not intend to make any equity-based incentive grants or awards under the plan. Equity compensation plans approved by our stockholders consists of our 2007 Equity Incentive Plan, under which our board of directors is authorized to issue options or other rights to acquire 5,000,000 shares of our common stock. As of March 31, 2008, no grants have been made under our 2007 Equity Incentive Plan. Options granted under the 2007 Equity Incentive Plan entitle the grantee, upon exercise, to purchase a specified number of shares from us at a specified exercise price per share. The exercise price for shares of common stock covered by an option cannot be less than the fair market value of the common stock on the date of grant. The board of directors will determine the period of time during which an option may be exercised, except that no option may be exercised more than ten years after the date of grant.

DIVIDEND POLICY

We have never declared or paid dividends on shares of our common stock and we intend to retain future earnings, if any, to support the development of our business and therefore do not anticipate paying cash dividends for the foreseeable future. Payment of future dividends, if any, will be at the discretion of our board of directors after taking into account various factors, including current financial condition, operating results and current and anticipated cash needs.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Forward Looking Statements

This discussion contains statements that constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. The words expect, estimate, anticipate, predict, believe and similar expressions and variations thereof are intended to identify forward-looking statements. These statements appear in a number of places in this filing and include statements regarding the intent, belief or current expectations of Foothills Resources, Inc., our directors or officers with respect to, among other things (a) trends affecting our financial condition or results of operation (b) our ability to meet our debt service obligations and (c) our business and growth strategies. Readers are cautioned not to put undue reliance on these forward-looking statements. These forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those projected in this report. Although we believe that the expectations reflected in our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed. Our future financial condition, as well as any forward-looking statements, are subject to change and to inherent risks and uncertainties, including those disclosed in this report. We undertake no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof.

Overview

Foothills Resources, Inc. (Foothills), a Nevada corporation, and its subsidiaries are collectively referred to herein as the Company. The Company is a growth-oriented independent energy company engaged in the acquisition, exploration, exploitation and development of oil and natural gas properties. The Company currently holds interests in properties in the Texas Gulf Coast area, in the Eel River Basin in northern California, and in the Anadarko Basin in southwest Oklahoma.

The Company took its current form in April 2006, when Brasada California, Inc. (Brasada) merged with and into an acquisition subsidiary of Foothills. Brasada was formed in December 2005 as Brasada Resources LLC, a Delaware limited liability company, and converted to a Delaware corporation in February 2006. Following the merger, Brasada changed its name to Foothills California, Inc. (Foothills California) and is now a wholly owned operating subsidiary of Foothills.

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In January 2006, Foothills California entered into a Farmout and Participation Agreement with INNEX California, Inc., a subsidiary of INNEX Energy, L.L.C. (INNEX), to acquire, explore and develop oil and natural gas properties located in the Eel River Basin, the material terms of which are as follows:

Foothills California serves as operator of a joint venture with INNEX, and has the right to earn an interest in approximately 4,000 existing leasehold acres held by INNEX in the basin, and to participate as operator with INNEX in oil and gas acquisition, exploration and development activities within an area of mutual interest consisting of the entire Eel River Basin.

The agreement provides for drill-to-earn terms, and consists of three phases.

In Phase I, Foothills California was obligated to pay 100% of the costs of drilling two shallow wells, acquiring 1,000 acres of new leases, and certain other activities. The Company has fulfilled its obligations under Phase I, and has received an assignment from INNEX of a 75% working interest (representing an approximate 56.3% net revenue interest) in the leases held by INNEX in the two drilling units to the deepest depth drilled in the two Phase I obligation wells.

Foothills California then had the option, but not the obligation, to proceed into Phase II. It elected to proceed into Phase II, and has paid the costs of conducting a 3D seismic survey covering approximately 12.7 square miles and of drilling one additional shallow well. The Company has fulfilled its obligations under Phase II, and has received an assignment from INNEX of a 75% working interest (representing an approximate 56.3% net revenue interest) in the leases held by INNEX in the drilling unit for the well drilled in Phase II and a 75% working interest (representing an approximate 59.3% net revenue interest) in all remaining leases held by INNEX to the deepest depth drilled in the three Phase I and II obligation wells.

Foothills California then had the option, but not the obligation, to proceed into Phase III. It elected to proceed into Phase III, and paid 100% of the costs of drilling one deep well. The Company has fulfilled its obligations under Phase III, and will receive an assignment from INNEX of a 75% working

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interest (representing an approximate 56.3% net revenue interest) in the leases held by INNEX in the drilling unit and a 75% working interest (representing an approximate 59.3% net revenue interest) in all remaining leases held by INNEX with no depth limitation.

Following the completion of Phase III, the two parties are each responsible for funding their working interest share of the joint venture's costs and expenses. Foothills California will generally have a 75% working interest in activities conducted on specified prospects existing at the time of execution of the agreement, and a 70% working interest in other activities. Each party will be able to elect not to participate in exploratory wells on a prospect-by-prospect basis, and a non-participating party will lose the opportunity to participate in development activities and all rights to production relating to that prospect.

Foothills California is also entitled to a proportionate assignment from INNEX of its rights to existing permits, drill pads, roads, rights-of-way, and other infrastructure, as well as its pipeline access and marketing arrangements.

INNEX has an option to participate for a 25% working interest in certain producing property acquisitions by the Company in the area of mutual interest.

In September 2006, we consummated the acquisition of TARH E&P Holdings, L.P.'s interests in four oilfields in southeastern Texas. We paid aggregate consideration of \$62 million for the properties, comprised of a cash payment of approximately \$57.5 million and the issuance of 1,691,186 shares of common stock to TARH E&P Holdings, L.P. In the acquisition, we acquired interests in four fields: the Goose Creek Field and Goose Creek East Field, both in Harris County, Texas, the Cleveland Field, located in Liberty County, Texas, and the Saratoga Field located in Hardin County, Texas. These interests represent working interests ranging from 95% to 100% in the four fields.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our financial statements requires us to make estimates and assumptions that affect our reported results of operations and the amount of reported assets, liabilities and proved oil and gas reserves. Some accounting policies involve judgments and uncertainties to such an extent that there is reasonable likelihood that materially different amounts could have been reported under different conditions, or if different assumptions had been used. We evaluate our estimates and assumptions on a regular basis. We base our estimates on historical experience and various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and assumptions used in preparation of our financial statements. Described below are the most significant policies we apply in preparing our financial statements, some of which are subject to alternative treatments under generally accepted accounting principles. We also describe the most significant estimates and assumptions we make in applying these policies.

Oil and Gas Properties Accounting

We follow the full-cost method of accounting for oil and gas properties. Under this method, all productive and nonproductive costs incurred in connection with the acquisition, exploration and development of oil and gas reserves are capitalized in separate cost centers for each country in which we have operations. Such capitalized costs include leasehold acquisition, geological, geophysical and other exploration work, drilling, completing and equipping oil and gas wells, asset retirement costs, internal costs directly attributable to property acquisition, exploration and development, and other related costs. We also capitalize interest costs related to unevaluated oil and gas properties. The capitalized costs of oil and gas properties in each cost center are amortized using the unit-of-production method. Sales or other dispositions of oil and gas properties are normally accounted for as adjustments of capitalized costs. Gains or losses are not recognized in income unless a significant portion of a cost center's reserves is involved. Capitalized costs associated with the acquisition and evaluation of unproved properties are excluded from

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amortization until it is determined whether proved reserves can be assigned to such properties or until the value of the properties is impaired. Unproved properties are assessed at least annually to determine whether any impairment has occurred. If the net capitalized costs of oil and gas properties in a cost center exceed an amount equal to the sum of the present value of estimated future net revenues from proved oil and gas reserves in the cost center and the costs of properties not being amortized, both adjusted for income tax effects, such excess is charged to expense.

Oil and Gas Reserves

The process of estimating quantities of natural gas and crude oil reserves is very complex, requiring significant decisions in the evaluation of all available geological, geophysical, engineering and economic data. The data may also change substantially over time as a result of numerous factors including, but not limited to, additional development activity, evolving production history and continual reassessment of the viability of production under varying economic conditions. As a result, material revisions to existing reserve estimates may occur from time to time. Although every reasonable effort is made to ensure that reserve estimates reported represent the most accurate assessments possible, the subjective decisions and variances in available data for various fields make these estimates generally less precise than other estimates included in the financial statement disclosures. We use the unit-of-production method to amortize our oil and gas properties. This method requires us to amortize the capitalized costs incurred in proportion to the amount of oil and gas produced as a percentage of the amount of proved reserves. Accordingly, changes in reserve estimates as described above will cause corresponding changes in depletion expense recognized in periods subsequent to the reserve estimate revision. All of our reserve estimates were provided by Cawley, Gillespie & Associates, Inc.

Asset Retirement Obligations

We have significant obligations related to the plugging and abandonment of our oil and gas wells, and the removal of equipment and facilities from leased acreage and returning such land to its original condition. We estimate the future cost of this obligation, discounted to its present value, and record a corresponding liability and asset in our consolidated balance sheets. The values ultimately derived are based on many significant estimates, including the ultimate expected cost of the obligation, the expected future date of the required cash payment, and interest and inflation rates. Revisions to these estimates may be required based on changes to cost estimates, the timing of settlement, and changes in legal requirements. Any such changes that result in upward or downward revisions in the estimated obligation will result in an adjustment to the liability with the offset to the related capitalized asset on a prospective basis.

Price Risk-Management Activities

We periodically enter into commodity derivative contracts to manage our exposure to oil price volatility. We currently utilize only price swaps, which are placed with a major financial institution of high credit quality that we believe is a minimal credit risk. The oil reference prices of these commodity derivatives contracts are based upon the New York Mercantile Exchange, and have a high degree of historical correlation with actual prices we receive. We account for our derivative instruments in accordance with Statement of Financial Accounting Standards (SFAS) No. 133,

Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS No. 133). SFAS No. 133 establishes accounting and reporting standards requiring that all derivative instruments, other than those that meet the normal purchases and sales exception, be recorded on the balance sheet as either an asset or liability measured at fair value (which is generally based on information obtained from independent parties). SFAS No. 133 also requires that changes in fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Hedge accounting treatment allows unrealized gains and losses on cash flow hedges to be deferred in other comprehensive income. Realized gains and losses from our oil and gas cash flow hedges, including terminated contracts, are generally recognized in oil and gas revenues when the forecasted transaction occurs. Gains and losses from the change in fair value of derivative instruments that do not qualify for hedge accounting are reported in current period income. If at any time the likelihood of occurrence of a hedged forecasted transaction ceases to be probable, hedge accounting under SFAS No. 133 will cease on a prospective basis and all future changes in the fair value of the derivative will be recognized directly in earnings. Amounts recorded in other comprehensive income prior to the change in the likelihood of occurrence of the forecasted transaction will remain in other comprehensive income until such time as the forecasted transaction impacts earnings. If it becomes probable that the original forecasted production will not occur, then the derivative gain or loss would be reclassified from

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accumulated other comprehensive income into earnings immediately. Hedge effectiveness is measured at least quarterly based on the relative changes in fair value between the derivative contract and the hedged item over time, and any ineffectiveness is immediately reported in the consolidated statement of operations

Valuation of Deferred Tax Assets

We utilize the liability method of accounting for income taxes, as set forth in SFAS No. 109, Accounting for Income Taxes. Under the liability method, deferred taxes are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Valuation allowances are recorded against deferred tax assets when it is considered more likely than not that the deferred tax assets will not be utilized.

Stock-Based Compensation

Effective January 1, 2006 we adopted SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R), which replaced SFAS No. 123, Accounting for Stock-Based Compensation, and superseded Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123R requires companies to measure the cost of stock-based compensation granted, including stock options and restricted stock, based on the fair market value of the award as of the grant date, net of estimated forfeitures. We had no stock-based compensation grants prior to January 1, 2006.

Liquidity and Capital Resources

Material increases or decreases in our liquidity are determined by the cash flow from our producing properties, the success or failure of our drilling activities, and our ability to access debt or equity capital markets.

These sources can be impacted by the general condition of our industry and by significant fluctuations in oil and gas prices, operating costs, and volumes produced. We have no control over the market prices for oil and natural gas, although we are able to influence the amount of our net realized revenues related to oil and gas sales through the use of derivative contracts. A decrease in oil and gas prices would reduce expected cash flow from operating activities and could reduce the borrowing base of our current credit facility.

In December 2007, we entered into a Credit Agreement with various lenders and Wells Fargo Foothill, LLC, as agent (the Credit Facility). The Credit Facility provides for a \$50,000,000 term loan facility and a \$50,000,000 revolving credit facility, with an initial borrowing base of \$25,000,000 available under the revolving credit facility. We utilized \$52,564,000 of the proceeds of the Credit Facility to retire amounts outstanding under a previous credit agreement (the Mezzanine Facility), including the repayment of the outstanding principal balance of \$42,500,000 and prepayment penalties and transaction costs totaling \$10,164,000. The Credit Facility matures in December 2012, with principal payments scheduled to commence in April 2010 based on 50% of our cash flow, net of capital expenditures. Interest on the revolving credit facility is payable at prime plus 0.75% or at the London Interbank Offered Rate (LIBOR) plus 2.00%, as we select from time to time, with an unused line fee of 0.50%. Interest on the term loan facility is payable at prime plus 5.25% or at LIBOR plus 6.50%, as we select from time to time. The Credit Facility contains financial covenants pertaining to asset coverage, interest coverage and leverage ratios. As of March 31, 2008, we were not in compliance with the leverage ratio covenant. The lenders waived the non-compliance in consideration of an amendment to the Credit Facility to provide that the interest rate on the term loan facility will not be less than 10.50% in the event that LIBOR is less than 4.00%. Additionally, the Credit Facility has restrictions on the operations of our business, including restrictions on payment of dividends. Borrowings under the term loan facility carry prepayment penalties ranging from 1.00% to 2.00% in the first three years of the Credit Facility. Borrowings under the revolving credit facility may be repaid at any time without penalty. The Credit Facility is secured by liens and security interests on substantially all of our assets, including 100% of our oil and gas reserves.

Although we recorded a loss of \$17,593,000 in connection with the early retirement of the Mezzanine Facility, including \$10,164,000 in prepayment penalties and transaction costs, and \$7,429,000 of non-cash charges relating to the unamortized balances of debt discount and debt issue costs, we entered into the Credit Facility and retired the Mezzanine Facility because the Credit Facility is expected to provide us with significant liquidity for development

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activities, a substantial reduction in our weighted average cost of debt capital, increased operating flexibility through an improved covenant package, and enhanced ability to manage our cash position (and interest costs) through the revolving structure. As of March 31, 2008, the amounts outstanding under the Credit Facility consisted of \$50,000,000 under the term loan facility and approximately \$13,745,000 under the revolving loan facility, with \$11,255,000 available to be borrowed under the revolving loan facility. We expect to retire the amounts outstanding under the Credit Facility at or prior to its maturity from cash flow provided by operations from our proved oil and gas reserves, or from the proceeds of other financing transactions or arrangements, including joint venturing of projects, debt financing, equity financing or other means.

Results of Operations*Year Ended December 31, 2007 compared with the Year Ended December 31, 2006*

The Company reported a net loss of \$26,028,000, or \$0.43 per basic and diluted share, for the year ended December 31, 2007, compared to a net loss of \$3,764,000, or \$0.09 per basic and diluted share, for the year ended December 31, 2006.

Oil and Gas Revenues. Oil and gas revenues for 2007 increased to \$15,171,000 from \$4,605,000 in 2006. Realized commodity prices after hedge settlements increased from \$61.41 per barrel of oil equivalent (BOE) for the year ended December 31, 2006 to \$73.06 per BOE for the year ended December 31, 2007. Realized settlements of price hedging contracts amounted to a net loss of \$201,000 during 2007 as compared to a net gain of \$344,000 during 2006. The Company's net production for 2007 totaled 208,000 BOE, consisting of 185,000 barrels (Bbls) of oil and 135 million cubic feet (MMCF) of natural gas, as compared to 75,000 BOE for 2006, consisting of 70,000 Bbls of oil and 30 MMCF of natural gas. The increases in production and oil and gas revenues resulted primarily from the acquisition of producing properties in the Texas Gulf Coast area in September 2006 (the Texas Acquisition).

Production Costs. Total production costs, including lease operating and workover expenses, marketing and transportation expenses, and production and ad valorem taxes, increased to \$4,907,000 for the year ended December 31, 2007 from \$1,346,000 for the year ended December 31, 2006. The increase in production costs resulted primarily from the Texas Acquisition.

Interest Expense. The Company incurred interest expense of \$10,205,000, including \$3,609,000 of non-cash charges for the amortization of debt discount and debt issue costs, during the year ended December 31, 2007. The increase from \$3,090,000, including \$1,165,000 of non-cash charges for the amortization of debt discount and debt issue costs, for 2006 resulted from \$42,500,000 in borrowings in September 2006 for the Texas Acquisition.

Liquidated Damages. Liquidated damages of \$2,591,000 in 2007 relate to amounts payable to our stockholders as a result of the registration statements for our securities issued in 2006 not becoming effective within the periods specified in the share registration rights agreements for those securities.

Depreciation, Depletion and Amortization. Depreciation, depletion and amortization increased to \$2,785,000, including \$2,614,000 (\$12.59 per BOE) for the capitalized costs of oil and gas properties, for the year ended December 31, 2007, from \$829,000, including \$775,000 (\$10.33 per BOE) for the capitalized costs of oil and gas properties, for the year ended December 31, 2006, primarily as a result of increases in production attributable to the Texas Acquisition.

Loss on Early Extinguishment of Debt. During 2007, the Company recorded a loss of \$17,593,000 in connection with the early retirement of the Mezzanine Facility, including \$10,164,000 in prepayment penalties and transaction costs, and \$7,429,000 of non-cash charges relating to the unamortized balances of debt discount and debt issue costs pertaining to the Mezzanine Facility.

Year Ended December 31, 2006 compared with the Period from Inception (December 29, 2005) through December 31, 2005

The merger of Brasada into our acquisition subsidiary in April 2006 was accounted for as a reverse takeover of the

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Company by Foothills California. The Company adopted the assets, management, business operations and business plan of Foothills California, which was formed in December 2005. The financial statements of the Company prior to the merger were eliminated at consolidation. Consequently, direct comparisons of the results of operations for the year ended December 31, 2006 with those for the period from inception (December 29, 2005) through December 31, 2005 are not meaningful.

Three Months Ended March 31, 2008 compared with the Three Months Ended March 31, 2007

The Company reported a net loss of \$539,000, or \$0.01 per basic and diluted share, for the three months ended March 31, 2008, compared to a net loss of \$1,599,000, or \$0.03 per basic and diluted share, for the three months ended March 31, 2007.

Oil and Gas Revenues. Oil and gas revenues for 2008 increased to \$4,071,000 from \$3,841,000 in 2007. Realized commodity prices after hedge settlements increased from \$63.95 per barrel of oil equivalent (BOE) for the three months ended March 31, 2007 to \$76.03 per BOE for the three months ended March 31, 2008. Realized settlements of price hedging contracts amounted to a net loss of \$1,025,000 during 2008 as compared to a net gain of \$423,000 during 2007. The Company's net production for 2008 totaled 55,000 BOE, consisting of 51,000 barrels (Bbls) of oil and 26 million cubic feet (MMCF) of natural gas, as compared to 62,000 BOE for 2006, consisting of 56,000 Bbls of oil and 37 MMCF of natural gas. The increase in oil and gas revenues resulted primarily from higher realized commodity prices, the effect of which was partially offset by decreases in production. Oil and gas production volumes declined in 2008 primarily due to mechanical disruptions related to the gas lift production system at the Cleveland Field, delays in well servicing operations on an offshore well in the Goose Creek Field due to weather and equipment availability, and normal production declines. The effect of these factors was partially offset by production from new wells drilled in the Goose Creek Field in the fourth quarter of 2007.

Production Costs. Total production costs, including lease operating and workover expenses, marketing and transportation expenses, and production and ad valorem taxes, increased to \$1,420,000 for the three months ended March 31, 2008 from \$996,000 for the three months ended March 31, 2007. The increase in production costs resulted primarily from an increase in the number of workovers and well servicing operations, as well as increases in production and ad valorem taxes resulting from higher commodity prices.

Interest Expense. The Company incurred net interest expense of \$1,780,000, including \$292,000 of non-cash charges for the amortization of debt discount and debt issue costs, during the three months ended March 31, 2008. The decrease from \$2,656,000, including \$1,022,000 of non-cash charges for the amortization of debt discount and debt issue costs, for 2007 resulted primarily from a reduction in the Company's cost of debt capital attributable to the consummation of the Credit Facility and the retirement of the Mezzanine Facility in December 2007, the effect of which was partially offset by higher levels of debt outstanding in 2008. In addition, the Company capitalized \$89,000 in interest costs pertaining to unevaluated oil and gas properties in 2008.

Liquidated Damages. Liquidated damages relate to amounts payable to our stockholders as a result of the registration statements for our securities issued in 2006 not becoming effective within the periods specified in the share registration rights agreements for those securities. Liquidated damages decreased to \$1,000 for the three months ended March 31, 2008 from \$440,000 for the three months ended March 31, 2007 because of provisions in the registration rights agreements limiting the maximum amount of such damages.

Depreciation, Depletion and Amortization. Depreciation, depletion and amortization increased to \$721,000, including \$678,000 (\$12.30 per BOE) for the capitalized costs of oil and gas properties, for the three months ended March 31, 2008, from \$765,000, including \$641,000 (\$10.32 per BOE) for the capitalized costs of oil and gas properties, for the three months ended March 31, 2007, primarily as a result of increases in the capitalized costs of oil and gas properties, the effect of which was partially offset by decreases in production during 2008.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Table of Contents**Hedging Transactions**

In connection with our credit facility with Wells Fargo Foothill, LLC, we are contractually obligated to enter into hedging contracts with the purpose and effect of fixing oil and natural gas prices on no less than 50% of projected oil and gas production from our proved developed producing oil and gas reserves. To fulfill our hedging obligation, we have entered into swap agreements with Wells Fargo Bank, N.A.. We have entered into the swaps with Wells Fargo Bank, N.A. to hedge the price risks associated with a portion of our anticipated future oil and gas production through September 30, 2010, mitigating a portion of our exposure to adverse market changes and allowing us to predict with greater certainty the effective oil and natural gas prices to be received for our hedged production. Our swap agreements have not been entered into for trading purposes and we have the ability and intent to hold these instruments to maturity. Wells Fargo Bank, N.A., the counterparty to the swap agreements, is also an affiliate of our lender under a credit facility. We believe that the terms of the swap agreements are at least as favorable as we could have achieved in swap agreements with third parties who are not our lenders.

