GEOPETRO RESOURCES CO
Form POS AM
May 08, 2008

**As filed with the Securities and Exchange Commission on May 8, 2008**

**Registration No. 333-146557**

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

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**Post-Effective Amendment No. 1**
**To**

# FORM S-1

# ON
# FORM S-3

**REGISTRATION STATEMENT**
**UNDER**
**THE SECURITIES ACT OF 1933**

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# GEOPETRO RESOURCES COMPANY

(Exact name of registrant as specified in its charter)

| **California** | **1311** | **94-3214487** |
|---|---|---|
| (State or Other Jurisdiction of Incorporation or Organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification Number) |

**One Maritime Plaza, Suite 700**
**San Francisco, CA 94111**
**(415) 398-8186**

**(415) 398-9227-Fax**

(Address Including Zip Code and Telephone Number Including Area Code
of Registrant s Principal Executive Offices)

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**Stuart J. Doshi**
**President**
**GeoPetro Resources Company**
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**San Francisco, CA 94111**
**(415) 398-8186**

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

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**Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this Registration Statement**

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

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

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

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. o

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. o

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

Large accelerated filer o Accelerated filer o Non-accelerated filer x Smaller Reporting Company o

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

**EXPLANATORY NOTE**

This Registration Statement on Form S-3 constitutes a post-effective amendment to our registration statement on Form S-1 (No. 333-146557) into a registration statement on Form S-3. The Form S-1 was declared effective by the Securities and Exchange Commission on October 26, 2007. We are filing this post-effective amendment on Form S-3 for the purpose of converting the Registration Statement on Form S-1 into a Registration Statement on Form S-3 because we are now eligible to use Form S-3. All filing fees payable in connection with the registration of these securities were previously paid in connection with the filing of the Form S-1.

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Subject to completion, dated May 8, 2008.

Information contained in this prospectus is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state.

**PROSPECTUS**

**GEOPETRO RESOURCES COMPANY**

**2,783,456 shares of Common Stock**

**(No Par Value)**

| | |
|---|---|
| **The Offering:** | This offering relates to the possible sale, from time to time, by the shareholders listed on page 20 of this prospectus, the selling shareholders, of up to 2,783,456 shares of common stock of GeoPetro Resources Company. The shares of our common stock and securities which are exercisable for shares of our common stock which are being offered by this prospectus were issued to the selling shareholders pursuant to financing transactions. We will not receive any proceeds from sales by selling shareholders. The selling shareholders may sell all or a portion of their shares covered by this prospectus through public or private transactions at fixed prices, at prevailing market prices at the time of sale, at varying prices or negotiated prices, in negotiated transactions, or in trading markets for our common stock. We will bear all costs associated with this registration. |
| **Current Trading Market:** | Our common stock trades on the American Stock Exchange under the symbol GPR . Our common stock is also listed on the Toronto Stock Exchange under the symbol GEP . On May 7, the last reported sale prices for our common stock on the American Stock Exchange and the Toronto Stock Exchange were $2.45 and $2.60, respectively. |

**Investing in our common stock involves a high degree of risk. See Risk Factors Beginning on Page 8.**

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.

**The date of this prospectus is , 2008**

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**You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The selling shareholders are not making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus only. Our business, financial condition, results of operations and prospects may have changed since that date.**

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Unless otherwise specified or the context otherwise requires, all dollar amounts in this prospectus are expressed in U.S. dollars.

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**PROSPECTUS SUMMARY**

*This summary highlights selected information contained in greater detail elsewhere in this prospectus and does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, especially the risks of investing in our common stock, which we discuss under Risk Factors and our consolidated financial statements and related notes. Unless otherwise indicated or required by the context, we, us, and our refer to GeoPetro Resources Company and its subsidiaries and predecessors. All financial data included in this prospectus has been prepared in accordance with generally accepted accounting principles in the United States. We have provided definitions for some of the natural gas and oil industry terms used in this prospectus in the Glossary on page A-1 of this prospectus. All dollar amounts appearing in this prospectus are stated in U.S. dollars unless specifically noted in Canadian dollars ( CDN$ ).*

This prospectus is part of a registration statement on Form S-3 that we have filed with the SEC using a shelf registration process. Under this shelf registration process, the selling shareholders may, from time to time, sell the shares of our common stock described in this prospectus in one or more offerings.

This prospectus provides you with a general description of us and the common shares that maybe offered by the selling shareholders. In connection with any offer or sale of common shares by the selling shareholders under this prospectus, the selling shareholders are required to provide this prospectus and, in certain cases, a prospectus supplement that will contain specific information about the selling shareholders, the terms of the applicable offering and the securities being offered. The prospectus supplement also may add to, update or change information in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information in the prospectus supplement. You should carefully read this prospectus, any prospectus supplement and the additional information described below under the heading Where You Can Find More Information .

**GEOPETRO RESOURCES COMPANY**

We were incorporated in the State of Wyoming in August 1994 under the name GeoPetro Company as an oil and gas exploration, development drilling and production company. In June 1996, we merged with our wholly-owned subsidiary, GeoPetro Resources Subsidiary Company, a California corporation, and the resulting merged company is incorporated in the state of California under the California General Corporation Law under the name GeoPetro Resources Company.

Our principal and registered office is located at One Maritime Plaza, Suite 700, San Francisco, California, USA 94111 and our telephone number is 415-398-8186. We maintain a website located at www.geopetro.com.

**Intercorporate Relationships**

We hold 100% of the shares of Redwood Energy Company, a Texas corporation, **Redwood.** Redwood is the general partner of, and holds a 5% interest in, Redwood Energy Production, L.P., **Redwood LP**, a Texas limited partnership. We are the sole limited partner of Redwood LP and own the remaining 95% partnership interest in Redwood LP.

In addition, we hold a 12% interest in Continental-GeoPetro (Bengara II) Ltd., **C-G Bengara** which is a British Virgin Islands company and a 50% interest in CG Xploration Inc., **CG Xploration**, which is a Delaware corporation.

We also hold 100% of the shares of GeoPetro Canada Ltd., **GeoPetro Canada**, an Alberta company, 100% of the shares of GeoPetro Alaska LLC **GeoPetro Alaska**, an Alaska limited liability company, and 100% of the shares of South Texas GeoPetro, LLC, **South Texas GeoPetro**, a Texas limited liability company.

**GENERAL DEVELOPMENT OF THE BUSINESS**

During the past five years, we have conducted leasehold acquisition, exploration and drilling activities on our North American, Australian and Indonesian prospects. These projects currently encompass approximately 372,317 gross (158,401 net) acres, consisting of mineral leases, production sharing contracts and exploration permits that give us the right to explore for, develop and produce oil and natural gas. Most of these properties are in the exploration, appraisal or development drilling phase and have not begun to produce revenue from the sale of oil and natural gas. Excluding minor interest and dividend income, our only cash inflows until 2003 were the recovery of capital invested in projects through sale or other divestiture of interests in oil and gas prospects to industry partners.

In December 2000, we acquired working interests in oil and natural gas leases in the Madisonville Field in Madison County, Texas, including interests in the Rodessa Formation. Also included in the acquisition was the Magness Well, an existing well that had been drilled, cased and production tested in the Rodessa Formation. In October 2001, we re-completed and tested the Magness Well over a 12-day period. In October 2002, we drilled, completed and successfully tested an injection well to dispose of waste products resulting from the treating process for gas produced from the Rodessa Formation. The Madisonville Field gas treatment plant and associated pipelines, which were built specifically for this project, were placed into service in May 2003, and the Magness Well began production in late May 2003. Since 2003, substantially all of our revenue has been generated from natural gas sales derived from the Madisonville Field. The Madisonville Project is expected to be our primary source of revenue in 2008. The first development well in the Madisonville Field, the Fannin Well, was drilled in 2004 and was tested at rates of up to 25.7 MMcf/d. In 2006, we drilled the Wilson and Mitchell wells. Presently, the Fannin, Mitchell and Magness wells are producing while the Wilson well is shut-in awaiting a fracture stimulation. We own a 100% working interest in the four wells. Historically, our wells have been production constrained by the gas treatment plant at the Madisonville Field, which had a treating capacity limit of approximately 18,000 Mcf per day. We entered into an agreement with the plant owner, Madisonville Gas Processing, LP ( MGP ), an unaffiliated third party, which required, among other things, that MGP expand the design treating capacity of the plant from 18,000 to 68,000 Mcf per day to treat additional volumes from our producing wells. In October 2007, MGP informed us that they had partially completed construction of the additional treating facilities. Subsequently in November 2007, MGP commenced phase-in of the additional treating capacity reaching a temporary peak inlet volume of 21 mmcf/d out of the total contracted 50 mmcf/d design capacity at such facilities. However, operations at the additional treating facilities were suspended by MGP in December 2007 in order to make the necessary modifications to effectively deal with the presence of diamondoids in the gas stream produced from the Rodessa Formation.

As of May 7, 2008 we have 32,700,970 shares of common stock outstanding as a result of raising approximately $54.9 million of equity, net of offering costs, by way of private placements and a public offering in Canada. These funds have been used primarily to acquire, explore and develop our oil and natural gas prospects.

Most recently, on August 13, 2007, we sold, pursuant to a private placement, 2,002,599 units of our securities at a price of $3.85 per unit, for total gross proceeds of $7,710,006. Each unit consists of one share of our common stock and a warrant to purchase three-tenths of a common share. Each one whole warrant shall entitle the holder to acquire one share of common stock at a price of $4.50 per share for a period of five years from the closing date. The units were purchased by a small number of accredited investors. We filed a re-sale registration statement covering the common shares and warrants exercisable for common shares sold in such placement, which registration statement was declared effective by the Securities and Exchange Commission in October 2007. The gross proceeds from the sale have been, and will be, used to fund the Company s exploration and development program and for general working capital purposes.

**Growth Strategy**

Our strategy is to maximize shareholder value through the exploration and development drilling of oil and natural gas prospects. To carry out this philosophy we employ the following business strategies:

- identify and pursue potential projects which individually have the potential to be company makers which we define as projects which could generate a minimum unrisked net present value of $50 million net to our interest using a 10% discount factor;

- perform geological, engineering and geophysical evaluations;

- gain control of key acreage;

- generate high quality drillable exploration and development drilling prospects;

- retain a large working interest in those projects which involve low risk appraisal or development drilling, exploitation or appraisal of proven, probable and possible reserves; and

- minimize early investment and exploration risk in higher risk exploratory prospects through farmouts to other oil and natural gas companies and maintain meaningful interests with a carry through the exploration phase.

**Significant Risks:**

**Our business faces significant risks. Acquisition, exploration and overhead costs are high and have resulted in substantial losses since inception. There is a limited public market for our common shares, which may hinder our ability to raise equity capital (if needed) on advantageous terms, and there is intense competition in our industry. See Risk Factors beginning on page 8 for a detailed discussion of these and other risks.**

**Risks Associated With Foreign Operations**

Our business activities in Indonesia, Canada and the United States are subject to political and economic risks, including: loss of revenue, property and equipment as a result of unforeseen events like expropriation, nationalization, war, terrorist attacks and insurrection; risks of increases in import, export and transportation regulations and tariffs, taxes and governmental royalties; renegotiation of contracts with governmental entities; changes in laws and policies governing operations of foreign-based companies in Indonesia; exchange controls, and numerous other factors. While we expect these risks are greater in Indonesia, especially political risk, any one or more of such political or economic conditions could change in the United States or Canada to our detriment. For a related discussion of the risks attendant with foreign operations, see Risk Factors.

**Financial Information About Geographic Areas**

Please see the notes to the financial statements for information concerning oil and gas properties located in the United States and foreign countries.

**Regulations**

Domestic exploration for, and production and sale of, oil and gas are extensively regulated at both the federal and state levels. Our business is and will be directly or indirectly affected by numerous governmental laws and regulations applicable to the energy industry, including:

- Federal environmental laws and regulations
- State environmental laws and regulations
- Local environmental laws and regulations
- Conservation laws and regulations
- Tax and other laws and regulations pertaining to the energy industry

Legislation, rules and regulations affecting the oil and gas industry are under constant review for amendment or expansion, frequently increasing the regulatory burden. Any changes in the existing legislation, rules or regulations could adversely affect our business. The regulatory burdens are often costly to comply with and carry substantial penalties for failure to comply.

As of May 7, 2008, we have re-completed an existing production well and drilled three additional production wells and an injection well in the Madisonville Project as operator. In addition, we may drill oil, gas and disposal wells in the future as the operator and will be required to obtain local government and other permits to drill such wells. There can be no assurance that such permits will be available on a timely basis or at all. Texas and other states have statutes or regulations pertaining to conservation matters which, among other matters, regulate the unitization or pooling of gas properties and the spacing, plugging and abandonment of such wells and set limits on the maximum rates of natural gas that can be produced from gas wells.

Our operations and activities are subject to numerous federal, state and local environmental laws and regulations. These laws and regulations:

- Require the acquisition of permits
- Restrict the type, quantities and concentration of various substances that can be discharged into the environment
- Limit or prohibit drilling and other activities on wetlands and other designated, protected areas
- Regulate the generation, handling, storage, transportation, disposal and treatment of waste materials
- Impose criminal or civil liabilities for pollution resulting from oil and natural gas operations

We expect that with the increase in our exploratory and development drilling activities, the impact of environmental laws and regulations on our business and operations will also increase. We may be required in the future to make substantial outlays of money to comply with environmental laws and regulations. Additional changes in operating procedures and expenditures to comply with future environmental laws cannot be predicted.

Other than our U.S. projects, we do not operate oil and gas properties in which we own an interest. In those instances, we are not in the position to exert direct control over compliance with most of the rules and regulations discussed above. We are substantially dependent on the operators of our non-operated oil and gas properties to monitor, administer and oversee such compliance. The failure of the operator to comply with such rules and regulations could result in substantial liabilities to us.

As the operator of the Madisonville Project, among other various environmental laws and regulations, we are subject to the U.S. Comprehensive Environmental Response, Compensation and Liability Act ( **CERCLA** ) and any comparable legislation adopted by Texas which imposes strict, joint and several liability on owners and operators of properties and on persons who dispose or arrange for the disposal of hazardous substances found on or under the sites of such properties.

Under CERCLA, one owner, lessee or other party, having responsibility for and an interest in a site requiring cleanup may, under certain circumstances, be required to bear a disproportionate share of liability for the cost of such cleanup if payments cannot be obtained from other responsible parties. The Resource Conservation and Recovery Act ( **RCRA** ) and comparable rules adopted by Texas and other states regulate the generation, management and disposal of hazardous oil and gas waste.

The Texas Railroad Commission has been delegated the responsibility and authority to regulate and prevent pollution from oil and gas operations, including the prevention of pollution of surface or subsurface water resulting from the drilling of oil and gas wells and the production of oil and gas. In addition to regulating the generation, management and disposal of hazardous oil and gas waste, the Texas Railroad Commission has been delegated authority to regulate underground hydrocarbon storage, saltwater disposal pits and injection wells.

The drilling of oil and gas wells in Texas requires operators to obtain drilling permits, file an organization report and a performance bond or other form of financial security, such as a letter of credit, and obtain a permit to maintain pits to store and dispose of drilling fluids, saltwater and waste as well as other types of pits for other purposes. The issuance of such permits is conditioned upon the Texas Railroad Commission s determination that these pits will not result in waste or pollution of surface or subsurface water.

Other states in which we have an interest in oil and gas properties may impose similar or more stringent regulations than imposed under CERCLA or RCRA.

In re-completing the existing well on the Madisonville Project, we were required to drill a well for injection or disposal of produced waste gas from wells. Injection wells are subject to regulation under the Safe Drinking Water Act ( **SDWA** ) and the regulations and procedures which have been adopted by the Environmental Protection Agency ( **EPA** ) under that Act. Generally, enforcement procedures under the SDWA are administered by the EPA unless such authority has been delegated by the EPA to a state which has primary enforcement responsibility based on the EPA s determination that the state has adopted drinking water regulations no less stringent than the national primary drinking water regulations and meets certain other criteria. Underground injection wells not used for the underground injection of natural gas for storage are generally unlawful and subject to penalties under the SWDA unless authorized by:

- permit issued by the EPA or a state having primary enforcement responsibility, or

- rule pursuant to an underground injection control program established by a state or the EPA.

The regulatory burden on the natural gas and oil industry increases our cost of doing business and affects our financial condition. Future developments, such as stricter requirements of environmental or health and safety laws and regulations affecting our business or more stringent interpretations of, or enforcement policies with respect to, such laws and regulations, could adversely affect us. To meet changing permitting and operational standards, we may be required, over time, to make site or operational modifications at our facilities, some of which might be significant and could involve substantial expenditures. There can be no assurance that material costs or liabilities will not arise from these or additional environmental matters that may be discovered or otherwise may arise from future requirements of law.

**Overseas Regulations**

We own a working interest in an oil and gas project located in Indonesia. We have farmed out our interest in this project to a third party who is the operator of this project. In exploring for, drilling and developing this property, this operator will be required to comply with the environmental, conservation, tax and other laws and regulations of Indonesia. We own non-operated working interests in oil and gas projects located in Canada. In exploring for, drilling and developing these properties, these operators will be required to comply with the environmental, conservation, tax and other laws and regulations in Canada.

**Technology**

We participate in projects utilizing economically feasible exploration technology in our exploration and development drilling activities to reduce risks, lower costs, and more efficiently produce oil and gas. We believe that the availability of cost effective 2-D and 3-D seismic data makes its use in exploration and development drilling activities attractive from a risk management perspective in certain areas.

Briefly, through the use of a seismograph, a seismic survey sends pulses of sound from the surface down into the earth, and records the echoes reflected back to the surface. By calculating the speed at which sound travels through the various layers of rock, it is possible to estimate the depth to the reflecting surface. It then becomes possible to infer the structure of rock deep below the earth s surface. We evaluate substantially all of our exploratory prospects using 2-D seismic data. In addition, we own approximately 12 square miles of 3-D seismic data covering our leasehold and adjacent lands in the Madisonville Project.

The use of seismic technology does not entirely remove the risk of exploration and development drilling of oil and natural gas deposits. It is important to consider the following:

- we may not recognize significant geological features due to errors in interpretation, processing limitations, the presence of certain geological environments that are out of our control or other factors; and

- seismic generally becomes less reliable with increasing depth of the geological horizon; and

- the use of this technology may increase our finding cost over that if it is not used.

**Principal Products**

Our principal products are the production of natural gas and crude oil from properties in which we own an interest. Since our inception, we have realized only limited production of natural gas and crude oil from the properties in which we own an interest. We have working interests in various undeveloped oil and gas properties.

During the last three fiscal years, 100% of our revenues have been derived from the sale of natural gas. Substantially all of our natural gas sales, approximately 99%, have been generated by three producing wells, the Magness #1, Fannin #1and Mitchell #1 wells, located in the Madisonville Field in East Texas. Natural gas produced by the wells is sold at the wellhead where it is delivered to a gathering pipeline and transported to a nearby gas treatment plant where it is treated to remove impurities. The gas is then transported nine miles to one of two common carrier pipelines from which point it is delivered to the greater Dallas, Texas area. The price received for the natural gas is the Houston Ship Channel price index less certain adjustments for the quality of the gas delivered. The adjustments for the quality of gas delivered at the wellsite as well as the gathering and transportation costs presently amount to approximately $1.75  per Mcf of untreated gas delivered at the wellsite.

**Reserves**

The volume of production from oil and natural gas properties generally declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. Our proved reserves will decline as reserves are produced from our properties unless we are able to acquire or develop new reserves.

**Acquisition of Producing Properties**

We may supplement our exploration efforts with acquisitions of producing oil and gas properties. We may seek to acquire producing properties that are underperforming relative to their potential.

**Patents, Trademarks, Licenses, Franchises and Concessions Held**

Permits and licenses are important to our operations, since they allow the search for the extraction of any oil, gas and minerals discovered on the areas covered. See Properties for a general description of the permits and licenses under which we operate. Provided we establish a commercial discovery thereon, the Bengara PSC in Indonesia grants us the right to produce oil and gas from the PSC area until 2027.

**Seasonality of Business**

Our business is not seasonal.

**Working Capital Items**

The majority of our current assets are in the form of cash and deposits in trust received from the sale of natural gas from our Madisonville Project in Texas and from the sale of common stock in private placements. We are required to use this cash to pay for the cost of our operations and activities.

**Customers**

Substantially all of our revenues to date have been derived from sales by MGP to two customers, Luminant Energy Company, and ETC Katy Pipeline, Ltd., of natural gas produced from our Madisonville Project in Texas. We have not committed any forward sales of our natural gas. We contract to sell the gas with spot-market based contracts that vary with market forces on a monthly basis. No other customer accounts for in excess of 10% of our revenues. The loss of either of these customers could result in the loss of our revenues, which would have a material adverse effect on our results of operations. See Risk Factors .

**Competition**

The natural gas and oil industry is intensely competitive and speculative in all of its phases. We encounter competition from other natural gas and oil companies in all areas of our operations. In seeking suitable natural gas and oil properties for acquisition, we compete with other companies operating in our areas of interest, including large natural gas and oil companies and other independent operators, which have greater financial resources and in many instances, have been engaged in the exploration and production business for a much longer time than we have. Many of our competitors also have substantially larger operating staffs than we do. Many of these competitors not only explore for and produce natural gas and oil but also market natural gas and oil and other products on a regional, national or worldwide basis. These competitors may be able to pay more for productive natural gas and oil properties and exploratory prospects and define, evaluate, bid for and purchase a greater number of properties and prospects than us. In addition, these competitors may have a greater ability to continue exploration activities during periods of low market prices. Our ability to acquire additional properties and to discover reserves in the future will depend on our ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment.

The prices of our natural gas production are controlled by market forces. However, competition in the natural gas and oil exploration industry also exists in the form of competition to acquire leases and obtain favorable transportation prices. We are relatively small and may have difficulty acquiring additional acreage and/or projects and may have difficulty arranging for the transportation of our production. We also face competition in obtaining natural gas and oil drilling rigs and in sourcing the manpower to run them and provide related services.

**Employees**

Currently, we have 10 employees, all of whom are full time. We use the services of independent consultants and contractors to perform various professional services, including reservoir engineering, land, legal, environmental and tax services. On those properties where we are not the operator, we rely on outside operators to drill, produce and market our natural gas and oil.

**THE OFFERING**

| | |
|---|---|
| **Common stock that may be offered by the selling shareholders:** | 2,783,456 shares(1) |
| **Common stock to be outstanding immediately after this offering:** | 32,700,970 shares(2) |
| **Use of proceeds:** | We will not receive any proceeds from the sales of our common stock by the selling shareholders. |
| **Risk factors:** | See Risk Factors and other information included in this prospectus for a discussion of some of the factors you should consider before deciding to purchase shares of our common stock. |

**American Stock Exchange Symbol: GPR**

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(1) Includes 780,857 shares of common stock issuable upon exercise of warrants.

(2) Assumes the sale by the selling stockholders of all the shares of common stock available for resale under this prospectus, except for 780,857 shares of common stock issuable upon exercise of warrants.

## RISK FACTORS

**The shares of our common stock being offered involve a high degree of risk.  You should carefully consider the following discussion of risks as well as all other information in this prospectus before purchasing any of the shares offered pursuant to this prospectus.**

In addition to risks and uncertainties in the ordinary course of business that are common to all businesses, important factors that are specific to our industry and our company could materially impact our future performance and results of operations. We have provided below a list of these risk factors that should be reviewed when considering our securities. These are not all the risks we face and other factors currently considered immaterial or unknown to us may impact our future operations.

### Risks Related to Our Business

***As of December 31, 2007 we have capitalized costs totaling $53.28 million as evaluated and unevaluated oil and gas properties whereas we have generated revenues of only $29.9 million since January 1, 2003 and revenues of only $6.9 million during the fiscal year ended December 31, 2007.***

Since inception, our activities have been primarily related to acquiring and exploring leasehold interests in oil and natural gas properties in Texas, California, Alaska, Alberta, Indonesia and Australia. We incur substantial acquisition and exploration costs and overhead expenses in our operations, and until 2003, excluding minor interest and dividend income, our only significant cash inflows were the recovery of capital invested in projects through sale or other divestitures of interests in oil and gas prospects to industry partners. As a result, we have sustained an accumulated deficit through December 30, 2007 of $12,010,789.  Our production activities commenced in May 2003. Since May 2003, over 90% of our revenue has been generated from natural gas sales derived from wells in the Madisonville Field in Texas. It is possible that in the future we will be unable to continue to generate revenues from our sales of natural gas from our Madisonville Field wells because our proved reserves decline as reserves are produced from the wells. The drilling of exploratory oil and natural gas wells is highly speculative and often unproductive. Our participation in future drilling activities to explore, develop and exploit the properties in which we have an interest, or in which we may acquire interests, may be unsuccessful, may fail to generate positive cash flow, and may not enable us to maintain profitability in the future.

***Approximately 99% of our current revenues are generated by our interest in the Madisonville Project. Delays or interruptions of the Madisonville Project natural gas drilling and production operations including, but not limited to, events beyond our control or the failure of third parties on which we rely to provide key services, could negatively impact our revenues.***

Approximately 99% of our oil and natural gas revenues for the years ended December 31, 2007 and 2006 were derived from the Madisonville Project. In connection with that project, we have contracted with third parties to provide key services, including:

(a) Madisonville Gas Processing, LP, or MGP, which owns and operates gathering pipelines and a dedicated natural gas treatment plant which we utilize to treat impurities in the Madisonville Project natural gas; and

(b) Gateway Processing Company, or Gateway which operates a sales pipeline for such natural gas.