By removing a significant portion of the price volatility from our future oil and gas revenues through the swap agreements, we have mitigated, but not eliminated, the potential effects of changing oil and gas prices on our cash flows from operations through September 30, 2010. While these and other hedging transactions we may enter into in the future will mitigate our risk of declining prices for oil and gas, they will also limit the potential gains that we would experience if prices in the market were to rise. We have not obtained collateral to support the agreements but monitor the financial viability of our counterparty and believe our credit risk is minimal on these transactions. Under these arrangements, payments are received or made based on the differential between fixed product prices in the swap agreements and a variable product price representing the average of the closing settlement price(s) on the New York Mercantile Exchange for futures contracts for the applicable trading months. These agreements are settled in cash at monthly expiration dates. In the event of nonperformance, we would be exposed again to price risk. We have some risk of financial loss because the price received for the oil or gas production at the actual physical delivery point may differ from the prevailing price at the delivery point required for settlement of the hedging transaction. We could also suffer financial losses if our actual oil and gas production is less than the hedged production volumes during periods when the variable product price exceeds the fixed product price. Moreover, our hedge arrangements generally do not apply to all of our production and thus provide only partial price protection against declines in commodity prices. Hedge effectiveness is measured at least quarterly based on the relative changes in fair value between the derivative contract and the hedged item over time, and any ineffectiveness is immediately reported in the consolidated statement of operations.

Our current hedging transactions are designated as cash flow hedges, and we record the costs and any benefits derived from these transactions as a reduction or increase, as applicable, in natural gas and oil sales revenue. We may enter into additional hedging transactions in the future.

BUSINESS**Company Overview**

Foothills is an oil and gas exploration company engaged in the acquisition, exploration and development of oil and natural gas properties. The Company's operations are primarily those of Foothills California, Inc., Foothills Texas, Inc. and Foothills Oklahoma, Inc., our wholly-owned subsidiaries. Foothills California, Inc., a Delaware corporation, was formed on December 29, 2005 as Brasada Resources LLC, a Delaware limited liability company, and converted to Brasada California, Inc., a Delaware corporation, on February 28, 2006. On April 6, 2006, Brasada California, Inc. merged with our wholly-owned acquisition subsidiary, leaving Brasada California, Inc. the surviving corporation and our wholly-owned subsidiary. Brasada California, Inc. later changed its name to Foothills California, Inc. following the merger. Foothills Oklahoma, Inc. was formed on May 10, 2006 to conduct our operations in Oklahoma. Foothills Texas, Inc. was formed in August, 2006 for the purpose of acquiring certain assets from TARH E&P Holdings, L.P. and operating those properties following the September 8, 2006 consummation of this acquisition. We currently conduct our operations primarily through these subsidiaries.

Prior to our identification of the acquisition of the properties of TARH E&P Holdings, L.P. in Texas, our primary focus was on oil and natural gas properties located in the Eel River Basin, California, and the Anadarko Basin, Oklahoma. On June 22, 2006, we announced that Foothills Texas, Inc. had entered into definitive agreements with

TARH E&P Holdings, L.P., an affiliate of Texas American Resources Company, for the acquisition of certain

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properties in Texas. This acquisition expanded our operations into Texas, though we will continue to operate and expand our operations in California and Oklahoma.

Our business strategy is to identify and exploit low-to-moderate risk resources in existing producing areas that can be quickly developed and put on production at low cost, including the acquisition of producing properties with exploitation and exploration potential in these areas. We will also take advantage of our expertise to develop exploratory projects in focus areas and to participate with other companies in those areas to explore for oil and natural gas using state-of-the-art 3D seismic technology.

We have entered into an agreement with Moyes & Co., Inc. to identify potential acquisition, development, exploitation and exploration opportunities that fit with our strategy. Moyes & Co., Inc. is expected to screen opportunities and perform detailed evaluation of those opportunities that we decide to pursue, as well as assist with due diligence and negotiations with respect to such opportunities. Christopher P. Moyes is the beneficial owner of 2.6% of our common stock as of March 31, 2008, and is a member of our board of directors. Mr. Moyes is a major shareholder and the President of Moyes & Co., Inc. However, Moyes & Co., Inc. is being compensated for identifying opportunities and assisting us in pursuing those opportunities; therefore the interests of Moyes & Co., Inc. are not the same as our interests. We are responsible for evaluating any opportunities presented to us by Moyes & Co., Inc. to determine if those opportunities are consistent with our business strategy.

California

We believe that the oil and gas industry has in effect overlooked California in recent years because of the perceived difficulties of conducting operations in the state. We believe this situation creates opportunities.

California has abundant and long-lived oil and gas resources with prolific hydrocarbon basins. Infrastructure supporting oil and gas exploration, development and production activities is in place, consisting of contractors, suppliers, pipelines and refineries. Most oil and gas basins in the state are significantly under-explored even near large fields, with operators concentrating on a few, large, heavy oil resources. Offset exploration in and near fields has frequently been ignored. There is a dramatic lack of use of 3D seismic and other latest seismic technologies in many of the basins, and in some areas (such as the Eel River Basin) we believe there has been insufficient attention to drilling and drilling fluid engineering. Through the experience and relationships of management, we have strong ties to other significant oil and gas companies operating in California.

Texas

On September 8, 2006, Foothills Texas, Inc. consummated the acquisition of TARH E&P Holdings, L.P.'s interests in four oilfields in southeastern Texas. We paid aggregate consideration of \$62 million for the properties, comprised of a cash payment of approximately \$57.5 million and the issuance of 1,691,186 shares of common stock to TARH E&P Holdings, L.P.

In the acquisition, Foothills Texas acquired interests in four fields: the Goose Creek Field and Goose Creek East Field, both in Harris County, Texas, the Cleveland Field, located in Liberty County, Texas, and the Saratoga Field located in Hardin County, Texas. These interests represent working interests ranging from 95% to 100% in the four fields.

Oklahoma

The Anadarko Basin in western Oklahoma and the Texas panhandle is one of the most prolific oil and natural gas producing basins in the United States. Most of the shallow shelf portion of the basin can be characterized as very mature. We believe that much promise remains in the deeper portion of the basin that is characterized by stratigraphic traps in the Pennsylvanian Morrow formation and structural traps in the Ordovician Hunton formation, two of the formations targeted by the Company. However, to produce oil and natural gas from these deeper formations, drilling is more expensive and the 3-D seismic data is less reliable than in the shallow shelf portion of the basin.

Table of Contents**Project Status***Eel River Basin*

The Eel River Basin is the northernmost of the California sedimentary basins. Most of the basin exists offshore of northern California and southern Oregon. However, a portion of the basin is present onshore in Humboldt County, California. Hydrocarbons generated in the deeper offshore part of the basin have migrated updip into the Miocene and Pliocene rocks present in this area. The onshore portion of the basin contains the Tompkins Hill natural gas field that was discovered by Texaco in 1937. It is now owned and operated by Occidental, has produced in excess of 120 billion cubic feet (BCF) of natural gas, and is continuing to produce.

The Grizzly Bluff area within the Eel River Basin (approximately five miles south of the Tompkins Hill Field) was initially proven to contain natural gas in three wells drilled by Zephyr in the mid-1960s. These wells tested gas at rates of 1.9 to 5 million cubic feet of gas per day. In the early 1970s, Chevron drilled a deep well seeking oil but found strong indications of natural gas. In the late 1980s and early 1990s, ARCO drilled several wells and found natural gas in the shallow zones, one of which tested gas at rates of up to 2.2 million cubic feet (MMCF) of gas per day. None of these wells were put into production due to the lack of a natural gas market and pipeline connection, and all of them were subsequently abandoned.

In the past decade, we believe the industry has overlooked the hydrocarbon potential and production within the Eel River Basin due to its relatively isolated position in California. INNEX Energy, L.L.C. recognized this overlooked potential in the form of multiple low resistivity, low contrast sands that possibly define part of a widespread, basin-centered natural gas play. INNEX Energy, L.L.C. began acquiring oil and gas leases in the area in 2000 to test this concept and entered into a joint venture with Forexco, Inc. in 2002. A subsequent 10-well drilling program in 2003 by Forexco, Inc. encountered drilling and completion problems, but established production from six wells in the Grizzly Bluff area, three of which produced approximately 260 thousand cubic feet of gas per day during the three months ended March 31, 2008. This field was brought on line in late 2003 with the completion of a natural gas gathering system and a new pipeline that connects to the PG&E Corporation backbone grid for northern California. INNEX Energy, L.L.C. and Forexco, Inc. terminated their joint venture in 2004.

The Tompkins Hill Field is the analog field in the basin for the Eel River Project. The distance between the Tompkins Hill Field and the Grizzly Bluff Field is approximately five miles. This production is from similar age rocks at similar depths as the Grizzly Bluff Prospect, the first prospect that we drilled in the Eel River Project. Our mapping indicates that substantial natural gas reserves occur above the lowest tested gas in the Grizzly Bluff Field in multiple stacked Pliocene sandstone reservoirs.

During the period from June through August, 2006, we drilled the Christiansen 3-15 well and the Vicenus 1-3 well in the Grizzly Bluff Field to total depths of 4,815 feet and 5,747 feet, respectively. We commenced commercial production from the Christiansen 3-15 well and Vicenus 1-3 wells in September 2006 and January, 2007, respectively. In November 2007, we commenced a re-entry and redrilling of the lower portion of the Vicenus 1-3 well. Drilling reached a total depth of 6,068 feet and gas zones were indicated in both the primary objective Lower Rio Dell (LRD) 15 sand and secondary objective LRD 16 sand. Casing was cemented in place and production tubing installed.

In December 2007, we moved the drilling rig to the GB 5 development well location, and drilled the well to a total depth of 4,325 feet to test the Lower Anderson sands. The GB 5 well offsets the Zephyr GB 3 well that was tested in 1964 at a rate of 2.5 million cubic feet (MMcf) of gas per day from a commingled test of these sands and the deeper LRD sands. In the GB 5 well, good natural gas indications were seen on mud logs and electric logs in three Anderson sands, and production casing and tubing were installed.

After perforating the indicated gas-bearing zones in the Lower Anderson formation in the GB 5 well and the Lower Rio Dell formation in the Vicenus 1-3 well, we did not recover natural gas from either well. We believe this result is inconsistent with the mud log shows, electric log interpretations, and the offsetting well information. Our preliminary conclusion is that polymer fluids used during drilling operations most likely damaged the reservoirs near the wellbores. This conclusion is based in part on the fact that, during the drilling of the Vicenus

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1-3 in 2006 using an oil-based mud system, electric log data and a significant gas kick verified the presence of natural gas in the LRD 15 sand at a subsurface location that is only a few feet laterally from the LRD 15 sand encountered in the current re-entry. We temporarily suspended further testing on the two wells, and are in the process of performing stimulation programs to fracture the formations beyond the damaged zones in the wells. Our estimate of proved developed natural gas reserves as of December 31, 2007 included approximately 278 million cubic feet attributable to the Lower Anderson formation in the GB 5 well, and approximately 615 million cubic feet attributable to the Lower Rio Dell formation in the Vicenus 1-3 well. Our estimate of proved undeveloped natural gas reserves as of December 31, 2007 included approximately 441 million cubic feet expected to be recovered from the Lower Anderson formation in new wells, and approximately 15.8 billion cubic feet expected to be recovered from the Lower Rio Dell formation in new and existing wells.

In January 2008, we moved the drilling rig to the surface drilling pad for the GB 4 well. This well was designed to test the deep Grizzly Bear prospect which underlies the Grizzly Bluff Field. We used the oil-based mud system that was employed in the successful drilling of the Christiansen 3-15 and Vicenus 1-3 wells in 2006. We drilled the GB 4 well from a surface location near the Zephyr GB 1 well, which was drilled in 1964. The upper portion of the GB 4 well was drilled as a twin to the Zephyr GB 1 well to evaluate the shallower zones in the LRD formation that previously tested 5 MMcf of gas per day during an extended four-day test period. The lower portion of the GB 4 well was drilled to 9,530 feet to evaluate the good gas shows encountered in the thick Eel River, Pullen and Bear River sandstones in a well drilled in 1971. The wells drilled in the 1960s and 1970s were not put on production and were subsequently abandoned due to the lack of a natural gas market and pipeline connection. Extensive gas shows and electric log indications of gas were encountered from the deeper formations in the GB 4 well. Protective casing was run to total depth in the well to enable a comprehensive testing program to be initiated. The drilling rig was released, and a completion unit was brought in from the Sacramento Valley to conduct the testing program. This program is expected to require several weeks to complete due to the number of tests planned for the evaluation program. The drilling of the GB 4 well is expected to fulfill our obligations in the Eel River joint venture and remove existing depth restrictions. We are paying 100% of the costs of drilling and completing the GB 4 well, and will retain a 75% working interest in the well.

We performed a CO₂ foam fracture stimulation program on the Vicenus 1-3 and GB 5 wells in June 2008. As of June 3, 2008, the wells were continuing to unload the fracture fluid, and the results of the fracture simulations had not been determined. Further drilling in the Eel River Basin will be planned after the cumulative results of these activities have been evaluated.

In January 2008, the Environmental Impact Report prepared for Humboldt County and the California Coastal Commission was fully approved. This document defines environmental and operating terms and conditions in the Grizzly Bluff area and will regulate all of our future drilling activity in the field.

Natural gas production from the Christiansen 3-15 well in the Grizzly Bluff Field continues to perform to our expectations. Our net production averaged about 265,000 cubic feet per day during the three months ended March 31, 2008.

The Eel River Project is the centerpiece of a large exploitation-exploration opportunity. There is presently minimal competition in the basin, providing us with an opportunity to effectively control the entire basin.

Texas

We have established and initiated an ongoing recompletion program that is expected to increase daily production from the fields in Texas. A 3D seismic survey, which has been proven to be an effective exploration tool in the area, is presently being planned to identify the upside potential at the Goose Creek Field and Goose Creek East Field. The 3D seismic survey is expected to result in much more accurate mapping of the reservoirs and lead to the identification of undeveloped opportunities and deeper oil prospects at the fields. In addition, the seismic surveys in these areas show a strong gas signature over gas reservoirs, a Direct Hydrocarbon Indicator (DHI). This DHI effect directly contributed to the discovery of two nearby natural gas fields from the Vicksburg reservoirs. However, a seismic DHI signature cannot reliably identify reservoirs that are economically productive of hydrocarbons. The Company believes that the deeper Vicksburg reservoirs offer significant upside potential in the Goose Creek Field, where old wellbores encountered gas that was not produced at the time of discovery. A gas pipeline runs through the eastern part of the

property, which should allow for early monetization of this gas.

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In November and December 2007, we drilled three development wells in the Goose Creek Field. The Simms-Sweet #62 well was drilled to a total depth of 4,600 feet and electric logging revealed more than 130 feet of net oil pay in multiple horizons between 1,050 feet and 4,480 feet. Production casing was run in the well and an indicated new pool accumulation in the upper Frio was perforated, from which production was initiated. We then drilled the A. Gaillard #49 well to a total depth of 3,388 feet, which was placed on production in mid-December 2007. The Ashbel Smith C #19 well was drilled to a total depth of 3,992 feet, and has been producing from the Frio formation since late December 2007. Electric logging of both wells indicated several additional intervals with commercial potential in shallower zones. We have working interests of 100% in all three wells, and net revenue interests of 75%, 69% and 74%, respectively.

We also successfully drilled a produced-water disposal well to a depth of 6,000 feet on the Simms-Schilling lease in November 2007. Increasing water disposal capacity is an important element of our strategy to increase oil production because production from some wells had been curtailed due to constraints on water handling capacity. This well also identified several oil zones in the shallow section that were previously thought to have been depleted, and we plan to determine how best to develop these horizons.

The Texas oil fields provided us with net production averaging an aggregate of approximately 560 barrels of oil and oil-equivalent gas per day during the three months ended March 31, 2008.

Anadarko Basin

The initial focus of our activities within the Anadarko Basin has been the area covered by a 75 square mile 3D seismic survey in Roger Mills County, Oklahoma. Through a license held by TeTra Exploration, Inc. (which is owned by our President, John Moran), the Company is planning to acquire non-exclusive access to this survey, which was shot in 1998. The 3D seismic survey was initially shot by a major oil company to define stratigraphic traps in the Pennsylvanian sedimentary section in an area of substantial Pennsylvanian natural gas production. That company drilled only one well using the 3D seismic data set. The well encountered wet Morrow sand and was plugged and abandoned. That company subsequently exited oil and gas exploration activity in the MidContinent region and no further activity has been conducted in the area using this data. Numerous exploratory ideas remain to be exploited on this data set, both in the Pennsylvanian section as well as the deeper Ordovician section. The best wells completed in these rocks typically flow in excess of 10 MMCF of natural gas per day and contain reserves in the 20 to 50 BCF range.

TeTra Exploration has reprocessed the 3D seismic data, completed preliminary geological and geophysical interpretations of the survey data, and identified drillable prospects. Upon consummation of an agreement with TeTra Exploration to acquire non-exclusive access to the 3D seismic data, we plan to acquire oil and gas leases over those prospects, and negotiate joint ventures with other companies, who will be able to earn interests in the leases by drilling one or more exploratory wells on the prospects.

Markets and Customers

The market for oil and natural gas that we will produce depends on factors beyond our control, including the extent of domestic production and imports of oil and natural gas, the proximity and capacity of natural gas pipelines and other transportation facilities, demand for oil and natural gas, the marketing of competitive fuels and the effects of state and federal regulation. The oil and gas industry also competes with other industries in supplying the energy and fuel requirements of industrial, commercial and individual consumers.

Our oil production is expected to be sold at prices tied to the oil futures markets. Our natural gas production is expected to be sold under short-term contracts and priced based on first of the month index prices or on daily spot market prices.

Regulations

General

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Our business is affected by numerous laws and regulations, including energy, environmental, conservation, tax and other laws and regulations relating to the energy industry. Most of our drilling operations will require permit or authorizations from federal, state or local agencies. Changes in any of these laws and regulations or the denial or vacating of permits could have a material adverse effect on our business. In view of the many uncertainties with respect to current and future laws and regulations, including their applicability to us, we cannot predict the overall effect of such laws and regulations on our future operations.

We believe that our operations comply in all material respects with applicable laws and regulations. There are no pending or threatened enforcement actions related to any such laws or regulations. We believe that the existence and enforcement of such laws and regulations will have no more restrictive an effect on our operations than on other similar companies in the energy industry.

Proposals and proceedings that might affect the oil and gas industry are pending before Congress, the Federal Energy Regulatory Commission (FERC), state legislatures and commissions and the courts. We cannot predict when or whether any such proposals may become effective. In the past, the natural gas industry has been heavily regulated. There is no assurance that the regulatory approach currently pursued by various agencies will continue indefinitely. Notwithstanding the foregoing, we do not anticipate that compliance with existing federal, state and local laws, rules and regulations will have a material adverse effect upon our capital expenditures, earnings or competitive position.

Federal Regulation of Sales and Transportation of Natural Gas

Historically, the transportation and sale of natural gas and its component parts in interstate commerce has been regulated under several laws enacted by Congress and the regulations passed under these laws by FERC. Our sales of natural gas, including condensate and liquids, may be affected by the availability, terms and cost of transportation. The price and terms of access to pipeline transportation are subject to extensive federal and state regulation. From 1985 to the present, several major regulatory changes have been implemented by Congress and FERC that affect the economics of natural gas production, transportation and sales. In addition, FERC is continually proposing and implementing new rules and regulations affecting those segments of the natural gas industry, most notably interstate natural gas transmission companies that remain subject to FERC's jurisdiction. These initiatives may also affect the intrastate transportation of gas under certain circumstances. The stated purpose of many of these regulatory changes is to promote competition among the various sectors of the natural gas industry.

The ultimate impact of the complex rules and regulations issued by FERC cannot be predicted. In addition, many aspects of these regulatory developments have not become final but are still pending judicial and final FERC decisions. We cannot predict what further action FERC will take on these matters. Some of FERC's more recent proposals may, however, adversely affect the availability and reliability of interruptible transportation service on interstate pipelines. We do not believe that we will be affected by any action taken materially differently than other natural gas producers, gatherers and marketers with whom we compete.

State Regulation

Our operations are also subject to regulation at the state and in some cases, county, municipal and local governmental levels. Such regulation includes requiring permits for the drilling of wells, maintaining bonding requirements in order to drill or operate wells and regulating the location of wells, the method of drilling and casing wells, the surface use and restoration of properties upon which wells are drilled, the plugging and abandonment of wells and the disposal of fluids used and produced in connection with operations. Our operations are also subject to various conservation laws and regulations pertaining to the size of drilling and spacing units or proration units and the unitization or pooling of oil and gas properties.

In addition, state conservation laws, which frequently establish maximum rates of production from oil and gas wells, generally prohibit the venting or flaring of gas and impose certain requirements regarding the rates of production. State regulation of gathering facilities generally includes various safety, environmental and, in some circumstances, nondiscriminatory take requirements, but, except as noted above, does not generally entail rate regulation. These regulatory burdens may affect profitability, but we are unable to predict the future cost or impact of complying with such regulations.

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Environmental Matters

We are subject to extensive federal, state and local environmental laws and regulations relating to water, air, hazardous substances and wastes, and threatened or endangered species that restrict or limit our business activities for purposes of protecting human health and the environment. Compliance with the multitude of regulations issued by federal, state, and local administrative agencies can be burdensome and costly. State environmental regulatory programs are generally very similar to the corresponding federal environmental regulatory programs, and federal environmental regulatory programs are often delegated to the states.

Our oil and gas exploration and production operations are subject to state and/or federal solid waste regulations that govern the storage, treatment and disposal of solid and hazardous wastes. However, much of the solid waste that will be generated by our oil and gas exploration and production activities is exempt from regulation under federal, and many state, regulatory programs. To the extent our operations generate solid waste, such waste is generally subject to state regulations. We will comply with solid waste regulations in the normal course of business.

In addition to solid and hazardous waste, our production operations may generate produced water as a waste material. This water can sometimes be disposed of by discharging it to surface waters under discharge permits issued pursuant to the Clean Water Act, or an equivalent state program. Another common method of produced water disposal is subsurface injection in disposal wells. Such disposal wells are permitted under the Safe Drinking Water Act, or an equivalent state regulatory program. The drilling, completion, and operation of produced water disposal wells are integral to oil and gas operations.

Air emissions and exhaust from gas-fired generators and from other equipment, such as gas compressors, are potentially subject to regulations under the Clean Air Act, or equivalent state regulatory programs. To the extent that our air emissions are regulated, they are generally regulated by permits issued by state regulatory agencies. We will obtain air permits, where needed, in the normal course of business.

In the event that spills or releases of crude oil or produced water occur, we would be subject to spill notification and response regulations under the Clean Water Act, or equivalent state regulatory programs. Depending on the nature and location of our operations, we may also be required to prepare spill prevention, control and countermeasure response plans under the Clean Water Act, or equivalent state regulatory programs. Response costs could be high and may have a material adverse effect on our operations. We may not be fully insured for these costs.

Failure to comply with environmental regulations may result in the imposition of substantial administrative, civil, or criminal penalties, or restrict or prohibit our desired business activities. Environmental laws and regulations impose liability, sometimes strict liability, for environmental cleanup costs and other damages. Other environmental laws and regulations may delay or prohibit exploration and production activities in environmentally sensitive areas or impose additional costs on these activities.