The failure of MGP or Gateway to perform their contractual obligations to us could impose delays or interruptions in our production operations and prevent us from generating revenues. In addition, events which are beyond our control, or that of Gateway or MGP, could affect our production operations. Such events include, but are not limited to:

- events referred to as force majeure, such as an act of God, act of a public enemy, war, blockade, public riot, lightning, fire, storm, flood, explosion and any other causes whether of the kind enumerated or otherwise not reasonably within the control of MGP, Gateway or our company.

- subsurface conditions or formations encountered during the drilling of wells, whether natural or mechanical, including but not limited to blowout, igneous rock, salt, saltwater flow, loss of circulation, loss of hole,

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abnormal pressures, or any other impenetrable substance or adverse condition, which renders further drilling of a well impossible or impractical.

- the inability to secure raw materials or equipment,
- transportation accidents, and
- labor disputes and equipment failures.

***In excess of 90% of our revenues to date have been derived from sales by MGP to two customers. The loss of one or both these customers could have a material adverse impact on our oil and gas revenues.***

Approximately 99% of our oil and natural gas revenues for the years ended December 31, 2007 and 2006 were derived from the Madisonville Project. During 2007 and 2006, approximately 99% of our revenues have been derived from sales by MGP to two customers, Luminant Energy Company, LLC, and ETC Katy Pipeline, Ltd. The loss of one of these customers could impact the price we receive for our gas sold due to lessened competition. The loss of both customers could result in a total loss of our revenue.

***Unless we replace our oil and natural gas reserves, our reserves and production will decline.***

The volume of production from oil and natural gas properties generally declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. Our proved reserves will decline as reserves are produced from our properties unless we are able to acquire or develop new reserves. The business of exploring for, developing or acquiring reserves is capital intensive. For example, as of December 30, 2007 we have capitalized costs totaling $53,276,945 as evaluated and unevaluated oil and gas properties. To the extent cash flow from operations is reduced and external sources of capital become limited or unavailable, our ability to make the necessary capital investment to maintain or expand our asset base of oil and natural gas reserves will be impaired. Even if we are able to raise capital to develop or acquire additional properties, no assurance can be given that our future exploitation and development drilling activities will result in the discovery of any reserves.

***Our exploration and development drilling activities may not be commercially successful. The drilling of exploratory oil and natural gas wells is expensive, highly speculative and often unproductive.***

Exploration for oil and natural gas on unproven prospects is expensive, highly speculative and involves a high degree of risk, including the risk that no commercially productive oil or natural gas reservoirs will be encountered. Reserves are dependent on our ability to successfully complete drilling activity on proven prospects.

The cost of drilling, completing and operating wells is often uncertain, and drilling operations may be curtailed, delayed or cancelled as a result of a variety of factors, including:

- unexpected drilling conditions, pressure or irregularities in formations;
- equipment failures or accidents, adverse weather conditions;
- compliance with governmental requirements; and
- shortages or delays in the availability of drilling rigs and the delivery of equipment.

***Our evaluations of the oil and gas prospects of our properties may be wrong.***

With the exception of the Madisonville Project, the properties in which we have an interest are prospects in which the presence of oil and natural gas reserves in commercial quantities has not been established. Any decision to engage in exploratory drilling or other activities on any of these properties will be dependent in part on the evaluation of data compiled by petroleum engineers and geologists and obtained through geophysical testing and geological analysis.

Reservoir engineering, geophysics and geology are not exact sciences and the results of studies and tests used to make such evaluations are sometimes inconclusive or subject to varying interpretations. As such, there is no certain way to know in advance whether any of our prospects will yield oil and natural gas in commercial quantities. Further, it is possible that we will participate in the drilling of more dry holes than productive wells or that all or substantially all of the wells drilled will be dry holes. The drilling of dry holes on prospects in which we have an interest could adversely affect their values and our decision to undertake further exploration and development drilling of such prospects. It is not certain or predictable whether, and no assurance can be made that, the wells drilled on the properties in which we have an interest will be productive or, if productive, that we will recover all or any part of our investment in the properties. In sum, our participation in future drilling activities may not be successful and, if unsuccessful, such failure will negatively impact our revenues and have a material adverse effect on our results of operations and financial condition. Our oil and natural gas revenues were $6,890,777 and $6,716,360 for the years ended December 31, 2007 and 2006, respectively. Future revenues could decline from those levels if our future drilling efforts are not successful. Furthermore, as of December 30, 2007 we have capitalized costs totaling $53.28 million as evaluated and unevaluated oil and gas properties. Should our future drilling activities be unsuccessful, we may then be required to record an impairment charge equal to a portion of, or all, of the capitalized costs resulting in an immediate adverse impact on our results of operations and financial position.

***Our business may be harmed by failures of third party operators on which we rely.***

Our ability to manage and mitigate the various risks associated with certain of our exploration and operations in Alberta, Canada, South Texas and Indonesia is limited since we rely on third parties to operate our projects. We are a non-operating interest owner in our Canadian, South Texas and Indonesian properties. With respect to our interests in these projects, we have entered into agreements with third party operators for the conduct and supervision of drilling, completion and production operations. In the event that commercial quantities of oil and natural gas are discovered on one of our properties, the success of the oil and natural gas operations on that property depends in large measure on whether the operator of the property properly performs its obligations. The failure of such operators and their contractors to perform their services in a proper manner could result in materially adverse consequences to the owners of interests in that particular property, including us.

***Our percentage share of oil and gas revenues from our Indonesian property is diminished by the terms of our production sharing contract in the Bengara Block.***

C-G Bengara owns 100% of the underlying rights to explore for and produce oil and natural gas within the Bengara Block. We have a 12% interest in C-G Bengara. C-G Bengara is subject to a production sharing contract, which means generally that C-G Bengara is entitled to receive, from production proceeds, 100% of expenditures in the block as cost recovery. Once these costs are recovered, C-G Bengara s production share will be reduced to approximately 26.7% of oil produced and 62.5% of all natural gas produced. We are entitled to 12% of C-G Bengara s reduced share of any such production.

***Drilling and completion equipment, services, supplies and personnel are scarce and may not be available when needed, which could significantly disrupt or delay our operations.***

From time to time, there has been a general shortage of drilling rigs, equipment, supplies and oilfield services in North America and Indonesia, which may intensify with current increased industry activity. In addition, the costs and delivery times of rigs, equipment and supplies have risen. There can be no assurance that sufficient drilling and completion equipment, services and supplies will be available when needed. Shortages could delay our proposed exploration, development drilling, and sales activities, which could have a material adverse effect on our results of operations. Our oil and natural gas revenues were $6.9 million for the year ended December 31, 2007. Future revenues could decline from those levels if we experience delays in our proposed exploration, development drilling, and sales activities. The demand for, and wage rates of, qualified rig crews have risen in the drilling industry due to the increasing number of active rigs in service. If the demand for qualified rig crews continues to rise in the drilling industry, then the oil and gas industry may experience shortages of qualified personnel to operate drilling rigs. This could delay our drilling operations and adversely affect our financial condition and results of operations.

***Our working interest in properties, and our ability to realize any profits from such properties, will be diminished to the extent that we enter into farmout arrangements with unaffiliated third parties.***

We have previously entered into, and may in the future enter into, farmout arrangements with third parties willing to drill natural gas and oil wells on leaseholds in which we originally acquired working interests, in exchange for our assignment of part or all of our leasehold interests. As a consequence of these arrangements, our retained interests in properties which are subject to farmout arrangements have been or may be diminished. Our opportunity to realize revenues and profits from properties which are successfully developed under farmout arrangements will be diminished to the extent of our reduced interests.

***Competition with other oil and natural gas exploration and development drilling companies for viable oil and natural gas properties may limit our success.***

It is likely that in seeking future property acquisitions, we will compete with companies which have substantially greater financial and management resources. Our competition comes primarily from three sources:

(a) those competitors that are seeking oil and gas fields for expansion, further drilling, or increased production through improved engineering techniques;

(b) income-seeking entities purchasing a predictable stream of earnings based upon historic production from fields being acquired; and

(c) junior companies seeking exploration opportunities in unknown, unproven territories.

Our competitors may be able to pay more for productive oil and natural gas properties and may be able to define, evaluate, bid for and purchase a greater number of properties and prospects than we can. Our ability to acquire additional properties in the future will depend upon our ability to conduct efficient operations, evaluate and select suitable properties, implement advanced technologies and consummate transactions in a highly competitive environment.

***Estimates of oil and natural gas reserves are inherently imprecise. Any material inaccuracies in these reserve estimates or underlying assumptions will affect materially the quantities and present value of our reserves.***

Estimates of proved oil and natural gas reserves and the future net cash flows attributable to those reserves are prepared by independent petroleum engineers and geologists. There are numerous uncertainties inherent in estimating quantities of proved oil and natural gas reserves and cash flows attributable to such reserves, including factors beyond our control and that of our engineers. Reserve engineering is a subjective process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact manner. Different reserve engineers may make different estimates of reserves and cash flows based on the same available data. The accuracy of an estimate of quantities of reserves, or of cash flows attributable to such reserves, is a function of the available data, assumptions regarding future oil and natural gas prices and expenditures for future development drilling and exploration activities, and of engineering and geological interpretation and judgment. Additionally, reserves and future cash flows may be subject to material downward or upward revisions, based upon production history, development drilling and exploration activities and prices of oil and natural gas. Actual future production, revenue, taxes, development drilling expenditures, operating expenses, underlying information, quantities of recoverable reserves and the value of cash flows from such reserves may vary significantly from the assumptions and underlying information set forth herein.

***Competitive pressures may force us to implement new technologies at substantial cost and our limited financial resources may limit our ability to implement such technologies at the same rate as our competitors.***

The oil and gas industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other oil and gas companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before we do. There can be no assurance that we will be able to respond to such competitive pressures and implement such technologies on a timely basis or at all. One or more of the technologies currently utilized by us or implemented in the future may become obsolete.

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***We will require additional capital to fund our future activities. Our ability to pursue our business plan may be restricted by our access to additional financing.***

Until such time as the properties in which we own interests are generating sufficient cash flow to fund planned capital expenditures, we will be required to raise additional capital through the issuance of additional securities or otherwise sell or farm out interests in our oil and natural gas properties to third parties. If and when the properties in which we own interests become productive and have adequate reserves, we may borrow funds to finance our future oil and natural gas operations and exploratory and development drilling activities. We may not be able to raise additional funds in the future from any source or, if such additional funds are made available to us, we may not be able to obtain such additional financing on terms acceptable to us. To the extent such funds are not available from any of those sources, our operations and activities will be limited to those operations and activities we can afford with the funds then available to us. We have committed to a three well drilling program in our Madisonville project to facilitate the expansion of the gas treatment plant. The commitment is not discretionary. While we have fulfilled the commitment to drill the first two wells of the three well commitment, we are further required to drill a third well sufficient to test the Smackover Formation (estimated to be encountered at approximately 18,000 feet) on or before September 30, 2008. This well is expected to cost approximately $12 million to drill and complete. We have granted MGP a security interest in the Madisonville Field properties to secure the three well commitment. Subject to events of force majeure, and the availability of suitable drilling rigs, well services, and equipment, our failure to drill this well could result in the loss of our interest in the Madisonville Project. Our larger competitors, by reason of their size and relative financial strength, may be more easily able to access capital markets than us.

***The volatility in crude oil and natural gas prices could adversely affect our financial results and ability to raise additional capital.***

Our revenues, cash flows and profitability are substantially dependent on prevailing prices for both oil and natural gas. Decreases in natural gas prices will decrease revenues and cash flows from the Madisonville Project and our other producing properties, if any, and decreases in oil and natural gas prices could deter potential investors from investing in our company and generally impede our ability to raise additional financing to fund our exploration and development drilling activities. Historically, oil and natural gas prices and markets have been volatile, and they are likely to continue to be volatile in the future. Prices for oil and natural gas are subject to wide fluctuations in response to relatively minor changes in the supply of, and demand for, oil and natural gas, market uncertainty and a variety of additional factors that are beyond our control. These factors include, but are not limited to, political conditions in the Middle East and other regions, internal and political decisions of OPEC and other oil and natural gas producing nations to decrease or increase production of crude oil, domestic and foreign supplies of oil and natural gas, consumer demand, weather conditions, domestic and foreign government regulations, transportation costs, the price and availability of alternative fuels and overall economic conditions.

Our current operations are particularly exposed to volatility in natural gas prices because a portion of the fees we pay to process natural gas at the Madisonville gas treatment plant is fixed. The sale price of natural gas must be above a minimum price of approximately $3.00 per Mcf at the present time before we earn any net revenues from the sale of natural gas.

***We are subject to a number of operational risks beyond our control against which we may not have, or be able to obtain insurance.***

Our operations are subject to the many risks and hazards incident to exploring and drilling for, and producing and transporting, oil and natural gas, including among other risks:

- blowouts, fires, craterings, pollution and equipment failures that may result in damage to or destruction of wells, producing formations, production facilities and equipment;

- personal injuries or death due to accidents, human error or acts of God;

- unavailability of materials and equipment to drill and complete or re-complete wells; unfavorable weather conditions; engineering and construction delays;

- fluctuations in product markets and prices; proximity and capacity of pipeline, and trucking or termination facilities to our oil and natural gas reserves; hazards resulting from unusual or unexpected geological or environmental conditions; environmental regulations and requirements;

- accidental leakage of toxic or hazardous materials, such as petroleum liquids or drilling fluids into the environment, remediation and clean-up costs; and

- political instability and civil unrest, insurrections or disruptions in foreign countries in which some of our interests are located.

If one or more of these events occurs, we could incur substantial liabilities to third parties or governmental entities, the payment of which could have a material adverse effect on our financial condition and results of operations, or we could lose properties in which we have invested significant sums (totaling $53.28 million) which are capitalized as evaluated and unevaluated oil and gas properties as of December 31, 2007.

***A loss not covered by insurance could result in substantial expenses to us.***

We do not insure fully against all business risks either because such insurance is not available or because premium costs are prohibitive. This is a common practice in the oil and gas industry. However, a loss not fully covered by insurance could result in expenses to us and could have a material adverse effect on our financial position and results of operations. Uninsured losses in excess of $1.0 million would be materially adverse.

***We are subject to extensive government regulations that can change from time to time, compliance with which are costly and could negatively impact our production, operations and financial results.***

The oil and gas industry is subject to extensive government regulations in the countries in which we operate. Matters subject to regulation include discharge permits for drilling operations, drilling bonds, reports concerning operations, unitization and pooling of properties and taxation. Historically, our costs of complying with these regulations have not exceeded $100,000 per year. From time to time, regulatory agencies have imposed price controls and limitations on production by restricting the rate of flow of oil and natural gas wells below actual production capacity in order to conserve supplies of oil and natural gas. We are also subject to changing and extensive tax laws, the effects of which cannot be predicted. Legal requirements are frequently changed and subject to interpretation, and we are unable to predict the ultimate cost of compliance with these requirements or their effects on our operations. Future laws, or existing laws or regulations, as currently interpreted or reinterpreted or changed in the future, could result in increased operating costs, fines and liabilities, in amounts which are unknown at this time, any of which could materially adversely affect our results of operations and financial condition.

***Our industry is subject to extensive environmental regulation that may limit our operations and negatively impact our production.***

Extensive national, state, provincial and local environmental laws and regulations in the United States and foreign jurisdictions affect nearly all of our operations. These laws and regulations set various standards regulating certain aspects of health and environmental quality, provide for penalties and other liabilities for the violation of such standards and establish in certain circumstances obligations to remediate current and former facilities and locations where operations are or were conducted. In addition, special provisions may be appropriate or required in environmentally sensitive areas of operation.

Environmental legislation may require that we, among other things:

- acquire permits before commencing drilling;
- restrict spills, releases or emissions of various substances produced in association with our operations;
- limit or prohibit drilling activities on protected areas such as wetlands or wilderness areas;
- take reclamation measures to prevent pollution from former operations;

- take remedial measures to mitigate pollution from former operations, such as plugging abandoned wells and remediating contaminated soil and groundwater;

- take remedial measures with respect to property designated as a contaminated site.

The cost of any of these actions is presently unknown but is likely to be significant.

***Compliance with existing or future environmental legislation is unknown but could be substantial.***

Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties. 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 substantial costs to remedy such discharge. Under these laws and regulations, we could be liable for personal injury, clean-up costs and other environmental and property damages, as well as administrative, civil and criminal penalties. We could be required to cease production on properties if environmental damage occurs. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. Changes in, or enforcement of, environmental laws may result in a curtailment of our production activities, or a material increase in the costs of production, development drilling or exploration, any of which could have a material adverse effect on our financial condition and results of operations or prospects. We are not presently aware of any environmental liabilities or able to predict the ultimate cost of liabilities not yet recognized. We have recorded an asset retirement obligation in connection with the estimated future costs to plug certain wells in our Madisonville Project in Texas upon abandonment totaling approximately $53,726 as of December 31, 2007.

***Our natural gas deliveries to the Madisonville gas treatment plant may be affected by the demands of Crimson Exploration, Inc. ( Crimson ) and other third parties for access to the plant, and as a result, our access to the plant could be restricted.***

We are dependent upon the Madisonville gas treatment plant to treat our natural gas. We have committed all natural gas production from our interest in the Madisonville Project to MGP, which has in turn committed to provide treatment capacity of up to 68 MMcf/d for our natural gas. Third parties may seek access to the gas treatment plant through regulatory proceedings, which could restrict our access to the plant, disrupt our production operations and negatively impact our revenues. An example of such a proceeding is the complaint filed by Crimson with the Texas Railroad Commission. On August 9, 2006, the Texas Railroad Commission issued an order requiring MGP to ratably process, take, transport or purchase natural gas produced by Crimson into the Madisonville gas treatment plant. In October 2007, MGP informed us that they had partially completed construction of the additional treating facilities at the plant. Subsequently in November 2007, MGP commenced phase-in of the additional treating capacity reaching a temporary peak inlet volume of 21 mmcf/d out of the total contracted 50 mmcf/d design capacity at such additional facilities. However, operations at the additional treating facilities were suspended by MGP in December 2007 in order to make the necessary modifications to effectively deal with the presence of diamondoids in the gas stream produced from the Rodessa Formation. There is no guarantee that we will be able to obtain full access to treatment capacity once the phase-in is completed because, for example, Crimson now has the right to have its natural gas treated at the plant, which may reduce the plant s ability to treat all of our natural gas, unless the plant s capacity is further expanded.

***Political and/or economic conditions in Indonesia, Canada or the United States could change in manners that negatively affect our operations and prospects in those countries.***

Our business activities in Indonesia, Canada and the United States are subject to political and economic risks, including: loss of revenue, property and equipment as a result of unforeseen events like expropriation, nationalization, war, terrorist attacks and insurrection; increases in import, export and transportation regulations and tariffs, taxes and governmental royalties; renegotiation of contracts with governmental entities; changes in laws and policies governing operations of foreign-based companies; exchange controls, currency fluctuations and other uncertainties arising out of foreign government sovereignty over international operations; laws and policies affecting foreign trade, taxation and investment; and the possibility of being subject to the exclusive jurisdiction of foreign courts in connection with legal disputes and the possible inability to subject foreign persons to the jurisdiction of courts in the United States.

***Terrorist attacks could have an adverse effect on our oil and natural gas operations, especially overseas.***

To date, our operations have not been disrupted by terrorist activity. It is uncertain how terrorist activity will affect us in the future, or what steps, if any, the Indonesian, Canadian or American government may take in response to terrorist activities. The attack on the New York World Trade Center in 2001 and the subsequent wars in Afghanistan and Iraq have increased the likelihood that U.S. citizens and U.S. owned interests may be targeted by terrorist groups operating both in the United States and in foreign countries, especially in Indonesia.

***We could lose our entire Production Sharing Contract ( PSC ), if BP Migas ascertains we have not discovered commercially producible hydrocarbons.***

It is possible that BP Migas could terminate our entire Production Sharing Contract ( PSC ) if it is determined that the hydrocarbons we have discovered are not in commercially producible quantities. Our Indonesian PSC requires us and our partners to submit to and receive approval from BP Migas for a Plan of Development by specified dates in order to maintain our oil and natural gas rights. If we do not establish commerciality and receive an approved Plan of Development for the PSC, or successfully renegotiate the terms, all or part of our contract may be terminated. If this contract is terminated, we would also lose all of our investment in that overseas prospect. If we forfeit our interest in the contract area, it will be necessary to record an impairment write-down equal to the net capitalized costs recorded for the area forfeited. This could have a material adverse impact on our financial condition and results of future operations in future periods. If approval of a Plan of Development is not obtained and if further deferrals of such obligations are not secured, we will need to record an impairment charge equal to the amount of costs capitalized which were approximately $582,946 as of December 31, 2007, and we may lose all of our rights in the Bengara Block.

***We may not be able to sell our natural gas production in Indonesia, limiting our ability to obtain a return on our investment there.***

Our Indonesian operations lack a local market for natural gas, and if we produce natural gas in Indonesia, it will most likely have to be transported to an area where there is a demand. If no market for natural gas develops locally, we may incur costs for transportation. If we are not able to sell our natural gas production at a commercially acceptable price or at all, we may not be able to obtain a return on our investment in our Indonesian property.

***We could lose our ownership interests in our properties due to a title defect of which we are not presently aware.***

As is customary in the oil and gas industry, only a perfunctory title examination, if any, is conducted at the time properties believed to be suitable for drilling operations are first acquired. Before starting drilling operations, a more thorough title examination is usually conducted and curative work is performed on known significant title defects. We typically depend upon title opinions prepared at the request of the operator of the property to be drilled. The existence of a title defect on one or more of the properties in which we have an interest could render it worthless and could result in a large expense to our business. Industry standard forms of operating agreements usually provide that the operator of an oil and natural gas property is not to be monetarily liable for loss or impairment of title. The operating agreements to which we are a party provide that, in the event of a monetary loss arising from title failure, the loss shall be borne by all parties in proportion to their interest owned.

***Our acquisition activities are subject to uncertainties, may not be successful and provide a return to us on our investments.***

We have grown primarily through acquisitions and intend to continue acquiring undeveloped oil and gas properties. Although we perform a review of the properties proposed to be acquired, such reviews are subject to uncertainties. It generally is not feasible to review in detail every individual property involved in an acquisition. Ordinarily, management review efforts are focused on the higher-valued properties; however, even a detailed review of all properties and records may not reveal existing or potential problems; nor will it permit us to become sufficiently familiar with the properties to assess fully their deficiencies and capabilities. Inspections are not always performed on every well, and potential problems, such as mechanical integrity of equipment and environmental conditions that may require significant remedial expenditures, are not necessarily observable even when an inspection is undertaken.

***We are dependent upon our key officers and employees and our inability to retain and attract key personnel could significantly hinder our growth strategy and cause our business to fail.***

While no assurances can be given that our current management resources will enable us to succeed as planned, a loss of one or more of our current directors, officers or key employees could severely and negatively impact our operations and delay or preclude us from achieving our business objectives. Stuart Doshi, David Creel and Chris Steinhauser, the three members of our senior management team, have a combined experience of approximately 100 years in the oil and gas industry. Although we have entered into employment agreements with Messrs. Doshi, Creel and Steinhauser, we could suffer the loss of key individuals for one reason or another at any time in the future. There is no guarantee that we could attract or locate other individuals with similar skills or experience to carry out our business objectives. We maintain key man insurance with respect to our Chief Executive Officer, Stuart Doshi.

***Some of our directors may become subject to conflicts of interest which could impair their abilities to act in our best interest.***

Nick DeMare, one of our directors, is a director, officer and/or significant shareholder of other natural resource companies and David Anderson, another one of our directors, is a director and officer of Dundee Securities Corporation, an investment banking firm that was the lead underwriter of our public offering of common stock in Canada and concurrent previous private placement of common shares with qualified institutional buyers in the U.S. Their association with these other companies in the oil and gas business may give rise to conflicts of interest from time to time. For example, they could be presented with business opportunities in their capacities as our directors, which they could, in turn, offer to the other companies for whom they also serve as directors, rather than to us, whose interests might be competitive with ours. Our directors are required by law to act honestly and in good faith with a view to our best interests and to disclose any interest which they may have in any project or opportunity to us; however, their interests in the other companies may affect their judgment and cause such directors to act in a manner that is not necessarily in our best interests.

***Our directors and officers hold significant positions in our shares and their interests may not always be aligned with those of our other shareholders.***

As of May 7, 2008 our directors and officers beneficially own approximately 20% of our outstanding common stock. This shareholding level will allow the directors, officers and certain beneficial owners to have a significant degree of influence on matters that are required to be approved by shareholders, including the election of directors and the approval of significant transactions. The short-term interests of our directors, officers and certain beneficial owners may not always be aligned with the long-term interests of our public shareholders, and vice versa. Because our directors, officers and certain beneficial owners have a significant degree of influence on matters that are required to be approved by our shareholders, they could influence the approval of transactions.

***Our failure to manage internal or acquisition-based growth may cause operational difficulties and negatively affect our financial performance.***

We expect to experience internal and/or acquisition-based growth, which may bring many challenges. Growth in the number of employees, sales and operations will place additional pressure on already limited resources and infrastructure. No assurances can be given that we will be able to effectively manage this or future growth. Our growth may place a significant strain on our managerial, operational, financial and other resources. Our success will depend upon our ability to manage our growth effectively which will require that we continue to implement and improve our operational, administrative and financial and accounting systems and controls and continue to expand, train and manage our employee base. Our systems, procedures and controls may not be adequate to support our operations and our management may not be able to achieve the rapid

execution necessary to exploit the market for our business model. If we are unable to manage internal and/or acquisition-based growth effectively, our business, results of operations and financial condition will be materially adversely affected.