Costs associated with responding to a major spill of crude oil or produced water, or costs associated with remediation of environmental contamination, are the most likely occurrences that could result in a material adverse effect on our business, financial condition and results of operations. In addition, changes in applicable federal, state and local environmental laws and regulations potentially could have a material adverse effect on our business, financial condition and results of operations.

Competition

The oil and gas industry is highly competitive. Competitors include major oil companies, other independent energy companies and individual producers and operators, many of which have financial resources, personnel and facilities substantially greater than we have. We face intense competition for the acquisition of oil and gas leases and properties. For a more thorough discussion of how competition could impact our ability to successfully complete our business strategy, see **Risk Factors** **Competition** in obtaining rights to explore and develop oil and gas reserves and to market our production may impair our business.

Employees

As of March 31, 2008 the Company had 13 full-time employees. None of our employees is represented by a labor union, and we consider our employee relations to be good.

Table of Contents**Description of Property**

We commenced our present business activities in April 2006. All of the Company's oil and gas exploration, development and production activities are located in the United States.

Oil and Gas Reserves

The following table presents our net proved and proved developed reserves as of December 31, 2007, and the standardized measure of discounted future net cash flows from those reserves. All of our oil and gas properties are located in the United States.

	California	Texas	Total
Total Proved Reserves:			
Oil (Bbls)		4,173,798	4,173,798
Gas (Mcf)	20,981,597	821,471	21,803,168
Total barrels of oil equivalent (BOE)	3,496,933	4,310,710	7,807,643
Total Proved Developed Reserves:			
Oil (Bbls)		3,884,302	3,884,302
Gas (Mcf)	1,707,100	729,903	2,437,003
Total barrels of oil equivalent (BOE)	284,517	4,005,953	4,290,470

Standardized measure of discounted future net cash flows

(in thousands) \$ 136,128

Foothills' estimates of proved reserves for the year ended December 31, 2007 were taken from independent evaluations prepared in accordance with the requirements established by the SEC by Cawley, Gillespie and Associates, Inc.

Net Quantities of Oil and Gas Produced

The following table summarizes sales volumes, sales prices and production cost information for our net oil and gas production for years ended December 31, 2007 and 2006:

	2007			2006		
	Cali- fornia	Texas	Total	Cali- fornia	Texas	Total
Net sales volumes						
Oil (Bbls)		185,110	185,110		69,973	69,973
Gas (Mcf)	111,437	23,709	135,146	25,418	4,717	30,135
Total (BOE)	18,573	189,061	207,634	4,236	70,759	74,995
Average sales price						
Oil (per Bbl), excluding the effects of price risk management activities	\$	\$ 77.62	\$ 77.62	\$	\$ 58.17	\$ 58.17
Oil (per Bbl), including the effects of price risk management activities	\$	\$ 76.54	\$ 76.54	\$	\$ 63.09	\$ 63.09
Gas (per Mcf)	\$ 6.49	\$ 7.39	\$ 7.42	\$ 6.24	\$ 6.85	\$ 6.34
Average production costs (per BOE):						
Lease operating expense	\$ 2.70	\$ 18.34	\$ 16.98	\$ 2.55	\$ 12.15	\$ 11.61
Severance and ad valorem taxes	\$ 2.92	\$ 6.62	\$ 6.33	\$	\$ 6.54	\$ 6.17

Marketing and transportation expense	\$ 2.99	\$ 0.01	\$ 0.32	\$ 3.10	\$	\$ 0.18
Total average production costs	\$ 8.61	\$ 24.97	\$ 23.63	\$ 5.65	\$ 18.69	\$ 17.96

Productive Wells

The following table summarizes productive wells as of December 31, 2007:

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	Oil		Number of Wells Natural Gas		Total	
	Gross (1)	Net (2)	Gross (1)	Net (2)	Gross (1)	Net (2)
California			1	0.8	1	0.8
Texas	78	77.9			78	77.9
Total	78	77.9	1	0.8	79	78.7

(1) Represents the total number of wells at each property.

(2) Represents our interests in the total number of wells at each property.

Developed and Undeveloped Acreage

The following table summarizes developed and undeveloped acreage as of December 31, 2007:

	Developed		Acres Undeveloped		Total	
	Gross (1)	Net (2)	Gross (1)	Net (2)	Gross (1)	Net (2)
California	729	547	15,378	11,381	16,107	11,928
Texas	2,722	2,694	320	320	3,042	3,014
Total	3,451	3,241	15,698	11,701	19,149	14,942

(1) Represents the total acreage at each property.

(2) Represents our interests in the total acreage at each property.

Drilling Activity

The following table sets forth certain information regarding our drilling activities for the periods indicated:

	Year Ended December		Period from	
	31, 2007		Commencement of Present Business Activities	
	Gross		in April 2006 through	
	(1)	Net (2)	Gross (1)	Net (2)
Exploration:				
Productive			2	1.5
Dry				
Development:				
Productive	3	3.0		
Dry				
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	Year Ended December		Period from Commencement of Present Business Activities	
	31, 2007		in April 2006 through December 31, 2006	
	Gross (1)	Net (2)	Gross (1)	Net (2)
Total				
Productive	3	3.0	2	1.5
Dry				

(1) Represents the total number of wells for which there was drilling activity.

(2) Represents our interests in the total number of wells for which there is drilling activity.

Present Activities

As of December 31, 2007, two gross (1.5 net) development wells in California (the Vicenus 1-3 re-entry and deepened well and the GB 5 development well) had been drilled with indications of productivity, but were awaiting testing. After perforating the indicated gas-bearing zones in both wells, we did not recover natural gas from either well. We believe this result is inconsistent with the mud log shows, electric log interpretations, and the offsetting well information. Our preliminary conclusion is that polymer fluids used during drilling operations most likely damaged the reservoirs near the wellbores. This conclusion is based in part on the fact that, during the drilling of the Vicenus 1-3 in 2006 using an oil-based mud system, electric log data and a significant gas kick verified the presence of natural gas in the LRD 15 sand at a subsurface location that is only a few feet laterally from the LRD 15 sand encountered in the current re-entry. We temporarily suspended further testing on the two wells, and are in the process of performing stimulation programs to fracture the formations beyond the damaged zones in the wells.

Our principal executive offices are located at 4540 California Avenue, Suite 550, Bakersfield, California 93309 and our phone number is (661) 716-1320. We currently lease approximately 4,500 square feet of office space and believe that suitable additional space to accommodate our anticipated growth will be available in the future on commercially reasonable terms.

Recent Developments

The board of directors of Foothills Resources, Inc. (the Company) has approved certain changes to the Company's Articles of Incorporation and Bylaws, including (1) changing the Articles of Incorporation to eliminate the current restriction on the maximum number of directors of the Company, (2) changing the Bylaws to allow the board of directors to fix the number of directors, (3) changing the Bylaws to allow the Bylaws to be amended by a vote of either the Company's board of directors or the affirmative vote of at least 66% of the outstanding capital stock of the Company, and (4) other changes to conform certain provisions of the Company's Articles of Incorporation and Bylaws to Title 7 of the Nevada Revised Statutes, including provisions regarding the issuance of preferred stock, the liability

of the Company's directors and officers, the indemnification of the Company's directors and officers, and the removal of the Company's directors. While the proposed amendments will provide the Company with increased flexibility in connection with its operations, some of them may have the effect of delaying, deferring or discouraging a person or entity from acquiring control of the Company.

These proposed changes to the Company's Articles of Incorporation and Bylaws will be presented to the shareholders for a vote at the Company's 2008 annual meeting. In connection with the Company's annual meeting of stockholders, the Company will deliver a definitive proxy statement to all shareholders of record as of the record date set forth in the definitive proxy statement. Please see the Company's definitive proxy statement for a full description of the proposed changes to the Company's Articles of Incorporation and Bylaws, and the other matters that will be put to a shareholder vote. Before making any voting or investment decisions, stockholders of the Company are urged to read the proxy statement and the prospectus carefully in their entirety, because they contain important information about the Company and the proposed changes to our Articles of Incorporation and Bylaws. Stockholders of the Company may obtain free copies of the proxy statement at the Securities and Exchange Commission's website at <http://www.sec.gov>. In addition, a stockholder who wishes to receive a copy of the proxy statement, without charge, should submit a request to: Foothills Resources, Inc., Office of the Secretary, 4540 California Avenue, Suite 550, Bakersfield, California 93309.

Legal Proceedings

From time to time we may become a party to litigation or other legal proceedings that, in the opinion of our management are part of the ordinary course of our business. Currently, no legal proceedings or claims are pending against or involve us that, in the opinion of our management, could reasonably be expected to have a material adverse effect on our business, prospects, financial condition or results of operations.

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth the executive officers and directors, their ages and position(s) with the Company.

Name	Age	Position
Dennis B. Tower	61	Director, Chairman of the Board and Chief Executive Officer
John L. Moran	62	Director and President
W. Kirk Bosché	57	Chief Financial Officer, Treasurer and Secretary
James H. Drennan	62	Vice President, Land and Legal
Michael L. Moustakis	50	Vice President, Engineering
John A. Brock	77	Director
Frank P. Knuettel	66	Director
David A. Melman	65	Director
Christopher P. Moyes	61	Director

Our directors and officers hold office until the earlier of their death, resignation, or removal or until their successors have been duly elected and qualified.

Dennis B. Tower, Chairman of the Board, Chief Executive Officer and Director. Before joining Foothills as its Chief Executive Officer in 2006, Mr. Tower had extensive involvement in all phases of new venture exploration, appraisal, project evaluation and development, asset acquisition and disposal, strategic goals setting and human resource evaluation. During 2005, Mr. Tower, together with Messrs. Moran and Bosché, evaluated opportunities that would be appropriate for launching a new oil and gas exploration and development company, which ultimately led

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to the formation of Foothills California, Inc. at the end of 2005. From 2000 through 2004, Mr. Tower served as President and Chief Executive Officer at First International Oil Corporation, a privately held independent oil company with extensive holdings in Kazakhstan, where he led the company to a successful sale with a major Chinese oil company. Previously, Mr. Tower held several Vice President, Manager, Director and Geologist positions at Atlantic Richfield Company (ARCO), where he was responsible for the company's Mozambique drilling operations, managed the company's exploration licenses in Myanmar and the Philippines, coordinated exploration efforts in other Asian countries and evaluated field redevelopment and asset acquisition opportunities. Mr. Tower led ARCO's North Sea exploration activities for a nine-year period during which ARCO made numerous new oil and natural gas discoveries in the United Kingdom, Norway and the Netherlands. During the course of his career, Mr. Tower has been directly involved in the discovery of 35 oil and gas fields in 11 different countries. Mr. Tower holds both Bachelor's and Master's degrees in Geology from Oregon State University.

John L. Moran, President and Director. Prior to joining Foothills in 2006, Mr. Moran, together with Messrs. Tower and Bosché, evaluated opportunities during 2005 that would be appropriate for launching a new oil and gas exploration and development company, which ultimately led to the formation of Foothills California, Inc. at the end of 2005. In May of 2000, Mr. Moran formed and later served as President and Exploration Manager of Carneros Energy, Inc., a private oil and gas exploration company with exploration and acquisition emphasis in the San Joaquin and Sacramento Basins of California, where he was responsible for obtaining \$75 million in equity funding. From 1997 through 1998, Mr. Moran founded and acted as President of Integrated Petroleum Exploration (IPX) which merged with and into Prime Natural Resources (Prime) in 1998, where he served as Vice President of Exploration. Prior to his time at IPX and Prime, Mr. Moran served as both Vice President Exploration/Chief Geologist and Exploration Manager/MidContinent Region for Apache Corporation. In 1995 Mr. Moran left Apache to found TeTra Exploration, Inc., an oil and gas exploration and development company using 3D seismic to explore for oil and gas in the Anadarko Basin in Oklahoma. He was responsible for the acquisition of the right to use 13,000 miles of 2D seismic for exploration purposes and was instrumental in using this to develop a 75 square-mile 3D seismic project that was later sold to a major oil and gas company. Mr. Moran holds both Bachelor's and Master's degrees in Geology with a major in Stratigraphy and a minor in Petrology from Oregon State University.

W. Kirk Bosché, Chief Financial Officer, Treasurer and Secretary. Mr. Bosché has diversified experience as a financial and accounting executive officer in public and private oil and gas exploration and production organizations. Mr. Bosché joined Foothills in 2006 as its Chief Financial Officer. During 2005, Mr. Bosché, together with Messrs. Tower and Moran, evaluated opportunities that would be appropriate for launching a new oil and gas exploration and development company, which ultimately led to the formation of Foothills California, Inc. at the end of 2005. Mr. Bosché served as Chief Financial Officer of First International Oil Corporation from 1997 through 2004. From 1986 through 1997, Mr. Bosché was Vice President and Treasurer for Garnet Resources Corporation, a publicly traded independent oil and gas exploration and production company with activities in seven foreign countries. He began his career with Price Waterhouse & Co., and has been a Certified Public Accountant since 1975. Mr. Bosché holds a BBA in Accounting from the University of Houston.

James H. Drennan, Vice President, Land and Legal. Prior to joining Foothills in 2006, Mr. Drennan was Land Manager at Vaquero Energy Inc. From 2002 through 2005, he served as General Counsel and Land Manager of Carneros Energy, Inc. From 1990 through 2002, Mr. Drennan practiced law with the firms of Jones & Beardsley and Noriega and Bradshaw, where his practice areas included oil and gas, real estate, estate planning, probate, corporate, general business and litigation. From 1978 to 1990, he was Land Manager for Buttes Resources, Depco, Inc., Ferguson & Bosworth, and Bosworth Oil Co. Mr. Drennan started his career in the oil and gas industry in 1974 as land agent with Gulf Oil Corporation. He holds a JD from California Pacific School of Law, and a BA in Economics from San Diego State University.

Michael L. Moustakis, Vice President, Engineering. Mr. Moustakis joined Foothills as Vice President, Engineering in 2006. He was Engineering Manager at Rockwell Petroleum, Inc. from 2005 through 2006, and held the same position at OXY Resources California LLC from 2001 through 2005. Mr. Moustakis was Lead Petroleum Engineer with Preussag Energie GmbH from 2000 to 2001, and Director of Reservoir Engineering for Anglo-Albanian Petroleum Ltd. from 1994 to 2000. He began his career with Union Oil of California in 1984, and subsequently served in various

engineering positions at several companies, including Shell Western E&P, Northern Digital Inc. and Eastern Petroleum Services Ltd. He holds a Bachelor's degree in Petroleum Engineering from the University of Alaska.

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John A. Brock, Director. Mr. Brock became a director of Foothills in 2006. Mr. Brock served as Chairman of Brighton Energy, LLC until its sale in October 2006. He is a director of American Trustcorp., Fabtec, Inc. (ReRoof America), Lifeguard America, LLC, Soho Properties, LLC, Medallion Petroleum, Inc. and the AGOS Group, LLC, and is an advisory director of Ward Petroleum, Inc. Mr. Brock is a member of nine petroleum industry associations. During his distinguished career, he has formed exploration departments and instituted and supervised exploration programs for four successful companies. Mr. Brock is a Founder and Director of the Sarkeys Energy Center at the University of Oklahoma, is a Director of the Oklahoma Nature Conservancy and the Sutton Avian Research Center, and is active in numerous other civic and community groups. He has also organized and is currently Chairman of Oklahomans for Lawsuit Reform and co-chairman of Oklahomans for Workers Compensation Reform. Mr. Brock holds a B.S. in Geological Engineering from the University of Oklahoma.

Frank P. Knuettel, Director. Mr. Knuettel became a director of Foothills in 2006. He is an Adjunct Faculty member at The Mason School of Business at the College of William and Mary where he teaches securities analysis and Investment Banking. Prior to retiring in 2000, he was a Managing Director of PaineWebber, Inc., since acquired by UBS Securities, where he specialized in the analysis of energy and energy-related securities, as well as working in investment banking on energy transactions. His career spanned nearly 35 years, during which he was associated with an energy sector fund for 14 years and was in the securities industry for 21 years. Mr. Knuettel is a Chartered Financial Analyst, and a member of the National Association of Petroleum Investment Analysts and the CFA Institute. He holds a Bachelor of Science in Accounting from La Salle University and a Master of Business Administration (Finance) from St. John's University.

David A. Melman, Director. Mr. Melman became a director of Foothills in 2006. He currently is President, Chief Executive Officer and a director of British American Natural Gas Corporation, which is engaged in energy exploration in Mozambique, and a director of Swift LNG, LLC and Sunrise Energy Resources, Inc. (OTCBB). He was a director of Omni Energy Services, Inc. (NASDAQ) from 2004 to 2005 and of Beta Oil and Gas, Inc. (NASDAQ) from 2003 to 2004. From 1998 to 2000, he served as the Chief Corporate Officer and a director of Capatsky Oil and Gas Co., a predecessor to Cardinal Resources plc. (AIM), an oil and gas company with interests in the Ukraine. His professional experience includes the practice of law with Burke & Burke (1969-1971) and of accountancy with Coopers & Lybrand (1968-1969). He is a member of the New York State Bar. He holds a degree in Economics and Accounting from Queens College of the City University of New York, a Juris Doctor from Brooklyn Law School and a Master of Law in Taxation from New York University Graduate School of Law.

Christopher P. Moyes, Director. Mr. Moyes became a director of Foothills in 2006. He has been active in the international and domestic oil and gas business since 1968. Mr. Moyes is President of Moyes & Co., Inc., a private energy advisory firm headquartered in Dallas, Texas. Moyes & Co., Inc. provides advice on oil and gas exploration, appraisal, project and portfolio evaluation, asset acquisitions and disposals and maintains a proprietary database covering upstream oil and gas. Moyes & Co., Inc. has through 2005 evaluated opportunities for launching a new oil and gas exploration and production company, which led to the formation of Foothills California, Inc. at the end of 2005. Previously Mr. Moyes was President of Gaffney Cline & Associates (GCA), based in Dallas, Texas. Before coming to Dallas in 1976, Mr. Moyes was based in Singapore and London for GCA, holding various management functions. Mr. Moyes started his career with West Australian Petroleum Pty. Ltd., in Perth Australia. Mr. Moyes holds a Bachelor of Science in Geology from the University of Western Australia and a Master of Science in Geology & Petroleum Engineering from the Royal School of Mines, Imperial College, London.

Our above-listed officers and directors have neither been convicted in any criminal proceeding during the past five years nor parties to any judicial or administrative proceeding during the past five years that resulted in a judgment, decree or final order enjoining them from future violations of, or prohibiting activities subject to, federal or state securities laws or a finding of any violation of federal or state securities law or commodities law. Similarly, no bankruptcy petitions have been filed by or against any business or property of any of our directors or officers, nor has any bankruptcy petition been filed against a partnership or business association in which these persons were general partners or executive officers.

Board of Directors

Our board of directors consists of six directors. We adhere to the Nasdaq Marketplace Rules in determining whether

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a director is independent and our board of directors has determined that three of our six directors, Messrs. Brock, Knuettel and Melman, are independent within the meaning of Rule 4200(a)(15) of the NASDAQ Manual.

Board Committees

The Board has an audit and compensation committee, each of which is constituted solely of independent directors. The Board does not have a nominating committee. Until further determination, the full board of directors will undertake the duties of the nominating committee.

The Audit Committee consists of Messrs. John A. Brock, Frank P. Knuettel and David A. Melman. Messrs. John A. Brock, Frank P. Knuettel and David A. Melman are independent as defined by the SEC. We do not currently have an audit committee financial expert as that term is defined in Item 407(d)(5) of Regulation S-B

Among other matters, the Audit Committee:

- Discusses with management and the independent registered public accounting firm the quality of our accounting principles and financial reporting;

- Engages and replaces the independent registered public accounting firm as appropriate;

- Evaluates the performance of, independence of and pre-approves all services provided by the independent registered public accounting firm; and

- Oversees our internal controls.

The Compensation Committee consists of Messrs. John A. Brock, Frank P. Knuettel and David A. Melman.

Messrs. John A. Brock, Frank P. Knuettel and David A. Melman are independent directors as defined by the rules of Nasdaq.

Among other matters, the Compensation Committee:

- Assists the Board in ensuring that a proper system of long-term and short-term compensation is in place to provide performance-oriented incentives to management, and that compensation plans are appropriate and competitive and properly reflect the objectives and performance of management and the Company;

- Establishes the compensation of all of our executive officers;

- Prepares a report of the Compensation Committee for inclusion in the Company's annual proxy statement; and

- Administers the Company's equity incentive programs, including the 2007 Equity Incentive Plan.

The Compensation Committee is responsible for overseeing the determination, implementation and administration of remuneration, including compensation, benefits and perquisites, of all executive officers and other members of senior management whose remuneration is the responsibility of the Board.

More specifically, the Compensation Committee's responsibilities include: (a) in consultation with senior management, establishing the Company's general compensation philosophy and objectives; (b) reviewing and approving goals and objectives relevant to the compensation of the Chief Executive Officer and President; (c) annually evaluating that performance in light of the goals and objectives established; (d) reviewing and approving all compensation for executive officers, other than our Chief Executive Officer and President; (e) reviewing and approving all employment agreements, severance agreements, change in control provisions and agreement and any special supplemental benefits applicable to the Company's executive officers; (f) reviewing and making recommendations to the Board with respect to incentive compensation and equity-based plans; (g) reviewing and discussing with management the disclosures made in the Compensation Discussion and Analysis prior to the filing of

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of the Company's Annual Report on Form 10-KSB and proxy statement for the annual meeting of stockholders, and recommending to the Board whether the Compensation Discussion and Analysis should be included in the Annual Report on Form 10-KSB and proxy statement; (h) preparing an annual compensation committee report for inclusion in the Company's proxy statement for the annual meeting of stockholders in accordance with the applicable rules of the Securities and Exchange Commission; (i) conducting an annual performance evaluation of the Compensation Committee; (j) reviewing and reassessing the adequacy of the Compensation Committee charter on an annual basis and recommending any proposed changes to the Board for approval; and (k) administering the Company's equity-based compensation plans, including the grant of stock options and other equity awards under such plans. The Compensation Committee has the authority to delegate the responsibilities listed above to subcommittees of the Compensation Committee if it determines such delegation would be in the best interest of the Company.

Code of Conduct and Ethics

The Company has not adopted a code of ethics but plans to do so in the near future.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of our common stock as of March 31, 2008. The table sets forth the beneficial ownership of (i) each person who, to our knowledge, beneficially owns more than 5% of the outstanding shares of common stock; (ii) each of our directors and executive officers; and (iii) all of our executive officers and directors as a group. The number of shares owned includes all shares beneficially owned by such persons, as calculated in accordance with Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and such information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes any shares of our common stock as to which a person has sole or shared voting power or investment power and any shares of common stock which the person has the right to acquire within 60 days of March 31, 2008 through the exercise of any option, warrant or right, through conversion of any security or pursuant to the automatic termination of a power of attorney or revocation of a trust, discretionary account or similar arrangement. The address of each executive officer and director is c/o Foothills Resources, Inc., 4540 California Avenue, Suite 550, Bakersfield, California 93309.