**Risks Related to this Offering and Our Common Stock**

***The shareholding position of holders of our common stock could be diluted by future issuances and conversions of other securities.***

If our options and warrants are exercised for common shares, holders of our common stock will experience immediate and, depending on the magnitude of the exercises, substantial dilution. As of the date of this prospectus, 2,414,688 shares of our common stock are issuable upon exercise of warrants and 1,920,000 shares of our common

stock are issuable upon exercise of options.

Investors may be subject to further dilution if we sell additional common shares or issue additional common shares in connection with future financings. If a significant number of our common shares are sold in the public market, the market price of our common shares could be depressed. This could hamper our ability to raise capital by issuing additional equity securities.

***Our results may be affected by fluctuations in currency exchange rates.***

Our financial statements are reported in U.S. dollars and all of our revenue, and most of our operating costs, are currently denominated in U.S. dollars; however, we have operations outside the United States and we plan to expend money in Indonesia and Canada, where our operating costs will be denominated in local currencies. Fluctuations in exchange rates may increase our relative cost of operating in these countries, and may therefore have a negative effect on our financial results.

***Non- U.S. holders of our common shares may be subject to U.S. federal income tax on the sale of our common shares and purchasers may have IRS withholding requirements***

Since we believe that we are a United States real property holding corporation, gain recognized by a non U.S. holder on the sale of our common shares will be subject to U.S. federal income tax at normal graduated rates, and a purchaser will be required to withhold for the benefit of the IRS 10% of the purchase price, unless certain trading requirements are met. There is an exemption from U.S. federal income tax for non-U.S. holders of 5% or less of our common shares (and therefore no tax withholding requirements) if our common shares are regularly traded on an established securities market. In the event that 100 or fewer persons own 50% or more of our common shares (which had been, may now be and may continue to be, the case), temporary Treasury Regulations provide that our common shares will be regularly traded on an established securities market for a calendar quarter if the established securities market is located in the United States and our common shares are regularly quoted by more than one broker or dealer making a market in our common shares; our common shares are currently listed on the American Stock Exchange (which constitutes an established United States securities market for this purpose) and are being regularly quoted. There can be no assurance, however, that our common shares will continue to be regularly traded on an established securities market for this purpose in any particular calendar quarter so as to avoid U.S. federal income tax on the sale of our common shares by non-U.S. holders of 5% or less of our common shares and the withholding requirement on the purchaser.

At such time that it is no longer the case that 100 or fewer persons own 50% or more of our common shares, under temporary Treasury Regulations, our common shares would also be regularly traded on an established securities market for a calendar quarter if: (a) our common shares trade, other than in de minimis quantities, on at least 15 days during the calendar quarter; (b) the aggregate number of our common shares traded during the calendar quarter is at least 7.5% of the average number of our common shares outstanding during such calendar quarter (reduced to 2.5% if there are 2,500 or more record shareholders); and (c) in the event that our common shares are traded on an established securities market located outside the United States, the common shares are registered under Sec. 12 of the Securities Exchange Act of 1934 (which is presently the case). See Material Income Tax Consequences Dispositions of Common Shares for a more detailed discussion.

***There is a limited public market for our common shares, and the ability of our shareholders to dispose of their common shares may be limited.***

Our common shares have been listed on The Toronto Stock Exchange since March 2006, and have been trading on the American Stock Exchange since February 15, 2007. We cannot foresee the degree of liquidity that will be associated with our common shares. A holder of our common shares may not be able to liquidate his, her or its investment in a short time period or at the market prices that currently exist at the time the holder decides to sell. The purchase and sale of relatively small common share positions may result in disproportionately large increases or decreases in the price of our common shares. A trade involving a large number of common shares could have an exaggerated effect on the reported market price of our common shares.

***Our stock price may fluctuate significantly.***

The stock market in general and the market for natural gas and oil exploration companies have experienced price and volume fluctuations that are often unrelated or disproportionate to the operating results or asset values of companies. These broad market and industry factors may seriously impact the market price and trading volume of our common shares regardless of our actual operating performance. The market price of our common stock could also fluctuate significantly as a result of:

- actual or anticipated quarterly variations in our operating results and our reserve estimates;
- changes in expectations as to our future financial performance or changes in financial estimates, if any, of public market analysts;
- announcements relating to our business or the business of our competitors;
- conditions generally affecting the oil and natural gas industry, including changes in oil and natural gas prices;
- speculation in the press or investment community;
- general market and economic conditions;
- the success of our operating strategy; and
- the operating and stock price performance of other comparable companies.

***The large numbers of shares of our common stock eligible for sale following this offering may depress the market price of our common stock.***

***The sale of a substantial number of shares of our common stock in the public market, or the perception that substantial sales may occur, could cause the market price of our common stock to decrease. Following this offering, substantially all of the shares of our common stock are freely transferable or will be transferable in compliance with restrictions under the Securities Act of 1933, as amended. These include shares of our common stock sold in this offering, as well as shares of common stock outstanding after this offering which are available for sale in public markets pursuant to Rule 144 or Rule 701 promulgated under the Securities Act.***

***We will continue to incur significant expenses as a result of being a public company, which may negatively impact our financial performance.***

***We have incurred and will continue to incur significant legal, accounting, insurance and other expenses as a result of being a public company. The Sarbanes-Oxley Act of 2002, as well as related rules implemented by the Securities and Exchange Commission, or SEC, and the American Stock Exchange, have required changes in corporate governance practices of public companies. Compliance with these laws, rules and regulations has increased our expenses, including our legal and accounting costs, and made some activities more time-consuming and costly. We also believe these laws, rules and regulations have made it more expensive for us to obtain director and officer liability insurance, and in the future we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as officers. Furthermore, any additional increases in legal, accounting, insurance and certain other expenses that we may experience in the future could negatively impact our financial performance and have a material adverse effect on our results of operations and financial condition.***

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Most of the matters discussed within this prospectus include forward-looking statements of our current expectations and projections about future events. Words such as may, should, potential, continue, expect, anticipate, intend, plan, believe, seek, estimate, and simila intended to identify such forward looking statements. These statements are based on our current beliefs, expectations, and assumptions and are subject to a number of risks and uncertainties and, therefore, actual results and events may vary significantly from those discussed in the forward-looking statements. These risks and uncertainties include those noted in Risk Factors above. Other factors besides those listed here could adversely affect us.

These forward-looking statements may include, among other things, statements relating to the following matters:

- the level of oil and gas reserves that can be extracted at any of our projects;
- our ability to extract reserves at commercially attractive prices;
- our ability to compete against companies with much greater resources than us;
- identified drilling locations;
- exploration and development drilling prospects, inventories, projects and programs;
- financial strategy;
- production;
- lease operating expenses, general and administrative costs and finding and development drilling costs;
- future operating results; and
- plans, objectives, expectations and intentions.

We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent we are required to do so by law.

You should not unduly rely on these forward-looking statements in this prospectus as they speak only as of the date of this prospectus. Except as required by law, we undertake no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances occurring after the date of this prospectus or to reflect the occurrence of unanticipated events. See the information under the heading Risk Factors in this prospectus for some of the important factors that could affect our financial performance or could cause actual results to differ materially from estimates contained in forward-looking statements.

## USE OF PROCEEDS

We will not receive any proceeds from the sale of our common stock by the selling shareholders; however if all warrants to acquire our common stock being registered hereunder were to be exercised, we will realize cash proceeds of approximately $3,359,856, which we expect to use for general working capital purposes.

We do not know if, or how many, of the warrants will be exercised. This is our best estimate of our use of proceeds generated from the possible exercise of warrants or options based on the current state of our business operations, our current plans and current economic and industry

conditions. Any changes in the projected use of proceeds will be made at the sole discretion of our board of directors.

We reserve the right to change our use of proceeds if we determine that one of our other exploration or drilling activities requires funds or we identify a new exploration or drilling project to pursue. Additional uses of these proceeds may include the drilling of a deep test well in our Madisonville Project, additional flow testing of previously drilled wells in our Bengara PSC in Indonesia, and drilling well(s) in our Cook Inlet Project in Alaska.

**SELLING SHAREHOLDERS**

This prospectus relates to the proposed resale by the selling shareholders of up to 2,002,599 shares of outstanding common stock and the resale of up to 780,857 shares of common stock issuable upon exercise of warrants.

Any or all of the common shares offered hereby may be offered for sale pursuant to this prospectus by the selling shareholders from time to time. Please see Plan of Distribution. Accordingly, no estimate can be given as to the number of shares of common stock that will be held by the selling shareholders upon consummation of any such sales.

Unless otherwise indicated and subject to community property laws where applicable, we believe that each selling shareholder has sole voting and investment power over all shares of common stock shown as beneficially owned by them.

The following table sets forth as of May 7, 2008 certain information concerning the persons for whom we are registering the shares for resale to the public. We will not receive any of the proceeds from the sale of the shares by the selling shareholders. We prepared the table based on the information furnished to us by the selling shareholders named in the table below, and we have not sought to verify such information. Information concerning the selling shareholders may change from time to time and any changed information will be set forth in supplements to this prospectus if and when necessary; provided, however that the addition of any selling shareholders or other material changes will be set forth in a post-effective amendment to the registration statement.

The following table contains information as of May 7, 2008 regarding:

- the amount of our common stock beneficially owned by selling shareholders prior to the commencement of the offering described in this prospectus;
- the amount of our common stock offered by selling shareholders by means of this prospectus;
- the amount of our common stock beneficially owned by selling shareholders after completion of the offering described in this prospectus; and
- the percentage of our common stock beneficially owned by selling shareholders after completion of the offering described in this prospectus.

For purposes of the following table, a person is deemed to be the beneficial owner of securities that can be acquired by that person within 60 days from May 7, 2008 upon the exercise of warrants or options. Each beneficial owner s percentage is determined by assuming that options, warrants or conversion rights that are held by that person regardless of price, but not those held by any other person, and which are exercisable within 60 days from May 7, 2008, have been exercised. There were 31,583,007 shares of our common stock outstanding as of May 7, 2008.

| Name | Number of Shares of Common Stock Owned Before Offering | Number of Shares of Common Stock Offered Hereunder | Number of Shares of Common Stock Beneficially Owned After the Offering | Percentage of Class Beneficially Owned After Offering (1) |
|---|---|---|---|---|
| Black Rock Energy Opportunity Master Fund (2) | 545,324 | 545,324 | 125,844 | * |
| SSR Energy and Natural Resources Hedge Fund LLC (3) | 487,995 | 487,995 | 112,614 | * |
| Opus Select Strategies LLC (4) | 8,840 | 8,840 | 2,040 | * |
| Edison Sources Ltd. (5) | 178,490 | 178,490 | 41,190 | * |
| Black Rock Energy Opportunity Master Fund Employee (6) | 130,000 | 130,000 | 30,000 | * |
| ECS Capital Management, L.P. (7) | 129,299 | 129,299 | 76,052 | * |
| Ironman PI Fund (QP), L.P. (8) | 506,494 | 506,494 | 116,883 | * |
| Carlyle Multi-Strategy Master Fund, Ltd. (9) | 650,000 | 650,000 | 150,000 | * |
| Brad Nelson (10) | 16,883 | 16,883 | 3,896 | * |
| Christopher T. Czuppon (11) | 10,131 | 10,131 | 2,338 | * |
| Michael Ditzler (12) | 70,500 | 25,000 | 70,500 | * |
| Michael Karasik (13) | 35,000 | 15,000 | 35,000 | * |
| Kim Perich (14) | 10,000 | 5,000 | 10,000 | * |
| Rincon Energy, LLC (15) | 25,000 | 25,000 | 25,000 | * |
| Pine Hill Capital LLC (16) | 200,000 | 50,000 | 200,000 | * |
| TOTAL | 3,003,956 | 2,783,456 | 1,001,357 | |

* Indicates less than 1%

(1) Assumes the sale by the selling stockholders of all of the shares of common stock available for resale under this prospectus, except for those shares of common stock which are issuable upon exercise of warrants.

(2) Shares of common stock beneficially owned before and after the offering includes 125,844 shares issuable upon exercise of warrants owned by BlackRock Energy Opportunity Master Fund, L.P. BlackRock Capital Management, Inc. is the investment advisor for the BlackRock Energy Opportunity Master Fund, L.P. and, as such, has sole voting and invesment control over these securities. Dan Rice is the Managing Director of BlackRock Capital Management, Inc. Number of shares offered hereby includes 125,844 shares issuable upon exercise of warrants.

(3) Shares of common stock beneficially owned before and after the offering includes 112,614 shares issuable upon exercise of warrants owned by SSR Energy and Natural Resources Hedge Fund LLC. State Street Research & Management Company is the investment advisor for the SSR Energy and Natural Resources Hedge Fund LLC and, as such, has sole voting and invesment control over these securities . Dan Rice is the Managing Director of State Street Research & Management Company. Number of shares offered hereby includes 112,614 shares issuable upon exercise of warrants.

(4) Shares of common stock beneficially owned before and after the offering includes 2,040 shares issuable upon exercise of warrants owned by Opus Select Strategies, LLC. BlackRock Capital Management, Inc. is the investment advisor for the Opus Select Strategies, LLC and, as such, has sole voting and invesment control over these securities. Dan Rice is the Managing Director of BlackRock Capital Management, Inc. Number of shares offered hereby includes 2,040 shares issuable upon exercise of warrants.

(5) Shares of common stock beneficially owned before and after the offering includes 41,190 shares issuable upon exercise of warrants owned by Edison Sources Ltd. State Street Research & Management Company is the investment advisor for the Edison Sources Ltd. and, as such, has sole voting and invesment control over these securities . Dan Rice is the

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Managing Director of State Street Research & Management Company. Number of shares offered hereby includes 41,190 shares issuable upon exercise of warrants.

(6) Shares of common stock beneficially owned before and after the offering includes 30,000 shares issuable upon exercise of warrants owned by BlackRock Energy Opportunity (Employees) Fund, L.P. BlackRock Capital Management, Inc. is the investment advisor for the BlackRock Energy Opportunity (Employees) Fund, L.P. and, as such, has sole voting and invesment control over these securities . Dan Rice is the Managing Director of BlackRock Capital Management, Inc. Number of shares offered hereby includes 30,000 shares issuable upon exercise of warrants.

(7) Shares of common stock beneficially owned before and after the offering includes 76,052 shares issuable upon exercise of warrants owned by ECS Capital Management, L.P. Russel Weinberg and Keith Behrens, General Partners, have shared voting and invesment control over these securities . Messrs. Weinberg and Behrens are partners of Energy Capital Solutions, LP, a registered broker dealer. The number of shares being registered on behalf of ECS Capital Management, LP includes 60,078 shares underlying warrants which were issued as compensation for investment banking services.Number of shares offered hereby includes 76,052 shares issuable upon exercise of warrants.

(8) Shares of common stock beneficially owned before and after the offering includes 116,883 shares issuable upon exercise of warrants owned by Ironman PI Fund (QP), L.P. G. Bryan Dutt, Managing Director, has sole voting and invesment control over these securities . Number of shares offered hereby includes 116,883 shares issuable upon exercise of warrants.

(9) Shares of common stock beneficially owned before and after the offering includes 150,000 shares issuable upon exercise of warrants owned by Carlyle Multi-Strategy Master Fund, Ltd. Carlyle-Blue Wave Partners Management, LP ( CBWPM ) is the investment manager for Carlyle Multi-Strategy Master Fund, Ltd. and has sole voting and invesment control over these securities. Ralph Reynolds and Richard Goldsmith are the managing members of a managing member of the general partner of CBWPM, and each of Mr. Goldsmith, Mr. Reynolds, and CBWPM may thereby be deemed to have beneficial ownership of such securities. To the extent permitted by law, Mr. Goldsmith, Mr. Reynolds, CBWPM and any entities controlled by any of them, each disclaim beneficial interest in such securities. Number of shares offered hereby includes 150,000 shares issuable upon exercise of warrants.

(10) Shares of common stock beneficially owned before and after the offering includes 3,896 shares issuable upon exercise of warrants. Mr. Nelson is a partner with Energy Capital Solutions, LP, a registered broker dealer. Number of shares offered hereby includes 3,896 shares issuable upon exercise of warrants.

(11) Shares of common stock beneficially owned before and after the offering includes 2,338 shares issuable upon exercise of warrants. Mr. Czuppon is associated with Energy Capital Solutions, LP, a registered broker dealer. Number of shares offered hereby includes 2,338 shares issuable upon exercise of warrants.

(12) Shares of common stock beneficially owned before and after the offering includes 25,000 shares issuable upon exercise of warrants. Number of shares offered hereby includes 50,000 shares issuable upon exercise of warrants.

(13) Shares of common stock beneficially owned before and after the offering includes 15,000 shares issuable upon exercise of warrants. Number of shares offered hereby includes 15,000 shares issuable upon exercise of warrants.

(14) Shares of common stock beneficially owned before and after the offering includes 5,000 shares issuable upon exercise of warrants. Number of shares offered hereby includes 5,000 shares issuable upon exercise of warrants.

(15) Shares of common stock beneficially owned before and after the offering includes 25,000 shares issuable upon exercise of warrants. Thomas M. Skirvin, Principal, has sole voting and investment control over these securities. Number of shares offered hereby includes 25,000 shares issuable upon exercise of warrants.

(16) Shares of common stock beneficially owned before and after the offering includes 200,000 shares issuable upon exercise of warrants. James W. Fisher, has sole voting and investment control over these securities. Number of shares offered hereby includes 50,000 shares issuable upon exercise of warrants.

**PLAN OF DISTRIBUTION**

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

- 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 resales 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 that the registration statement of which this prospectus is a part is declared effective by the Securities and Exchange Commission;
- broker-dealers may agree with the selling security holders to sell a specified number of such shares at a stipulated price per share;
- a combination of any of these methods of sale; and
- any other method permitted pursuant to applicable law.

The shares may also be sold under Rule 144 under the Securities Act, if available, rather than under this prospectus. The selling security holders have the sole and absolute discretion not to accept any purchase offer or make any sale of shares if they deem the purchase price to be unsatisfactory at any particular time.

The selling security holders may pledge their shares to their brokers under the margin provisions of customer agreements. If a selling security holder defaults on a margin loan, the broker may, from time to time, offer and sell the pledged shares.

Broker-dealers engaged by the selling security holders may arrange for other broker-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling security holders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated, which commissions as to a particular broker or dealer may be in excess of customary commissions to the extent permitted by applicable law.

If sales of shares offered under this prospectus are made to broker-dealers as principals, we would be required to file a post-effective amendment to the registration statement of which this prospectus is a part. In the post-effective amendment, we would be required to disclose the names of any participating broker-dealers and the compensation arrangements relating to such sales.

The selling security holders and any broker-dealers or agents that are involved in selling the shares offered under this prospectus may be deemed to be underwriters within the meaning of the Securities Act in connection with these sales. Commissions received by these 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. Any broker-dealers or agents that are deemed to be underwriters may not sell shares offered under this prospectus unless and until we set forth the names of the underwriters and the material details of their underwriting arrangements in a supplement to this prospectus or, if required, in a replacement prospectus included in a post-effective amendment to the registration statement of which this prospectus is a part.

The selling security holders and any other persons participating in the sale or distribution of the shares offered under this prospectus will be subject to applicable provisions of the Exchange Act, and the rules and regulations under that act, including Regulation M. These provisions may restrict activities of, and limit the timing of purchases and sales of any of the shares by, the selling security holders or any other person. Furthermore, under Regulation M, persons engaged in a distribution of securities are prohibited from simultaneously engaging in market making and other activities with respect to

those securities for a specified period of time prior to the commencement of such distributions, subject to specified exceptions or exemptions. All of these limitations may affect the marketability of the shares.

If any of the shares of common stock offered for sale pursuant to this prospectus are transferred other than pursuant to a sale under this prospectus, then subsequent holders could not use this prospectus until a post-effective amendment or prospectus supplement is filed, naming such holders. We offer no assurance as to whether any of the selling security holders will sell all or any portion of the shares offered under this prospectus.

We have agreed to pay all fees and expenses incident to the registration of the shares being offered under this prospectus. However, each selling security holder and purchaser is responsible for paying any discounts, concessions and similar selling expenses they incur.

We and certain of the selling security holders have agreed to indemnify one another against certain losses, damages and liabilities arising in connection with this prospectus, including liabilities under the Securities Act.

**MATERIAL INCOME TAX CONSEQUENCES**

**United States Federal Income Tax Considerations**

The following is a summary of the material U.S. federal income tax consequences relating to the purchase, ownership and disposition of our common shares applicable to non-U.S. holders (as defined below). This summary is based on the Internal Revenue Code of 1986 (the **Code** ), and Treasury Regulations promulgated thereunder, administrative pronouncements and judicial decisions, changes to any of which, subsequent to the date of this prospectus, may affect the tax consequences described herein. We undertake no obligation to update this tax summary in the future. This summary applies only to non-U.S. holders that will hold our common shares as capital assets within the meaning of Section 1221 of the Code. This summary does not purport to be a complete analysis of all the potential tax consequences that may be material to a non-U.S. holder based on his, her or its particular tax situation. This summary also does not address tax consequences applicable to non-U.S. holders that may be subject to special tax rules, such as controlled foreign corporations, passive foreign investment companies, persons liable for the alternative minimum tax, certain former citizens and long-term residents of the United States or corporations that accumulate earnings to avoid U.S. federal income tax. Such persons should consult with their own tax advisors to determine the U.S. federal tax consequences that may be relevant to them. In addition, this discussion does not address the tax treatment of partnerships or persons who hold their common shares through partnerships or other pass-through entities. A partner in a partnership that will hold our common shares should consult his or her tax advisor regarding the tax consequences of the ownership and disposition of our common shares. Moreover, this discussion does not consider the effect of any applicable state, local, foreign or other tax laws, including gift and estate tax laws.

References to a non-U.S. holder mean a beneficial owner of our common shares that for U.S. federal income tax purposes is other than:

- a citizen or individual resident of the United States, as determined for U.S. federal income tax purposes;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust that is subject to the primary supervision of a U.S. court and to the control of one or more U.S. persons, or that was in existence on August 20, 1996, and has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

**Taxation of Distributions and Dispositions**

***Distributions on Common Shares***

In general, if distributions are made with respect to our common shares, such distributions will be treated as dividends to the extent of our current and accumulated earnings and profits as determined under the Code and be subject to withholding as discussed in the following paragraph. Any portion of a distribution that exceeds our current and accumulated earnings and profits will first be applied to reduce the non-U.S. holder s basis in the common shares and, to the extent such portion exceeds the non-U.S. holder s basis, the excess will be treated as gain from the disposition of the common shares, the tax treatment of which is discussed below under Dispositions of Common Shares. In addition, if we are a U.S. real property holding corporation ( **USRPHC** ), and any distribution exceeds our current and accumulated earnings and profits, we will need to choose to satisfy our withholding requirements either by treating the entire distribution as a dividend, subject to the withholding rules in the following paragraph (and withhold at a minimum rate of 10%), or by treating only the amount of the distribution equal to our reasonable estimate of our current and accumulated earnings and profits as a dividend, with the excess portion of the distribution subject to withholding as if such excess were the result of a sale of shares in a USRPHC (discussed below under Dispositions of Common Shares ).

Generally, dividends paid to a non-U.S. holder will be subject to U.S. withholding tax at a 30% rate, subject to the two following exceptions:

- Dividends effectively connected with the conduct by the non-U.S. holder of a trade or business within the United States or, if a tax treaty applies, dividends effectively connected with the conduct by the non-U.S. holder of a trade or business within the United States and attributable to a U.S. permanent establishment (or a fixed based in the case of an individual) maintained by the non-U.S. holder, generally will not be subject to withholding if the non-U.S. holder complies with applicable certification requirements of the Internal Revenue Service ( IRS ) and generally will be subject to U.S. federal income tax on a net income basis at regular graduated rates. In the case of a non-U.S. holder that is a corporation, such effectively connected dividends also may be subject to the branch profits tax at a 30% rate (or such lower rate as may be prescribed by an applicable tax treaty).

- The withholding tax might not apply, or might apply at a reduced rate, under the terms of an applicable tax treaty. In the case of a non-U.S. holder entitled to the benefits of the income tax treaty between the U.S. and Canada, the tax rate is reduced to 15%. Under applicable Treasury Regulations, to obtain a reduced rate of withholding under a tax treaty, a non-U.S. holder generally will be required to satisfy applicable certification and other requirements prescribed by such Treasury Regulations. A non-U.S. holder of our common shares eligible for a reduced rate of U.S. withholding tax may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS.

***Dispositions of Common Shares***

Generally, a non-U.S. holder will not be subject to U.S. federal income tax with respect to gain recognized upon the disposition of such non-U.S. holder s common shares unless:

- We are or have been a USRPHC for U.S. federal income tax purposes at any time during the five-year period ending on the date of disposition or such shorter period that such common shares were held and certain trading requirements described below are not met;

- the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of disposition and certain other conditions are met; or

- such gain is effectively connected with the conduct by the non-U.S. holder of a trade or business within the United States or, if a tax treaty applies, the gain is effectively connected with the conduct by the non-U.S. holder of a trade or business within the United States and is attributable to a U.S. permanent establishment (or a fixed base in the case of an individual) maintained by the non-U.S. holder.