Name of Beneficial Owner	Number	Percentage(1)
Dennis B. Tower (2)	5,130,335	8.4%
John L. Moran (3)	4,982,710	8.2%
W. Kirk Bosché (4)	3,458,877	5.7%
Christopher P. Moyes (5)	1,554,675	2.6%
Michael L. Moustakis (6)	193,000	*
James H. Drennan (7)	100,000	*
Frank P. Knuettel (8)	200,001	*
John A. Brock (9)	50,000	*
David A. Melman (10)	137,500	*
Goldman, Sachs & Co. (11)	8,000,000	12.3%
Executive Officers and Directors as Group	15,781,898	25.5%

* Denotes less than 1%

Notes:

(1) Beneficial ownership percentages are calculated based

on 60,572,442
shares of
common stock
issued and
outstanding as
of March 31,
2008. Beneficial
ownership is
determined in
accordance with
Rule 13d-3 of
the Exchange
Act. The
number of
shares
beneficially
owned by a
person includes
shares of
common stock
underlying
options or
warrants held by
that person that
are currently
exercisable or
exercisable
within 60 days
of March 31,
2008. The
shares issuable
pursuant to the
exercise of
those options or
warrants are
deemed
outstanding for
computing the
percentage
ownership of
the person
holding those
options and
warrants but are
not deemed
outstanding for
the purposes of
computing the
percentage
ownership of
any other

person. The
persons and
entities named
in the table have
sole voting and
sole investment
power with

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respect to the
shares set forth
opposite that
person's name,
subject to
community
property laws,
where
applicable,
unless otherwise
noted in the
applicable
footnote.

- (2) Includes warrants to acquire 112,500 shares of common stock purchased in the April 2006 offering and exercisable within 60 days. Includes options exercisable within 60 days to acquire 225,000 shares of common stock. Includes 41,116 shares of restricted stock awarded under our 2007 Equity Incentive Plan. Includes 4,467,383 shares of common stock owned by the Tower Family Trust.
- (3) Includes options exercisable within 60 days to acquire 225,000 shares of common

stock. Includes 40,991 shares of restricted stock awarded under our 2007 Equity Incentive Plan.

(4) Includes warrants to acquire 54,000 shares of common stock purchased in the April 2006 offering and exercisable within 60 days. Includes options exercisable within 60 days to acquire 150,000 shares of common stock. Includes 27,665 shares of restricted stock awarded under our 2007 Equity Incentive Plan.

(5) Includes 217,188 shares of common stock held by MMP LLP, in which Mr. Moyes is a partner. Includes 34,000 shares of common stock and warrants to acquire 25,500 shares of common stock exercisable within 60 days, which shares and warrants were purchased by Choregus Master Trust,

Plan I, Money Purchase and Choregus Master Trust, Plan II, Profit Sharing in the April 2006 offering, and of which shares and warrants Mr. Moyes is deemed to be the beneficial owner.

(6) Includes options exercisable within 60 days to acquire 100,000 shares of common stock.

(7) Includes options exercisable within 60 days to acquire 75,000 shares of common stock.

(8) Includes options exercisable within 60 days to acquire 75,000 shares of common stock. Includes 71,429 shares of common stock and warrants to acquire 53,572 shares of common stock exercisable within 60 days, which shares and warrants were purchased by Francis P. Knuettel as Trustee of the Francis P.

Knuettel Rev
LVG TR UA
DTD 3/7/03.

- (9) Includes options exercisable within 60 days to acquire 50,000 shares of common stock.
- (10) Includes options exercisable within 60 days to acquire 50,000 shares of common stock. Includes warrants to acquire 37,500 shares of common stock purchased in the April 2006 offering and exercisable within 60 days.
- (11) Includes warrants to acquire 1,666,667 shares of common stock acquired in the September 2006 offering and exercisable within 60 days. Includes warrants to acquire 3,000,000 shares of common stock issued in connection with the execution in September 2006 of a credit and guaranty agreement with

J. Aron &
Company, an
affiliate of
Goldman, Sachs
& Co., and
exercisable
within 60 days.
The address of
Goldman, Sachs
& Co. is 85
Broad Street,
New York, New
York 10004.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table summarizes all compensation recorded by us in the last two completed fiscal years for our Chief Executive Officer, President, Chief Financial Officer, and the Company's two other executive officers. Such officers are referred to herein as our Named Executive Officers.

Name and Principal Position	Year	Salary (\$)(1)	Bonus (\$)	Stock Awards (\$)(2)	Option Awards (\$)(2)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation (\$)(3)	All Other Compensation (\$)(3)	Total (\$)
Dennis B. Tower	2007	190,000		26,048	37,964			2,850	256,862
Chief Executive Officer	2006	124,028	66,500		27,806				218,334

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Name and		Salary		Stock	Option Awards	Non-Equity Incentive Plan Compensation	Nonqualified Deferred Compensation	All Other Compensation	Total
Principal Position	Year	(\$)(1)	Bonus (\$)	(\$)(2)	(2)	Compensation (\$)	(3)	(3)	Total (\$)
John L. Moran	2007	190,000		26,048	37,964				254,012
President	2006	124,028	66,500		27,806				218,334
W. Kirk Bosché	2007	175,000		17,365	25,309		5,012		222,686
Chief Financial Officer and Secretary	2006	114,236	111,250		18,537		2,692		246,715
Michael L. Moustakis	2007	180,000			74,728		1,553		218,181
Vice President, Engineering	2006	37,500	45,000		10,936		95		93,531
James H. Drennan	2007	150,000			65,364		2,817		256,281
Vice President, Land and Legal	2006	85,417			43,576		185		129,178

(1) Salaries are provided for 2007 and that part of 2006 during which each Named Executive Officer served as such. Messrs. Tower, Moran and Bosché commenced employment with the Company on April 6, 2006. Mr. Moustakis and Mr. Drennan commenced employment with the Company on October 16, 2006 and May 1, 2006, respectively.

- (2) Represents the dollar value recognized in 2007 as compensation expense for financial statement reporting purposes of restricted shares and options awarded in 2007 or earlier. See Note 5 to our Notes to Consolidated Financial Statements as of December 31, 2007 for a description of the assumptions made in the valuation of the restricted shares and options.
- (3) Consists of the following:
 - (a) Matching contributions to our 401(k) savings plan during 2007 for the benefit of the Named Executive Officers in the amounts of \$2,850 for Mr. Tower, \$2,917 for Mr. Bosché, \$903 for Mr. Moustakis, and \$2,500 for Mr. Drennan; and

- (b) Life insurance premiums paid for the benefit of the Named Executive Officers in the amounts of \$2,095 and \$2,692 for Mr. Bosch  for 2007 and 2006, respectively, \$650 and \$95 for Mr. Moustakis for 2007 and 2006, respectively, and \$317 and \$185 for Mr. Drennan for 2007 and 2006, respectively.

Agreements with Executive Officers

We have entered into executive employment agreements with Dennis B. Tower, our Chairman of the Board and Chief Executive Officer, John L. Moran, our President, and W. Kirk Bosch , our Chief Financial Officer, Treasurer and Secretary. Additionally, we entered into written letters of employment with James H. Drennan, our Vice President, Land and Legal, and Michael L. Moustakis, our Vice President, Engineering.

Dennis B. Tower Chief Executive Officer

On April 6, 2006, we entered into an executive employment agreement with Mr. Tower which provides for an initial annual base salary of \$190,000 and for unspecified annual bonuses as warranted. Under the agreement, Mr. Tower received options to purchase up to 300,000 shares of common stock under our 2006 Equity Incentive Plan, which options vest as follows: 25% of the shares of common stock underlying such option vested on the date of grant, and the remaining 75% of the shares of common stock underlying the option will vest in equal annual installments on the first, second and third anniversaries of the date of grant. Subsequent grants of stock options will vest and be exercisable pursuant to the terms and conditions of the 2006 Equity Incentive Plan.

Mr. Tower's employment agreement has an unspecified term of service subject to termination for cause and without cause, and provides for severance payments to Mr. Tower, in the event he is terminated without cause or he terminates the agreement for good reason, in the amount of two times total compensation for the prior year. Good reason includes an adverse change in the executive's position, title, duties or responsibilities, or any failure to re-elect him to such position (except for termination for cause). Mr. Tower's employment agreement includes standard indemnity, insurance, non-competition and confidentiality provisions.

John L. Moran President

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On April 6, 2006, we entered into an executive employment agreement with Mr. Moran which provides for an initial annual base salary of \$190,000 and for unspecified annual bonuses as warranted. Under the agreement, Mr. Moran received options to purchase up to 300,000 shares of common stock under the 2006 Equity Incentive Plan, which options vest as follows: 25% of the shares of common stock underlying such option vested on the date of grant, and the remaining 75% of the shares of common stock underlying the option will vest in equal annual installments on the first, second and third anniversaries of the date of grant. Subsequent grants of stock options will vest and be exercisable pursuant to the terms and conditions of the 2006 Equity Incentive Plan.

Mr. Moran's employment agreement has an unspecified term of service subject to termination for cause and without cause, and provides for severance payments to Mr. Moran, in the event he is terminated without cause or he terminates the agreement for good reason, in the amount of two times total compensation for the prior year. Good reason includes an adverse change in the executive's position, title, duties or responsibilities, or any failure to re-elect him to such position (except for termination for cause). Mr. Moran's employment agreement includes standard indemnity, insurance, non-competition and confidentiality provisions.

W. Kirk Bosché, Chief Financial Officer

On April 6, 2006, we entered into an executive employment agreement with Mr. Bosché which provides for an initial annual base salary of \$175,000 and for unspecified annual bonuses as warranted. Under the agreement, Mr. Bosché received options to purchase up to 200,000 shares of common stock under our 2006 Equity Incentive Plan, which options vest as follows: 25% of the shares of common stock underlying such option vested on the date of grant, and the remaining 75% of the shares of common stock underlying the option will vest in equal annual installments on the first, second and third anniversaries of the date of grant. Subsequent grants of stock options will vest and be exercisable pursuant to the terms and conditions of the 2006 Equity Incentive Plan.

Mr. Bosché's employment agreement has an unspecified term of service subject to termination for cause and without cause, and provides for severance payments to Mr. Bosché, in the event he is terminated without cause or he terminates the agreement for good reason, in the amount of two times total compensation for the prior year. Good reason includes an adverse change in the executive's position, title, duties or responsibilities, or any failure to re-elect him to such position (except for termination for cause). Mr. Bosché's employment agreement includes standard indemnity, insurance, non-competition and confidentiality provisions.

James H. Drennan, Vice President, Land and Legal

On April 21, 2006 we entered into a written employment agreement with Mr. Drennan, effective as of May 1, 2006, which provides for an initial annual base salary of \$125,000 and other unspecified annual bonuses as warranted. Under the agreement, Mr. Drennan is entitled to receive options to purchase up to 100,000 shares of our common stock under the 2006 equity incentive plan, which options were awarded by our board of directors on May 2, 2006. These options vest as follows: 25% of the shares of common stock underlying such option vested on the date of grant, and the remaining 75% of the shares of common stock underlying the option will vest in equal annual installments on the first, second and third anniversaries of the date of grant. Subsequent grants of stock options will vest and be exercisable pursuant to the terms and conditions of the 2006 Equity Incentive Plan. Effective as of December 1, 2006, Mr. Drennan's annual base salary increased to \$150,000.

Mr. Drennan's employment agreement has an unspecified term of service and his employment is at will and subject to termination for any reason, without severance payment. In connection with his employment, Mr. Drennan also signed our standard Assignment of Invention and Non-Disclosure Agreement, Non-Solicitation Agreement, and Insider Trading and Disclosure Policy Acknowledgement.

Michael L. Moustakis, Vice President, Engineering

On October 4, 2006 we entered into a written employment agreement with Mr. Moustakis which provides for an initial annual base salary of \$180,000, a hiring bonus of \$45,000, and other unspecified annual bonuses as warranted. Under the agreement, Mr. Moustakis is entitled to receive options to purchase up to 200,000 shares of our common stock under the 2006 equity incentive plan, which options were awarded by our board of directors on November 7, 2006. These options vest as follows: 25% of the shares of common stock underlying such option vested on the date of grant, and the remaining 75% of the shares of common stock underlying the option will vest in equal annual installments on the first, second and third anniversaries of the date of grant. Subsequent grants of stock

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options will vest and be exercisable pursuant to the terms and conditions of the 2006 Equity Incentive Plan. Mr. Moustakis's employment agreement has an unspecified term of service and his employment is at will and subject to termination for any reason, without severance payment. In connection with his employment, Mr. Moustakis also signed our standard Assignment of Invention and Non-Disclosure Agreement, Non-Solicitation Agreement, and Insider Trading and Disclosure Policy Acknowledgement.

2007 Equity Incentive Plan

Our 2007 Equity Incentive Plan enables our board of directors to provide equity-based incentives through grants or awards of incentive awards to our present and future employees, directors, consultants and other third party service providers. As of March 31, 2008, we had thirteen employees, five executive officers, six directors, and three consultants and other third party service providers eligible to participate in the 2007 Equity Incentive Plan. The board of directors reserved a total of 5,000,000 shares of our common stock for issuance under the equity incentive plan. Shares issued under the plan through the settlement, assumption or substitution of outstanding awards or obligations to grant future awards as a condition of acquiring another entity will not reduce the maximum number of shares available under the plan. In addition, the number of shares of our common stock issuable under the plan, any number of shares subject to any numerical limit in the plan, and the number of shares and terms of any incentive award will be adjusted in the event of any change in our outstanding common stock by reason of any stock dividend, spin-off, split-up, stock split, reverse stock split, recapitalization, reclassification, merger, consolidation, liquidation, business combination or exchange of shares or similar transaction.

The compensation committee of the board of directors (or the entire board of directors in the absence of such a committee) administers the plan. Subject to the terms of the plan, the compensation committee will have complete authority and discretion to determine the terms of awards under the plan.

The plan authorizes the grant, to participants, of nonqualified stock options, incentive stock options, restricted stock awards, restricted stock units, performance grants intended to comply with Section 162(m) of the Internal Revenue Code, and stock appreciation rights, as described below:

Options granted under the plan entitle the grantee, upon exercise, to purchase a specified number of shares from us at a specified exercise price per share. The exercise price for shares of common stock covered by an option cannot be less than the fair market value of the common stock on the date of grant unless we agree otherwise at the time of the grant.

Restricted stock awards and restricted stock units may be awarded on terms and conditions established by the board of directors, which may include performance conditions for restricted stock awards and the lapse of restrictions on the achievement of one or more performance goals for restricted stock units.

Unrestricted stock awards that are free of any vesting requirements may be awarded by the board of directors.

The board of directors may make performance grants, each of which will contain performance goals for the award, including the performance criteria, the target and maximum amounts payable, and other terms and conditions.

The plan authorizes the granting of stock awards. The board of directors will establish the number of shares of common stock to be awarded and the terms applicable to each award, including performance restrictions.

Stock appreciation rights entitle the participant to receive a distribution in an amount not to exceed the number of shares of common stock subject to the portion of the stock appreciation right exercised multiplied by the difference between the market price of a share of common stock on the date of exercise of the stock appreciation right and the market price of a share of common stock on the date of grant of the stock appreciation right.

The board of directors may suspend or terminate the plan without stockholder approval or ratification at any time or from time to time. Unless sooner terminated, the plan will terminate 10 years after it was adopted. The board of

directors may also amend the plan at any time. No change may be made that increases the total number of shares of

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common stock reserved for issuance pursuant to incentive awards or reduces the minimum exercise price for options or exchange of options for other incentive awards, unless such change is authorized by our stockholders.

2006 Equity Incentive Plan

Our 2006 Equity Incentive Plan enables our board of directors to provide equity-based incentives through grants or awards of incentive awards to our present and future employees, directors, consultants and other third party service providers. As of March 31, 2008, we had thirteen employees, five executive officers, six directors, and three consultants and other third party service providers eligible to participate in the 2006 Equity Incentive Plan. The board of directors reserved a total of 2,000,000 shares of our common stock for issuance under the equity incentive plan. Shares issued under the plan through the settlement, assumption or substitution of outstanding awards or obligations to grant future awards as a condition of acquiring another entity will not reduce the maximum number of shares available under the plan. In addition, the number of shares of our common stock issuable under the plan, any number of shares subject to any numerical limit in the plan, and the number of shares and terms of any incentive award will be adjusted in the event of any change in our outstanding common stock by reason of any stock dividend, spin-off, split-up, stock split, reverse stock split, recapitalization, reclassification, merger, consolidation, liquidation, business combination or exchange of shares or similar transaction.

The compensation committee of our board of directors (or the entire board of directors in the absence of such a committee), administers the plan. Subject to the terms of the plan, the compensation committee will have complete authority and discretion to determine the terms of awards under the plan.

The plan authorizes the grant, to participants, of nonqualified stock options, incentive stock options, restricted stock awards, restricted stock units, performance grants intended to comply with Section 162(m) of the Internal Revenue Code, and stock appreciation rights, as described below:

Options granted under the plan entitle the grantee, upon exercise, to purchase a specified number of shares from us at a specified exercise price per share. The exercise price for shares of common stock covered by an option cannot be less than the fair market value of the common stock on the date of grant unless we agree otherwise at the time of the grant.

Restricted stock awards and restricted stock units may be awarded on terms and conditions established by the compensation committee, which may include performance conditions for restricted stock awards and the lapse of restrictions on the achievement of one or more performance goals for restricted stock units.

The compensation committee may make performance grants, each of which will contain performance goals for the award, including the performance criteria, the target and maximum amounts payable, and other terms and conditions.

The plan authorizes the granting of stock awards. The compensation committee will establish the number of shares of common stock to be awarded and the terms applicable to each award, including performance restrictions.

Stock appreciation rights entitle the participant to receive a distribution in an amount not to exceed the number of shares of common stock subject to the portion of the stock appreciation right exercised multiplied by the difference between the market price of a share of common stock on the date of exercise of the stock appreciation right and the market price of a share of common stock on the date of grant of the stock appreciation right.

The board of directors may suspend or terminate the plan without stockholder approval or ratification at any time or from time to time. Unless sooner terminated, the plan will terminate 10 years after it was adopted. The board of directors may also amend the plan at any time. No change may be made that increases the total number of shares of common stock reserved for issuance pursuant to incentive awards or reduces the minimum exercise price for options or exchange of options for other incentive awards, unless such change is authorized by our stockholders.

During 2007, we determined that the 2006 Equity Incentive Plan did not meet certain qualifications required under state laws. Although the board of directors reserved a total of 2,000,000 shares of our common stock for issuance under the 2006 Equity Incentive Plan, we do not intend to make any equity-based incentive grants or awards under

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the plan.

Compensation of Directors

The following table provides information concerning the compensation of directors who are not Named Executive Officers for the year ended December 31, 2007:

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$) (1)	Nonqualified			Total (\$)
				Non-Equity Incentive Plan Compensation	Deferred Compensation Earnings	All Other Compensation	
John A. Brock	15,000		37,364(2)				52,364
Frank P. Knuettel	15,000		50,157(2)				65,157
David A. Melman	15,000		22,832(2)				37,832
Christopher P. Moyes						298,170(3)	298,170

(1) Represents the dollar value recognized in 2007 as compensation expense for financial statement reporting purposes of options awarded in 2007 or earlier. See Note 5 to our Notes to Consolidated Financial Statements as of December 31, 2007 for a description of the assumptions made in the valuation of the options. The weighted average grant-date fair values per option for Messrs. Brock, Knuettel and

Melman were
\$1.12, \$1.50 and
\$0.68,
respectively.

(2) One-hundred
thousand stock
option awards
remain
outstanding.

(3) Includes fees
payable for
fiscal year 2007
under our
consulting
agreement with
Moyes & Co.,
Inc. Moyes &
Co., Inc.
identifies
potential
acquisition,
development,
exploitation and
exploration
opportunities
that fit with our
strategy, and is
expected to
screen
opportunities
and perform
detailed
evaluation of
those
opportunities
that we decide
to pursue, as
well as assist
with due
diligence and
negotiations
with respect to
such
opportunities.
Mr. Moyes is a
major
shareholder and
the President of
Moyes & Co.,

Inc. Pursuant to the terms of our agreement with Moyes & Co., Inc., Mr. Moyes does not receive any further compensation for serving on our Board.

Directors who are not also executive officers of the Company receive a standard fee of \$5,000 for each non-telephonic meeting of the Board that such directors attend. Additionally, for such meetings, the Company reimburses the non-management directors for reasonable travel expenses. The directors do not receive a per-meeting fee for telephonic meetings of the Board.

In consideration of their service to the Company, options were issued to each of our directors, with the exception of Mr. Moyes. Directors are also eligible to receive additional awards at the discretion of the Board under the 2007 Equity Incentive Plan.

Mr. Tower and Mr. Moran have entered into employment agreements with the Company, which are explained in detail above. Neither Mr. Tower nor Mr. Moran receives the \$5,000 fee for attending non-telephonic meeting of the Board. Additionally, options granted to each of Mr. Tower and Mr. Moran to date have been granted pursuant to their employment agreements with the Company, though there is no prohibition on further grants by the Board under the 2007 Equity Incentive Plan on the basis of Mr. Tower's and Mr. Moran's service on the Board.

Christopher Moyes has foregone the compensation described above, pursuant to the terms of our retainer agreement with Moyes & Co., Inc., dated April 7, 2006. Under our retainer agreement, we pay Moyes & Co., Inc. a monthly retainer of \$17,500, and additional fees for services requested that exceed those covered by the retainer, and reimburse normal business travel and other expenses, in exchange for Moyes & Co., Inc.'s services to us. Moyes & Co., Inc. identifies potential acquisition, development, exploitation and exploration opportunities which fit with our operating strategy. Additionally, Moyes & Co., Inc. initially screens such opportunities, performs detailed evaluations of each potential opportunity, and assists with due diligence and negotiations of those opportunities we decide to pursue.

Table of Contents**Outstanding Equity Awards at Fiscal Year End**

The following table provides information concerning unexercised options, stock that has not vested and equity incentive plan awards for each of our Named Executive Officers as of December 31, 2007.

Name	Option Awards				Stock Awards			
	Number of Securities		Equity Incentive Plan	Awards: Number of	Number of Share or Units	Value of Shares or Units	Equity Incentive Plan	Equity Awards: Number of Awards: Market or Payout Value
	Underlying Unexercised Options (#)	Underlying Unexercised Options (#)	Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Stock That Have Not Vested (#)	Units of Stock That Have Not Vested (\$)	Other Rights That Have Not Vested (\$)
	Exercisable	Unexercisable						
Dennis B. Tower	150,000	150,000(1)		\$0.70	4/6/2016	26,471(2)	21,442	
John L. Moran	150,000	150,000(1)		\$0.70	4/6/2016	26,471(2)	21,442	
W. Kirk Bosché	100,000	100,000(1)		\$0.70	4/6/2016	17,647(2)	14,294	
Michael L. Moustakis	100,000	100,000(1)		\$1.99	11/7/2016			
James H. Drennan	50,000	50,000(1)		\$3.59	5/2/2016			

- (1) The right to exercise 1/2 of these shares will vest on each of April 6, 2008 and April 6, 2009 for Messrs. Tower, Moran and Bosché, on each of November 7,

2008 and
November 7,
2009 for
Mr. Moustakis,
and on each of
May 2, 2008
and May 2,
2009 for
Mr. Drennan, in
each such case
if the Named
Executive
Officer is still
employed by the
Company on
such date.