An individual non-U.S. holder described in the second bullet point above will be subject to a flat 30% tax on the gain derived from the sale, which may be offset by U.S. source capital losses (even though the individual is not considered a resident of the United States). A non-U.S. holder described in the third bullet point above will be subject to tax on the gain derived from the sale under regular graduated U.S. federal income tax rates and, if it is a corporation, may be subject to the branch profits tax at a rate equal to 30% (or such lower rate as may be prescribed by an applicable tax treaty).

As to matters described in the first bullet point above, we believe we are currently a USRPHC for U.S. federal income tax purposes. Therefore, unless certain trading requirements described below are met, the sale of our common shares by a non-U.S. holder will be subject to U.S. federal income tax at normal graduated rates with respect to gain recognized. In addition, the purchaser of our common shares will be required to withhold tax at the rate of 10% of the amount realized from the sale and to report and remit such tax to the IRS within 20 days of the purchase. Such withheld amount is not an additional tax but is a credit against the non-U.S. holder s U.S. federal income tax liability arising from the sale. If our common shares are regularly traded on an established securities market, however, the common shares will not be treated as an interest in a USRPHC (and therefore gain recognized on disposition will not be subject to U.S. federal income tax) with respect to non-U.S. holders who do not hold, actually or constructively, more than 5% of our outstanding common shares at any time during the five-year period ending on the date of disposition or such shorter period that such common shares were held. In addition, the purchaser of our common shares will not be required to withhold tax if our common shares are regularly traded on an established securities market (regardless of whether the selling non-U.S. holder held more than 5% of our outstanding common shares).

An established securities market consists of any of the following: (a) a United States national securities exchange which is registered under Sec. 6 of the Securities Exchange Act of 1934; (b) a non-United States national securities exchange which is officially recognized, sanctioned, or supervised by a governmental authority; or (c) any over-the-counter market. Presently, our common shares are traded on the American Stock Exchange ( AMEX ) which is a United States national securities exchange registered under Section 6 of the Securities Exchange Act of 1934. Thus our shares are presently traded on an established securities market.

Under temporary Treasury Regulations, for so long as 100 or fewer persons own 50% or more of our common shares (which is the case now and which we anticipate will continue to be the case for some period of time), the common shares will be regularly traded on an established securities market for a calendar quarter only if the established securities market is located in the United States and the common shares are regularly quoted by more than one broker or dealer making a market in the common shares. A broker or dealer makes a market in a class of stock only if the broker or dealer holds himself out to buy or sell shares of such class of stock at the quoted price.

At such time that it is no longer the case that 100 or fewer persons own 50% or more of our common shares, under temporary Treasury Regulations, our common shares would also be regularly traded on an established securities market for a calendar quarter if: (a) our common shares trade, other than in de minimis quantities, on at least 15 days during the calendar quarter; (b) the aggregate number of our common shares traded during the calendar quarter is at least 7.5% of the average number of our common shares outstanding during such calendar quarter (reduced to 2.5% if there are 2,500 or more record shareholders); and (c) in the event that our common shares are traded on an established securities market located outside the United States, either (x) the common shares are registered under Sec. 12 of the Securities Exchange Act of 1934, or (y) we attach a statement to our U.S. federal income tax return providing the following information:

- a caption stating The following information concerning certain shareholders of this corporation is provided in accordance with the requirements of § 1.897-9T ;

- the name and state in which we are incorporated, our principal place of business, and our employer identification number;

- the identity of each person who, at any time during our tax year, was the beneficial owner of more than 5% of our common shares;

- the total number of common shares issued; and

- with respect to each beneficial owner of more than 5% of our common shares, the number of our common shares owned, the percentage of our common shares represented thereby, and the nature of the beneficial ownership of our common shares so owned.

Because the determination of whether we are a USRPHC depends on the fair market value of our U.S. real property interests relative to the fair market value of our foreign real property interests and other business assets, we may not be a USRPHC in the future. Even if and when we are no longer a USRHPC, however, generally only after we have not been a USRPHC for five consecutive years will the income tax and withholding requirements terminate.

**Information Reporting and Backup Withholding**

***Information Reporting***

We must report annually to the IRS and to each non-U.S. holder the entire amount of any distribution irrespective of any estimate of the portion of the distribution that represents a taxable dividend paid to such non-U.S. holder, and the tax withheld with respect to such distribution. Copies of the information returns reporting such distributions and withholding may also be made available to the tax authorities in the country in which the non-U.S. holder resides under the provisions of an applicable income tax treaty.

The payment of proceeds from the sale of our common shares by a broker to a non-U.S. holder which is not subject to the USRPHC withholding and reporting rules discussed above is generally not subject to information reporting if:

- the beneficial owner of our common shares certifies its non-U.S. status under penalties of perjury, or otherwise establishes an exemption; or

- the sale of our common shares is effected outside the United States by a foreign office, unless the broker is:

- a U.S. person as defined in the Code;

- a foreign person that derives 50% or more of its gross income for certain periods from activities that are effectively connected with the conduct of a trade or business in the United States;

- a controlled foreign corporation for U.S. federal income tax purposes; or

- a foreign partnership, if, at any time during its tax year, one or more of its partners are U.S. persons as defined in Treasury Regulations, who in the aggregate hold more than 50% of the income or capital interest in the partnership or if, at any time during its tax year, the foreign partnership is engaged in a U.S. trade or business.

***Backup Withholding***

Dividends paid to a non-U.S. holder of our common shares generally will be exempt from backup withholding if the non-U.S. holder provides a properly executed IRS Form W-8BEN or otherwise establishes an exemption. The payment of proceeds from a disposition of our common shares effected by a non-U.S. holder outside the United States by or through a foreign office of a broker generally will not be subject to backup withholding. Payment of the proceeds from a disposition by a non-U.S. holder of our common shares made by or through the U.S. office of a broker is generally not subject to backup withholding if the non-U.S. holder provides a properly executed IRS Form W-8BEN or otherwise establishes an exemption. Notwithstanding the foregoing, backup

withholding may apply if either we, our paying agent or the broker had actual knowledge, or reason to know, that the non-U.S. holder is a U.S. person.

Backup withholding is not an additional tax. Any amount withheld under these rules from a payment to a non-U.S. holder will be allowed as a credit against such non-U.S. holder s U.S. federal income tax liability and may entitle such non-U.S. holder to a refund provided the required information is furnished timely to the IRS.

*The U.S. federal income tax discussion set forth above is included for general information only and may not be applicable depending upon a non-U.S. holder s particular situation. Anything contained in this summary concerning any U.S. federal tax issue is not intended or written to be used, and it cannot be used, for the purpose of avoiding federal tax penalties under the Code. This summary was written to support the promotion or marketing of the transactions or matters addressed by this prospectus. Potential investors should consult their own tax advisors with respect to the tax consequences to them of the purchase, ownership and disposition of our common shares, including the tax consequences under U.S. federal, state, local, foreign and other tax laws, including gift and estate tax laws, and the possible effects of changes in federal or other tax laws.*

**LEGAL MATTERS**

The validity of our shares of common stock offered hereby will be passed upon by Greene Radovsky Maloney Share & Hennigh LLP.

**EXPERTS**

The unaudited supplementary oil and gas reserve information incorporated by reference in this prospectus has been included in reliance of the report of, and on the authority of MHA Petroleum Consultants.

**The consolidated financial statements incorporated by reference in this prospectus** have been audited by Hein & Associates LLP, independent registered public accounting firm, as stated in their report incorporated by reference 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**

This prospectus is part of a registration statement on Form S-3 that we filed with the SEC registering the securities that may be offered and sold hereunder. The registration statement, including exhibits thereto, contains additional relevant information about us and these securities that, as permitted by the rules and regulations of the SEC, we have not included in this prospectus. A copy of the registration statement can be obtained at the address set forth below. You should read the registration statement for further information about us and these securities.

We file annual, quarterly and special reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended, or the Exchange Act. You may read and copy this information at the following SEC location:

Public Reference Room

100 F Street, N.E.

Washington, D.C. 20549

You may obtain information on the operation of the Public Reference Room by calling the SEC at (800) SEC-0330. The SEC also maintains a web site that contains reports, proxy statements, information statements and other information about issuers, like GeoPetro Resources Company, who file electronically with the SEC. The address of that web site is www.sec.gov.

**INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

The Securities and Exchange Commission ( SEC ) allows us to incorporate by reference the information that we file with it. This means that we can disclose important information to you in this prospectus by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this prospectus, and the information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and future filings made by us with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (excluding any information furnished and not filed with the SEC) until the offering is terminated:

(1) Our annual report on Form 10-K for our fiscal year ended December 31, 2007, as filed with the SEC on March 31, 2008;

(2) The description of our common stock contained in our Form 8-A as filed with the SEC on January 31, 2007; and

(3) Our report on Form 8-K as filed with the SEC on April 25, 2008.

We will provide without charge to each person, including any beneficial owner, to whom a copy of this prospectus has been delivered, upon the written or oral request of such person, a copy of any or all of the documents referred to in Incorporation of Certain Documents by Reference which have been or may be incorporated in this prospectus by reference. Requests for such copies should be directed to our Secretary at GeoPetro Resources Company, One Maritime Plaza, Suite 700, San Francisco, California, USA 94111, telephone number (415) 398-8186.

Any statement contained in a document incorporated or deemed to be incorporated by reference in this prospectus shall be deemed modified, superseded or replaced for purposes of this prospectus to the extent that a statement contained in this prospectus or in any subsequently filed document that also is or is deemed to be incorporated by reference in this prospectus modifies, supersedes or replaces such statement. Any statement so modified, superseded or replaced shall not be deemed, except as so modified, superseded or replaced, to constitute a part of this prospectus.

You should rely only on the information incorporated by reference, provided in this prospectus or any supplement or that we have referred you to. We have not authorized anyone else to provide you with different information.

You should not assume that the information in this prospectus or any supplement is accurate as of any date other than the date on the front of those documents. However, you should realize that the affairs of the Company may have changed since the date of this prospectus. This prospectus will not reflect such changes. You should not consider this prospectus to be an offer or solicitation relating to the securities in any jurisdiction in which such an offer or solicitation relating to the securities is not authorized, if the person making the offer or solicitation is not qualified to do so, or if it is unlawful for you to receive such an offer or solicitation.

GeoPetro s Articles of Incorporation and its Bylaws limit the liability of directors and provide that directors and officers shall be indemnified to the fullest extent permitted by California law. Section 317 of the California Corporations Code permits indemnification to be authorized by

either: (a) a majority vote of disinterested directors

constituting a quorum of the board of directors; (b) if such a quorum of directors is not obtainable, by independent legal counsel in a written opinion; (c) a vote of the shareholders; or (d) a court. The California Corporations Code states, generally, that to the extent a director or officer is successful on the merits in defense of a proceeding, he or she has the right to be indemnified against expenses actually and reasonably incurred in connection therewith.

GeoPetro has obtained a directors and officers liability insurance policy for the purposes of indemnification which shall cover all elected and appointed directors and officers of GeoPetro up to $15,000,000 for each claim and $15,000,000 in the aggregate. GeoPetro believes that the limitation of liability provision in its Articles of Incorporation, and the directors and officers liability insurance will facilitate GeoPetro s ability to continue to attract and retain qualified individuals to serve as directors and officers of GeoPetro.

Insofar as indemnification for liabilities arising under the Securities Act, as amended, may be permitted to directors, officers, and controlling persons of GeoPetro, GeoPetro has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore unenforceable. If a claim for indemnification against such liabilities (other than the payment by GeoPetro of expenses incurred or paid by a director, officer, or controlling person of GeoPetro in the successful defense of any action, suitor proceeding) is asserted by such director, officer or controlling person of GeoPetro in connection with the securities being registered, GeoPetro will, unless in the opinion of its counsel the matter has been settled by a controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issues.

## GLOSSARY OF OIL AND NATURAL GAS TERMS

In this report, unless the context otherwise requires, the following terms shall have the indicated meanings. A reference to an agreement means the agreement as it may be amended, supplemented or restated from time to time.

**Bengara II PSC** means the PSC dated December 4, 1997 between C-G Bengara and Pertamina.

**Bengara Block** means the contract area in the Indonesian province of East Kalimantan designated as the Bengara (II) PSC Block.

**BP Migas** means Badan Pelaksana Minyak Dan Gas Muni, a new executive board established by the government of Indonesia in 2002 for oil and gas upstream operations and an implementing body created to assume the role of Pertamina s regulatory functions and responsibilities in managing oil and gas contractors.

**CBM** means coal bed methane, which is methane found in coal seams. It is produced by non-traditional means, and therefore, while it is sold and used the same as traditional natural gas, its production is different. CBM is generated either from a biological process as a result of microbial action or from a thermal process as a result of increasing heat with depth of the coal. Often a coal seam is saturated with water, with methane held in the coal by water pressure.

**C-G Bengara** means Continental-GeoPetro (Bengara II) Ltd., a British Virgin Islands corporation owned 12% by GeoPetro.

**CG Xploration** means CG Xploration Inc., a Delaware corporation owned 50% by GeoPetro.

**C-G Yapen** means Continental-GeoPetro (Yapen) Ltd., a British Virgin Islands corporation formerly owned 40% by GeoPetro.

**CNPC** means CNPCHK (Indonesia) Limited. CNPC is a wholly owned subsidiary of CNPC (Hong Kong) Limited, a publicly held company based in Hong Kong where its shares trade on the Hong Kong Stock Exchange under the listing number 0135.HK.

**Company** or **GeoPetro** means GeoPetro Resources Company, a corporation incorporated under the laws of the State of California and its wholly-owned subsidiaries.

**Condensate** means a low-density, high-API gravity liquid hydrocarbon product that is generally produced in association with natural gas. Condensate is mainly composed of propane, butane, pentane and heavier hydrocarbon fractions.

**Continental** means Continental Energy Corporation.

**Cook Inlet Option** means the option granted to GeoPetro by Pioneer to acquire a 100% working interest (81% net revenue interest) in approximately 122,000 acres in Cook Inlet, near Anchorage, Alaska.

**CRA** means the Canada Revenue Agency.

**EIA** means the United States Energy Information Administration.

**EP 408** means the approximately 201,000 gross (52,675 net) acre permit area including the Whicher Range gas field in the South Perth basin of Western Australia designated as Exploration Permit 408 which we transferred to an unrelated party in June 2007.

**Evaluated Properties** means those properties that are producing oil or gas or on which, based on known geological and engineering data, oil and gas reserves are reasonably certain to exist.

**Fannin Well** means the Angela Farris Fannin No. 1 well located at the Madisonville Field.

**Farmout** means an agreement whereby a third party agrees to pay for the drilling of a well on one or more of GeoPetro s properties in order to earn an interest therein with GeoPetro retaining a residual interest in such properties.

**Flow-Through Share** means a share of common stock issued as a flow-through share within the meaning of Canadian tax law.

**Gateway** means Gateway Processing Company, a Texas corporation that has constructed pipeline facilities at the Madisonville Field.

**GeoPetro Alaska** means GeoPetro Alaska LLC, an Alaska limited liability company, which is a wholly-owned subsidiary of GeoPetro.

**GeoPetro Canada** means GeoPetro Canada Ltd., an Alberta corporation, which is a wholly-owned subsidiary of GeoPetro.

**Hanover** means Hanover Compression Limited Partnership, a Delaware limited partnership that has constructed and previously operated treatment facilities at the Madisonville Field.

**Hanover Agreement** means, collectively, the First Amended and Restated Master Agreement, dated as of September 12, 2002 among Redwood, Hanover and Gateway, as amended, providing for the processing of natural gas from the Madisonville Field, and the agreements related thereto, which agreements were in effect prior to August 2005.

**LPG** means liquefied petroleum gas.

**Madisonville Field** means the Madisonville (Rodessa) field in Madison County, Texas.

**Madisonville Project** means the oil and natural gas exploration, development and production project at the Madisonville Field.

**Magness Well** means the UMC Ruby Magness No. 1 well located at the Madisonville Field.

**Makapan Gas Field** means the Makapan gas field in East Kalimantan, Indonesia.

**MGP** means Madisonville Gas Processing, LP, a Colorado Limited Partnership that has purchased from Hanover and currently operates the treatment facilities at the Madisonville Field, and is jointly owned by JPMorgan Partners and Bear Cub Investments LLC.

**MGP Agreement** means, collectively, the Termination and Release Agreement, Madisonville Field Development Agreement, Gas Purchase Contract between Redwood LP as Seller, and MGP as Buyer, Escrow Agreement and Dedication Agreement, all effective as of August 1, 2005 among Redwood LP, MGP, Gateway and Gateway Pipeline Company, providing for the termination of the Hanover Agreement, the expansion of the treatment facilities and the provision of the gathering, processing, transportation and sale of natural gas from the Madisonville Field.

**Mitchell Well** means the Mitchell No. 1 well located at the Madisonville Field.

**Pertamina** means Perusahaan Pertambangan Minyak Dan Gas Bumi Negara, the previous Indonesian state-owned oil and natural gas company established in 1971 which had exclusive authority to explore, drill for, and produce oil and natural gas minerals in Indonesia. In accordance with the new Indonesian Oil and Gas Law, its corporate form

has been changed to become a state-owned limited liability company established under Indonesian Company Law, and all rights and obligations of Pertamina under existing PSCs shall pass to BP Migas.

**Pioneer** means Pioneer Oil Company, Inc.

**Proved developed oil and gas reserves** means reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery should be included as proved developed reserves only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

**Proved developed nonproducing reserves** means reserves expected to be recovered from zones behind casing in existing wells.

**Proved oil and gas reserves** means estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

(i) Reservoirs are considered proved if economic producibility is supported by either actual production or a conclusive formation test. The area of a reservoir considered proved includes (A) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any; and (B) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

(ii) Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the proved classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.

(iii) Estimates of proved reserves do not include the following:

(A) oil that may become available from known reservoirs but is classified separately as indicated additional reserves ;

(B) crude oil, natural gas, and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors;

(C) crude oil, natural gas, and natural gas liquids, that may occur in undrilled prospects; and

(D) crude oil, natural gas, and natural gas liquids, that may be recovered from oil shales, coal, gilsonite and other such sources.

**Proved undeveloped reserves** means reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Under no circumstances should estimates, for proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

**PSC** means a production sharing contract, being a contract with Pertamina whereby Pertamina contracts with a petroleum company to explore for, develop and extract petroleum substances from a particular license area, on Pertamina s behalf, at the risk and expense of the petroleum company, in exchange for a share of the production.

**Redwood** means Redwood Energy Company, a Texas corporation, which is a wholly-owned subsidiary of GeoPetro and which is the general partner of, and holds a 5% interest in, Redwood LP.

**Redwood LP** means Redwood Energy Production, L.P., a Texas limited partnership, the sole limited partner of which is GeoPetro and which is 100% owned, directly or indirectly, by GeoPetro.

**Rodessa Formation** means the geological formation at the Madisonville Field existing at a depth of approximately 12,000 feet.

**Seismic** means data collected that uses reflected seismic waves to produce images of the Earth s subsurface. The method requires a controlled seismic source of energy, such as dynamite or a specialized air gun. By noting the time it takes for a reflection to arrive at a receiver, it is possible to estimate the depth of the feature that generated the reflection.

**South Texas GeoPetro** means South Texas GeoPetro, LLC., a Texas limited liability company, the sole limited partner of which is GeoPetro and which is 100% owned, directly or indirectly, by GeoPetro.

**Tertiary Sandstones** means sandstones which were deposited during a geologic time period ranging from 2 to 63 million years ago.

**TSX** means the Toronto Stock Exchange.

**Unevaluated Properties** means properties not yet evaluated through exploration and drilling as to whether or not they have proved reserves.

**U.S. GAAP** means the accounting principles generally accepted in the United States.

**Wilson Well** means the Wilson No. 1 well located at the Madisonville Field.

**Working interest** means the percentage of undivided interest held by a party in the oil and/or natural gas or mineral lease granted by the mineral owner, which interest gives the holder the right to work the property (lease) to explore for, develop, produce and market the leased substances.

**ABBREVIATIONS AND CONVERSIONS**

In this report, the following abbreviations have the meanings set forth below:

| | |
|---|---|
| API | American Petroleum Institute |
| bbl and bbls | barrel and barrels, each barrel representing 34.972 Imperial gallons or 42 U.S. gallons |
| bbls/d | barrels per day |
| bcf | billion cubic feet |
| boe | barrels of oil equivalent converting 6 mcf of natural gas to one barrel of oil equivalent and one barrel of natural gas liquids to one barrel of oil equivalent. Measures of boes may be misleading, particularly if used in isolation. This conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead, but is a commonly used industry benchmark. |
| boe/d | barrels of oil equivalent per day |
| degree API | an indication of the specific gravity of crude oil measured on the API gravity scale. Liquid petroleum with a specified gravity of 28 degree API or higher is generally referred to as light crude oil. |
| LPG | liquefied petroleum gas |
| mbbls | one thousand barrels |
| mboe | one thousand barrels of oil equivalent |
| mcf | one thousand cubic feet |
| mcf/d | one thousand cubic feet per day |
| mmbbls | one million barrels |
| MMBTU | one million British Thermal Units |
| MMcf | one million cubic feet |
| MMcf/d | one million cubic feet per day |
| NGLs | natural gas liquids |
| Psig | Pounds per square inch gauge |
| TCF | trillion cubic feet |

**2,783,456** Shares

**GeoPetro Resources Company**

**Common Shares**

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**PROSPECTUS**

**, 2008**

**PART II**

**INFORMATION NOT REQUIRED IN PROSPECTUS**

**ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION**

Set forth below are the expenses expected to be incurred in connection with the issuance and distribution of the securities registered hereby. With the exception of the Securities and Exchange Commission registration fee, the amounts set forth below are estimates.

| | | |
|---|---|---|
| SEC registration fee | $ | 341 |
| Exchange listing fee | $ | 5,000 |
| Printing expenses | $ | 20,000 |
| Fees and expenses of legal counsel | $ | 50,000 |
| Accounting fees and expenses | $ | 40,000 |
| Transfer agent fees | $ | 10,000 |
| Miscellaneous | $ | 10,000 |
| Total | $ | 135,341 |

**ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS**

GeoPetro s Articles of Incorporation and its Bylaws limit the liability of directors and provide that directors and officers shall be indemnified to the fullest extent permitted by California law. Section 317 of the California Corporations Code permits indemnification to be authorized by either: (a) a majority vote of disinterested directors constituting a quorum of the board of directors; (b) if such a quorum of directors is not obtainable, by independent legal counsel in a written opinion; (c) a vote of the shareholders; or (d) a court. The California Corporations Code states, generally, that to the extent a director or officer is successful on the merits in defense of a proceeding, he or she has the right to be indemnified against expenses actually and reasonably incurred in connection therewith.

GeoPetro has obtained a directors and officers liability insurance policy for the purposes of indemnification which shall cover all elected and appointed directors and officers of GeoPetro up to $15,000,000 for each claim and $15,000,000 in the aggregate. GeoPetro believes that the limitation of liability provision in its Articles of Incorporation, and the directors and officers liability insurance will facilitate GeoPetro s ability to continue to attract and retain qualified individuals to serve as directors and officers of GeoPetro.

Insofar as indemnification for liabilities arising under the Securities Act, as amended, may be permitted to directors, officers, and controlling persons of GeoPetro, GeoPetro has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore unenforceable. If a claim for indemnification against such liabilities (other than the payment by GeoPetro of expenses incurred or paid by a director, officer, or controlling person of GeoPetro in the successful defense of any action, suitor proceeding) is asserted by such director, officer or controlling person of GeoPetro in connection with the securities being registered, GeoPetro will, unless in the opinion of its counsel the matter has been settled by a controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issues.

**ITEM 16. EXHIBITS**

(a) Exhibits. The following documents are filed as exhibits to this registration statement.

| Exhibit Number | Description |
|---|---|
| 3.1 (2) | Amended and Restated Articles of Incorporation of GeoPetro Resources Company |
| 3.2 (8) | Second Amended and Restated Bylaws of the GeoPetro Resources Company |
| 4.1 (2) | Form of Warrant issued by GeoPetro Resources Company to various investors on various dates. |
| 4.2 (3) | Specimen Common Stock Certificate |
| 4.3 | Form of common stock purchase warrant issued to various investors dated August 13, 2007 (filed as exhibit 4.1 to the Company s Report on Form 8-K as filed with the Securities and Exchange Commission on August 16, 2007, and incorporated herein by reference) |
| 4.4 | Registration Rights Agreement between GeoPetro Resources Company and various investors dated August 13, 2007 (filed as Exhibit B to the Form of Unit Subscription Agreement dated August 13, 2007 filed as Exhibit 10.20 to the Company s Report on Form 8-K as filed with the Securities and Exchange Commission on August 16, 2007 and incorporated herein by reference) |
| 4.5 (6) | Placement Agent Warrant dated August 13, 2007 |
| 5.1 (6) | Opinion of Greene Radovsky Maloney Share & Hennigh LLP |
| 10.1 (2) | Joint Venture Agreement Bengara II, Dated January 1, 2000 |
| 10.2 (2) | Production Sharing Contract Bengara II, Dated December 4, 1997 |
| 10.4 (2) | Exploration Permit#408, Dated July 2, 1997 |
| 10.5 (2) | Madisonville Field Development Agreement Dated August 1, 2005 |
| 10.6 (2) | Alaska Cook Inlet Option dated April 20, 2005 |
| 10.7 (2) | The 2001 Stock Incentive Plan |
| 10.8 (2) | The 2004 Stock Option and Appreciation Rights Plan |
| 10.9 (2) | Stuart Doshi Employment Agreement, Dated July 28, 1997 (effective July 1, 1997) and amendments dated January 11, 2001, July 1, 2003, April 20, 2004, May 9, 2005, July 28, 2005 and January 30, 2006 |
| 10.10 (2) | David Creel Employment Agreement, Dated April 28, 1998 and amendments dated June 15, 2000, May 12, 2003 and January 1, 2005 |
| 10.11 (2) | J. Chris Steinhauser Employment Agreement, Dated June 19, 2000 and amendments dated December 12, 2002 and January 1, 2005 |
| 10.12 (2) | Office Lease Agreement, Dated effective March 1, 2004 |
| 10.13 (4) | Form of Subscription Agreement for GeoPetro Resources Company stock executed by various investors on various dates. |

| | |
|---|---|
| 10.19 (5) | Shares Sale & Purchase Agreement Dated September 29, 2006 |
| 10.20 (6) | Form of Unit Subscription Agreement Dated August 13, 2007 |
| 10.22 (6) | Promissory Note to Stuart Doshi dated February 12, 2007 |
| 10.23 (7) | Third Amendment to J. Chris Steinhauser Employment Agreement dated December 18, 2007 |
| 23.2(1) | Consent of Independent Registered Public Accounting Firm Hein & Associates LLP |
| 23.3 | Consent of Greene Radovsky Maloney Share & Hennigh LLP (included in Exhibit 5.1) |
| 24.1 | Powers of Attorney (Included on the signature page to the Company s initial filing of the Registration Statement on Form S-1, filed on October 9, 2007, Reg. No. 333-146557) |

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(1) Filed herewith.

(2) Filed as the identically numbered exhibit to the Registration Statement on Form S-1, (No. 333-135485), as filed with the Securities and Exchange Commission on June 30, 2006, and incorporated herein by reference.

(3) Filed as the identically numbered exhibit to the Registration Statement on Form S-1, (No. 333-135485), as filed with the Securities and Exchange Commission on January 31, 2007, and incorporated herein by reference.

(4) Filed as Exhibit 10.14 to the Registration Statement on Form S-1 (No. 333-135485) as filed with the Securities and Exchange Commission on June 30, 2006, and incorporated herein by reference.

(5) Filed as the identically numbered exhibit to the Registration Statement on Form S-1 (No. 333-135485), as filed with the Securities and Exchange Commission on January 9, 2007, and incorporated herein by reference.

(6) Filed as the identically numbered exhibit to the Registration Statement on Form S-1 (No. 333-146557), as filed with the Securities and Exchange Commission on October 9, 2007, and incorporated herein by reference.

(7) Filed as Exhibit 10.1 to the Company s Report on Form 8-K, as filed with the Securities and Exchange Commission on December 21, 2007 and incorporated herein by reference.

(8) Filed as the identically numbered exhibit to the Registration Statement on Form S-1 (No. 333-135485), as filed with the Securities and Exchange Commission on April 25, 2008, and incorporated herein by reference.

Indicates a management or compensatory plan or arrangement

**ITEM 17. UNDERTAKINGS**

(a) The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of this Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this Registration Statement. Notwithstanding the foregoing, any increase or decrease in the volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20-percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in this Registration Statement or any material change to such information in this Registration Statement;

provided, however, that paragraphs (a)(1)(i), (a)(1)(ii) and (a)(1)(iii) do not apply if the Registration Statement is on Form S-3 and the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the Commission by the Registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the Registration Statement, or is contained in the form of a prospectus filed pursuant to Rule 424(b) that is part of the Registration Statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability under the Securities Act of 1993 to any purchaser, each prospectus filed pursuant to Rule 424 (b) as part of a registration statement relating to an offering shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(b) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the Registrant s annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan s annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in this Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

**SIGNATURES**

***Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it means all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Francisco, State of California on May 7, 2008.***

**GEOPETRO RESOURCES COMPANY**

By: /s/ STUART J. DOSHI
Stuart J. Doshi
Chairman of the Board of Directors, President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons and in the capacities and on the dates indicated.

| **Signature** | **Title** | **Date** |
|---|---|---|
| /s/ STUART J. DOSHI<br>Stuart J. Doshi | Chairman of the Board, President and Chief Executive Officer | May 7, 2008 |
| *<br>David V. Creel | Vice President of Exploration and Director | May 7, 2008 |
| *<br>J. Chris Steinhauser | Vice President of Finance and Chief Financial Officer Principal Accounting Officer and Director | May 7, 2008 |
| *<br>Kevin M. Delehanty | Director | May 7, 2008 |
| *<br>Thomas D. Cunningham | Director | May 7, 2008 |
| *<br>David G. Anderson | Director | May 7, 2008 |
| *<br>Nick DeMare | Director | May 7, 2008 |

*By: /s/ STUART J. DOSHI

**Stuart J. Doshi**

**Attorney-in-Fact**

**EXHIBIT INDEX**

| Exhibit Number | Description |
| --- | --- |
| 3.1 (2) | Amended and Restated Articles of Incorporation of GeoPetro Resources Company |
| 3.2 (8) | Second Amended and Restated Bylaws of the GeoPetro Resources Company |
| 4.1 (2) | Form of Warrant issued by GeoPetro Resources Company to various investors on various dates. |
| 4.2 (3) | Specimen Common Stock Certificate |
| 4.3 | Form of common stock purchase warrant issued to various investors dated August 13, 2007 (filed as exhibit 4.1 to the Company s Report on Form 8-K as filed with the Securities and Exchange Commission on August 16, 2007, and incorporated herein by reference) |
| 4.4 | Registration Rights Agreement between GeoPetro Resources Company and various investors dated August 13, 2007 (filed as Exhibit B to the Form of Unit Subscription Agreement dated August 13, 2007 filed as Exhibit 10.20 to the Company s Report on Form 8-K as filed with the Securities and Exchange Commission on August 16, 2007 and incorporated herein by reference) |
| 4.5 (6) | Placement Agent Warrant dated August 13, 2007 |
| 5.1 (6) | Opinion of Greene Radovsky Maloney Share & Hennigh LLP |
| 10.1 (2) | Joint Venture Agreement Bengara II, Dated January 1, 2000 |
| 10.2 (2) | Production Sharing Contract Bengara II, Dated December 4, 1997 |
| 10.4 (2) | Exploration Permit#408, Dated July 2, 1997 |
| 10.5 (2) | Madisonville Field Development Agreement Dated August 1, 2005 |
| 10.6 (2) | Alaska Cook Inlet Option dated April 20, 2005 |
| 10.7 (2) | The 2001 Stock Incentive Plan |
| 10.8 (2) | The 2004 Stock Option and Appreciation Rights Plan |
| 10.9 (2) | Stuart Doshi Employment Agreement, Dated July 28, 1997 (effective July 1, 1997) and amendments dated January 11, 2001, July 1, 2003, April 20, 2004, May 9, 2005, July 28, 2005 and January 30, 2006 |
| 10.10 (2) | David Creel Employment Agreement, Dated April 28, 1998 and amendments dated June 15, 2000, May 12, 2003 and January 1, 2005 |
| 10.11 (2) | J. Chris Steinhauser Employment Agreement, Dated June 19, 2000 and amendments dated December 12, 2002 and January 1, 2005 |
| 10.12 (2) | Office Lease Agreement, Dated effective March 1, 2004 |
| 10.13 (4) | Form of Subscription Agreement for GeoPetro Resources Company stock executed by various investors on various dates. |

| | |
|---|---|
| 10.19 (5) | Shares Sale & Purchase Agreement Dated September 29, 2006 |
| 10.20 (6) | Form of Unit Subscription Agreement Dated August 13, 2007 |
| 10.22 (6) | Promissory Note to Stuart Doshi dated February 12, 2007 |
| 10.23 (7) | Third Amendment to J. Chris Steinhauser Employment Agreement dated December 18, 2007 |
| 23.2(1) | Consent of Independent Registered Public Accounting Firm Hein & Associates LLP |
| 23.3 | Consent of Greene Radovsky Maloney Share & Hennigh LLP (included in Exhibit 5.1) |
| 24.1 | Powers of Attorney (Included on the signature page to the Company s initial filing of the Registration Statement on Form S-1, filed on October 9, 2007, Reg. No. 333-146557) |

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(1) Filed herewith.

(2) Filed as the identically numbered exhibit to the Registration Statement on Form S-1, (No. 333-135485), as filed with the Securities and Exchange Commission on June 30, 2006, and incorporated herein by reference.

(3) Filed as the identically numbered exhibit to the Registration Statement on Form S-1, (No. 333-135485), as filed with the Securities and Exchange Commission on January 31, 2007, and incorporated herein by reference.

(4) Filed as Exhibit 10.14 to the Registration Statement on Form S-1 (No. 333-135485) as filed with the Securities and Exchange Commission on June 30, 2006, and incorporated herein by reference.

(5) Filed as the identically numbered exhibit to the Registration Statement on Form S-1 (No. 333-135485), as filed with the Securities and Exchange Commission on January 9, 2007, and incorporated herein by reference.

(6) Filed as the identically numbered exhibit to the Registration Statement on Form S-1 (No. 333-146557), as filed with the Securities and Exchange Commission on October 9, 2007, and incorporated herein by reference.

(7) Filed as Exhibit 10.1 to the Company s Report on Form 8-K, as filed with the Securities and Exchange Commission on December 21, 2007 and incorporated herein by reference.

(8) Filed as the identically numbered exhibit to the Registration Statement on Form S-1 (No. 333-135485), as filed with the Securities and Exchange Commission on April 25, 2008, and incorporated herein by reference.

Indicates a management or compensatory plan or arrangement

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FONT-SIZE: 10pt; FONT-FAMILY: times new roman">(23,122)
Other investments
– – 4,864 (135) 4,864 (135)
Total
$314,843 $(3,668) $199,234 $(19,589) $514,077 $(23,257)

As of December 31, 2009, there were approximately 34 securities in an unrealized loss position with a fair value of $514,077 and unrealized losses of $23,257. Of these securities, there are 14 securities that have been in an unrealized loss position for 12 months or greater with a fair value of $199,234 and unrealized losses of $19,589.

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MAIDEN HOLDINGS, LTD.

Notes to Unaudited Condensed Consolidated Financial Statements
(In Thousands of United States Dollars, Except Par Value and Per Share Data)
(Unaudited)

3. Investments (continued)

Other-Than-Temporary Impairments ("OTTI")

We review our investment portfolio for impairment on a quarterly basis. Impairment of investments results in a charge to operations when a fair value decline below cost is deemed to be other-than-temporary. As of June 30, 2010, we reviewed our portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of investments. During the three and six month periods ended June 30, 2010 and 2009, the Company recognized no other than temporary impairment losses. Based on our qualitative and quantitative OTTI review of each asset class within our fixed maturity portfolio, the remaining unrealized losses on fixed maturities at June 30, 2010 were primarily due to widening of credit spreads relating to the market illiquidity, rather than credit events. Because it is more likely than not that we will not be required to sell these securities until a recovery of fair value to amortized cost, we currently believe it is probable that we will collect all amounts due according to their respective contractual terms. Therefore we do not consider these fixed maturities to be other-than-temporarily impaired at June 30, 2010.

(b) Realized and unrealized gains and losses

Realized gains or losses on the sale of investments are determined on the basis of the first in first out cost method and include adjustments to the cost basis of investments for declines in value that are considered to be other-than-temporary. The Company has commenced designating upon acquisition, certain US Treasury bonds as trading for the purpose of augmenting where possible investment returns. In addition, the Company maintained one open position in a US Treasury bond sold but not yet purchased valued at $52,328 which to date has resulted in in unrealized loss of $2,719 which is recorded in net realized and unrealized gains (losses) on the Company's consolidated statement of income. The following provides an analysis of realized and unrealized gains and losses for the three and six months ended June 30, 2010 and 2009:

| For the Three Months Ended June 30, 2010 | Gross Gains | Gross losses | Net |
|---|---|---|---|
| Available-for-sale securities | $ 5,488 | $ (1,619) | $ 3,869 |
| Trading securities | 522 | (1,137) | (615) |
| Other investments | – | – | – |
| Net realized gains | 6,010 | (2,756) | 3,254 |
| Unrealized loss on short sales | – | (2,719) | (2,719) |
| Net realized and unrealized gains | $ 6,010 | $ (5,475) | $ 535 |

| For the Six Months Ended June 30, 2010 | Gross Gains | Gross losses | Net |
|---|---|---|---|
| Available-for-sale securities | $ 5,800 | $ (1,619) | $ 4,181 |
| Trading securities | 522 | (1,137) | (615) |
| Other investments | – | – | – |
| Net realized gains | 6,322 | (2,756) | 3,566 |
| Unrealized loss on short sales | – | (2,719) | (2,719) |
| Net realized and unrealized gains | $ 6,322 | $ (5,475) | $ 847 |

| For the Three Months Ended June 30, 2009 | Gross Gains | Gross losses | Net |
|---|---|---|---|
| Available-for-sale securities | $ 2,143 | $ (609) | $ 1,534 |
| Other investments | – | – | – |
| Net realized gains | $ 2,143 | $ (609) | $ 1,534 |

| For the Six Months Ended June 30, 2009 | Gross Gains | Gross losses | Net |
|---|---|---|---|
| Available-for-sale securities | $ 3,898 | $ (4,279) | $ (381) |
| Other investments | – | (15) | (15) |
| Net realized losses | $ 3,898 | $ (4,294) | $ (396) |

MAIDEN HOLDINGS, LTD.

Notes to Unaudited Condensed Consolidated Financial Statements
(In Thousands of United States Dollars, Except Par Value and Per Share Data)
(Unaudited)

3. Investments (continued)

Proceeds from sales of fixed maturities classified as available for sale were $173,687 and $134,384 for the six months ended June 30, 2010 and 2009, respectively.

Net unrealized gain (loss) on available-for-sale investments was as follows:

| | June 30, 2010 | June 30, 2009 |
|---|---|---|
| Fixed maturities | $ 57,613 | $ (12,287) |
| Other investments | (124) | (422) |
| Total net unrealized gain (loss) | 57,489 | (12,709) |
| Deferred income tax expense | – | (2,388) |
| Net unrealized losses, net of deferred income tax | $ 57,489 | $ (15,097) |
| Change in unrealized gain (loss), net of deferred income tax | $ 24,742 | $ 29,402 |

(c) Restricted Cash and Investments

We are required to maintain assets on deposit to support our reinsurance operations and to serve as collateral for our reinsurance liabilities under various reinsurance agreements. The assets on deposit are available to settle reinsurance liabilities. We also utilize trust accounts to collateralize business with our reinsurance counterparties. These trust accounts generally take the place of letter of credit requirements. The assets in trust as collateral are primarily cash and highly rated fixed maturity securities. The fair value of our restricted assets was as follows:

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| Restricted cash – third party agreements | $ 115,746 | $ 133,029 |
| Restricted cash – related party agreements | 52,347 | 11,485 |
| Restricted cash – U.S. state regulatory authorities | 303 | 430 |
| Total restricted cash | 168,396 | 144,944 |
| Restricted investments – in Trust for third party agreements at fair value (Amortized cost: 2010 – $856,511; 2009 – $1,011,582) | 887,632 | 1,022,337 |
| Restricted investments – in Trust for related party agreements at fair value (Amortized cost: 2010 – $226,558; 2009 – $177,537) | 250,465 | 195,474 |
| Restricted investments – in Trust for U.S. state regulatory authorities (Amortized cost: 2010 – $13,280; 2009 – $13,032) | 13,707 | 12,867 |
| Total restricted investments | 1,151,804 | 1,230,678 |
| Total restricted cash and investments | $ 1,320,200 | $ 1,375,622 |

(d) Other

The Company enters into repurchase agreements. The agreements are accounted for as collateralized borrowing transactions and are recorded at contract amounts. The Company receives cash or securities, that it invests or holds in short term or fixed income securities. As of June 30, 2010, there were $70,972 principal amount outstanding at interest rate of 0.27%. Interest expense associated with these repurchase agreements was $298 and $355 for the three and six months ended June 30, 2010, respectively (2009 - $10 and $783, respectively), out of which $262 was accrued as of June 30, 2010 (December 31, 2009 - $33). The Company has approximately $70,972 of collateral pledged in support of these agreements.

Securities sold but not yet purchased represent obligations of the Company to deliver the specified security at the contracted price and, thereby, create a liability to purchase the security in the market at prevailing prices. The Company’s liability for securities to be delivered is measured at their fair value and as of June 30, 2010 were $52,328 for a US Treasury bond. This amount is included in accrued expenses and other liabilities in the condensed consolidated balance sheets. These transactions result in off-balance sheet risk, as the Company’s ultimate cost to satisfy the delivery of securities sold but not yet purchased may exceed the amount reflected at June 30, 2010. Collateral of an equivalent amount has been pledged to the clearing broker.

MAIDEN HOLDINGS, LTD.

Notes to Unaudited Condensed Consolidated Financial Statements
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(Unaudited)

4. Fair Value of Financial Instruments

The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in ASC 820. The framework is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the ASC 820 hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. The three levels of the hierarchy are as follows:

- Level 1 - Unadjusted quoted market prices for identical assets or liabilities in active markets that the Company has the ability to access.

- Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

- Level 3 - Valuations based on models where significant inputs are not observable. The unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use.

In accordance with ASC 820, the Company determines fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

ASC 825, "Disclosure about Fair Value of Financial Instruments," requires all entities to disclose the fair value of their financial instruments, both assets and liabilities recognized and not recognized in the balance sheet, for which it is practicable to estimate fair value.

The following describes the valuation techniques used by the Company to determine the fair value of financial instruments held as of June 30, 2010.

U.S. government and U.S. government agencies: Comprised primarily of bonds issued by the U.S. Treasury, the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association. The fair values of the Company's U.S. government securities are based on quoted market prices in active markets and are included in the Level 1 fair value hierarchy. The Company believes the market for U.S. Treasury securities is an actively traded market given the high level of daily trading volume. The fair values of U.S. government agency securities are generally priced by pricing services. The pricing services may use current market trades for securities with similar quality, maturity and coupon. If no such trades are available, the pricing service typically uses analytical models which may incorporate option adjusted spreads, daily interest rate data and market/sector news. The Company generally classifies the fair values of U.S. government agencies securities in Level 2.

Corporate debt: Corporate debt securities consist primarily of investment-grade debt of a wide variety of corporate issuers and industries. These securities are generally priced by pricing services. The pricing services typically use discounted cash flow models that incorporate benchmark curves for treasury, swap and high issuance credits. Credit spreads are developed from current market observations for like or similar securities. Where pricing is unavailable from pricing services, we obtain non-binding quotes from broker-dealers. The Company generally classifies the fair values of its corporate securities in Level 2.

Municipals: Municipal securities comprise bonds issued by U.S. domiciled state and municipality entities. The fair values of these securities are generally priced by pricing services. The pricing services typically use is determined using spreads obtained from broker-dealers, trade prices and the new issue market. As the significant inputs used to price the municipals are observable market inputs, municipals are classified within Level 2.

Other investments: The fair values of the hedge funds are based on the net asset value of the funds as reported by the fund manager, and as such, the fair values of those hedge funds are included in the Level 3 fair value hierarchy.

MAIDEN HOLDINGS, LTD.

Notes to Unaudited Condensed Consolidated Financial Statements
(In Thousands of United States Dollars, Except Par Value and Per Share Data)
(Unaudited)

4. Fair Value of Financial Instruments (continued)

Reinsurance balance receivable. The carrying values reported in the accompanying balance sheets for these financial instruments approximate their fair value due to short term nature of the assets.

Loan to related party. The carrying values reported in the accompanying balance sheets for these financial instruments approximate their fair value.

Junior subordinated debt. The carrying values reported in the accompanying balance sheets for these financial instruments approximate their fair value.

(a) Fair Value Hierarchy

The following table presents the level within the fair value hierarchy at which the Company's financial assets and financial liabilities are measured on a recurring basis as of June 30, 2010 and December 31, 2009:

| As at June 30, 2010 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
|---|---|---|---|---|
| Assets | | | | |
| Fixed maturities | | | | |
| U.S. treasury bonds | $ 59,397 | $ – | $ – | $ 59,397 |
| U.S. agency bonds – mortgage and asset-backed | – | 732,866 | – | 732,866 |
| U.S. agency bonds – other | – | 155,691 | – | 155,691 |
| Corporate fixed maturities | – | 663,825 | – | 663,825 |
| Municipal bonds | – | 22,127 | – | 22,127 |
| Other investments | – | – | 5,677 | 5,677 |
| Total | $ 59,397 | $ 1,574,509 | $ 5,677 | $ 1,639,583 |
| As a percentage of total assets | 2.1% | 55.5% | 0.2% | 57.8% |
| Liabilities | | | | |
| Securities sold under agreements to repurchase | $ – | $ 70,972 | $ – | $ 70,972 |
| Securities sold but not yet purchased | – | 52,328 | – | 52,328 |
| | $ – | $ 123,300 | $ – | $ 123,300 |
| As a percentage of total liabilities | – | 5.8% | – | 5.8% |

| As at December 31, 2009 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
|---|---|---|---|---|
| Assets | | | | |

| | | | | |
|---|---|---|---|---|
| Fixed maturities | | | | |
| U.S. treasury bonds | $ 39,238 | $ – | $ – | $ 39,238 |
| U.S. agency bonds – mortgage and asset-backed | – | 794,583 | – | 794,583 |
| U.S. agency bonds – other | – | 221,517 | – | 221,517 |
| Corporate fixed maturities | – | 582,664 | – | 582,664 |
| Municipal bonds | – | 23,690 | – | 23,690 |
| Other investments | – | – | 5,549 | 5,549 |
| Total | $ 39,238 | $ 1,622,454 | $ 5,549 | $ 1,667,241 |
| As a percentage of total assets | 1.5% | 61.5% | 0.2% | 63.2% |
| Liabilities | | | | |
| Securities sold under agreements to repurchase | $ – | $ 95,401 | $ – | $ 95,401 |
| As a percentage of total liabilities | – | 4.9% | – | 4.9% |

MAIDEN HOLDINGS, LTD.

Notes to Unaudited Condensed Consolidated Financial Statements
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(Unaudited)

4. Fair Value of Financial Instruments (continued)

(b) Level 3 Financial Instruments

The following table presents changes in Level 3 for our financial instruments measured at fair value on a recurring basis for the three and six months ended June 30, 2010 and 2009:

| Other Investments: | Three Months Ended June 30, 2010 | Three Months Ended June 30, 2009 |
|---|---|---|
| Balance at beginning of period | $ 5,601 | $ 5,386 |
| Net realized and unrealized gains – included in net income | – | – |
| Net realized and unrealized losses – included in net income | – | – |
| Change in net unrealized gains – included in other comprehensive income (loss) | – | – |
| Change in net unrealized losses – included in other comprehensive income (loss) | (44) | 112 |
| Purchases | 123 | – |
| Sales and redemptions | (3) | (106) |
| Transfers into Level 3 | – | – |
| Transfers out of Level 3 | – | – |
| Balance at end of period | $ 5,677 | $ 5,392 |
| | | |
| Level 3 gains (losses) included in net income attributable to the change in unrealized gains (losses) relating to assets held at the reporting date | $ – | $ – |

| Other Investments: | Six Months Ended June 30, 2010 | Six Months Ended June 30, 2009 |
|---|---|---|
| Balance at beginning of period | $ 5,549 | $ 5,291 |
| Net realized and unrealized gains – included in net income | – | – |
| Net realized and unrealized losses – included in net income | – | (15) |
| Change in net unrealized gains – included in other comprehensive income (loss) | – | – |
| Change in net unrealized losses – included in other comprehensive income (loss) | 11 | 106 |
| Purchases | 123 | 138 |
| Sales and redemptions | (6) | (128) |
| Transfers into Level 3 | – | – |
| Transfers out of Level 3 | – | – |
| Balance at end of period | $ 5,677 | $ 5,392 |
| | | |
| Level 3 gains (losses) included in net income attributable to the change in unrealized gains (losses) relating to assets held at the reporting date | $ – | $ – |

5. Goodwill and Intangible Assets

Goodwill

Goodwill is calculated as the excess of purchase price over the net fair value of assets acquired. The Company performs an annual impairment analysis to identify potential goodwill impairment and measures the amount of a goodwill impairment loss to be recognized. This annual test is performed during the fourth quarter of each year or more frequently if events or circumstances change in a way that requires the Company to perform the impairment analysis on an interim basis. Goodwill impairment testing requires an evaluation of the estimated fair value of each reporting unit to its carrying value, including the goodwill. An impairment charge is recorded if the estimated fair value is less than the carrying amount of the reporting unit. No impairments have been identified to date.

Intangibles

Intangible assets consist of finite and indefinite life assets. Finite life intangible assets include customer and producer relationships and trademarks. Insurance company licenses are considered indefinite life intangible assets subject to annual impairment testing.

The following table shows an analysis of goodwill and intangible assets as of June 30, 2010 and December 31, 2009:

MAIDEN HOLDINGS, LTD.