- (2) One-half of
these shares will
vest on each of
April 6, 2008
and April 6,
2009, in each
case if the
Named
Executive
Officer is still
employed by the
Company on
such date.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In April 2006, we entered into an agreement with Moyes & Co., Inc. to identify potential acquisition, development, exploitation and exploration opportunities that fit with our strategy. Moyes & Co., Inc. screens opportunities and performs detailed evaluation of those opportunities that we decide to pursue, and assists with due diligence and negotiations with respect to such opportunities. Christopher P. Moyes is the beneficial owner of 2.6% of our common stock as of March 31, 2008, and is a member of our board of directors. Mr. Moyes is a major shareholder and the President of Moyes & Co., Inc. Because Moyes & Co., Inc. is being compensated for identifying opportunities and assisting us in pursuing those opportunities, the interests of Moyes & Co., Inc. are not the same as our interests. We are responsible for evaluating any opportunities presented to us by Moyes & Co., Inc. to determine if those opportunities are consistent with our business strategy.

Christopher Moyes has foregone his compensation as a director, pursuant to the terms of our agreement with Moyes & Co., Inc. Under the agreement, we pay Moyes & Co., Inc. a monthly retainer of \$17,500 and additional fees for services requested that exceed those covered by the retainer, and reimburse normal business travel and other expenses, in exchange for Moyes & Co., Inc.'s services to us.

Pursuant to our business plan with respect to the Anadarko Basin in southwest Oklahoma, we anticipate acquiring non-exclusive rights, from TeTra Exploration, Inc., to a 3D seismic survey in Roger Mills County, Oklahoma. TeTra Exploration, Inc. is a company that is owned by John Moran, our President. TeTra Exploration, Inc. has reprocessed the 3D survey, completed geological and geophysical interpretations of the survey data, and identified drillable prospects. Upon our completion of an agreement with TeTra Exploration, Inc., we plan to acquire oil and gas leases over those prospects, and negotiate joint ventures with other companies. Mr. Moran and John A. Brock, a director of Foothills, are or will be entitled to receive an assignment of an overriding royalty interest on any oil and gas leases

acquired by the Company over such prospects, with the amount of the overriding royalty interest determined in accordance with a sliding scale formula based on the lessor royalty interest in such leases.

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DESCRIPTION OF SECURITIES

Authorized Capital Stock

As of the date of this prospectus, we are authorized to issue 250,000,000 shares of common stock and 25,000,000 shares of preferred stock, each with a par value \$0.001 per share.

Capital Stock Issued and Outstanding

As of March 31, 2008, there were issued and outstanding 60,572,442 shares of common stock and no shares of preferred stock. In addition, there were issued and outstanding warrants to acquire 20,597,532 shares of our common stock.

The following description of Foothills capital stock is derived from the provisions of Foothills' articles of incorporation and by-laws, the terms of the warrants, registration rights agreements and option agreements executed by Foothills, as well as provisions of applicable law. Such description is not intended to be complete and is qualified in its entirety by reference to the relevant provisions of Foothills' articles of incorporation and by-laws, which have been publicly filed as exhibits to the registration statement on Form SB-2/A filed with the SEC on June 18, 2001.

Description of Common Stock

Foothills is authorized to issue 250,000,000 shares of common stock, par value \$0.001 per share, 60,572,442 of which were issued and outstanding on March 31, 2008. Holders of our common stock are entitled to one vote for each share held on all matters submitted to a stockholder vote. Holders of our common stock do not have cumulative voting rights. Therefore, holders of a majority of the shares of common stock voting for the election of directors can elect all of the directors. Holders of the common stock representing a majority of the voting power of the capital stock issued, outstanding and entitled to vote, represented in person or by proxy, are necessary to constitute a quorum at any meeting of stockholders. A vote by the holders of a majority of the outstanding shares of common stock is required to effectuate certain fundamental corporate changes such as liquidation, merger or an amendment to the articles of incorporation.

Holders of common stock are entitled to share in all dividends that our board of directors, in its discretion, declares from legally available funds. In the event of our liquidation, dissolution or winding up, each outstanding share of common stock entitles its holder to participate pro rata in all assets that remain after payment of liabilities and after providing for each class of stock, if any, having preference over the common stock. Holders of the common stock have no pre-emptive rights, no conversion rights and there are no redemption provisions applicable to the common stock.

Description of Preferred Stock

Foothills is authorized to issue 25,000,000 shares of blank check preferred stock, par value \$0.001 per share, none of which are issued and outstanding as of March 31, 2008. Our board of directors is vested with authority to divide the shares of preferred stock into series and fix and determine the relative rights and preferences of the shares of any such series. Once authorized, the dividend or interest rates, conversion rates, voting rights, redemption prices, maturity dates and similar characteristics of the preferred stock will be determined by our board of directors, without the necessity of obtaining approval of the stockholders.

Description of Warrants

We have issued, and there are currently outstanding, warrants to purchase 23,177,691 shares of our common stock. Of this total, warrants to acquire 12,077,380 shares of common stock were issued at an exercise price of \$1.00 per share. Of these outstanding warrants, warrants to acquire 10,958,046 shares of common stock will expire on April 6, 2011 and warrants to acquire 1,119,334 shares of common stock will expire on April 20, 2011. These warrants were issued in the private offering of our securities which closed on April 6, 2006 and April 20, 2006.

Warrants to acquire 8,046,919 shares of our common stock were issued at an exercise price of \$2.75 per share. Of

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this number, warrants to acquire 8,000,017 shares of common stock will expire on September 8, 2011 and warrants to acquire 46,902 shares of common stock will expire on September 27, 2011. These warrants were issued in the private offering of our securities which closed on September 8, 2006 and September 27, 2006. In this September private offering of our securities, we issued the placement agent in the offering a warrant to acquire 473,233 shares of common stock at an exercise price of \$2.25 per share. Warrants to acquire 2,580,159 shares of our common stock were issued at an exercise price of \$0.01 per share, and will expire on December 13, 2017.

Warrants issued in the April 2006 Offering

In our private offering of securities during April 2006, we issued warrants to acquire 12,874,045 shares of our common stock at an exercise price of \$1.00 per share, of which warrants for 889,076 shares have been exercised. These warrants are exercisable for five years from the date of their issuance, and if they are not exercised by the fifth anniversary of their issuance, they will expire and become void and of no value.

The exercise price and number of shares issuable upon exercise of the warrants will be adjusted to reflect any subdivision or combination of our common stock, any stock dividends or similar rearrangements of the common stock, or any reorganization, reclassification, consolidation, merger or sale of Foothills. The warrants and the shares of common stock underlying the warrants issued to investors in the April 2006 private offering are being registered for resale by their holders under this prospectus.

Warrants Issued in the September 2006 Offering

In our private offering of securities during September 2006, we issued warrants to acquire 8,046,919 shares of our common stock at an exercise price of \$2.75 per share. These warrants are exercisable for five years from the date of their issuance, and if they are not exercised by the fifth anniversary of their issuance, they will expire and become void and of no value.

The warrants are subject to mandatory exercise, at the Company's option, if (i) the shares underlying the warrant are registered pursuant to a registration statement that has remained effective at least 45 consecutive days prior to the mandatory exercise date, (ii) our common stock is listed on the New York Stock Exchange, American Stock Exchange or NASDAQ Global Market, and (iii) the closing price of the common stock is at least \$5.50 per share for at least 20 consecutive trading days prior to the date we exercise our mandatory exercise right. The exercise price and number of shares issuable upon exercise of the warrants will be adjusted to reflect any subdivision or combination of our common stock, any stock dividends or similar rearrangements of the common stock, or any reorganization, reclassification, consolidation, merger or sale of Foothills Resources, Inc.

The warrants and the shares of common stock underlying the warrants issued to investors in the September 2006 private offering are being registered for resale by their holders under this prospectus.

Warrant Issued to Goldman, Sachs & Co.

In connection with our September 8, 2006 execution of a credit and guaranty agreement with J. Aron & Company, an affiliate of Goldman, Sachs & Co., we issued to Goldman, Sachs & Co. a warrant to purchase 3,000,000 shares of our common stock at an exercise price of \$2.75 per share. This warrant will be exercisable for five years from the date of issuance, and if not exercised by the fifth anniversary of its issuance will expire and become void and of no value. The warrant issued to the Goldman, Sachs & Co. had substantially the same provision for mandatory exercise by the company, and the same registration rights, as the warrants issued to investors in the September 2006 offering of our securities, as described above.

Warrant Issued to Regiment Capital Special Situations Fund III, L.P.

In connection with our December 13, 2007 execution of a credit agreement with various lenders and Wells Fargo Foothill, LLC, as agent, we issued to Regiment Capital Special Situations Fund III, L.P., an affiliate of the senior term loan lender, a warrant to purchase 2,580,159 shares of our common stock at an exercise price of \$0.01 per share. This warrant will be exercisable for 10 years from the date of issuance, and if not exercised by the tenth anniversary of its issuance will expire and become void and of no value. The exercise price and number of shares issuable upon exercise of the warrant will be adjusted (i) to reflect any subdivision or combination of our common stock, any stock dividends or similar rearrangements of the common stock, or any reorganization, reclassification,

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consolidation, merger or sale of Foothills Resources, Inc., and (ii) if we issue, prior to December 13, 2008, any additional shares of our common stock at less than market price.

The Placement Agent Warrants

Upon the closing of our April 2006 private offering of our securities, we issued a warrant to acquire 92,411 shares of our common stock at an exercise price of \$1.00 per share to Sanders Morris Harris Inc., our placement agent in the offering. The warrants were issued to Sanders Morris Harris Inc. as consideration for its services as the placement agent in the April 2006 offering. The warrant has a five-year exercise term and the same registration rights as the warrants issued to investors in the offering. Upon the September 8, 2006 and September 27, 2006 closings of our September 2006 private offering of our securities, we issued warrants to acquire shares of our common stock to Sanders Morris Harris Inc., our placement agent in the offering. On September 8, 2006, we issued a warrant to acquire 466,666 shares of our common stock, and on September 27, 2006, we issued a warrant to acquire 6,567 shares of our common stock. Each warrant had an exercise price of \$2.25 per share. The warrants were issued to Sanders Morris Harris Inc. as consideration for its services as the placement agent in the September 2006 offering. The warrants each have a five-year exercise term and the same registration rights as the warrants issued to investors in the offering and the warrant issued to Goldman, Sachs & Co. in connection with our credit and guaranty agreement with J. Aron & Company.

Description of Options

The Company has issued stock options to purchase a total of 1,880,000 shares of common stock at a weighted average exercise price of \$1.52. Under the terms of the 2006 Equity Incentive Plan, we may issue incentive awards that may include the issuance of up to 2,000,000 shares of common stock. However, during 2007, we determined that the 2006 Equity Incentive Plan did not meet certain qualifications required under state laws. Although the board of directors reserved a total of 2,000,000 shares of our common stock for issuance under the 2006 Equity Incentive Plan, we do not intend to make any equity-based incentive grants or awards under the plan. As of March 31, 2008, 4,848,824 shares were available for future equity-based incentive grants or awards under the 2007 Equity Incentive Plan.

Registration Rights Agreements

September 8, 2006 Registration Rights Agreement

Pursuant to the registration rights agreement among the Company and the investors in the offering, dated as of September 8, 2006, we agreed to file a registration statement covering the shares of our common stock, including shares underlying warrants, issued in connection with the private offering of our securities in September 2006, within 30 calendar days from September 8, 2006. We agreed to use reasonable efforts to cause the registration statement to become effective no later than 120 days after the date it is filed, unless the registration statement is subject to review by the SEC, in which case the Company will have 150 days from the filing date in which to have the registration statement declared effective. We will be required to maintain the effectiveness of the registration statement until all shares registered thereunder have been sold or until the holding period of Rule 144(k) under the Securities Act has been satisfied with respect to all of the shares of Common Stock (including the shares underlying the warrants) issued in the September 2006 offering, whichever is earlier. In the event that the registration statement is not declared effective by the SEC by the mandatory effective date, we will be obligated to pay each investor liquidated damages of one percent (1%) of the purchase price set forth in the securities purchase agreement, each month for such time period beyond the mandatory effective date that such registration statement is not effective or beyond any applicable suspension period, provided that the total of such liquidated damages shall not exceed 10% of the purchase price. The securities issued in the September 2006 offering were granted piggyback registration rights by the holders of prior registration rights and will be registered on the same registration statement.

TARH E&P Holdings, L.P. Registration Rights Agreement

We agreed to file a registration statement to register for resale the common stock of the Company that was issued to TARH E&P Holdings, LP (TARH) as consideration in our acquisition of certain properties from TARH. Pursuant to the terms of our registration rights agreement, dated as of September 8, 2006, by and between the Company and

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TARH (the "TARH Registration Agreement"). We agreed to file a registration statement for the common stock issued to TARH no later than 90 calendar days from September 8, 2006. Under the TARH Registration Agreement, we agreed to use reasonable efforts to cause the registration statement to be declared effective by the SEC no later than 120 calendar days after the filing date unless such registration statement is reviewed by the SEC, in which case we will have 150 calendar days in which to cause the registration statement to be declared effective by the SEC. We are obligated under the TARH Registration Agreement to maintain the effectiveness of the registration statement until all shares registered thereunder are sold by the holders or until the two-year holding period of Rule 144(k) under the Securities Act is satisfied, whichever is earlier.

April 6, 2006 Registration Rights Agreement

Pursuant to the registration rights agreement entered into by the Company and the investors in our April 2006 private offering of securities, dated April 6, 2006, we were obligated, within 120 days of April 6, 2006, to file a registration statement with the SEC registering for resale all of the shares of common stock, including shares underlying warrants, sold to investors in the April 2006 offering, as well as certain shares of our common stock issued as a finder fee in connection with the April 2006 merger. If the shares are not registered according to the terms of the registration rights agreement, then the Company will make payments to each investor at a rate equal to 1% of the purchase price per share of registrable securities then held by an investor monthly, for each calendar month of the registration default period. On August 16, 2006, the majority holders of our common stock approved the extension of the registration filing date from August 4, 2006 to August 31, 2006, and later approved to further extend the registration filing date to September 30, 2006. The terms of the April 2006 registration rights agreement stated that the Company may not file or request acceleration of any other registration statement until the registration statement covering the registrable securities issued to investors in the April 2006 offering has been declared effective by the SEC. The majority of the holders of our common stock agreed to waive this provision and allow for the registration of additional shares issued in the private offering of our securities in September 2006 and in the acquisition of properties from TARH E&P Holdings, L.P.

Indemnification; Limitation of Liability

Nevada Revised Statutes ("NRS") Sections 78.7502 and 78.751 provide us with the power to indemnify any of our directors and officers. The director or officer must have conducted himself/herself in good faith and reasonably believe that his/her conduct was in, or not opposed to our best interests. In a criminal action, the director, officer, employee or agent must not have had reasonable cause to believe his/her conduct was unlawful.

Under NRS Section 78.751, advances for expenses may be made by agreement if the director or officer affirms in writing that he/she believes he/she has met the standards and will personally repay the expenses if it is determined such officer or director did not meet the standards.

Our bylaws include an indemnification provision under which we have the power to indemnify our directors, officers and former directors and officers (including heirs and personal representatives) against all costs, charges and expenses actually and reasonably incurred, including an amount paid to settle an action or satisfy a judgment to which the director or officer is made a party by reason of being or having been a director or officer of Foothills or any of our subsidiaries.

Our bylaws also provide that the directors may cause Foothills to purchase and maintain insurance for the benefit of a person who is or was serving as a director, officer, employee or agent of Foothills or any of our subsidiaries (including heirs and personal representatives) against a liability incurred by him/her as a director, officer, employee or agent.

Our articles of incorporation provide a limitation of liability in that no director or officer shall be personally liable to Foothills or any of our stockholders for damages for breach of fiduciary duty as director or officer involving any act or omission of any such director or officer, provided there was no intentional misconduct, fraud or a knowing violation of the law, or payment of dividends in violation of NRS Section 78.300.

Our employment and indemnification agreements with certain of our executive officers contain provisions which require us to indemnify them for costs, charges and expenses incurred in connection with (i) civil, criminal or administrative actions resulting from the executive officers service as such and (ii) actions by us or on our behalf to

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which the executive officer is made a party. We are required to provide such indemnification if (i) the executive officer acted honestly and in good faith with a view to our best interests, and (ii) in the case of a criminal or administrative proceeding or proceeding that is enforced by a monetary policy, the executive officer had reasonable grounds for believing that his conduct was lawful.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted for our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Anti-Takeover Effects of Provisions of Nevada State Law

We may be or in the future we may become subject to Nevada's control share law. A corporation is subject to Nevada's control share law if it has more than 200 stockholders, at least 100 of whom are stockholders of record and residents of Nevada, and if the corporation does business in Nevada or through an affiliated corporation.

The law focuses on the acquisition of a controlling interest which means the ownership of outstanding voting shares is sufficient, but for the control share law, to enable the acquiring person to exercise the following proportions of the voting power of the corporation in the election of directors: (1) one-fifth or more but less than one-third, (2) one-third or more but less than a majority, or (3) a majority or more. The ability to exercise such voting power may be direct or indirect, as well as individual or in association with others.

The effect of the control share law is that the acquiring person, and those acting in association with it, obtain only such voting rights in the control shares as are conferred by a resolution of the stockholders of the corporation, approved at a special or annual meeting of stockholders. The control share law contemplates that voting rights will be considered only once by the other stockholders. Thus, there is no authority to take away voting rights from the control shares of an acquiring person once those rights have been approved. If the stockholders do not grant voting rights to the control shares acquired by an acquiring person, those shares do not become permanent non-voting shares. The acquiring person is free to sell its shares to others. If the buyers of those shares themselves do not acquire a controlling interest, their shares do not become governed by the control share law.

If control shares are accorded full voting rights and the acquiring person has acquired control shares with a majority or more of the voting power, any stockholder of record, other than an acquiring person, who has not voted in favor of approval of voting rights is entitled to demand fair value for such stockholder's shares.

Nevada's control share law may have the effect of discouraging corporate takeovers.

In addition to the control share law, Nevada has a business combination law, which prohibits certain business combinations between Nevada corporations and interested stockholders for three years after the interested stockholder first becomes an interested stockholder unless the corporation's board of directors approves the combination in advance. For purposes of Nevada law, an interested stockholder is any person who is (1) the beneficial owner, directly or indirectly, of ten percent or more of the voting power of the outstanding voting shares of the corporation, or (2) an affiliate or associate of the corporation and at any time within the three previous years was the beneficial owner, directly or indirectly, of ten percent or more of the voting power of the then outstanding shares of the corporation. The definition of the term business combination is sufficiently broad to cover virtually any kind of transaction that would allow a potential acquirer to use the corporation's assets to finance the acquisition or otherwise to benefit its own interests rather than the interests of the corporation and its other stockholders.

The effect of Nevada's business combination law is to potentially discourage parties interested in taking control of Foothills from doing so if it cannot obtain the approval of our board of directors.

LEGAL MATTERS

The validity of the common stock being offered hereby will be passed upon by Akin Gump Strauss Hauer & Feld LLP, Los Angeles, California.

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EXPERTS

The consolidated financial statements of Foothills Resources, Inc. for the years ended December 31, 2007 and 2006 and for the period from inception (December 29, 2005) through December 31, 2005 have been audited by Brown, Armstrong, Paulden, McCown, Starbuck, Thornburgh & Keeter Accountancy Corporation, an independent registered public accounting firm, as stated in their report appearing herein, and have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We are required to comply with the informational requirements of the Securities Exchange Act of 1934, as amended, and accordingly we file annual reports, quarterly reports, current reports, proxy statements and other information with the SEC. You may read or obtain a copy of these reports at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the public reference room and their copy charges by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains registration statements, reports, proxy information statements and other information regarding registrants that file electronically with the SEC. The address of the website is <http://www.sec.gov>.

We have filed with the SEC a registration statement on Form S-1 under the Securities Act of 1933, as amended, to register the shares and warrants offered by this prospectus. The term "registration statement" means the original registration statement and any and all amendments thereto, including the schedules and exhibits to the original registration statement or any amendment. This prospectus is part of that registration statement. This prospectus does not contain all of the information set forth in the registration statement or the exhibits to the registration statement. For further information with respect to us and the shares we are offering pursuant to this prospectus, you should refer to the registration statement and its exhibits. Statements contained in this prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete, and you should refer to the copy of that contract or other documents filed as an exhibit to the registration statement. You may read or obtain a copy of the registration statement at the SEC's public reference facilities and Internet site referred to above.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Upon the merger between our wholly-owned subsidiary and Foothills California, Inc. (formerly Brasada California, Inc.), Foothills California, Inc. became our wholly-owned subsidiary. Following the merger, our management and business operations became substantially the management and business operations of Foothills California, Inc. prior to the merger.

Prior to the merger, the independent registered public accounting firm for the Registrant was Amisano Hanson Chartered Accountants, and the independent registered public accounting firm for Foothills California, Inc. was Brown, Armstrong, Paulden, McCown, Starbuck, Thornburgh & Keeter Accountancy Corporation. Because the merger was treated as a reverse acquisition for accounting purposes, our historical financial reports filed after the merger will be those of Foothills California, Inc., the accounting acquirer, prior to the merger. Accordingly, our board of directors changed our independent registered public accounting firm from Amisano Hanson to Brown Armstrong. Amisano Hanson was formally dismissed as our independent registered public accounting firm on April 12, 2006, effective as of April 6, 2006, and Brown Armstrong was engaged as our independent registered public accounting firm on April 6, 2006. As a result of its role as the auditor of Foothills California, Inc. prior to the Merger, Brown Armstrong consulted with us regarding the merger.

The reports of Amisano Hanson on our financial statements for fiscal years ended December 31, 2005 and 2004 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope, or accounting principles, but did include an explanatory paragraph relating to our ability to continue as a going concern.

In connection with the audit of our financial statements for the fiscal years ended December 31, 2005 and 2004, and through the date of the dismissal (and including the period from April 6, 2006 through April 12, 2006), there were no disagreements with Amisano Hanson on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to the satisfaction of Amisano Hanson, would have caused Amisano Hanson to make reference to the matter in its reports.

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During fiscal year 2006, through the date of the dismissal of Amisano Hanson, no information is required to be reported under Item 304(a)(1)(iv)(B) of Regulation S-B. This change in accountants was disclosed in Amendment 1 to Foothills' Current Report on Form 8-K/A, filed with the SEC on May 5, 2006.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Shareholders of Foothills Resources, Inc.