Notes to Unaudited Condensed Consolidated Financial Statements
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(Unaudited)

5. Goodwill and Intangible Assets (continued)

| As at June 30, 2010 | Gross | Accumulated Amortization | Net | Useful Life |
|---|---|---|---|---|
| Goodwill | $ 52,617 | $ – | $ 52,617 | Indefinite |
| State licenses | 7,727 | – | 7,727 | Indefinite |
| Customer relationships | 51,400 | (10,747) | 40,653 | 15 years double declining |
| Net balance | $ 111,744 | $ (10,747) | $ 100,997 | |

| As at December 31, 2009 | Gross | Accumulated Amortization | Net | Useful Life |
|---|---|---|---|---|
| Goodwill | $ 52,617 | $ – | $ 52,617 | Indefinite |
| State licenses | 7,727 | – | 7,727 | Indefinite |
| Customer relationships | 51,400 | (7,843) | 43,557 | 15 years double declining |
| Net balance | $ 111,744 | $ (7,843) | $ 103,901 | |

The goodwill and intangible assets were recognized in 2009 and 2008 as a result of the GMAC Acquisition and are assigned to Diversified Reinsurance segment. Goodwill and intangible assets are subject to annual impairment testing. No impairment was recorded during the three and six months ended June 30, 2010. The estimated amortization expense for the next five years is:

| | June 30, 2010 |
|---|---|
| 2010 | $ 2,904 |
| 2011 | 5,033 |
| 2012 | 4,362 |
| 2013 | 3,781 |
| 2014 | 3,276 |

6. Junior Subordinated Debt

On January 20, 2009, the Company completed a private placement of 260,000 units (the “Units” or the “TRUPS Offering”), each Unit consisting of $1,000 principal amount of capital securities (the “Trust Preferred Securities”) of Maiden Capital Financing Trust (the “Trust”), a special purpose trust established by Maiden Holdings North America, Ltd. ("Maiden NA"), and 45 common shares, $0.01 par value, of the Company (the “Common Shares”), for a purchase price of $1,000.45 per Unit. We also issued 11,700,000 common shares to the purchasers in the TRUPS Offering. This resulted in gross proceeds to the Company of $260,117, before $4,342 of placement agent fees and expenses. Certain trusts established by Michael Karfunkel and George Karfunkel, two of the Company’s founding shareholders, purchased an aggregate of 159,000 of the Units or 61.12%. The remaining 101,000 Units were purchased by existing institutional shareholders of the Company.

The Trust used the proceeds from the sale of the Trust Preferred Securities to purchase a subordinated debenture (the “Debenture”) in the principal amount of $260,000 issued by Maiden NA.

Under the terms of the Trust Preferred Securities, the Company can repay the principal balance in full or in part at any time. However, if the Company repays such principal within five years of the date of issuance, it is required to pay an additional amount equal to one full year of interest on the amount of Trust Preferred Securities repaid. If the full amount of the Trust Preferred Securities were repaid within five years of the date of issuance, the additional amount due would be $36,400, which would be a reduction in earnings.

Pursuant to separate Guarantee Agreements dated as of January 20, 2009 with Wilmington Trust Company, as guarantee trustee, each of the Company and Maiden NA has agreed to guarantee the payment of distributions and payments on liquidation or redemption of the Trust Preferred Securities.

MAIDEN HOLDINGS, LTD.

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(Unaudited)

6. Junior Subordinated Debt (continued)

As a consequence of the issuance of a majority of the Units to a related party under, ASC Topic 810 "Consolidation", the Trust is a variable interest entity and the Company is deemed not to be the Primary beneficiary of the Trust and therefore it is not consolidated. The issuance of common shares associated with the Trust Preferred Securities resulted in an original issuance discount of $44,928 based on market price of $3.85 on January 20, 2009. The discount is amortized over 30 years based on the effective interest method. The Debentures and Trust Preferred Securities mature in 2039 and carry a stated or coupon rate of 14% with an effective interest rate of 16.95%.

As of June 30, 2010, the stated value of the Trust Preferred Securities was $215,156 which comprises the principal amount of $260,000 and unamortized discount of $44,844. Amortization expense for the three and six months ended June 30, 2010 was $16 and $31, respectively (2009 - $12 and $24, respectively).

7. Earnings Per Share

The following is a summary of the elements used in calculating basic and diluted earnings per share:

| | Three Months Ended June 30, 2010 | Three Months Ended June 30, 2009 | Six Months Ended June 30, 2010 | Six Months Ended June 30, 2009 |
|---|---|---|---|---|
| Net income available to common shareholders | $ 18,637 | $ 16,251 | $ 32,206 | $ 29,352 |
| Weighted average number of common shares outstanding – basic | 70,291,894 | 70,287,664 | 70,291,650 | 68,994,846 |
| Potentially dilutive securities: | | | | |
| Warrants | – | – | – | – |
| Share options | 478,955 | 379,435 | 482,114 | 315,858 |
| Weighted average number of common shares outstanding – diluted | 70,770,849 | 70,667,099 | 70,773,764 | 69,310,704 |
| Basic earnings per common share: | $ 0.27 | $ 0.23 | $ 0.46 | $ 0.43 |
| Diluted earnings per common share: | $ 0.26 | $ 0.23 | $ 0.46 | $ 0.42 |

As of June 30, 2010, 4,050,000 (2009 – 4,050,000) warrants and 1,689,874 (2009 – 645,626) share options were excluded from the calculation of diluted earnings per share as they were anti-dilutive.

8. Share Based Compensation

Share Options

The fair value of each option grant is separately estimated for each vesting date. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the award and each vesting

date. The Company has estimated the fair value of all share option awards as of the date of the grant by applying the Black-Scholes-Merton multiple-option pricing valuation model. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense. The adoption of ASC Topic 718 "Compensation - Stock Compensation" fair value method has resulted in share-based expense (a component of salaries and benefits) in the amount of approximately $240 and $450 for the three and six months ended June 30, 2010, respectively (2009 – $117 and $276, respectively).

The key assumptions used in determining the fair value of options granted in the three and six months ended June 30, 2010 and a summary of the methodology applied to develop each assumption are as follows:

MAIDEN HOLDINGS, LTD.

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(In Thousands of United States Dollars, Except Par Value and Per Share Data)
(Unaudited)

8. Share Based Compensation (continued)

| Assumptions: | June 30, 2010 |
|---|---|
| Volatility | 29.8-46.0% |
| Risk-free interest rate | 2.36-3.30% |
| Weighted average expected lives in years | 5-6.1 years |
| Forfeiture rate | 0% |
| Dividend yield rate | 1-5.39% |

Expected Price Volatility – This is a measure of the amount by which a price has fluctuated or is expected to fluctuate. The common shares of Maiden Holdings, Ltd. began trading on May 6, 2008 on NASDAQ. Since the Company does not have enough history over which to calculate an expected volatility representative of the volatility over the expected lives of the options, the Company also considered the historical and current implied volatilities of a set of comparable companies in the industry in which the Company operates.

Risk-Free Interest Rate – This is the U.S. treasury rate for the week of the grant having a term equal to the expected life of the option. An increase in the risk-free interest rate will increase compensation expense.

Expected Lives – This is the period of time over which the options granted are expected to remain outstanding giving consideration to vesting schedules, historical exercise and forfeiture patterns. The Company uses the simplified method outlined in SEC Staff Accounting Bulletin No. 107 to estimate expected lives for options granted during the period as historical exercise data is not available and the options meet the requirements set out in the Bulletin. Options granted have a maximum term of ten years. An increase in the expected life will increase compensation expense.

Forfeiture Rate – This is the estimated percentage of options granted that are expected to be forfeited or cancelled before becoming fully vested. An increase in the forfeiture rate will decrease compensation expense.

The following schedules show all options granted, exercised, expired and exchanged under the Plan for the three and six months ended June 30, 2010:

| Three Months Ended June 30, 2010 | Number of Share Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term |
|---|---|---|---|
| Outstanding, March 31, 2010 | 2,335,824 | $ 5.98 | 8.78 years |
| Granted | – | – | – |
| Exercised | (344) | 3.28 | – |
| Cancelled | (4,250) | 3.28 | – |
| Outstanding, June 30, 2010 | 2,331,230 | $ 5.99 | 8.53 years |

| Six Months Ended June 30, 2010 | Number of Share Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term |
|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Outstanding, December 31, 2009 | 2,036,542 | $ | 5.79 | 8.86 years |
| Granted | 300,000 | | 7.25 | 9.68 years |
| Exercised | (812) | | 3.28 | – |
| Cancelled | (4,500) | | 3.28 | – |
| Outstanding, June 30, 2010 | 2,331,230 | $ | 5.99 | 8.53 years |

The following schedule shows all options granted, exercised, expired and exchanged under the Plan for the three and six months ended June 30, 2009:

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8. Share Based Compensation (continued)

| Three Months Ended June 30, 2009 | Number of Share Options | | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term |
|---|---|---|---|---|
| Outstanding, March 31, 2009 | 1,469,834 | $ | 5.55 | 9.31 years |
| Granted | 34,000 | | 5.05 | 9.89 years |
| Exercised | – | | – | – |
| Cancelled | – | | – | – |
| Outstanding, June 30, 2009 | 1,503,834 | $ | 5.54 | 9.08 years |

| Six Months Ended June 30, 2009 | Number of Share Options | | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term |
|---|---|---|---|---|
| Outstanding, December 31, 2008 | 1,519,834 | $ | 10.00 | 9.44 years |
| Granted | 184,000 | | 4.51 | 9.70 years |
| Exercised | – | | – | – |
| Cancelled | (200,000) | | 7.74 | – |
| Outstanding, June 30, 2009 | 1,503,834 | $ | 5.54 | 9.08 years |

The weighted average grant date fair value was $1.76 and $1.58 for all options outstanding at June 30, 2010 and 2009, respectively. There was approximately $2,400 and $1,478 of total unrecognized compensation cost related to non-vested share-based compensation arrangements as of June 30, 2010 and 2009, respectively.

9. Dividends Declared

On May 4, 2010, the Company's Board of Directors approved a quarterly cash dividend of $0.065 per common share. This dividend was paid on July 15, 2010 to shareholders of record on July 1, 2010.

10. Related Party Transactions

The Founding Shareholders of Maiden, Michael Karfunkel, George Karfunkel and Barry Zyskind, are also the principal shareholders, and, respectively, the Chairman of the Board of Directors, a Director, and the President and Chief Executive Officer and Director of AmTrust Financial Services, Inc. ("AmTrust"). In January 2009, Barry Karfunkel was hired as a managing director of capital investments of Maiden Re Insurance Services, LLC. Barry Karfunkel is the son of Michael Karfunkel and the brother-in-law of Barry D. Zyskind. Barry Karfunkel's employment ended in March 2010. The following describes transactions between the Company and AmTrust.

AmTrust Quota Share Reinsurance Agreement

Effective July 1, 2007, the Company and AmTrust entered into a master agreement, as amended (the "Master Agreement"), by which they caused AmTrust's Bermuda reinsurance subsidiary, AmTrust International Insurance, Ltd. ("AII") and Maiden Insurance Company Ltd. ("Maiden Insurance" or "Maiden Bermuda") to enter into the Reinsurance

Agreement by which (a) AII retrocedes to Maiden Insurance an amount equal to 40% of the premium written by subsidiaries of AmTrust, net of the cost of unaffiliated inuring reinsurance (and in the case of AmTrust's U.K. insurance subsidiary, IGI Insurance Company Limited ("IGI"), net of commissions) and 40% of losses and (b) AII transferred to Maiden Insurance 40% of the AmTrust subsidiaries' unearned premium reserves, effective as of July 1, 2007, with respect to the current lines of business, excluding risks for which the AmTrust subsidiaries' net retention exceeds $5,000 ("Covered Business"). AmTrust also has agreed to cause AII, subject to regulatory requirements, to reinsure any insurance company which writes Covered Business in which AmTrust acquires a majority interest to the extent required to enable AII to cede to Maiden Insurance 40% of the premiums and losses related to such Covered Business. The Agreement further provides that AII receives a ceding commission of 31% of ceded written premiums. The Reinsurance Agreement had an initial term of three years, which has been extended for three years through June 30, 2013, and will automatically renew for successive three year terms thereafter, unless either AII or Maiden Insurance notifies the other of its election not to renew not less than nine months prior to the end of any such three year term. In addition, either party is entitled to terminate on thirty days notice or less upon the occurrence of certain early termination events, which include a default in payment, insolvency, change in control of AII or Maiden Insurance, run-off, or a reduction of 50% or more of the shareholders' equity of Maiden Insurance or the combined shareholders' equity of AII and the AmTrust subsidiaries.

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10. Related Party Transactions (continued)

On June 11, 2008, the Company and AmTrust amended the Reinsurance Agreement to add Retail Commercial Package Business to the Covered Business as a consequence of AmTrust's acquisition of Unitrin Business Insurance (UBI). Under the amendment, AmTrust's subsidiaries cede, upon collection, to Maiden 100% of $82.2 million of unearned premium (net of inuring reinsurance) from the acquisition of UBI's in-force book of business. Additionally, AmTrust cedes to Maiden 40% of net premium written, effective as of June 1, 2008. Maiden will pay to AmTrust a ceding commission of 34.375% on the unearned premium cession and the Retail Commercial Package Business. The $2,000 maximum liability for a single loss provided in the Quota Share Reinsurance Agreement shall not be applicable to Retail Commercial Package Business.

On February 9, 2009, AII and Maiden Insurance amended the Reinsurance Agreement to clarify that (i) AII would offer Maiden Insurance the opportunity to reinsure Excess Retention Business, which is defined as a policy issued by an AmTrust insurance subsidiary with respect to which the insurance subsidiary's retention is greater than $5 million and (ii) the deduction for the cost of inuring reinsurance from Affiliate Subject Premium (as defined in the Reinsurance Agreement) retroceded to Maiden Insurance is net of ceding commission.

The Company recorded approximately $31,819 and $66,584 of ceding commission expense for the three and six months ended June 30, 2010, respectively (2009 – $27,619 and $56,873, respectively) as a result of this transaction.

Other Reinsurance Agreements

Effective January 1, 2008 the Company and AmTrust entered into an agreement to reinsure a 45% participation in the $9 million in excess of $1 million layer of AmTrust's workers' compensation excess of loss program. This layer provides reinsurance to AmTrust for losses per occurrence in excess of $1 million up to $10 million, subject to an annual aggregate deductible of $1.25 million. This participation was sourced through a reinsurance intermediary via open market placement in which competitive bids were solicited by an independent broker. The remaining 55% participation was placed with a single carrier.

This coverage expired on January 1, 2010; as a result, under the Master Agreement the Company therefore now reinsures 40% of the subject workers' compensation business up to $10 million, subject to certain additional inuring reinsurance protection AmTrust has purchased.

As of January 1, 2008, the Company had a 50% participation in a $4 million in excess of $1 million specialty transportation program written by AmTrust. Starting January 1, 2009, we had a 30% participation in a $4 million in excess of $1 million specialty transportation program written by AmTrust. This program provides primarily commercial auto coverage and, to a lesser extent, general liability coverage to private non-emergency para-transit and school bus service operators. This participation was sourced through a reinsurance intermediary via open market placement in which competitive bids were solicited by an independent broker. Several other broker market reinsurers hold the other 50% and 70% participation for 2008 and 2009 policies, respectively. The agreement was not renewed as of January 1, 2010.

Collateral provided to AmTrust

In order to provide AmTrust's U.S. insurance subsidiaries with credit for reinsurance on their statutory financial statements, AII, as the direct reinsurer of the AmTrust's insurance subsidiaries, has established trust accounts ("Trust Accounts") for their benefit. Maiden Insurance has agreed to provide appropriate collateral to secure its proportional share under the Quota Share Agreement of AII's obligations to the AmTrust subsidiaries to whom AII is required to provide collateral. This collateral may be in the form of (a) assets loaned by Maiden Insurance to AII, for deposit into the Trust Accounts, pursuant to a loan agreement between those parties, (b) assets transferred by Maiden Insurance, for deposit into the Trust Accounts, (c) a letter of credit obtained by Maiden Insurance and delivered to an AmTrust subsidiary on AII's behalf (a "Letter of Credit"), or (d) premiums withheld by an AmTrust subsidiary at Maiden Insurance's request in lieu of remitting such premiums to AII ("Withheld Funds"). Maiden Insurance may provide any or a combination of these forms of collateral, provided that the aggregate value thereof equals Maiden Insurance's proportionate share of its obligations under the Quota Share Agreement with AII. If collateral is required to be provided to any AmTrust subsidiary under applicable law or regulatory requirements, Maiden Insurance will provide collateral to the extent required, although Maiden Insurance does not expect that such collateral will be required unless an AmTrust subsidiary is domiciled in the United States.

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10. Related Party Transactions (continued)

Maiden Insurance satisfied its collateral requirements under the Quota Share Agreement with AII as follows:

- by lending funds in the amount of $167,975 as at June 30, 2010 and December 31, 2009 to AII pursuant to a loan agreement entered into between those parties. This loan is carried at cost. The amount of collateral Maiden Insurance is required to maintain, which is determined quarterly, equals its proportionate share of (a) the amount of ceded paid losses for which AII is responsible to such AmTrust subsidiaries but has not yet paid, (b) the amount of ceded loss reserves (including ceded reserves for claims reported but not resolved and losses incurred but not reported) for which AII is responsible to AmTrust subsidiaries, and (c) the amount of ceded reserves for unearned premiums ceded by AmTrust subsidiaries to AII. Pursuant to the Master Agreement, AmTrust has agreed to cause AII not to commingle Maiden Insurance's assets with AII's other assets and to cause the AmTrust subsidiaries not to commingle Maiden Insurance's assets with the AmTrust subsidiaries' other assets if an AmTrust subsidiary withdraws those assets. AII has agreed that, if an AmTrust subsidiary returns to AII excess assets withdrawn from a Trust Account, drawn on a Letter of Credit or maintained by such AmTrust subsidiary as Withheld Funds, AII will immediately return to Maiden Insurance its proportionate share of such excess assets. AII has further agreed that if the aggregate fair market value of the amount of Maiden Insurance's assets held in the Trust Account exceeds Maiden Insurance's proportionate share of AII's obligations, or if an AmTrust subsidiary misapplies any such collateral, AII will immediately return to Maiden Insurance an amount equal to such excess or misapplied collateral, less any amounts AII has paid to Maiden Insurance. In addition, if an AmTrust subsidiary withdraws Maiden Insurance's assets from a Trust Account and maintains those assets on its books as withheld funds, AII has agreed to pay to Maiden Insurance interest at the rate equivalent to the one-month London Interbank Offered Rate ("LIBOR") plus 90 basis points per annum computed on the basis of a 360-day year on the loan (except to the extent Maiden Insurance's proportionate share of AII's obligations to that AmTrust subsidiary exceeds the value of the collateral Maiden Insurance has provided), and net of unpaid fees Maiden Insurance owes to AIIM and its share of fees owed to the trustee of the Trust Accounts.

- effective December 1, 2008, the Company entered into a Reinsurer Trust Assets Collateral agreement to provide to AII sufficient collateral to secure its proportional share of AII's obligations to the U.S. AmTrust subsidiaries. The amount of the collateral, as at June 30, 2010 was approximately $294,468 (December 31, 2009 – $206,960) and the accrued interest was $2,972 (December 31, 2009 – $1,956).

Reinsurance Brokerage Agreements

Effective July 1, 2007, the Company entered into a reinsurance brokerage agreement with AII Reinsurance Broker Ltd., a subsidiary of AmTrust. Pursuant to the brokerage agreement, AII Reinsurance Broker Ltd. provides brokerage services relating to the Quota Share Reinsurance Agreement for a fee equal to 1.25% of the premium reinsured from AII. The brokerage fee is payable in consideration of AII Reinsurance Broker Ltd's brokerage services. AII Reinsurance Broker Ltd. is not the Company's exclusive broker. AII Reinsurance Broker Ltd. may, if mutually agreed, also produce reinsurance for the Company from other ceding companies, and in such cases the Company will negotiate a mutually acceptable commission rate. The Company recorded approximately $1,271 and $2,654 of reinsurance brokerage expense for the three and six months ended June 30, 2010, respectively (2009 – $1,095 and $2,250, respectively) and deferred reinsurance brokerage of $3,494 and $3,265 as at June 30, 2010 and December 31,

2009, respectively, as a result of this agreement.

Effective April 1, 2008, the Company entered into brokerage services agreements with IGI Intermediaries Limited and IGI Inc. (“IGI”), both subsidiaries of AmTrust. Pursuant to the brokerage services agreements, IGI provides marketing services to us which includes providing marketing material to potential policyholders, providing us with market information on new trends and business opportunities and referring new brokers and potential policyholders to us. A fee equal to IGI’s costs in providing such services plus 8% is payable in consideration of IGI’s marketing services. The Company recorded approximately $0 expense, which is included in other operating expenses, for the three and six months ended June 30, 2010, respectively (2009 – $117 and $270, respectively).

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10. Related Party Transactions (continued)

Asset Management Agreement

Effective July 1, 2007 and as amended, the Company entered into an asset management agreement with AII Insurance Management Limited ("AIIM"), an AmTrust subsidiary, pursuant to which AIIM has agreed to provide investment management services to the Company. Pursuant to the asset management agreement, AIIM provides investment management services for an annual fee equal to 0.35% of average invested assets plus all costs incurred. Effective April 1, 2008, the investment management services annual fee has been reduced to 0.20% if the average value of the account is less than $1 billion and 0.15% if the average value of the account is greater than $1 billion. The Company recorded approximately $662 and $1,318 of investment management fees for the three and six months ended June 30, 2010, respectively (2009 – $619 and $1,216, respectively), as a result of this agreement.

ACAC Quota Share Reinsurance Agreement

On March 1, 2010, the Company entered into a three year 25% quota share reinsurance agreement with American Capital Acquisition Corporation ("ACAC").

ACAC is an insurance holding company owned by the 2005 Michael Karfunkel Grantor Retained Annuity Trust (the "Trust"), which in turn is controlled by Michael Karfunkel ("Karfunkel"). ACAC, on March 1, 2010, acquired from GMAC Insurance Holdings, Inc. and Motors Insurance Corporation (collectively, "GMAC"), GMAC's personal lines automobile business. Karfunkel is a Founding Shareholder of the Company. In addition, Karfunkel is the chairman of the board of directors of ACAC.

The Company, effective March 1, 2010, reinsures 25% of the net premiums of the GMAC personal lines business, pursuant to a 50% quota share reinsurance agreement ("ACAC Quota Share") with the GMAC personal lines insurance companies, as cedents, and the Company, MK Re, Ltd., a Bermuda reinsurer which is a wholly-owned subsidiary of the Trust, and AmTrust, as reinsurers. The Company has a 50% participation in the ACAC Quota Share, by which it receives 25% of net premiums of the personal lines business. The ACAC Quota Share provides that the reinsurers, severally, in accordance with their participation percentages, shall receive 50% of the net premium of the GMAC personal lines insurance companies and assume 50% of the related net losses. The ACAC Quota Share has an initial term of three years and shall renew automatically for successive three year terms unless terminated by written notice not less than nine months prior to the expiration of the current term. Notwithstanding the foregoing, the Company's participation in the Personal Lines Quota Share may be terminated by the ACAC on 60 days written notice in the event the Company becomes insolvent, is placed into receivership, its financial condition is impaired by 50% of the amount of its surplus at the inception of the ACAC Quota Share or latest anniversary, whichever is greater, is subject to a change of control, or ceases writing new and renewal business. ACAC also may terminate the agreement on nine months written notice following the effective date of initial public offering or private placement of stock by ACAC or a subsidiary. The Company may terminate its participation in the ACAC Quota Share on 60 days written notice in the event ACAC is subject to a change of control, cease writing new and renewal business, effects a reduction in their net retention without the Company's consent or fails to remit premium as required by the terms of the ACAC Quota Share. The ACAC Quota Share provides that the reinsurers pay a provisional ceding commission equal to 32.5% of ceded earned premium, net of premiums ceded by the personal lines companies for inuring reinsurance, subject to

adjustment. The ceding commission is subject to adjustment to a maximum of 34.5% if the loss ratio for the reinsured business is 60.5% or less and a minimum of 30.5% if the loss ratio is 64.5% or higher. We believe that the terms, conditions and pricing of the ACAC Quota Share have been determined by arm's length negotiations and reflect current market terms and conditions.

The Company recorded approximately $6,611 and $7,290 of ceding commission expense for the three and six months ended June 30, 2010 as a result of this transaction.

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11. Segments

The Company currently operates three business segments, Diversified Reinsurance, AmTrust Quota Share and ACAC Quota Share. The Company evaluates segment performance based on segment profit separately from the results of our investment portfolio. Other operating expenses allocated to the segments are called General and Administrative expenses which are allocated on an actual basis except salaries and benefits where management's judgment is applied; the Company does not allocate general corporate expenses to the segments. In determining total assets by segment the Company identifies those assets that are attributable to a particular segment such as reinsurance receivable, deferred commissions and acquisition cost, loans, goodwill and intangibles, and restricted cash and investments. All remaining assets are allocated to Corporate.