We have audited the accompanying balance sheets of Foothills Resources, Inc. (a Nevada corporation) as of December 31, 2007 and 2006, and the related statements of operations, cash flows, and stockholders' equity, for the years ended December 31, 2007 and 2006 and for the period from inception (December 29, 2005) through December 31, 2005. Foothills Resources, Inc.'s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Foothills Resources, Inc. as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years ended December 31, 2007 and 2006 and for the period from inception (December 29, 2005) through December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

BROWN ARMSTRONG PAULDEN

McCOWN STARBUCK THORNBURGH & KEETER

ACCOUNTANCY CORPORATION

March 25, 2008

Bakersfield, California

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FOOTHILLS RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except per share amounts)

	December 31,	
	2007	2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 165	\$ 8,673
Accounts receivable	1,880	1,452
Prepaid expenses	212	212
Fair value of derivative financial instruments		833
	2,257	11,170
Property and equipment, at cost:		
Oil and gas properties, using full-cost accounting		
Proved properties	75,215	64,850
Unproved properties not being amortized	760	420
Other property and equipment	533	475
	76,508	65,745
Less accumulated depreciation, depletion and amortization	(3,554)	(814)
	72,954	64,931
Other assets	3,413	1,466
	\$ 78,624	\$ 77,567
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$	\$ 2,509
Accounts payable and accrued liabilities	5,669	2,600
Fair value of derivative financial instruments	3,228	
Liquidated damages	2,591	
	11,488	5,109
Long-term debt	52,243	29,666
Asset retirement obligations	628	570

Fair value of derivative financial instruments 3,571

Stockholders' equity:

Preferred stock, \$0.001 par value 25,000,000 shares authorized, none issued and outstanding

Common stock, \$0.001 par value 250,000,000 shares authorized, 60,572,442 and 60,376,829 shares issued and outstanding at December 31, 2007 and 2006

	61	60
Additional paid-in capital	47,224	44,331
Accumulated deficit	(29,792)	(3,764)
Accumulated other comprehensive income (loss)	(6,799)	1,595

	10,694	42,222
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	\$ 78,624	\$ 77,567
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The accompanying notes are an integral part of these consolidated financial statements.

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FOOTHILLS RESOURCES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except per share amounts)

	Year Ended December 31,		Inception (December 29, 2005) through December 31, 2005
	2007	2006	
Income:			
Oil and gas revenues	\$ 15,171	\$ 4,605	\$
Interest income	256	248	
	15,427	4,853	
Expenses:			
Production costs	4,907	1,346	
General and administrative	3,374	3,352	
Interest	10,205	3,090	
Liquidated damages	2,591		
Depreciation, depletion and amortization	2,785	829	
Loss on early extinguishment of debt	17,593		
	41,455	8,617	
Net loss	\$ (26,028)	\$ (3,764)	\$
Basic and diluted net loss per share	\$ (0.43)	\$ (0.09)	\$
Weighted average number of common shares outstanding basic and diluted	60,454,510	43,966,775	17,375,000

The accompanying notes are an integral part of these consolidated financial statements.

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FOOTHILLS RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		Inception (December 29, 2005) through December 31, 2005
	2007	2006	
Cash flows from operating activities:			
Net loss	\$ (26,028)	\$ (3,764)	\$
Adjustments to reconcile net loss to net cash used for operating activities			
Stock-based compensation	500	388	
Depreciation, depletion and amortization	2,741	815	
Accretion of asset retirement obligation	44	14	
Amortization of discount on long-term debt	3,370	1,101	
Amortization of debt issue costs	239	64	
Loss on early extinguishment of debt	7,429		
Changes in assets and liabilities			
Accounts receivable	(429)	(1,452)	
Prepaid expenses	(1)	(212)	
Other assets	35		
Accounts payable and accrued liabilities	451	1,557	
Liquidated damages	2,591		
Net cash used for operating activities	(9,058)	(1,489)	
Cash flows from investing activities:			
Additions to oil and gas properties	(7,850)	(64,656)	(50)
Additions to other property and equipment	(58)	(476)	
(Increase) decrease in other assets		(79)	
Net cash used for investing activities	(7,908)	(65,211)	(50)
Cash flows from financing activities:			
Proceeds of borrowings	56,000	42,500	
Repayments of borrowings	(44,000)		
Debt issuance costs	(3,434)	(685)	
Members' capital contributions		50	50
Proceeds from issuance of common stock and warrants		35,616	
Stock issuance costs	(110)	(2,108)	
Net cash provided by financing activities	8,458	75,373	50
Net increase (decrease) in cash and cash equivalents	(8,508)	8,673	

Cash and cash equivalents at beginning of the period	8,673		
Cash and cash equivalents at end of the period	\$ 165	\$ 8,673	\$

Supplemental disclosures of cash flow information:

Cash paid for

Interest	\$ 6,370	\$ 1,816	\$
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Income taxes

Noncash investing activities

Net increases in accrued capital expenditures	2,618	1,014	
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Oil and gas properties acquired for common stock	223	4,174	
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The accompanying notes are an integral part of these consolidated financial statements.

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FOOTHILLS RESOURCES, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(dollars in thousands, except per share amounts)

	Common Stock Number	Par Value	Additional Paid-in Capital	Mem- bers Capital	Accum- ulated Deficit	Accum- ulated Other Compre- hensive Income (Loss)	Total
Balance, December 29, 2005 (date of inception)		\$	\$	\$	\$	\$	\$
Contributions				50			50
Balance, December 31, 2005				50			50
Contributions				50			50
Exchange of members capital for common shares and conversion from limited liability company to corporation	17,375,000	17	83	(100)			
Common stock outstanding at date of reverse takeover	12,625,006	13	(13)				
Issuances of common stock and warrants	29,487,747	29	42,985				43,014
Exercise of warrants	889,076	1	888				889
Stock-based compensation			388				388
Change in fair value of derivative financial instruments						1,595	1,595
Net loss					(3,764)		(3,764)
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Balance, December						
31, 2006	60,376,829	60	44,331	(3,764)	1,595	42,222
The accompanying notes are an integral part of these consolidated financial statements.						
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FOOTHILLS RESOURCES, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(dollars in thousands, except per share amounts)

	Common Stock		Additional		Mem-	Accum-	Accum-	
	Number	Par	Paid-in	Capital	bers	ulated	ulated	
		Value	Capital		Capital	Deficit	Other	Total
							Compre-	
							hensive	
							Income	
							(Loss)	
Issuance of common stock and warrants	85,841		2,504					2,504
Stock-based compensation	109,772	1	499					500
Change in fair value of derivative financial instruments							(8,394)	(8,394)
Stock issuance costs			(110)					(110)
Net loss						(26,028)		(26,028)
Balance, December 31, 2007	60,572,442	\$ 61	\$ 47,224	\$	\$ (29,792)	\$ (6,799)		\$ 10,694

The accompanying notes are an integral part of these consolidated financial statements.

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**FOOTHILLS RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007**

Note 1 Summary of Operations

Foothills Resources, Inc. (Foothills), a Nevada corporation, and its subsidiaries are collectively referred to herein as the Company. The Company is a growth-oriented independent energy company engaged in the acquisition, exploration, exploitation and development of oil and natural gas properties. The Company currently holds interests in properties in the Texas Gulf Coast area, in the Eel River Basin in northern California, and in the Anadarko Basin in southwest Oklahoma.

Foothills took its current form on April 6, 2006, when Brasada California, Inc. (Brasada) merged with and into an acquisition subsidiary of Foothills. Brasada was formed on December 29, 2005 as Brasada Resources LLC, a Delaware limited liability company, and converted to a Delaware corporation on February 28, 2006. Following the merger, Brasada changed its name to Foothills California, Inc. (Foothills California) and is now a wholly owned operating subsidiary of Foothills. This transaction was accounted for as a reverse takeover of the Company by Foothills California. The Company adopted the assets, management, business operations and business plan of Foothills California. The financial statements of the Company prior to the merger were eliminated at consolidation.

Note 2 Significant Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of Foothills and its wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation. The Company accounts for its investments in oil and gas joint ventures using the proportionate consolidation method, whereby the Company's proportionate share of each venture's assets, liabilities, revenues and expenses is included in the appropriate classification in the financial statements.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from such estimates. Changes in such estimates may affect amounts reported in future periods.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and on deposit, and highly liquid debt instruments with original maturities of three months or less.

Oil and gas properties

The Company follows the full-cost method of accounting for oil and gas properties. Under this method, all productive and nonproductive costs incurred in connection with the acquisition, exploration and development of oil and gas reserves are capitalized in separate cost centers for each country in which the Company has operations. Such capitalized costs include leasehold acquisition, geological, geophysical and other exploration work, drilling, completing and equipping oil and gas wells, asset retirement costs, internal costs directly attributable to property acquisition, exploration and development, and other related costs. The Company also capitalizes interest costs related to unevaluated oil and gas properties.

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FOOTHILLS RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

The capitalized costs of oil and gas properties in each cost center are amortized using the unit-of-production method. Sales or other dispositions of oil and gas properties are normally accounted for as adjustments of capitalized costs. Gains or losses are not recognized in income unless a significant portion of a cost center's reserves is involved. Capitalized costs associated with the acquisition and evaluation of unproved properties are excluded from amortization until it is determined whether proved reserves can be assigned to such properties or until the value of the properties is impaired. Unproved properties are assessed at least annually to determine whether any impairment has occurred. If the net capitalized costs of oil and gas properties in a cost center exceed an amount equal to the sum of the present value of estimated future net revenues from proved oil and gas reserves in the cost center and the costs of properties not being amortized, both adjusted for income tax effects, such excess is charged to expense.

Other property and equipment

Other property and equipment consists of computer hardware and software, office furniture and equipment, vehicles, buildings and leasehold improvements, and are depreciated on a straight-line basis over their estimated useful lives ranging from three to 40 years.

Other assets

Costs incurred in connection with the issuance of long-term debt are capitalized and amortized to interest expense over the term of the related agreement, using the interest method.

Asset retirement obligations

The fair value of an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate can be made. The Company's asset retirement obligations primarily relate to the abandonment of oil and gas wells and producing facilities. The following table sets forth a reconciliation of the beginning and ending asset retirement obligation for the years ended December 31, 2007 and 2006 (in thousands):

	2007	2006
Asset retirement obligation, beginning of year	\$ 570	\$
Liabilities incurred	14	556
Accretion expense	44	14
 Asset retirement obligation, end of year	 \$ 628	 \$ 570

Income taxes

The Company utilizes the liability method of accounting for income taxes, as set forth in Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. Under the liability method, deferred taxes are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Valuation allowances are recorded against deferred tax assets when it is considered more likely than not that the deferred tax assets will not be utilized.

Revenue recognition

Oil and gas revenues from producing wells are recognized when title and risk of loss is transferred to the purchaser of the oil or gas.

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**FOOTHILLS RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007**

Stock-based compensation

Effective January 1, 2006 the Company adopted SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123R), which replaced SFAS No. 123, Accounting for Stock-Based Compensation, and superseded Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123R requires companies to measure the cost of stock-based compensation granted, including stock options and restricted stock, based on the fair market value of the award as of the grant date, net of estimated forfeitures. The Company had no stock-based compensation grants prior to January 1, 2006.

Earnings per common share

Basic earnings per share is computed by dividing net income or loss by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is determined on the assumption that outstanding stock options and warrants have been converted using the average price for the period. For purposes of computing earnings per share in a loss period, potential common shares are excluded from the computation of weighted average common shares outstanding if their effect is antidilutive. For the years ended December 31, 2007 and 2006, potential common stock equivalents of 3,506,114 and 9,153,812, respectively, have been excluded from the calculations because their effect would have been antidilutive.

Fair value of financial instruments

For cash and cash equivalents, receivables and payables, the carrying amounts approximate fair value because of the short maturity of these instruments. Long-term debt is variable rate debt and as such, approximates fair values, as interest rates are variable based on prevailing market rates.

Derivative instruments and hedging activities

The Company accounts for its derivative instruments in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS 133). SFAS 133 establishes accounting and reporting standards requiring that all derivative instruments, other than those that meet the normal purchases and sales exception, be recorded on the balance sheet as either an asset or liability measured at fair value (which is generally based on information obtained from independent parties). SFAS 133 also requires that changes in fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Hedge accounting treatment allows unrealized gains and losses on cash flow hedges to be deferred in other comprehensive income. Realized gains and losses from the Company's oil and gas cash flow hedges, including terminated contracts, are generally recognized in oil and gas production revenues when the forecasted transaction occurs. Gains and losses from the change in fair value of derivative instruments that do not qualify for hedge accounting are reported in current period income. If at any time the likelihood of occurrence of a hedged forecasted transaction ceases to be probable, hedge accounting under SFAS 133 will cease on a prospective basis and all future changes in the fair value of the derivative will be recognized directly in earnings. Amounts recorded in other comprehensive income prior to the change in the likelihood of occurrence of the forecasted transaction will remain in other comprehensive income until such time as the forecasted transaction impacts earnings. If it becomes probable that the original forecasted production will not occur, then the derivative gain or loss would be reclassified from accumulated other comprehensive income into earnings immediately. Hedge effectiveness is measured at least quarterly based on the relative changes in fair value between the derivative contract and the hedged item over time, and any ineffectiveness is immediately reported in the consolidated statement of operations.

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**FOOTHILLS RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007**

Concentration of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments, trade accounts receivable, and derivative instruments. The Company places its excess cash investments with high quality financial institutions. The Company extends credit, primarily in the form of uncollateralized oil and gas sales, to various companies in the oil and gas industry, which results in a concentration of credit risk. The concentration of credit risk may be affected by changes in economic or other conditions within the oil and gas industry and may accordingly impact the Company's overall credit risk. However, management believes that the risk of these unsecured receivables is mitigated by the size, reputation, and nature of the companies to which the Company extends credit. The Company has not experienced any losses from its receivables or cash investments, and does not believe that it has any significant concentration of credit risk.

The Company sells a portion of its oil and gas to end users through various marketing companies. For the years ended December 31, 2007 and 2006, crude oil sales to Sunoco Partners Marketing & Terminals, L.P. accounted for 93% and 96%, respectively, of its oil and gas revenues. The percentage is calculated on oil and gas revenues before any effects of price risk management activities.

New accounting pronouncements

During December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No. 51, (SFAS No. 160), which causes noncontrolling interests in subsidiaries to be included in the equity section of the balance sheet. SFAS No. 160 is effective for periods beginning on or after December 15, 2008. This standard does not presently affect the Company's financial statements.

During December 2007, the FASB issued SFAS No. 141(R), Business Combinations, (SFAS No. 141(R)), which establishes new accounting and disclosure requirements for recognition and measurement of identifiable assets, liabilities and goodwill acquired and requires that the fair value estimates of contingencies acquired or assumed be considered as part of the original purchase price allocation. SFAS No. 141(R) is effective for periods beginning on or after December 15, 2008. This standard does not presently affect the Company's financial statements.

During February 2007, the FASB issued SFAS No 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159), which permits all entities to choose, at specified election dates, to measure eligible items at fair value. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value, and thereby mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is evaluating the impact that this statement will have on its financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is continuing to assess the potential impacts this statement might have on its consolidated financial statements and related footnotes.

In July 2006, the FASB issued Financial Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, to clarify certain aspects of accounting for uncertain tax positions, including issues related to the recognition and measurement of those tax positions. This interpretation is effective for fiscal years beginning after December 15, 2006. Adoption of this statement had no impact on the Company's financial position or results of operations.

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FOOTHILLS RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

In March 2006, the FASB issued SFAS No.156, Accounting for Servicing of Financial Assets (SFAS 156), which requires all separately recognized servicing assets and servicing liabilities be initially measured at fair value. SFAS 156 permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. Adoption is required as of the beginning of the first fiscal year that begins after September 15, 2006. The adoption of SFAS 156 did not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140 (SFAS 155). SFAS 155 clarifies certain issues relating to embedded derivatives and beneficial interests in securitized financial assets. The provisions of SFAS 155 are effective for all financial instruments acquired or issued after fiscal years beginning after September 15, 2006. Adoption of this statement had no impact on the Company's financial position or results of operations.

Note 3 Long-term Debt

Long-term debt at December 31, 2007 and 2006 consisted of the following (in thousands):

	2007	2006
Senior term loan	\$ 50,000	\$
Revolving loan	4,500	
Secured promissory note		42,500
	54,500	42,500
Less: unamortized discount	(2,257)	(10,325)
	52,243	32,175
Less: current portion		(2,509)
	\$ 52,243	\$ 29,666

In 2007, the Company entered into a Credit Agreement with various lenders and Wells Fargo Foothill, LLC, as agent (the Credit Facility). The Credit Facility provides for a \$50 million term loan facility and a \$50 million revolving credit facility, with an initial borrowing base of \$25 million available under the revolving credit facility. The Credit Facility matures in December 2012, with principal payments scheduled to commence in April 2010 based on 50% of the Company's cash flow, net of capital expenditures. Interest on the revolving credit facility is payable at prime plus 0.75% or at the London Interbank Offered Rate (LIBOR) plus 2.00%, as selected by the Company from time to time, with an unused line fee of 0.50%. Interest on the term loan facility is payable at prime plus 5.25% or at LIBOR plus 6.50%, as selected by the Company from time to time. The Credit Facility contains financial covenants pertaining to asset coverage, interest coverage and leverage ratios. As of December 31, 2007, the Company was in compliance with all of the financial covenants. Additionally, the Credit Facility has restrictions on the operations of the Company's business, including restrictions on payment of dividends. Borrowings under the term loan facility carry prepayment penalties ranging from 1.00% to 2.00% in the first three years of the Credit Facility. Borrowings under the revolving credit facility may be repaid at any time without penalty. The Credit Facility is secured by liens and security interests on substantially all of the assets of the Company, including 100% of the Company's oil and gas reserves. In connection with the Credit Facility, Foothills issued to the lender under the term loan facility a ten-year warrant to purchase 2,580,159 shares of Foothills' common stock at an exercise price of \$0.01 per share. The fair value of the warrant was recorded as debt issue discount, and is being amortized using the interest method.

The Company used a portion of the proceeds of the Credit Facility to retire amounts outstanding under a secured promissory note in the principal amount of \$42,500,000 under a previous credit agreement (the Mezzanine Facility).

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FOOTHILLS RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

Based on the Company's forecasts of future cash flow, net of capital expenditures, the aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2007 are as follows (in thousands):

2008	\$
2009	
2010	
2011	
2012	54,500
 Total	 \$ 54,500

Note 4 Stockholders' Equity*Registration rights payments*

The purchasers of units consisting of shares of common stock and warrants issued by Foothills in private placement financings in 2006 have registration rights, pursuant to which the Company agreed to register for resale the shares of common stock and the shares of common stock issuable upon exercise of the warrants. In the event that the registration statements are not declared effective by the Securities and Exchange Commission (SEC) by specified dates, the Company is required to pay liquidated damages to the purchasers.

The purchasers of 17,142,857 units issued in April 2006 are entitled to liquidated damages in the amount of 1% per month of the purchase price for each unit, payable each month that the registration statement is not declared effective following the mandatory effective date (January 28, 2007). The total amount recorded at December 31, 2007 for these liquidated damages was \$322,000. Amounts payable as liquidated damages cease when the shares can be sold under Rule 144 of the Securities Act of 1933, as amended. The Company has determined that liquidated damages ceased on April 6, 2007 as to a minimum of 16,192,613 units, and that liquidated damages ceased on July 6, 2007 as to the remaining units.

The purchasers of an aggregate of 10,093,804 units issued in September 2006 are entitled to liquidated damages in the amount of 1% per month of the purchase price for each unit, payable each month that the registration statement is not declared effective following the applicable mandatory effective dates (March 7, 2007 for 10,000,000 units and March 28, 2007 for the remaining 93,804 units). The total amount recorded at December 31, 2007 for these liquidated damages was \$2,269,000. The investors in the September 2006 private placement financing have the right to take the liquidated damages either in cash or in shares of Foothills' common stock, at their election. If the Company fails to pay the cash payment to an investor entitled thereto by the due date, the Company will pay interest thereon at a rate of 12% per annum (or such lesser maximum amount that is permitted to be paid by applicable law) to such investor, accruing daily from the date such liquidated damages are due until such amounts, plus all such interest thereon, are paid in full. The total amount of liquidated damages will not exceed 10% of the purchase price for the units or \$2,271,000.

The Company filed the required registration statement but the registration statement has not yet become effective. As a result, the Company had incurred the obligation to pay a total of approximately \$2,591,000 in liquidated damages as of December 31, 2007, which amount has been recorded as liquidated damages expense in the consolidated statement of operations.

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FOOTHILLS RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

Warrants

In connection with the Credit Facility, the Mezzanine Facility, and private placement financings, Foothills issued warrants to purchase shares of its common stock. Warrants outstanding as of December 31, 2007 consisted of the following:

Number of Shares Subject to Warrants	Expiration Date	Exercise Price
2,580,159	December 2017	\$ 0.01
12,077,399	April 2011	\$ 1.00
473,233	September 2011	\$ 2.25
8,046,919	September 2011	\$ 2.75

Note 5 Stock and Other Compensation Plans

Foothills 2007 Equity Incentive Plan (the 2007 Plan) enables the Company to provide equity-based incentives through grants or awards to present and future employees, directors, consultants and other third party service providers. Foothills Board of Directors reserved a total of 5,000,000 shares of Foothills common stock for issuance under the 2007 Plan. The compensation committee of the Board (or the Board in the absence of such a committee), administers the 2007 Plan. The 2007 Plan authorizes the grant to participants of nonqualified stock options, incentive stock options, restricted stock awards, restricted stock units, performance grants intended to comply with Section 162(m) of the Internal Revenue Code, as amended, and stock appreciation rights. Generally, options are granted at prices equal to the fair value of the stock at the date of grant, expire not later than 10 years from the date of grant, and vest ratably over a three-year period following the date of grant.

During 2007, the Company determined that its 2006 Equity Incentive Plan (the 2006 Plan) did not meet certain qualifications required under state laws. As a result, the Company now considers all options granted prior to the adoption of the 2007 Plan to have been granted outside of the scope of the 2006 Plan. Although the Foothills Board of Directors reserved a total of 2,000,000 shares of Foothills common stock for issuance under the 2006 Plan, the Company does not intend to make any equity-based incentive grants or awards under the 2006 Plan.

The estimated fair value of the options granted during 2007 and 2006 was calculated using a Black Scholes Merton option pricing model (Black Scholes). The following schedule reflects the various assumptions included in this model as it relates to the valuation of options:

	2007		2006	
Risk free interest rate	4.6	5.2%	4.4	5.0%
Expected volatility	85	116%	79	138%
Weighted-average volatility		102%		88%
Dividend yield		0%		0%
Expected years until exercise	0.5	3.0	0.5	3.0

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FOOTHILLS RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

The Black Scholes model incorporates assumptions to value stock-based awards. The risk-free rate of interest for periods within the expected term of the option was based on a zero-coupon U.S. government instrument over the expected term of the equity instrument. Because Foothills common stock has limited trading history, expected volatility was based on the historical volatility of a representative stock with characteristics similar to the Company. The Company has no historical experience upon which to base estimates of employee option exercise timing (expected term) within the valuation model, and utilized estimates for the expected term based on criteria required by SFAS 123R.