The following tables summarize the underwriting results of our operating segments:

| For the Three Months Ended June 30, 2010 | Diversified Reinsurance | AmTrust Quota Share | ACAC Quota Share | Total |
|---|---|---|---|---|
| Net premiums written | $ 136,709 | $ 109,123 | $ 67,218 | $ 313,050 |
| Net premiums earned | 161,779 | 101,664 | 20,341 | 283,784 |
| Net losses and loss expenses | (99,218) | (63,423) | (12,713) | (175,354) |
| Commissions and other acquisition costs | (48,386) | (33,090) | (6,971) | (88,447) |
| General and administrative expenses | (5,726) | (598) | – | (6,324) |
| Underwriting income | $ 8,449 | $ 4,553 | $ 657 | $ 13,659 |
| | | | | |
| Reconciliation to net income | | | | |
| Net investment income and realized and unrealized investment gains (losses) | | | | 19,410 |
| Amortization of intangible assets | | | | (1,452) |
| Foreign exchange loss | | | | (414) |
| Subordinated debt interest expense | | | | (9,116) |
| Other operating expenses | | | | (3,160) |
| Deferred tax expense | | | | (290) |
| Net Income | | | | $ 18,637 |
| | | | | |
| Net loss and loss expense ratio* | 61.3% | 62.4% | 62.5% | 61.8% |
| Acquisition cost ratio** | 29.9% | 32.5% | 34.3% | 31.2% |
| General and administrative expense ratio*** | 3.5% | 0.6% | –% | 3.3% |
| Combined ratio**** | 94.7% | 95.5% | 96.8% | 96.3% |

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11.Segments (continued)

| For the Six Months Ended June 30, 2010 | Diversified Reinsurance | AmTrust Quota Share | ACAC Quota Share | Total |
|---|---|---|---|---|
| Net premiums written | $ 304,623 | $ 230,679 | $ 89,039 | $ 624,341 |
| Net premiums earned | 312,959 | 212,323 | 22,431 | 547,713 |
| Net losses and loss expenses | (198,635) | (132,985) | (14,019) | (345,639) |
| Commissions and other acquisition costs | (88,900) | (69,238) | (7,705) | (165,843) |
| General and administrative expenses | (11,598) | (1,072) | – | (12,670) |
| Underwriting income | $ 13,826 | $ 9,028 | $ 707 | $ 23,561 |
| | | | | |
| Reconciliation to net income | | | | |
| Net investment income and realized and unrealized investment gains (losses) | | | | 37,303 |
| Amortization of intangible assets | | | | (2,904) |
| Foreign exchange loss | | | | (1,567) |
| Subordinated debt interest expense | | | | (18,231) |
| Other operating expenses | | | | (5,366) |
| Deferred tax expense | | | | (590) |
| Net Income | | | | $ 32,206 |
| | | | | |
| Net loss and loss expense ratio* | 63.5% | 62.6% | 62.5% | 63.1% |
| Acquisition cost ratio** | 28.4% | 32.6% | 34.3% | 30.3% |
| General and administrative expense ratio*** | 3.7% | 0.5% | –% | 3.3% |
| Combined ratio**** | 95.6% | 95.7% | 96.8% | 96.7% |

| For the Three Months Ended June 30, 2009 | Diversified Reinsurance | AmTrust Quota Share | ACAC Quota Share | Total |
|---|---|---|---|---|
| Net premiums written | $ 148,553 | $ 89,803 | $ – | $ 238,356 |
| Net premiums earned | 136,214 | 87,627 | – | 223,841 |
| Net losses and loss expenses | (94,570) | (56,487) | – | (151,057) |
| Commissions and other acquisition costs | (28,950) | (28,714) | – | (57,664) |
| General and administrative expenses | (4,088) | (687) | – | (4,775) |
| Underwriting income | $ 8,606 | $ 1,739 | $ – | $ 10,345 |
| | | | | |
| Reconciliation to net income | | | | |
| Net investment income and realized gains | | | | 16,647 |
| Amortization of intangible assets | | | | (1,675) |
| Foreign exchange gain | | | | 2,404 |
| Subordinated debt interest expense | | | | (9,112) |
| Other operating expenses | | | | (2,358) |
| | | | | |
| Net Income | | | | $ 16,251 |

| | | | | |
|---|---|---|---|---|
| Net loss and loss expense ratio* | 69.4% | 64.4% | –% | 67.5% |
| Acquisition cost ratio** | 21.3% | 32.8% | –% | 25.7% |
| General and administrative expense ratio*** | 3.0% | 0.8% | –% | 3.2% |
| Combined ratio**** | 93.7% | 98.0% | –% | 96.4% |

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11.Segments (continued)

| For the Six Months Ended June 30, 2009 | Diversified Reinsurance | AmTrust Quota Share | ACAC Quota Share | Total |
|---|---|---|---|---|
| Net premiums written | $ 399,731 | $ 175,174 | $ – | $ 574,905 |
| Net premiums earned | 253,884 | 180,049 | – | 433,933 |
| Net losses and loss expenses | (183,585) | (113,760) | – | (297,345) |
| Commissions and other acquisition costs | (45,172) | (59,123) | – | (104.295) |
| General and administrative expenses | (9,815) | (1,061) | – | (10,876) |
| Underwriting income | $ 15,312 | $ 6,105 | $ – | $ 21,417 |
| | | | | |
| Reconciliation to net income | | | | |
| Net investment income and realized (loss) | | | | 28,976 |
| Amortization of intangible assets | | | | (3,239) |
| Foreign exchange gain | | | | 2,191 |
| Subordinated debt interest expense | | | | (16,202) |
| Other operating expenses | | | | (3,791) |
| | | | | |
| Net Income | | | | $ 29,352 |
| | | | | |
| Net loss and loss expense ratio* | 72.3% | 63.2% | –% | 68.5% |
| Acquisition cost ratio** | 17.8% | 32.8% | –% | 24.0% |
| General and administrative expense ratio*** | 3.9% | 0.6% | –% | 3.4% |
| Combined ratio**** | 94.0% | 96.6% | –% | 95.9% |

* Calculated by dividing net losses and loss expenses by net earned premium.
** Calculated by dividing commission and other acquisition expenses by net earned premium
*** Calculated by dividing general and administrative expenses by net earned premium.
**** Calculated by adding together net loss and loss expense ratio, acquisition cost ratio and general and administrative expense ratio.

| | Diversified Reinsurance | AmTrust Quota Share | ACAC Quota Share | Total |
|---|---|---|---|---|
| As at June 30, 2010 | | | | |
| Reinsurance balances receivable | $ 175,672 | $ 42,305 | $ 53,222 | $ 271,199 |
| Prepaid reinsurance | 31,762 | – | – | 31,762 |
| Reinsurance recoverable on unpaid losses | 12,144 | – | – | 12,144 |
| Deferred commission and other acquisition costs | 83,487 | 90,543 | 22,882 | 196,912 |
| Loan to related party | – | 167,975 | – | 167,975 |
| Goodwill | 52,617 | – | – | 52,617 |
| Intangible assets, net | 48,380 | – | – | 48,380 |
| Restricted investments and cash | 1,017,388 | 302,812 | – | 1,320,200 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Corporate and other assets | | 5,480 | | – | | – | | 735,340 |
| Total Assets | $ | 1,426,930 | $ | 603,635 | $ | 76,104 | $ | 2,836,529 |

| | Diversified Reinsurance | | AmTrust Quota Share | | ACAC Quota Share | | Total | |
|---|---|---|---|---|---|---|---|---|
| As at December 31, 2009 | | | | | | | | |
| Reinsurance balances receivable | $ | 168,639 | $ | 39,856 | $ | – | $ | 208,495 |
| Prepaid reinsurance | | 28,752 | | – | | – | | 28,752 |
| Reinsurance recoverable on unpaid losses | | 11,984 | | – | | – | | 11,984 |
| Deferred commission and other acquisition costs | | 88,224 | | 84,759 | | – | | 172,983 |
| Loan to related party | | – | | 167,975 | | – | | 167,975 |
| Goodwill | | 52,617 | | – | | – | | 52,617 |
| Intangible assets, net | | 51,284 | | – | | – | | 51,284 |
| Restricted investments and cash | | 1,168,663 | | 206,959 | | – | | 1,375,622 |
| Corporate and other assets | | 2,502 | | – | | – | | 567,182 |
| Total Assets | $ | 1,572,665 | $ | 499,549 | $ | – | $ | 2,636,894 |

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11.Segments (continued)

The following tables set forth financial information relating to gross and net premiums written and earned by major line of business for the three and six months ended June 30, 2010 and 2009:

| | For the Three Months Ended June 30, 2010 | | For the Three Months Ended June 30, 2009 | |
|---|---|---|---|---|
| | Total | % of Total | Total | % of Total |
| Net premiums written | | | | |
| Diversified Reinsurance | | | | |
| Property | $ 36,276 | 11.6% | $ 25,510 | 10.7% |
| Casualty | 91,855 | 29.4% | 105,233 | 44.1% |
| Accident and Health | 8,578 | 2.7% | 17,810 | 7.5% |
| Total Diversified Reinsurance | 136,709 | 43.7% | 148,553 | 62.3% |
| AmTrust Quota Share | | | | |
| Small Commercial Business | 44,896 | 14.3% | 45,936 | 19.3% |
| Specialty Program Business | 20,827 | 6.6% | 12,764 | 5.4% |
| Specialty Risk and Extended Warranty | 43,400 | 13.9% | 31,103 | 13.0% |
| Total AmTrust Quota Share | 109,123 | 34.8% | 89,803 | 37.7% |
| ACAC Quota Share | | | | |
| Automobile liability | 38,514 | 12.3% | – | –% |
| Automobile physical damage | 28,704 | 9.2% | – | –% |
| Total ACAC Quota share | 67,218 | 21.5% | – | –% |
| | $ 313,050 | 100.00% | $ 238,356 | 100.00% |

| | For the Six Months Ended June 30, 2010 | | For the Six Months Ended June 30, 2009 | |
|---|---|---|---|---|
| | Total | % of Total | Total | % of Total |
| Net premiums written | | | | |
| Diversified Reinsurance | | | | |
| Property | $ 94,329 | 15.1% | $ 76,958 | 13.4% |
| Casualty | 184,016 | 29.5% | 255,309 | 44.4% |
| Accident and Health | 26,278 | 4.2% | 67,464 | 11.7% |
| Total Diversified Reinsurance | 304,623 | 48.8% | 399,731 | 69.5% |
| AmTrust Quota Share | | | | |
| Small Commercial Business | 103,830 | 16.6% | 98,908 | 17.2% |
| Specialty Program Business | 30,901 | 4.9% | 21,993 | 3.8% |
| Specialty Risk and Extended Warranty | 95,948 | 15.4% | 54,273 | 9.5% |
| Total AmTrust Quota Share | 230,679 | 36.9% | 175,174 | 30.5% |
| ACAC Quota Share | | | | |
| Automobile liability | 50,959 | 8.2% | – | –% |
| Automobile physical damage | 38,080 | 6.1% | – | –% |
| Total ACAC Quota Share | 89,039 | 14.3% | – | –% |

| | $ | 624,341 | 100.00% | $ | 574,905 | 100.00% |
|---|---|---|---|---|---|---|

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MAIDEN HOLDINGS, LTD.

Notes to Unaudited Condensed Consolidated Financial Statements
(In Thousands of United States Dollars, Except Par Value and Per Share Data)
(Unaudited)

11.Segments (continued)

| | For the Three Months Ended June 30, 2010 | | For the Three Months Ended June 30, 2009 | |
|---|---|---|---|---|
| | Total | % of Total | Total | % of Total |
| Net premiums earned | | | | |
| Diversified Reinsurance | | | | |
| Property | $ 47,550 | 16.7% | $ 39,578 | 17.7% |
| Casualty | 95,829 | 33.8% | 71,339 | 31.9% |
| Accident and Health | 18,400 | 6.5% | 25,297 | 11.3% |
| Total Diversified Reinsurance | 161,779 | 57.0% | 136,214 | 60.9% |
| AmTrust Quota Share | | | | |
| Small Commercial Business | 56,186 | 19.8% | 52,120 | 23.3% |
| Specialty Program Business | 16,680 | 5.9% | 13,070 | 5.8% |
| Specialty Risk and Extended Warranty | 28,798 | 10.1% | 22,437 | 10.0% |
| Total AmTrust Quota Share | 101,664 | 35.8% | 87,627 | 39.1% |
| ACAC Quota Share | | | | |
| Automobile liability | 11,425 | 4.0% | – | –% |
| Automobile physical damage | 8,916 | 3.2% | – | –% |
| Total ACAC Quota Share | 20,341 | 7.2% | – | –% |
| | $ 283,784 | 100.00% | $ 223,841 | 100.00% |

| | For the Six Months Ended June 30, 2010 | | For the Six Months Ended June 30, 2009 | |
|---|---|---|---|---|
| | Total | % of Total | Total | % of Total |
| Net premiums earned | | | | |
| Diversified Reinsurance | | | | |
| Property | $ 89,338 | 16.3% | $ 65,577 | 15.1% |
| Casualty | 184,075 | 33.6% | 137,693 | 31.7% |
| Accident and Health | 39,546 | 7.2% | 50,614 | 11.7% |
| Total Diversified Reinsurance | 312,959 | 57.1% | 253,884 | 58.5% |
| AmTrust Quota Share | | | | |
| Small Commercial Business | 108,140 | 19.8% | 106,748 | 24.6% |
| Specialty Program Business | 31,454 | 5.7% | 26,418 | 6.1% |
| Specialty Risk and Extended Warranty | 72,729 | 13.3% | 46,883 | 10.8% |
| Total AmTrust Quota Share | 212,323 | 38.8% | 180,049 | 41.5% |
| ACAC Quota Share | | | | |
| Automobile liability | 12,594 | 2.3% | – | –% |
| Automobile physical damage | 9,837 | 1.8% | – | –% |
| Total ACAC Quota Share | 22,431 | 4.1% | – | –% |
| | $ 547,713 | 100.00% | $ 433,933 | 100.00% |

12. Subsequent Events

GMAC International Insurance Services, Ltd. Reinsurance Acquisition

On July 6, 2010, the Company announced that it entered into a definitive agreement to acquire the majority of the reinsurance-related infrastructure, assets and liabilities of U.K. based GMAC International Insurance Services, Ltd. ("IIS"), including renewal rights on nearly $100 million of predominantly personal auto quota share reinsurance as well as the supporting business development subsidiaries in Europe. The transaction includes the assumption of more than $100 million of loss reserves and net unearned premiums which will be funded by a transfer of cash and investments. IIS primarily focuses on providing branded auto and auto-related insurance products through its insurer partners to retail customers in the European Union and other global markets.

The Company plans to fund the proposed transaction through its existing capital base which, subject to customary regulatory approval, is expected to close by the end of the third quarter 2010.



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MAIDEN HOLDINGS, LTD.

Notes to Unaudited Condensed Consolidated Financial Statements
(In Thousands of United States Dollars, Except Par Value and Per Share Data)
(Unaudited)

12.Subsequent Events (continued)

Dividends

On August 5, 2010, the Company declared a quarterly dividend of $0.065 per common share, payable on October 15, 2010 to shareholders of record on October 1, 2010.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes included elsewhere in this Form 10-Q. References in this Form 10-Q to the terms "we," "us," "our," "the Company" or other similar terms mean the consolidated operations of Maiden Holdings, Ltd. and its subsidiaries, unless the context requires otherwise. References in this Form 10-Q to the term "Holdings" means Maiden Holdings, Ltd. only.

Note on Forward-Looking Statements

This Quarterly Report on Form 10-Q and other publicly available documents may include, and our officers and representatives may from time to time make, projections concerning financial information and statements concerning future economic performance and events, plans and objectives relating to management, operations, products and services, and assumptions underlying these projections and statements. These projections and statements are forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995 and are not historical facts but instead represent only our belief regarding future events, many of which, by their nature, are inherently uncertain and outside our control. These projections and statements may address, among other things, our strategy for growth, product development, financial results and reserves. Actual results and financial condition may differ, possibly materially, from these projections and statements and therefore you should not place undue reliance on them. Factors that could cause our actual results to differ, possibly materially, from those in the specific projections and statements are discussed throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations and in "Risk Factors" in Item 1A of Part I of our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC") on March 16, 2010. Since the Company commenced operations in 2007, the Company has engaged in a number of significant transactions, including entering into the AmTrust Quota Share in 2007, the GMAC Acquisition in 2008, the TRUPS Offering in 2009 and the ACAC Transaction and pending GMAC International Insurance Services, Ltd. Reinsurance acquisition in 2010, each discussed below that significantly affect the comparability of results of operations from year to year. The projections and statements in this Report speak only as of the date of this Report and those in other publicly available documents or made by our officers and representatives from time to time speak only as of their respective dates and we undertake no obligation to update or revise any forward-looking statement that may be made from time to time, whether as a result of new information, future developments or otherwise, except as required by law.

Overview

We are a Bermuda-based holding company formed in June 2007 primarily focused on serving the needs of regional and specialty insurers in the United States and Europe by providing innovative reinsurance solutions designed to support their capital needs. We specialize in reinsurance solutions that optimize financing by providing coverage within the more predictable and actuarially credible lower layers of coverage and/or reinsuring risks that are believed to be lower hazard, more predictable and generally not susceptible to catastrophe claims. Our tailored solutions include a variety of value added services focused on helping our clients grow and prosper.

We provide reinsurance through our wholly owned subsidiaries, Maiden Reinsurance Company ("Maiden US") and Maiden Bermuda and have operations in the United States and Bermuda. On a more limited basis, Maiden Specialty Insurance Company ("Maiden Specialty"), a wholly owned subsidiary of Maiden US, provides primary insurance on a surplus lines basis focusing on non-catastrophe inland marine and property coverages. Maiden Bermuda does not underwrite any primary insurance business.

We historically have managed our business through two operating segments: Diversified Reinsurance and the AmTrust Quota Share. In the first quarter of 2010, we added a third segment, ACAC Quota Share, as a result of the

ACAC Transaction discussed below. As of June 30, 2010, we had approximately $724.8 million of total shareholders' equity and $940.0 million in total capital, which includes shareholders' equity and junior subordinated debt.

The market conditions in which we operate have historically been cyclical, experiencing cycles of price erosion followed by rate strengthening as a result of catastrophes or other significant losses that affect the overall capacity of the industry to provide coverage. During the period covered by this discussion, the reinsurance market has been characterized by significant competition in most lines of business.

During 2009 and 2010, there were a number of events that impacted the property and casualty industry generally. While natural and man-made catastrophes occur each year affecting reinsurance industry results, 2009 generally featured fewer such events, favorably impacting industry performance. Further, despite the ongoing global economic recession, industry investments in risk assets performed significantly better in 2009, increasing both statutory and generally accepted accounting principles in the United States ("GAAP") capital at the individual market participant level and in the aggregate across the reinsurance industry more generally. In the first six months of 2010, a series of significant natural and man-made catastrophes occurred, including a major earthquake in Chile, damaging windstorms in Europe (Xynthia), a series of severe winter storms in the northeastern United States and the Deepwater Horizon explosion and oil spill in the Gulf of Mexico. Consistent with its business model, the Company experienced no losses from the Chilean earthquake or European windstorms, while losses from the United States winter storms, if any, are expected to be immaterial.

We believe that if such events continue, they could have a significant effect on competition and pricing, although the ultimate impact remains unclear. As market conditions continue to develop and competition further increases, we continue to maintain our adherence to underwriting standards by declining business when pricing, terms and conditions do not meet our underwriting standards.

Recent Developments

GMAC International Insurance Services, Ltd. Reinsurance Acquisition (“IIS Acquisition”)

On July 6, 2010, the Company announced that it entered into a definitive agreement to acquire the majority of the reinsurance-related infrastructure, assets and liabilities of U.K.-based GMAC International Insurance Services, Ltd. (“IIS”), including renewal rights on nearly $100 million of predominantly personal auto quota share reinsurance as well as the supporting business development subsidiaries. The transaction includes the assumption of more than $100 million of loss reserves and net unearned premiums which will be funded by a transfer of cash and investments. IIS primarily focuses on providing branded auto and auto-related insurance products through its insurer partners to retail customers in the European Union and other global markets.

The Company plans to fund the proposed transaction through its existing capital base which, subject to customary regulatory approval, is expected to close by the end of the third quarter 2010. The Company expects the transaction to be accretive to 2011 earnings, and to generally perform within its overall stated targets of a 96% combined ratio and medium-term ROE target of 15%.

ACAC Transaction

In November 2009, we announced an agreement in principal with American Capital Acquisition Corporation ("ACAC") regarding a multi-year 25% quota share agreement expected to generate over $200 million in annual revenue. The contract commenced on March 1, 2010 after final regulatory approval and the closing of ACAC's acquisition of GMACI Holdings, LLC U.S. consumer property and casualty insurance business, as well as a small amount of commercial auto business. This business generated over $1.0 billion in net written premium in each of 2008 and 2009. ACAC is owned by one of our Founding Shareholders, Michael Karfunkel, and the Michael Karfunkel 2005 Grantor Retained Annuity Trust (the “Trust"), which is controlled by Michael Karfunkel. The Trust currently owns 72.4% of ACAC's issued and outstanding common stock, Michael Karfunkel currently owns 27.6% of ACAC's issued and outstanding common stock, and AmTrust owns preferred shares convertible into 21.25% of the issued and outstanding common stock of ACAC.

Management of this business is treated as a separate segment captioned ACAC Quota Share.

GMAC Acquisition

On October 31, 2008, we acquired the reinsurance operations of GMAC Insurance from GMACI Holdings, LLC ("GMACI"), which included the following components, and the sum of which are referred to as the "GMAC Acquisition":

- GMAC RE LLC ("GMAC RE"), a reinsurance managing general agent writing business on behalf of Motors Insurance Corporation ("Motors") and the renewal rights for the business written through GMAC RE (which was subsequently renamed Maiden Re Insurance Services, LLC ("Maiden Re"));

- GMAC Direct Insurance Company ("GMAC Direct") (which was subsequently renamed Maiden Reinsurance Company); and

- Integon Specialty Insurance Company ("Integon") (which was subsequently renamed Maiden Specialty Insurance Company).

In conjunction with the acquisition of GMAC RE, on October 31, 2008, the Company and Motors entered into a Portfolio Transfer and Quota Share Reinsurance Agreement ("Motors Agreement") under which the Company reinsures (i) all of the existing contracts written by GMAC RE pursuant to a loss portfolio transfer and (ii) contracts written pursuant to a fronting arrangement with Motors. According to the loss portfolio transfer provisions of the Motors Agreement, the Company assumed the loss reserves of $755.6 million associated with the GMAC RE business as of October 31, 2008. The Company also assumed unearned premium of approximately $169.9 million. As a result of assumption of these liabilities, the Company initially received cash and investments of approximately $956.3 million from Motors. The Company now assumes one hundred percent (100%) of all premiums and losses for which Motors is otherwise entitled to or liable in respect of the reinsurance contracts.

To support the businesses acquired in the GMAC Acquisition and Maiden Holdings North America, Ltd. (“Maiden NA”), on January 20, 2009, we completed the TRUPS Offering of approximately $260.1 million in the form of junior subordinated debentures (the "Debentures") issued by Maiden Capital Financing Trust, a trust established by Maiden NA, and also issued 11,700,000 common shares to the purchasers. The Debentures mature in 2039 and carry an interest rate of 14%. Approximately 61% of these securities were placed privately with two of our Founding Shareholders (Michael Karfunkel and George Karfunkel), and the remainder with existing institutional investors.

2010 Financial Highlights

2010 Consolidated Results of Operations

- Net income available to common shareholders of $18.6 million and $32.2 million, or $0.27 basic and $0.26 diluted and $0.46 basic and diluted earnings per share for the three and six months ended June 30, 2010 as compared to $16.3 million and $29.4 million or $0.23 basic and diluted and $0.43 basic and $0.42 diluted earnings per share for the same periods in 2009, respectively.

- Operating earnings(1) of $21.2 million and $37.4 million, or $0.30 and $0.53 basic and diluted operating earnings per share for the three and six months ended June 30, 2010 compared to $14.1 million and $30.8 million or $0.20 and $0.45 basic and $0.44 diluted operating earnings per share in the same periods in 2009(1)

- Gross premiums written of $662.2 million in 2010 as compared to $574.9 million in 2009.

- Net premiums earned of $547.7 million in 2010 as compared to $433.9 million in 2009.

- Underwriting income of $13.7 million and $23.6 million and combined ratios of 96.3% and 96.7% for the three and six months ended June 30, 2010 compared to $10.4 and $21.4 million and combined ratios of 96.4% and 95.9%, respectively for the same periods in 2009(1)

- Net investment income of $36.5 million

2010 Consolidated Financial Condition

- Annualized operating return on equity of 10.8% for the six months ended June 30, 2010 as compared to 11.1% for the same period in 2009(1)

- Common shareholders' equity of $724.8 million; book value per common share of $10.31

- Total investments of $1.6 billion; fixed maturities and short-term securities comprise 99.7% of total investments, of which 61.4% have a credit rating of AAA and an overall average credit rating of AA

- Total assets of $2.8 billion
- Reserve for losses and loss expenses of $1.08 billion
- Total debt of $215.2 million and a debt to total capitalization ratio of 22.9%

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(1) Operating earnings, operating earnings per share, underwriting income, combined ratio and book value per share are non-GAAP financial measures. Sec "Non-GAAP Financial Measures" for additional information and a reconciliation to the nearest GAAP financial measure (net income).