Option activity as of December 31, 2007 and 2006 and changes during the years then ended were as follows:

		2007			2006	
	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding, beginning of year	1,790,000	\$ 1.53			\$	
Granted	95,000	1.19		1,790,000	1.53	
Exercised						
Forfeited	(5,000)	1.42				
Outstanding, end of year	1,880,000	\$ 1.52	\$ 88,000	1,790,000	\$ 1.53	\$ 463,000
Exercisable, end of year	1,078,750	\$ 1.62	\$ 44,000	560,000	\$ 1.82	\$ 116,000

Stock-based compensation relating to stock options for the years ended December 31, 2007 and 2006 totaling \$458,000 and \$388,000, respectively, has been recognized as a component of general and administrative expenses in the accompanying consolidated financial statements. The weighted-average grant-date fair values of options granted during the years ended December 31, 2007 and 2006 were \$0.53 and \$0.80, respectively. As of December 31, 2007, \$635,000 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of approximately 2.3 years. No stock options were exercised during the years ended December 31, 2007 or 2006. The aggregate intrinsic values in the table above represent the total pre-tax intrinsic value (the difference between the closing stock price on the last trading day of each year and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on the last trading day of each year. The amount of aggregate intrinsic value will change based on the fair market value of the Company's stock.

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FOOTHILLS RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

The following table summarizes information about stock options outstanding at December 31, 2007:

Range of Exercise Prices		Number Outstanding	Options Outstanding		Weighted Average Exercise Price	Number Exercisable	Options Exercisable		Weighted Average Exercise Price
			Weighted Average Remaining Contractual Term In Years				Weighted Average Remaining Contractual Term In Years		
\$	0.70	800,000	8.3		\$ 0.70	400,000	8.3		\$ 0.70
	1.17 1.99	770,000	8.8		1.65	473,750	8.7		1.64
	2.50 3.59	310,000	8.3		3.29	205,000	8.3		3.36
\$	0.70 3.59	1,880,000	8.5		\$ 1.52	1,078,750	8.5		\$ 1.62

In 2007, the Company awarded an aggregate of 141,176 shares of restricted stock to certain officers under the 2007 Plan, of which 31,404 shares were withheld and canceled by the Company in lieu of employee tax withholding obligations. The vesting schedule was established to match the vesting schedule of stock options previously granted to those officers. The restricted stock grants are subject to forfeiture, and can not be sold, transferred or disposed of during the restriction period. The holders of the shares have voting and dividend rights with respect to such shares. Stock-based compensation relating to restricted stock awards for the year ended December 31, 2007 totaling \$69,000 has been recognized as a component of general and administrative expenses in the accompanying consolidated financial statements. The weighted-average grant-date fair value of restricted stock awarded during the year ended December 31, 2007 was \$0.85 per share. As of December 31, 2007, \$51,000 of total unrecognized compensation cost related to restricted stock awards is expected to be recognized over a weighted-average period of approximately 1.3 years.

The following is a summary of restricted stock activity for the year ended December 31, 2007:

	Shares	Aggregate Value
Outstanding, beginning of year		
Awarded	141,176	
Canceled / forfeited	(31,404)	
Outstanding, end of year	109,772	\$ 89,000
Vested, end of year	39,183	\$ 44,000

As of December 31, 2007, 4,848,824 shares were available for future equity-based incentive grants or awards under the 2007 Plan.

During 2007, the Company implemented a 401(k) Savings Plan which covers all its employees. The Company matches a percentage of the employees' contributions to the plan in an amount equal to 100% of the first 3% and 50% of the next 2% of each participant's compensation. The Company's matching contributions to the plan were approximately \$15,000 for the year ended December 31, 2007.

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FOOTHILLS RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

Note 6 Income Taxes

A reconciliation of the income tax provision (benefit) at the U.S. statutory rate (34%) to the Company's actual income tax provision (benefit) for the years ended December 31, 2007 and 2006 is shown below (in thousands):

	2007	2006
Income tax provision (benefit) at 34%	\$ (8,850)	\$ (1,280)
Changes in prior year estimate	(504)	
Non-deductible expenses	185	139
Change in valuation allowance	9,169	1,141
 Income tax provision (benefit)	 \$	 \$

Significant components of the Company's net deferred income tax assets and liabilities as of December 31, 2007 and 2006 were as follows (in thousands):

	2007	2006
Deferred tax assets:		
Net operating loss carryforwards	\$ 14,616	\$ 3,483
Stock-based compensation	311	
	14,927	3,483
Deferred tax liabilities:		
Differences between book and tax bases of property, plant and equipment	4,652	2,377
 Net deferred tax asset before valuation allowance	 10,275	 1,106
Valuation allowance	(10,275)	(1,106)
 Net deferred tax asset (liability)	 \$	 \$

A full valuation allowance was established for net deferred tax assets due to the uncertainty of realizing these deferred tax assets, based on conditions existing as of December 31, 2007.

As of December 31, 2007, the Company had available, for U.S. federal tax purposes, net operating loss carryforwards of approximately \$42,990,000 expiring in 2020 through 2027.

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FOOTHILLS RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 7 Derivative Instruments and Price Risk Management Activities

The Company has entered into derivative contracts to manage its exposure to commodity price risk. These derivative contracts, which are placed with a major financial institution that the Company believes is a minimal credit risk, currently consist only of swaps. The oil prices upon which the commodity derivative contracts are based reflect various market indices that have a high degree of historical correlation with actual prices received by the Company for its oil production. Swaps are designed to fix the price of anticipated sales of future production. The Company entered into the contracts at the time it acquired certain operated oil and gas property interests as a means to reduce the future price volatility on its sales of oil production, as well as to achieve a more predictable cash flow from its oil and gas properties. The Company has designated its price hedging instruments as cash flow hedges in accordance with SFAS 133. The Company recognizes gains or losses on settlement of its hedging instruments in oil and gas revenues, and changes in their fair value as a component of other comprehensive income, net of deferred taxes. In connection with realized settlements of its price hedging contracts, the Company recognized a pre-tax loss of \$201,000 for the year ended December 31, 2007 and a pre-tax gain of \$344,000 for the year ended December 31, 2006. Accumulated other comprehensive income (loss) included an unrealized loss of \$6,799,000 as of December 31, 2007 and an unrealized gain of \$1,595,000 as of December 31, 2006 on the Company's cash flow hedges. As of December 31, 2007, the Company anticipated that \$3,228,000 of unrealized losses, net of deferred taxes of zero, will be reclassified into earnings within the next 12 months. Irrespective of the unrealized gains or losses reflected in other comprehensive income, the ultimate impact to net income over the life of the hedges will reflect the actual settlement values. No cash flow hedges were determined to be ineffective during 2007. Further details relating to the Company's hedging activities are as follows:

Hedging contracts held as of December 31, 2007:

Contract Period and Type		Total Volume	NYMEX Swap Price	Fair Value (in thousands)
<i>Crude oil contracts (barrels)</i>				
Swap contracts:				
January 2008	December 2008	148,994	\$ 71.01	\$ (3,228)
January 2009	December 2009	135,041	69.39	(2,366)
January 2010	September 2010	74,206	68.00	(1,205)
			Total	\$ (6,799)

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FOOTHILLS RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

Note 8 Related Party Transactions

In April 2006, the Company entered into an agreement with Moyes & Co., Inc. (Moyes & Co.) to identify potential acquisition, development, exploitation and exploration opportunities that fit with its strategy. Moyes & Co. screens opportunities and performs detailed evaluation of those opportunities that the Company decides to pursue, and assists with due diligence and negotiations with respect to such opportunities. Christopher P. Moyes was the beneficial owner of 2.6% of Foothills common stock as of December 31, 2007, and is a member of the Company's Board of Directors. Mr. Moyes is a major shareholder and the President of Moyes & Co. Because Moyes & Co. is being compensated for identifying opportunities and assisting the Company in pursuing those opportunities, the interests of Moyes & Co. are not the same as the Company's interests. Management is responsible for evaluating any opportunities presented to the Company by Moyes & Co. to determine if those opportunities are consistent with its business strategy. Mr. Moyes has foregone his compensation as a director, pursuant to the terms of the agreement with Moyes & Co. Under the agreement, the Company pays Moyes & Co. a monthly retainer of \$17,500 and additional fees for services requested that exceed those covered by the retainer, and reimburses normal business travel and other expenses, in exchange for Moyes & Co.'s services. For the years ended December 31, 2007 and 2006, billings to the Company by Moyes & Co. amounted to approximately \$340,000 and \$331,000, respectively, for the monthly retainer and additional services, and \$42,000 and \$54,000, respectively, for business travel and other expenses. At December 31, 2007, approximately \$74,000 of unpaid invoices from Moyes & Co. was included in accounts payable and accrued liabilities in the accompanying consolidated balance sheet, which invoices were subsequently paid.

Pursuant to the Company's business plan with respect to the Anadarko Basin in southwest Oklahoma, it anticipates acquiring non-exclusive rights, from TeTra Exploration, Inc. (TeTra), to a 3D seismic survey in Roger Mills County, Oklahoma. TeTra is a company that is owned by John L. Moran, Foothills President. TeTra has reprocessed the 3D survey, completed geological and geophysical interpretations of the survey data, and identified drillable prospects. Upon the completion of an agreement with TeTra, the Company plans to acquire oil and gas leases over those prospects, and negotiate joint ventures with other companies. Mr. Moran and John A. Brock, a director of Foothills, are or will be entitled to receive an assignment of an overriding royalty interest on any oil and gas leases acquired by the Company over such prospects, with the amount of the overriding royalty interest determined in accordance with a sliding scale formula based on the lessor royalty interest in such leases.

Note 9 Commitments and Contingencies*Rental commitments*

The Company has operating lease commitments expiring at various dates, principally for office space. Future minimum payments for noncancelable operating leases with initial or remaining terms in excess of one year as of December 31, 2007 were as follows (in thousands):

2008	\$ 119
2009	114
2010	112
2011	37
 Total	 \$ 382

Rental expense for operating leases, including leases with terms of less than one year, was \$352,000 for the year ended December 31, 2007.

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**FOOTHILLS RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007**

Property obligations

On January 3, 2006, Foothills California entered into a Farmout and Participation Agreement with INNEX California, Inc., a subsidiary of INNEX Energy, L.L.C. (INNEX), to acquire, explore and develop oil and natural gas properties located in the Eel River Basin, the material terms of which are as follows:

Foothills California serves as operator of a joint venture with INNEX, and has the right to earn an interest in approximately 4,000 existing leasehold acres held by INNEX in the basin, and to participate as operator with INNEX in oil and gas acquisition, exploration and development activities within an area of mutual interest consisting of the entire Eel River Basin.

The agreement provides for drill-to-earn terms, and consists of three phases.

In Phase I, Foothills California was obligated to pay 100% of the costs of drilling two shallow wells, acquiring 1,000 acres of new leases, and certain other activities. The Company has fulfilled its obligations under Phase I, and has received an assignment from INNEX of a 75% working interest (representing an approximate 56.3% net revenue interest) in the leases held by INNEX in the two drilling units to the deepest depth drilled in the two Phase I obligation wells.

Foothills California then had the option, but not the obligation, to proceed into Phase II. It elected to proceed into Phase II, and has paid the costs of conducting a 3D seismic survey covering approximately 12.7 square miles and of drilling one additional shallow well. The Company has fulfilled its obligations under Phase II, and has received an assignment from INNEX of a 75% working interest (representing an approximate 56.3% net revenue interest) in the leases held by INNEX in the drilling unit for the well drilled in Phase II and a 75% working interest (representing an approximate 59.3% net revenue interest) in all remaining leases held by INNEX to the deepest depth drilled in the three Phase I and II obligation wells.

Foothills California then had the option, but not the obligation, to proceed into Phase III. It elected to proceed into Phase III, and is paying 100% of the costs of drilling one deep well. Upon completion of Phase III, the Company will receive an assignment from INNEX of a 75% working interest (representing an approximate 56.3% net revenue interest) in the leases held by INNEX in the drilling unit and a 75% working interest (representing an approximate 59.3% net revenue interest) in all remaining leases held by INNEX with no depth limitation.

After completion of Phase III, the two parties will each be responsible for funding their working interest share of the joint venture's costs and expenses. Foothills California will generally have a 75% working interest in activities conducted on specified prospects existing at the time of execution of the agreement, and a 70% working interest in other activities. Each party will be able to elect not to participate in exploratory wells on a prospect-by-prospect basis, and a non-participating party will lose the opportunity to participate in development activities and all rights to production relating to that prospect.

Foothills California is also entitled to a proportionate assignment from INNEX of its rights to existing permits, drill pads, roads, rights-of-way, and other infrastructure, as well as its pipeline access and marketing arrangements.

INNEX has an option to participate for a 25% working interest in certain producing property acquisitions by the Company in the area of mutual interest.

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FOOTHILLS RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007
SUPPLEMENTAL OIL AND GAS INFORMATION
(unaudited)

The following tables set forth (in thousands) information about the Company's oil and gas producing activities pursuant to the requirements of SFAS No. 69, Disclosures About Oil and Gas Producing Activities. All of the Company's oil and gas producing activities are within the United States.

Capitalized Costs

	2007	2006
Proved properties	\$ 75,215	\$ 64,850
Unproved properties	760	420
	75,975	65,270
Accumulated depreciation, depletion and amortization	(3,389)	(775)
Net capitalized costs	\$ 72,586	\$ 64,495

The Company's investment in oil and gas properties as of December 31, 2007 included \$760,000 in unproved properties which have been excluded from amortization. Such costs were incurred in 2007 and 2006, and will be evaluated in future periods based on management's assessment of exploration activities, expiration dates of leases, changes in economic conditions and other factors.

Costs Incurred

	2007	2006
Property acquisition:		
Proved properties	\$	\$ 62,939
Unproved properties	537	195
Exploration	1,936	5,818
Development	8,218	1,448
Total costs incurred	\$ 10,691	\$ 70,400

For the years ended December 31, 2007 and 2006, depreciation, depletion and amortization of the capitalized costs of oil and gas properties was \$12.59 and \$10.33, respectively, per barrel.

Oil and Gas Reserve Quantities

Proved reserves represent estimated quantities of crude oil and natural gas which geological and engineering data demonstrate to be reasonably recoverable in the future from known reservoirs under existing economic and operating conditions. Proved developed reserves can be expected to be recovered through existing wells, with existing equipment and operating methods.

Estimates of proved and proved developed oil and gas reserves are subject to numerous uncertainties inherent in the process of developing the estimates, including the estimation of the reserve quantities and estimated future rates of production and timing of development expenditures. The accuracy of any reserve estimate is a function of the quantity and quality of available data and of engineering and geological interpretation and judgment. Results of drilling, testing and production subsequent to the date of the estimate may justify revision of such estimates. Additionally, the estimated volumes to be commercially recoverable may fluctuate with changes in prices of oil and natural gas.

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FOOTHILLS RESOURCES, INC.
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Estimates of the Company's proved reserves and related valuations, as shown in the following tables, were developed pursuant to SFAS No. 69. The amounts for 2006 have been restated to correct errors identified during 2007 in the estimates of reserve quantities attributable to extensions and discoveries for the Company's California gas properties and production costs for the Company's Texas oil and gas properties. These corrections did not have a significant effect on the accompanying consolidated financial statements. Crude oil is stated in thousands of barrels. Natural gas is stated in millions of cubic feet.

	2007		2006	
	Oil	Gas	Oil	Gas
Proved developed and undeveloped reserves, beginning of year	4,431	21,916		
Extensions and discoveries ¹				21,500 ₁
Purchase of reserves in-place ²			4,501	446
Revisions of previous estimates	(72)	22		
Production	(185)	(135)	(70)	(30)
Proved developed and undeveloped reserves, end of year ³	4,174	21,803	4,431	21,916
Proved developed reserves, end of year ³	3,884	2,437	4,030	2,190

The following tables present (in thousands) the standardized measure of discounted future net cash flows relating to proved oil and gas reserves as of December 31, 2007 and 2006, and the changes in the standardized measure of discounted future net cash flows for the years then ended. Future cash inflows and costs were computed using prices and costs in effect at the end of the year, without escalation. Future income taxes were computed by applying the appropriate statutory income tax rate to the pretax future net cash flows, reduced by future tax deductions and net operating loss carryforwards.

¹ During 2006, the Company drilled two successful wells in the Eel River Basin in California (see Note 9). The estimate of proved reserves attributable to these discoveries was approximately 21.5 billion cubic feet of

natural gas.

² In 2006, the Company acquired producing properties in the Texas Gulf Coast area. The estimated proved reserves acquired totaled approximately 4.5 million barrels of crude oil and 446 million cubic feet of natural gas.

³ Subsequent to December 31, 2007, the Company completed the GB 5 and Vicenus 1-3 wells in the Eel River Basin in California. After perforating the indicated gas-bearing zones in the Lower Anderson formation in the GB 5 well and the Lower Rio Dell formation in the Vicenus 1-3 well, the Company did not recover natural gas from either well. The Company believes this result is inconsistent with the mud

log shows,
electric log
interpretations,
and the
offsetting well
information.
The Company's
preliminary
conclusion is
that polymer
fluids used
during drilling
operations most
likely damaged
the reservoirs
near the
wellbores. The
Company has
temporarily
suspended
further testing
on the two
wells, and is in
the process of
designing
stimulation
programs to
fracture the
formations
beyond the
damaged zones
in the wells. The
Company's
estimate of
proved
developed
natural gas
reserves as of
December 31,
2007 included
approximately
278 million
cubic feet
attributable to
the Lower
Anderson
formation in the
GB 5 well, and
approximately
615 million
cubic feet

attributable to the Lower Rio Dell formation in the Vicenus 1-3 well. The Company's estimate of proved undeveloped natural gas reserves as of December 31, 2007 included approximately 441 million cubic feet expected to be recovered from the Lower Anderson formation in new wells, and approximately 15.8 billion cubic feet expected to be recovered from the Lower Rio Dell formation in new and existing wells.

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FOOTHILLS RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

Standardized Measure of Discounted Future Net Cash Flows

	2007	2006
Future cash inflows	\$ 537,791	\$ 395,868
Future costs Production	139,969	116,104
Development	27,230	20,783
 Future net cash flows before income taxes	 370,592	 258,981
Future income taxes	91,859	71,393
 Future net cash flows	 278,733	 187,588
10% discount factor	142,605	88,661
 Standardized measure of discounted future net cash flows	 \$ 136,128	 \$ 98,927

Changes in Standardized Measure of Discounted Future Net Cash Flows

	2007	2006
Standardized measure, beginning of year	\$ 98,927	\$
Increases (decreases) Sales, net of production costs	(10,464)	(2,914)
Net change in sales prices, net of production costs	60,163	
Extensions and discoveries		40,341
Changes in estimated future development costs	(4,618)	
Development costs incurred during the year that reduced future development costs	2,092	
Revisions of quantity estimates	(22,543)	
Accretion of discount	11,805	
Net change in income taxes	(1,076)	(19,130)
Purchase of reserves in-place		80,630
Changes in production rates (timing) and other	1,842	
 Standardized measure, end of year	 \$ 136,128	 \$ 98,927

The following table shows the average prices used in determining the standardized measure, and reflect adjustments for geographical, quality and transportation differentials. Oil prices are per barrel and natural gas prices are per thousand cubic feet.

	2007		2006	
	Oil	Gas	Oil	Gas
California	\$	\$6.54	\$	\$6.08
Texas	\$94.46	\$7.67	\$59.21	\$6.77

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FOOTHILLS RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	March 31, 2008 (unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 194	\$ 165
Accounts receivable	2,026	1,880
Prepaid expenses	124	212
	2,344	2,257
Property, plant and equipment, at cost:		
Oil and gas properties, using full-cost accounting		
Proved properties	77,399	75,215
Unproved properties not being amortized	6,884	760
Other property and equipment	533	533
	84,816	76,508
Less accumulated depreciation, depletion, amortization	(4,264)	(3,554)
	80,552	72,954
Other assets	3,392	3,413
	\$ 86,288	\$ 78,624
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,389	\$ 5,669
Fair value of derivative financial instruments	4,046	3,228
Liquidated damages	2,593	2,591
	11,028	11,488
Long-term debt	61,602	52,243
Asset retirement obligations	639	628
Fair value of derivative financial instruments	4,411	3,571
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Stockholders' equity:

Preferred stock, \$0.001 par value 25,000,000 shares authorized, none issued and outstanding		
Common stock, \$0.001 par value 250,000,000 shares authorized, 60,572,442 shares issued and outstanding at March 31, 2008 and December 31, 2007	61	61
Additional paid-in capital	47,335	47,224
Accumulated deficit	(30,331)	(29,792)
Accumulated other comprehensive (loss)	(8,457)	(6,799)
	8,608	10,694
	\$ 86,288	\$ 78,624

The accompanying notes are an integral part of these consolidated financial statements.

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FOOTHILLS RESOURCES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share amounts)

(unaudited)

	Three Months Ended March 31,	
	2008	2007
Income		
Oil and gas revenues	\$ 4,071	\$ 3,841
Interest income	9	84
	4,080	3,925
Expenses:		
Production costs	1,420	996
General and administrative	697	757
Interest	1,780	2,656
Liquidated damages	1	440
Depreciation, depletion and amortization	721	675
	4,619	5,524
Net loss	\$ (539)	\$ (1,599)
Basic and diluted net loss per share	\$ (0.01)	\$ (0.03)
Weighted average number of common shares outstanding basic and diluted	60,572,442	60,376,829

The accompanying notes are an integral part of these consolidated financial statements.

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FOOTHILLS RESOURCES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2008	2007
Cash flows from operating activities:		
Net loss	\$ (539)	\$ (1,599)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Stock-based compensation	111	139
Depreciation, depletion and amortization	710	663
Accretion of asset retirement obligation	11	12
Amortization of discount on long-term debt	114	966
Amortization of debt issue costs	178	56
Changes in assets and liabilities		
Accounts receivable	(145)	(65)
Prepaid expenses	88	33
Accounts payable and accrued liabilities	(93)	(543)
Liquidated damages	1	440
Net cash provided by operating activities	436	102
Cash flows from investing activities:		
Additions to oil and gas properties	(9,496)	(840)
Additions to other property and equipment		(23)
Net cash used for investing activities	(9,496)	(863)
Cash flows from financing activities:		
Proceeds of borrowings	10,513	
Repayments of borrowings	(1,267)	
Debt issuance costs	(157)	
Stock issuance costs		(3)
Net cash provided by (used for) financing activities	9,089	(3)
Net increase (decrease) in cash and cash equivalents	29	(764)
Cash and cash equivalents at beginning of the period	165	8,673
Cash and cash equivalents at end of the period	\$ 194	\$ 7,909

Supplemental disclosures of cash flow information:

Cash paid for

Interest	\$ 1,429	\$ 1,633
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Income taxes

\$	\$
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The accompanying notes are an integral part of these consolidated financial statements.

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FOOTHILLS RESOURCES, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in thousands, except share amounts)

	Common Stock		Additional	Accum-	Accum-	
	Number	Par Value	Paid-in Capital	ulated Deficit	ulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2006	60,376,829	\$ 60	\$ 44,331	\$ (3,764)	\$ 1,595	\$ 42,222
Issuance of common stock and warrants	85,841		2,504			2,504
Stock-based compensation	109,772	1	499			500
Change in fair value of derivative financial instruments					(8,394)	(8,394)
Stock issuance costs			(110)			(110)
Net loss				(26,028)		(26,028)
Balance, December 31, 2007	60,572,442	61	47,224	(29,792)	(6,799)	10,694
Stock-based compensation (unaudited)			111			111
Change in fair value of derivative financial instruments (unaudited)					(1,658)	(1,658)
Net loss (unaudited)				(539)		(539)
Balance, March 31, 2008 (unaudited)	60,572,442	\$ 61	\$ 47,335	\$ (30,331)	\$ (8,457)	\$ 8,608

The accompanying notes are an integral part of these consolidated financial statements.

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FOOTHILLS RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008
(unaudited)

Note 1 Summary of Operations

Foothills Resources, Inc. (Foothills), a Nevada corporation, and its subsidiaries are collectively referred to herein as the Company. The Company is a growth-oriented independent energy company engaged in the acquisition, exploration, exploitation and development of oil and natural gas properties. The Company currently holds interests in properties in the Texas Gulf Coast area, in the Eel River Basin in northern California, and in the Anadarko Basin in southwest Oklahoma.

Foothills took its current form on April 6, 2006, when Brasada California, Inc. (Brasada) merged with and into an acquisition subsidiary of Foothills. Brasada was formed on December 29, 2005 as Brasada Resources LLC, a Delaware limited liability company, and converted to a Delaware corporation on February 28, 2006. Following the merger, Brasada changed its name to Foothills California, Inc. (Foothills California) and is now a wholly owned operating subsidiary of Foothills. This transaction was accounted for as a reverse takeover of the Company by Foothills California. The Company adopted the assets, management, business operations and business plan of Foothills California. The financial statements of the Company prior to the merger were eliminated at consolidation.

These financial statements have been prepared by the Company without audit, and include all adjustments (which consist solely of normal recurring adjustments) which, in the opinion of management, are necessary for a fair presentation of financial position and results of operations. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, although the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these financial statements be read in conjunction with the Company's audited financial statements and the notes thereto for the year ended December 31, 2007.

Note 2 New Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 161, Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No.133 (SFAS No. 161). This statement requires enhanced disclosures about derivative and hedging activities. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact, if any, the standard will have on its financial statements.

During December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No. 51 (SFAS No. 160), which causes noncontrolling interests in subsidiaries to be included in the equity section of the balance sheet. SFAS No. 160 is effective for periods beginning on or after December 15, 2008. This standard does not presently affect the Company's financial statements.

During December 2007, the FASB issued SFAS No. 141(R), Business Combinations (SFAS No. 141(R)), which establishes new accounting and disclosure requirements for recognition and measurement of identifiable assets, liabilities and goodwill acquired and requires that the fair value estimates of contingencies acquired or assumed be considered as part of the original purchase price allocation. SFAS No. 141(R) is effective for periods beginning on or after December 15, 2008. This standard does not presently affect the Company's financial statements.

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FOOTHILLS RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008
(unaudited)

Note 3 Asset Retirement Obligation

The following table sets forth a reconciliation of the beginning and ending asset retirement obligation for the three months ended March 31, 2008 (in thousands):

Asset retirement obligation, beginning of period	\$ 628
Accretion expense	11
 Asset retirement obligation, end of period	 \$ 639

Note 4 Long-term Debt

Long-term debt at March 31, 2008 and December 31, 2007 consisted of the following (in thousands):

	2008	2007
Senior term loan	\$ 50,000	\$ 50,000
Revolving loan	13,745	4,500
	63,745	54,500
Less: unamortized discount	(2,143)	(2,257)
	61,602	52,243
Less: current portion		
	\$ 61,602	\$ 52,243

In 2007, the Company entered into a Credit Agreement with various lenders and Wells Fargo Foothill, LLC, as agent (the "Credit Facility"). The Credit Facility provides for a \$50 million term loan facility and a \$50 million revolving credit facility, with an initial borrowing base of \$25 million available under the revolving credit facility. The Credit Facility matures in December 2012, with principal payments scheduled to commence in April 2010 based on 50% of the Company's cash flow, net of capital expenditures. Interest on the revolving credit facility is payable at prime plus 0.75% or at the London Interbank Offered Rate ("LIBOR") plus 2.00%, as selected by the Company from time to time, with an unused line fee of 0.50%. Interest on the term loan facility is payable at prime plus 5.25% or at LIBOR plus 6.50%, as selected by the Company from time to time. The Credit Facility contains financial covenants pertaining to asset coverage, interest coverage and leverage ratios. As of March 31, 2008, the Company was not in compliance with the leverage ratio covenant. The lenders waived the non-compliance in consideration of an amendment to the Credit Facility to provide that the interest rate on the term loan facility will not be less than 10.50% in the event that LIBOR is less than 4.00%. Additionally, the Credit Facility has restrictions on the operations of the Company's business, including restrictions on payment of dividends. Borrowings under the term loan facility carry prepayment penalties ranging from 1.00% to 2.00% in the first three years of the Credit Facility. Borrowings under the revolving credit facility may be repaid at any time without penalty. The Credit Facility is secured by liens and security interests on substantially all of the assets of the Company, including 100% of the Company's oil and gas reserves. In connection with the Credit Facility, Foothills issued to the lender under the term loan facility a ten-year warrant to purchase 2,580,159 shares of Foothills' common stock at an exercise price of \$0.01 per share. The fair value of the

warrant was recorded as debt issue discount, and is being amortized using the interest method.

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FOOTHILLS RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008
(unaudited)

Note 5 Stockholders Equity*Registration rights payments*

The purchasers of units consisting of shares of common stock and warrants issued by Foothills in private placement financings in 2006 have registration rights, pursuant to which the Company agreed to register for resale the shares of common stock and the shares of common stock issuable upon exercise of the warrants. In the event that the registration statements are not declared effective by the Securities and Exchange Commission (SEC) by specified dates, the Company is required to pay liquidated damages to the purchasers.

The purchasers of 17,142,857 units issued in April 2006 are entitled to liquidated damages in the amount of 1% per month of the purchase price for each unit, payable each month that the registration statement is not declared effective following the mandatory effective date (January 28, 2007). The total amount recorded at March 31, 2008 for these liquidated damages was \$322,000. Amounts payable as liquidated damages cease when the shares can be sold under Rule 144 of the Securities Act of 1933, as amended. The Company has determined that liquidated damages ceased on April 6, 2007 as to a minimum of 16,192,613 units, and that liquidated damages ceased on July 6, 2007 as to the remaining units.

The purchasers of an aggregate of 10,093,804 units issued in September 2006 are entitled to liquidated damages in the amount of 1% per month of the purchase price for each unit, payable each month that the registration statement is not declared effective following the applicable mandatory effective dates (March 7, 2007 for 10,000,000 units and March 28, 2007 for the remaining 93,804 units). The total amount recorded at March 31, 2008 for these liquidated damages was \$2,271,000. The investors in the September 2006 private placement financing have the right to take the liquidated damages either in cash or in shares of Foothills common stock, at their election. If the Company fails to pay the cash payment to an investor entitled thereto by the due date, the Company will pay interest thereon at a rate of 12% per annum (or such lesser maximum amount that is permitted to be paid by applicable law) to such investor, accruing daily from the date such liquidated damages are due until such amounts, plus all such interest thereon, are paid in full. The total amount of liquidated damages will not exceed 10% of the purchase price for the units or \$2,271,000.

The Company filed the required registration statement but the registration statement has not yet become effective. As a result, the Company had incurred the obligation to pay a total of approximately \$2,593,000 in liquidated damages as of March 31, 2008, which amount has been recorded as liquidated damages expense in the consolidated statements of operations.

Warrants

In connection with the Credit Facility, a prior credit facility, and private placement financings, Foothills issued warrants to purchase shares of its common stock. Warrants outstanding as of March 31, 2008 consisted of the following:

Number of Shares Subject to Warrants	Expiration Date	Exercise Price
2,580,159	December 2017	\$ 0.01
12,077,399	April 2011	\$ 1.00
473,233	September 2011	\$ 2.25
8,046,919	September 2011	\$ 2.75
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FOOTHILLS RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008
(unaudited)

Note 6 Stock and Other Compensation Plans

Foothills' 2007 Equity Incentive Plan (the "2007 Plan") enables the Company to provide equity-based incentives through grants or awards to present and future employees, directors, consultants and other third party service providers. Foothills' Board of Directors reserved a total of 5,000,000 shares of Foothills' common stock for issuance under the 2007 Plan. The compensation committee of the Board (or the Board in the absence of such a committee), administers the 2007 Plan. The 2007 Plan authorizes the grant to participants of nonqualified stock options, incentive stock options, restricted stock awards, restricted stock units, performance grants intended to comply with Section 162(m) of the Internal Revenue Code, as amended, and stock appreciation rights. Generally, options are granted at prices equal to the fair value of the stock at the date of grant, expire not later than 10 years from the date of grant, and vest ratably over a three-year period following the date of grant.

During 2007, the Company determined that its 2006 Equity Incentive Plan (the "2006 Plan") did not meet certain qualifications required under state laws. As a result, the Company now considers all options granted prior to the adoption of the 2007 Plan to have been granted outside of the scope of the 2006 Plan. Although the Foothills' Board of Directors reserved a total of 2,000,000 shares of Foothills' common stock for issuance under the 2006 Plan, the Company does not intend to make any equity-based incentive grants or awards under the 2006 Plan.

No options were granted during the three months ended March 31, 2008.

Option activity during the three months ended March 31, 2008 was as follows:

		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term In Years	Aggregate Intrinsic Value
Outstanding, beginning of period	1,880,000	\$ 1.52		
Granted				
Exercised				
Forfeited				
Outstanding, end of period	1,880,000	\$ 1.52	8.2	\$ 96,000
Exercisable, end of period	1,088,750	\$ 1.61	8.2	\$ 48,000

Stock-based compensation relating to stock options for the three months ended March 31, 2008 and 2007 totaling \$101,000 and \$139,000, respectively, has been recognized as a component of general and administrative expenses in the accompanying consolidated financial statements. As of March 31, 2008, \$534,000 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of approximately 2.1 years. The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the closing stock price on the last trading day of March 2008 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on March 31, 2008. The amount of aggregate intrinsic value will change based on the fair market value of the Company's stock.

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FOOTHILLS RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008

(unaudited)

In 2007, the Company awarded shares of restricted stock to certain officers under the 2007 Plan. Stock-based compensation relating to restricted stock awards for the three months ended March 31, 2008 totaling \$10,000 has been recognized as a component of general and administrative expenses in the accompanying consolidated financial statements. As of March 31, 2008, \$41,000 of total unrecognized compensation cost related to restricted stock awards is expected to be recognized over a weighted-average period of approximately 1.1 years.

The following is a summary of restricted stock activity for the three months ended March 31, 2008:

	Shares	Aggregate Value
Outstanding, beginning of period	109,772	
Awarded		
Canceled / forfeited		
Outstanding, end of period	109,772	\$ 90,000
Vested, end of period	39,183	\$ 32,000

As of March 31, 2008, 4,848,824 shares were available for future equity-based incentive grants or awards under the 2007 Plan.

During 2007, the Company implemented a 401(k) Savings Plan which covers all its employees. The Company matches a percentage of the employees' contributions to the plan in an amount equal to 100% of the first 3% and 50% of the next 2% of each participant's compensation. The Company's matching contributions to the plan were approximately \$11,000 for the three months ended March 31, 2008.

Note 7 Derivative Instruments and Price Risk Management Activities

The Company has entered into derivative contracts to manage its exposure to commodity price risk. These derivative contracts, which are placed with a major financial institution that the Company believes is a minimal credit risk, currently consist only of swaps. The oil prices upon which the commodity derivative contracts are based reflect various market indices that have a high degree of historical correlation with actual prices received by the Company for its oil production. Swaps are designed to fix the price of anticipated sales of future production. The Company entered into most of the contracts at the time it acquired certain operated oil and gas property interests as a means to reduce the future price volatility on its sales of oil production, as well as to achieve a more predictable cash flow from its oil and gas properties. The Company has designated its price hedging instruments as cash flow hedges in accordance with SFAS No. 133. The Company recognizes gains or losses on settlement of its hedging instruments in oil and gas revenues, and changes in their fair value as a component of other comprehensive income, net of deferred taxes. For the three months ended March 31, 2008 and 2007, the Company recognized the following pre-tax gains and losses due to realized settlements of its price hedging contracts (in thousands):

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FOOTHILLS RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008
(unaudited)

	Three Months Ended March 31,	
	2008	2007
Recognized gains (losses) on settlement of hedging instruments	\$(1,023)	\$423

Accumulated other comprehensive income included unrealized losses of \$8,457,000 and \$6,799,000 as of March 31, 2008 and December 31, 2007, respectively, on the Company's cash flow hedges. As of March 31, 2008, the Company anticipates that \$4,046,000 of unrealized losses, net of deferred taxes of zero, will be reclassified into earnings within the next 12 months. Irrespective of the unrealized gains or losses reflected in other comprehensive income, the ultimate impact to net income over the life of the hedges will reflect the actual settlement values. No cash flow hedges were determined to be ineffective during 2008. Further details relating to the Company's hedging activities are as follows:

Hedging contracts held as of March 31, 2008 were as follows:

Contract Period and Type	Total Volume	NYMEX Swap Price
<i>Crude oil contracts (barrels)</i>		
Swap contracts:		
April 2008 – December 2008	110,421	\$70.89
January 2009 – December 2009	135,041	69.41
January 2010 – September 2010	74,206	68.00

Note 8 Fair Value Measurements

Effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements (SFAS No. 157) for all financial assets and liabilities measured at fair value on a recurring basis. The statement establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The statement establishes market or observable inputs as the preferred sources of values, followed by assumptions based on hypothetical transactions in the absence of market inputs. The statement establishes a hierarchy for grouping these assets and liabilities, based on the significance level of the following inputs:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose inputs are observable or whose significant value drivers are observable

Level 3 Significant inputs to the valuation model are unobservable.

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**FOOTHILLS RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008
(unaudited)**

The following is a listing of the Company's liabilities required to be measured at fair value on a recurring basis and where they are classified within the hierarchy as of March 31, 2008 (in thousands):

	Level 1	Level 2	Level 3
Fair value of derivative financial instruments	\$	\$8,457	\$

A financial asset or liability is categorized within the hierarchy based upon the lowest level of input that is significant to the fair value measurement. The Company's oil swaps are valued using the counterparty's mark-to-market statements and are classified within Level 2 of the valuation hierarchy.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," which permits all entities to choose, at specified election dates, to measure eligible items at fair value. The Company adopted this statement as of January 1, 2008, but did not elect fair value as an alternative, as provided in the statement.

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**FOOTHILLS RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008**

(unaudited)

**FINANCIAL STATEMENTS OF ASSETS ACQUIRED
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of
Foothills Resources, Inc.
Bakersfield, California

We have audited the accompanying statements of revenues and direct operating expenses of TARH E&P Holdings L.P., Texas Properties as described in Note 1, for the two years ended December 31, 2004 and 2005. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statements of revenues and direct operating expenses reflect the revenues and direct operating expenses attributable to TARH E&P Holdings Texas properties, as described in Note 2, and are not intended to be a complete presentation of the revenues and expenses of TARH E&P Holdings L.P. Texas properties.

In our opinion, the financial statements referred to above present fairly in all material respects the revenues and direct operating expenses of TARH E&P Holdings L.P., Texas properties, as described in Note 1, for the two years ended December 31, 2004 and 2005, in conformity with accounting principles generally accepted in the United States of America.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION
Bakersfield, California
November 20, 2006

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FOOTHILLS RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008
(unaudited)
TARH E&P Holdings L.P., Texas Properties
Statements of Revenues and Direct Operating Expenses
Six Months Ended June 30, 2006 and 2005 and
Years Ended December 31, 2005 and 2004
(in Thousands)

	Six Months Ended June 30,		Year Ended December	
	2006	2005	31,	2004
	(Unaudited)	(Unaudited)	2005	2004
Revenues:				
Oil and gas sales	\$ 7,798	\$ 7,480	\$ 14,042	\$ 8,352
Direct operating expenses:				
Production taxes	583	471	1,090	656
Lease operating expenses	1,602	1,462	3,358	2,258
Excess of revenues over direct operating expenses	\$ 5,613	\$ 5,547	\$ 9,594	\$ 5,438

The accompanying notes are an integral part of these financial statements.

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TARH E&P Holdings L.P., Texas Properties
Notes to Statements of Revenues and Direct Operating Expenses

Note 1 The Properties

The accompanying statements represent the revenues and direct operating expenses attributable to the net working and revenue interests in four Texas oil and gas properties acquired by Foothills Resources, Inc. (Foothills or the Company) on September 8, 2006 (the Properties), from TARH E&P Holdings L.P. (the Seller). Foothills acquired the properties for approximately \$61,492,000, as adjusted, with an effective date of September 1, 2006. The Properties were used by the Seller for the exploration, development and production of oil and gas, which is the intended continued use for the acquired assets by the Company. The acquired properties and their related operations will be included in Foothills consolidated financial statements from the date of closing.

The Company acquired a 100% working interest in the Goose Creek and Goose Creek East Fields in Harris County, Texas, a 100% working interest in the Saratoga Field in Hardin County, Texas, and a 95% working interest in the Cleveland Field in Liberty County, Texas.

The consideration paid for the Properties consisted of i) the payment of approximately \$57,318,000 in cash, and ii) the issuance of 1,605,345 shares of the Company s common stock.

The \$57,318,000 cash portion of the purchase price was funded through \$42,500,000 in borrowings under a subordinated, second lien credit facility with affiliates of Goldman, Sachs & Co., cash proceeds from the sale by the Company of equity in a private offering, and available working capital.

Note 2 Basis of Presentation

The historical financial statements reflecting the financial position, results of operations and cash flows required by accounting principles generally accepted in the United States of America are not presented, since such information is neither readily available on an individual property basis nor meaningful for the properties acquired because the entire acquisition cost is being assigned to oil and gas properties. Accordingly the statements of revenues and direct operating expenses are presented in lieu of the financial statements required under Rule 3-05 of Securities and Exchange Commission (SEC) Regulation S-X.

The accompanying statements of revenues and direct operating expenses represent Foothills net working and revenue interests in the Properties acquired and are presented on the full cost basis of accounting. Depreciation, depletion and amortization of the capitalized costs of oil and gas properties; accretion of asset retirement obligations; corporate general and administrative expenses; interest expense and income; and income taxes have been excluded because the property interests acquired represent only a portion of a business, and the expenses incurred are not necessarily indicative of the expenses to be incurred by Foothills.

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires use of estimates and assumptions regarding certain types of revenues and expenses. Such estimates primarily relate to the unsettled transactions and events as of the date of the financial statements. Actual results may differ from such estimates.

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TARH E&P Holdings L.P., Texas Properties
Notes to Statements of Revenues and Direct Operating Expenses
SUPPLEMENTAL OIL AND GAS INFORMATION
(unaudited)

The following estimates of proved reserve quantities and the related standardized measure of discounted future net cash flows relate only to the Properties.

Oil and Gas Reserve Quantities

Proved reserves represent estimated quantities of crude oil and natural gas which geological and engineering data demonstrate to be reasonably recoverable in the future from known reservoirs under existing economic and operating conditions. Proved developed reserves can be expected to be recovered through existing wells, with existing equipment and operating methods.

Estimates of proved and proved developed oil and gas reserves are subject to numerous uncertainties inherent in the process of developing the estimates, including the estimation of the reserve quantities and estimated future rates of production and timing of development expenditures. The accuracy of any reserve estimate is a function of the quantity and quality of available data and of engineering and geological interpretation and judgment. Results of drilling, testing and production subsequent to the date of the estimate may justify revision of such estimates. Additionally, the estimated volumes to be commercially recoverable may fluctuate with changes in prices of oil and natural gas.

Disclosures of oil and gas reserves which follow are based on estimates prepared by Foothills engineers and from information provided by the Seller, in accordance with guidelines established by the SEC.

	Oil (bbl)	Gas (MCF)
Proved developed and undeveloped reserves, January 1, 2004	4,323,283	437,113
Revisions of previous estimates	145,625	21,905
Production	(199,365)	(20,894)
Proved developed and undeveloped reserves, December 31, 2004	4,269,543	438,124
Revisions of previous estimates	992,210	613,442
Production	(236,976)	(170,757)
Proved developed and undeveloped reserves, December 31, 2005	5,024,777	880,809
Proved developed reserves:		
January 1, 2004	2,921,852	295,288
December 31, 2004	3,850,973	221,742
December 31, 2005	4,606,207	664,427

The following tables present (in thousands) the standardized measure of discounted future net cash flows relating to proved oil and gas reserves and the changes in the standardized measure of discounted future net cash flows. Future cash inflows and costs were computed using prices and costs in effect at the end of the year, without escalation. Future income taxes were computed by applying the appropriate statutory income tax rates to the pretax future net cash flows reduced by future tax deductions, including deductions attributable to Foothills preliminary allocation of the purchase price of the Properties.

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TARH E&P Holdings L.P., Texas Properties
Notes to Statements of Revenues and Direct Operating Expenses
Standardized Measure of Discounted Future Net Cash Flows

	Year Ended December 31,	
	2005	2004
Future cash inflows	\$313,877	\$120,320
Future costs		
Production	102,121	46,717
Development	8,424	4,686
Future net cash flows before income taxes	203,332	68,917
Future income taxes	55,577	2,483
Future net cash flows	147,755	66,434
10% discount factor	67,653	5,807
Standardized measure of discounted future net cash flows	\$ 80,102	\$ 60,627

Changes in Standardized Measure of Discounted Future Net Cash Flows

	Year Ended December 31,	
	2005	2004
Standardized measure, beginning of year	\$ 60,627	\$39,848
Increases (decreases)		
Sales, net of production costs	(9,594)	(5,438)
Net change in sales prices, net of production costs	26,097	19,012
Changes in estimated future development costs	(3,903)	1,093
Development costs incurred during the year that reduced future development costs	1,496	665
Revisions of quantity estimates	12,229	2,138
Accretion of discount	6,062	4,110
Net change in income taxes	(11,407)	
Changes in production rates (timing) and other	(1,505)	(801)
Standardized measure, end of year	\$ 80,102	\$60,627

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**48,700,960 Shares of Common Stock
Foothills Resources, Inc.
PROSPECTUS
June 23, 2008**