Non-GAAP Financial Measures

In presenting the Company's results, management has included and discussed certain non-GAAP financial measures. Management believes that these non-GAAP measures, which may be defined differently by other companies, better explain the Company's results of operations in a manner that allows for a more complete understanding of the underlying trends in the Company's business. However these measures should not be viewed as a substitute for those determined in accordance with GAAP. These non-GAAP measures are:

Operating Earnings and Operating Earnings per Share: In addition to presenting net income determined in accordance with GAAP, we believe that showing operating earnings enables investors, analysts, rating agencies and other users of our financial information to more easily analyze our results of operations in a manner similar to how management analyzes our underlying business performance. Operating earnings should not be viewed as a substitute for GAAP net income. Operating earnings are an internal performance measure used in the management of our operations and represents operating results excluding, as applicable, realized investment gains or losses, foreign exchange gain or loss, the amortization of intangible assets, deferred tax expenses and in 2010, transaction expenses related to the IIS Acquisition. We exclude net realized investment gains or losses and foreign exchange gain or loss as we believe that both are heavily influenced in part by market opportunities and other factors. We do not believe amortizations of intangible assets are representative of our ongoing business. We believe all of these amounts are largely independent of our business and underwriting process and including them distorts the analysis of trends in our operations. The following is a reconciliation of operating earnings to its most closely related GAAP measure, net income.

| | For the Three Months Ended June 30, | | | | For the Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2010 | | 2009 | | 2010 | | 2009 | |
| | ($ in Millions) | | | | | | | |
| Net income | $ | 18.6 | $ | 16.3 | $ | 32.2 | $ | 29.4 |
| Add (subtract): | | | | | | | | |
| Net realized and unrealized investment (gains) losses | | (0.5) | | (1.5) | | (0.9) | | 0.4 |
| Amortization of intangible assets | | 1.4 | | 1.7 | | 2.9 | | 3.2 |
| IIS transaction expenses | | 1.0 | | – | | 1.0 | | – |
| Foreign exchange and other (gains) losses | | 0.4 | | (2.4) | | 1.6 | | (2.2) |
| Deferred tax expense | | 0.3 | | – | | 0.6 | | – |
| Operating earnings | $ | 21.2 | $ | 14.1 | $ | 37.4 | $ | 30.8 |
| Operating earnings per common share: | | | | | | | | |
| Basic operating earnings per share | $ | 0.30 | $ | 0.20 | $ | 0.53 | $ | 0.45 |
| Diluted operating earnings per share | $ | 0.30 | $ | 0.20 | $ | 0.53 | $ | 0.44 |

Underwriting Income and Combined Ratio: The combined ratio is used in the insurance and reinsurance industry as a measure of underwriting profitability. The combined ratio is the sum of the loss and loss expense ratio and the expense ratio. A combined ratio under 100% indicates underwriting profitability, as the total losses and loss expenses, acquisition costs and general and administrative expenses are less than the premiums earned on that business. We have generated underwriting income in each year since our inception. Underwriting income is calculated by subtracting losses and loss adjustment expenses, commissions and other acquisition expenses and applicable general and administrative expenses from the net earned premium and is the monetized counterpart of the combined ratio. While an important metric of success, underwriting income and combined ratio do not reflect all components of profitability, as it does not recognize the impact of investment income earned on premiums between the time premiums are received and the time loss payments are ultimately paid to clients. Please refer to Relevant Factors for

further information on the components and computation of combined ratio.

Operating Return on Equity ("Operating ROE"): Management uses operating return on average shareholders' equity as a measure of profitability that focuses on the return to common shareholders. It is calculated using operating earnings available to common shareholders (realized gains or losses on investments, foreign exchange gain and other (gains) losses, amortization of intangibles, and amortization of intangible assets) divided by average common shareholders' equity. Management has set as a target a long-term average of 15% Operating ROE, which management believes provides an attractive return to shareholders for the risk assumed. Given the current interest rate environment this target may take somewhat longer to achieve. Operating ROE for the three and six months ended June 30, 2010 and 2009 is computed as follows:

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| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | ($ in Millions) | | | |
| Operating earnings | $ 21.2 | $ 14.1 | $ 37.4 | $ 30.8 |
| | | | | |
| Opening shareholders’ equity | $ 710.0 | $ 547.4 | $ 676.6 | $ 509.8 |
| Ending shareholders’ equity | $ 724.8 | $ 605.4 | $ 724.8 | $ 605.4 |
| Average shareholders’ equity | $ 717.4 | $ 576.4 | $ 700.7 | $ 557.6 |
| | | | | |
| Operating return on equity | 3.0% | 2.4% | 5.3% | 5.5% |
| Annualized operating return on equity | 11.9% | 9.6% | 10.8% | 11.1% |

Book Value per Share: Management uses growth in book value per share as a prime measure of the value the Company is generating for its common shareholders, as management believes that growth in the Company's book value per share ultimately translates into growth in the Company's stock price. Book value per share is calculated using common shareholders' equity divided by the number of common shares outstanding. Book value per share is impacted by the Company's net income and external factors such as interest rates, which can drive changes in unrealized gains or losses on its investment portfolio. Book value per share as of June 30, 2010 and December 31, 2009 is computed as follows:

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| | ($ in Millions) | |
| Ending shareholders’ equity | $ 724.8 | $ 676.5 |
| | | |
| Common shares outstanding | 70,292,101 | 70,291,289 |
| | | |
| Book value per share | $ 10.31 | $ 9.62 |

Relevant Factors

Revenues

We derive our revenues primarily from premiums on our insurance policies and reinsurance contracts, net of any reinsurance or retrocessional coverage purchased. Insurance and reinsurance premiums are a function of the amounts and types of policies and contracts we write, as well as prevailing market prices. Our prices are determined before our ultimate costs, which may extend far into the future, are known.

The Company's revenues also include income generated from its investment portfolio. The Company's investment portfolio is comprised of fixed maturity investments, short term investments and other investments that are held as available for sale. In accordance with GAAP, these investments are carried at fair market value and unrealized gains and losses on the Company's investments are generally excluded from earnings. These unrealized gains and losses are included on the Company's balance sheet in accumulated other comprehensive (loss) income as a separate component of shareholders' equity. If unrealized losses are considered to be other-than-temporarily impaired, such losses are included in earnings as a realized loss.

Expenses

Our expenses consist largely of net losses and loss expenses, commissions and other acquisition costs, general and administrative expenses, amortization of intangible assets and foreign exchange gains or losses. Net losses and loss expenses incurred are comprised of three main components;

- losses paid, which are actual cash payments to insureds, net of recoveries from reinsurers;
- change in outstanding loss or case reserves, which represent management's best estimate of the likely settlement amount for known claims, less the portion that can be recovered from reinsurers; and

- change in Incurred but Not Reported (“IBNR”) reserves, which are reserves established by us for changes in the values of claims that have been reported to us but are not yet settled, as well as claims that have occurred but have not yet been reported. The portion recoverable from reinsurers is deducted from the gross estimated loss.

Acquisition costs are comprised of commissions, brokerage fees and insurance taxes. Commissions and brokerage fees are usually calculated as a percentage of premiums and depend on the market and line of business and can, in certain instances, vary based on loss sensitive features of reinsurance contracts. Acquisition costs are reported after (1) deducting commissions received on ceded reinsurance, (2) deducting the part of acquisition costs relating to unearned premiums and (3) including the amortization of previously deferred acquisition costs.

General and administrative expenses include personnel expenses including share-based compensation charges, rent expense, professional fees, information technology costs and other general operating expenses. We are experiencing increases in general and administrative expenses resulting from additional staff, increased share-based compensation expense, increased rent expense for our offices and increased professional fees. As the Company continues to expand and diversify in 2010, particularly through the ACAC Transaction, the pending IIS Acquisition and other initiatives across both its US and Bermuda platforms, we expect this trend to continue.

Combined Ratio Components

Management measures underwriting results on an overall basis and for each segment on the basis of the "combined ratio." The "combined ratio" is the sum of the loss and loss expense ratio and expense ratio. The individual components of the combined ratio include the "loss and loss expense ratio," "acquisition cost ratio," and the "general and administrative expense ratio." Because we do not manage our assets by segment, investment income, interest expense and total assets are not allocated to individual reportable segments. General and administrative expenses are allocated to segments based on various factors, including staff count and each segment's proportional share of gross premiums written. The "loss and loss expense ratio" is derived by dividing net losses and loss expenses by net premiums earned. The "acquisition cost ratio" is derived by dividing acquisition costs by net premiums earned. The "general and administrative expense ratio" is derived by dividing general and administrative expenses by net premiums earned. The "expense ratio" is the sum of the acquisition cost ratio and the general and administrative expense ratio.

Critical Accounting Policies

It is important to understand our accounting policies in order to understand our financial position and results of operations. The Company's Consolidated Financial Statements have been prepared in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The following presents a discussion of those accounting policies and estimates that Management believes are the most critical to its operations and require the most difficult, subjective and complex judgment. If actual events differ significantly from the underlying assumptions and estimates used by Management, there could be material adjustments to prior estimates that could potentially adversely affect the Company's results of operations, financial condition and liquidity. These critical accounting policies and estimates should be read in conjunction with the Company's Notes to Consolidated Financial Statements, including Note 2, Significant Accounting Policies, for a full understanding of the Company's accounting policies. For a detailed discussion of our critical accounting policies, please refer to our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC. There were no material changes in the application of our critical accounting estimates subsequent to that report. However, the Company is amending its disclosure with regard to Fair Value of Financial Instruments to include the following:

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For investments that have quoted market prices in active markets, the Company uses the quoted market prices as fair value and includes these prices in the amounts disclosed in the Level 1 hierarchy. To date we have only included U.S. government fixed maturity investments as Level 1. The Company receives the quoted market prices from a third party, nationally recognized pricing service (“Pricing Service”). When quoted market prices are unavailable, the Company utilizes the Pricing Service to determine an estimate of fair value. The fair value estimates are included in the Level 2 hierarchy. The Pricing Service utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and, when available, loan performance data. The Pricing Service’s evaluated pricing applications apply available information as applicable through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing, to prepare evaluations. In addition, the Pricing Service uses model processes, such as the Option Adjusted Spread model to assess interest rate impact and develop prepayment scenarios. The market inputs that the Pricing Service normally seeks for evaluations of securities, listed in approximate order of priority, include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications.

- The Company typically utilizes the fair values received from the Pricing Service. If quoted market prices and an estimate from the Pricing Service are unavailable, the Company produces an estimate of fair value based on dealer quotations for recent activity in positions with the same or similar characteristics to that being valued or through consensus pricing of a pricing service. Depending on the level of observable inputs, the Company will then determine if the estimate is Level 2 or Level 3 hierarchy. Approximately 96% of the Company's fixed maturity investments are categorized as Level 2 within the fair value hierarchy. As of June 30, 2010 and December 31, 2009, we have not adjusted any prices provided by the Pricing Service.

- The Company will challenge any prices for its investments that are not considered to represent fair value. If a fair value is challenged, the Company will typically obtain a non-binding quote from a broker-dealer; multiple quotations are not typically sought. As of June 30, 2010 and December 31, 2009, only one security valued using the market approach at approximately $8.5 million and $7.9 million, respectively, was priced using a quotation from a broker as opposed to the Pricing Service. As of June 30, 2010 we have not adjusted any pricing provided by the broker-dealers based on the review performed by our investment managers.

- To validate prices, the Company compares the fair value estimates to its knowledge of the current market and will investigate prices that it considers not to be representative of fair value. In addition, our process to validate the market prices obtained from the Pricing Service includes, but is not limited to, periodic evaluation of model pricing methodologies and analytical reviews of certain prices. We also periodically perform testing of the market to determine trading activity, or lack of trading activity, as well as evaluating the variability of market prices. Securities sold during the quarter are also "back-tested" (i.e., the sales prices are compared to the previous month end reported market price to determine the reasonableness of the reported market price). There were no material differences between the prices from the Pricing Service and the prices obtained from our validation procedures as of June 30, 2010 and December 31, 2009.

Results of Operations

Net Income

Net income for the three months ended June 30, 2010 was $18.6 million compared to net income of $16.3 million for the same period in 2009. Net income for the six months ended June 30, 2010 was $32.2 million compared to net income of $29.4 million for the same period in 2009.

The improvement in net income for the three months ended June 30, 2010 as compared to the same period in 2009 was principally the result of increased investment income as the Company's invested asset base continued to increase in 2010 compared to 2009. In addition, underwriting income improved as a result of the Company's continuing growth and a marginally lower combined ratio. Certain non-recurring expenses totaling $1.0 million related to the IIS Transaction offset these improvements.

The improvement in net income for the six months ended June 30, 2010 as compared to the same period in 2009 was principally the result of increased investment income as the Company's invested asset base continued to increase in 2010 compared to 2009. In addition, underwriting income improved as a result of the Company's continuing growth despite a marginally higher combined ratio. These improvements were partially offset by higher operating expenses, particularly as a result of the non-recurring expenses associated with the IIS Transaction, higher interest expense from the TRUPS Offering, a foreign exchange loss, and deferred tax expenses.

The following table sets forth our selected consolidated statement of operations data for each of the periods indicated:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | ($ in Millions) | | | |
| Gross premiums written | $ 334.8 | $ 238.4 | $ 662.2 | $ 574.9 |
| Net premiums written | $ 313.1 | $ 238.4 | $ 624.3 | $ 574.9 |
| Net earned premium | $ 283.8 | $ 223.8 | $ 547.7 | $ 433.9 |
| Loss and loss adjustment expenses | (175.4) | (151.0) | (345.6) | (297.3) |
| Commissions and other acquisition expenses | (88.4) | (57.6) | (165.9) | (104.3) |
| General and administrative expenses | (6.3) | (4.8) | (12.6) | (10.9) |
| Total underwriting income | 13.7 | 10.4 | 23.6 | 21.4 |
| Other operating expenses | (3.2) | (2.3) | (5.4) | (3.8) |
| Net investment income | 18.9 | 15.1 | 36.5 | 29.4 |
| Net realized investment gains (losses) | 0.5 | 1.5 | 0.8 | (0.4) |
| Amortization of intangible assets | (1.5) | (1.7) | (2.9) | (3.2) |
| Foreign exchange (loss) gain | (0.4) | 2.4 | (1.6) | 2.3 |
| Junior subordinated debt interest expense | (9.1) | (9.1) | (18.2) | (16.2) |
| Deferred tax expense | (0.3) | – | (0.6) | – |
| Net income | $ 18.6 | $ 16.3 | $ 32.2 | $ 29.5 |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Selected Consolidated Ratios: | | | | |
| Loss and loss expense ratio | 61.8% | 67.5% | 63.1% | 68.5% |
| Acquisition cost ratio | 31.2% | 25.7% | 30.3% | 24.0% |
| General and administrative expense ratio | 3.3% | 3.2% | 3.3% | 3.4% |
| Expense ratio | 34.5% | 28.9% | 33.5% | 27.4% |
| Combined ratio | 96.3% | 96.4% | 96.7% | 95.9% |

Comparison of Three and Six Months Ended June 30, 2010 and 2009

Premiums. We evaluate our business by segment. The ACAC Quota Share segment commenced in March 2010. As premiums associated with the ACAC Quota Share continue to increase during 2010, the mix of business among the segments will continue to shift and become more diverse, reducing the percentage of premiums and losses from the Diversified Reinsurance and AmTrust Quota Share segments. The following tables detail the mix of our business on both a net premiums written and net premiums earned basis for the three and six months ended June 30, 2010 and 2009:

| | Net Premiums Written | Net Premiums Earned |
|---|---|---|

| | Three Months Ended June 30, | | Three Months Ended June 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Diversified Reinsurance | 43.7% | 62.3% | 57.0% | 60.9% |
| AmTrust Quota Share | 34.9% | 37.7% | 35.8% | 39.1% |
| ACAC Quota Share | 21.4% | –% | 7.2% | –% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

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| | Net Premiums Written Six Months Ended June 30, | | Net Premiums Earned Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Diversified Reinsurance | 48.8 % | 69.5 % | 57.1 % | 58.5 % |
| AmTrust Quota Share | 36.9 % | 30.5 % | 38.8 % | 41.5 % |
| ACAC Quota Share | 14.3 % | – % | 4.1 % | – % |
| Total | 100.0 % | 100.0 % | 100.0 % | 100.0 % |

Net Premiums Written. Net premiums written increased by $74.7 million or 31.3% for the three months ended June 30, 2010 as compared to the same period in 2009 and increased $49.4 million or 8.6% for the six months ended June 30, 2010 as compared to the same period in 2009. The increase in net premiums written in the respective periods was primarily the result of the following:

- Commencement of the ACAC Quota Share on March 1, 2010. Premiums associated with this segment totaled $67.2 million and $89.0 million for the three and six months ended June 30, 2010, accounting for the majority of the net increase in premiums.

- Continuing strong growth in our AmTrust Quota Share segment. The AmTrust Quota Share segment increased by $19.3 million or 21.5% in the three months ended June 30, 2010 as compared to the same period in 2009, and $55.5 million or 31.7% in the six months ended June 30, 2010 as compared to the same period in 2009. Both increases are the result of significant growth in the Specialty Risk and Extended Warranty line, which was supplemented by more modest growth in that segment's Small Commercial and Specialty Program lines of business.

- A decrease in premium written in the Diversified Reinsurance Agreement. The Company did not renew certain large accounts as part of its disciplined underwriting practice and as a result, premiums written decreased by $11.8 million or 8.0% and $95.1 million or 23.8% for the three and six months ended June 30, 2010 as compared to the same periods in 2009, respectively.

Net Premiums Earned. Net premiums earned increased by $60.0 million or 26.8% for the three months ended June 30, 2010 as compared to the same period in 2009 and increased $113.8 million or 26.2% for the six months ended June 30, 2010 as compared to the same period in 2009.

The increase was attributable to the ongoing growth of the AmTrust Quota Share segment combined with the continued increase in earned premiums of the Diversified Reinsurance segment compared to 2009. In the Diversified Reinsurance segments, the impact of the unearned premium assumed from the GMAC Acquisition which was acquired net of acquisition costs, still represented a significant portion of the premium earned in 2009, which resulted in lower earned premium in that period and thus also affects comparability from period to period.

Net Investment Income. Net investment income increase by $3.8 million or 24.9% and $7.1 million or 24.1% for the three and six months ended June 30, 2010 compared to the same periods in 2009, respectively. Average invested assets for the periods were approximately $2.0 and $2.0 billion compared to $1.8 and $1.8 billion and the average yields were approximately 3.8% and 3.6% compared to 3.3% and 2.6%. Continued growth in the overall book of business combined with positive cash flow from operations over the last twelve months contributed to the growth in invested assets. Further, the Company has continued to deploy the cash obtained through the GMAC Acquisition and also from the proceeds from the TRUPS Offering.

Net Realized Investment (Losses) Gains. Net realized gains on investments were $0.5 and $0.8 million for the three and six months ended June 30, 2010, compared to net realized gains of $1.5 million and net realized losses of $0.4

million for the three and six months ended June 30, 2009, respectively.

These can be further analyzed as follows:

| | Three Months Ended June 30, 2010 | Three Months Ended June 30, 2009 | Six Months Ended June 30, 2010 | Six Months Ended June 30, 2009 |
|---|---|---|---|---|
| | $ in millions | | | |
| Realized gains (losses) on available-for-sale securities | $ 3.8 | $ 1.5 | $ 4.1 | $ (0.4) |
| Realized loss from trading securities | (0.6) | – | (0.6) | – |
| Unrealized loss from investment sold but not yet purchased | (2.7) | – | (2.7) | – |
| Total | $ 0.5 | $ 1.5 | $ 0.8 | $ (0.4) |

During the second quarter of 2010, the Company commenced designating upon acquisition, certain US Treasury bonds as trading for the purpose of augmenting where possible investment returns. In addition the Company has sold but not yet purchased a US Treasury bond resulting in unrealized loss of $2.7 million which is recorded in net realized and unrealized gains (losses) on the Company's consolidated statement of income. Please refer to Liquidity and Capital Resources for additional information on the Company's investments.

Loss and Loss Adjustment Expenses. Loss and loss adjustment expenses increased by $24.3 million or 16.1% and $48.3 million or 16.2% for the three and six months ended June 30, 2010 compared to the same periods in 2009, respectively. The Company's loss ratio decreased to 61.8% and 63.1% for the three and six months ended June 30, 2010 compared to 67.5% and 68.5% for the same periods in 2009. As of June 30, 2009, the Company's earned premium in the Diversified Reinsurance segment from the GMAC Acquisition had not yet completed its first full year and was still increasing and thus comparability is affected. Accordingly, the 2010 ratios more accurately reflect recurring loss ratios as the transition from the GMAC Acquisition was completed near the end of 2009.

Commission and Other Acquisition Expenses. Commission and other acquisition expenses increased by $30.7 million or 53.2% and $61.6 million or 59.1% for the three and six months ended June 30, 2010 compared to the same periods in 2009, respectively. This increase was primarily due to the increase in Commission and Other Acquisition Expenses associated with the Diversified Reinsurance segment, which was driven by the following: 1) 2009 reflects only a partial year of earned premiums in this segment as the first full year of operations from the GMAC Acquisition had not yet been completed; 2) the unearned premium portfolio assumed as part of the GMAC Acquisition was acquired net of acquisition costs; 3) the Diversified Reinsurance segment's mix of business continues to shift from excess of loss to pro rata business which has a higher acquisition cost ratio; and 4) increased commissions accruals on the 2009 and 2010 underwriting years due to lower loss ratios. In addition, growth in the AmTrust Quota Share segment and the commencement of the ACAC Quota Share segment contributed to the increases as well. As a result, the acquisition cost ratio increased to 31.2% and 30.3% for the three and six months ended June 30, 2010 as compared to 25.7% and 24.0% for the same periods in 2009, respectively. The 2010 ratios more accurately reflect recurring acquisition ratios as the transition from the GMAC Acquisition was completed near the end of 2009.

General and Administrative Expenses. Other operating expenses include general and administrative expenses which are segregated for analytical purposes as a component of underwriting income. Other operating expenses consist of:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | ($ in Millions) | | | |
| | $ 6.3 | $ 4.8 | $ 12.6 | $ 10.9 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| General and administrative expenses – segment | | | | | | | | |
| Other operating expenses – corporate | | 3.2 | | 2.3 | | 5.4 | | 3.8 |
| Total | $ | 9.5 | $ | 7.1 | $ | 18.0 | $ | 14.7 |
| General and administrative expense ratio | | 3.3% | | 3.2% | | 3.3% | | 3.4% |

The increase in other operating expenses reflects the overall growth of the Company over the last twelve months, including increases in headcount, professional services, information technology and other related infrastructure costs. In 2010, other operating expenses include $1.0 million of non-recurring expenses incurred to date as a result of the IIS Transaction. Excluding these non-recurring expenses, the Company's general and administrative expense ratio, which is a measure of its efficiency, decreased to 3.0% and 3.1 % for the three and six months ended June 30, 2010 compared to 3.3% and 3.4% in the same periods in 2009, respectively.

Junior Subordinated Debt Interest Expense. The TRUPS Offering was completed in January 2009 and the interest expense was $9.1 million in the three months ended June 30, 2010 and 2009, and $18.2 million and $16.2 million in the six months ended June 30, 2010 and 2009.

Underwriting Results by Segment

The results of operations for our three business segments, Diversified Reinsurance, AmTrust Quota Share and ACAC Quota Share are discussed below. As noted previously, the Company added a third business segment in the first quarter of 2010, ACAC Quota Share. Please refer to the section within Recent Developments captioned ACAC Transaction for further details on this new segment.

Diversified Reinsurance Segment

Underwriting income decreased slightly in the three and six months ended June 30, 2010 as compared to the same period in 2009. This was primarily due to a slightly higher combined ratio in both periods, which increased to 94.7% in the three months ended June 30, 2010 as compared to 93.7% for the same period in 2009, and 95.6% in the six months ended June 30, 2010 as compared to 94.0% for the same period in 2009.

The following table summarizes the underwriting results and associated ratios for the Diversified Reinsurance segment:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | ($ in Millions) | | | |
| Net premiums written | $ 136.7 | $ 148.6 | $ 304.6 | $ 399.7 |
| | | | | |
| Net premiums earned | 161.8 | 136.2 | 313.0 | 253.9 |
| Net losses and loss expenses | (99.2) | (94.6) | (198.6) | (183.6) |
| Commissions and other acquisition expenses | (48.4) | (29.0) | (88.9) | (45.2) |
| General and administrative expenses | (5.7) | (4.0) | (11.6) | (9.8) |
| Underwriting income | $ 8.5 | $ 8.6 | $ 13.9 | $ 15.3 |
| | | | | |
| Loss and loss expense ratio | 61.3% | 69.4% | 63.5% | 72.3% |
| Acquisition cost ratio | 29.9% | 21.3% | 28.4% | 17.8% |
| General and administrative expense ratio | 3.5% | 3.0% | 3.7% | 3.9% |
| Expense ratio | 33.4% | 24.3% | 32.1% | 21.7% |
| Combined ratio | 94.7% | 93.7% | 95.6% | 94.0% |

Premiums. Net premiums written decreased by $11.9 million, or 8.0% for the three months ended June 30, 2010 compared to the three months ended June 30, 2009. The table below details net premiums written by line of business in this segment for the three months ended June 30, 2010 and 2009:

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2010 | 2009 | $ Change | % Change |
| | ($ in Millions) | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Property | $ | 36.3 | $ | 25.5 | $ | 10.8 | 42.4% |
| Casualty | | 91.8 | | 105.3 | | (13.5) | (12.8)% |
| Accident and Health | | 8.6 | | 17.8 | | (9.2) | (51.7)% |
| Total Diversified Reinsurance | $ | 136.7 | $ | 148.6 | $ | (11.9) | (8.0)% |

The Company continued to maintain its disciplined underwriting approach in the face of continuing competitive market conditions during the three months ended June 30, 2010. In addition, the Company did not renew certain Casualty and Accident and Health accounts that were either underperforming or did not meet the Company's pricing requirements relative to the exposures reinsured. These factors contributed to the decrease in net premium written in the three months ended June 30, 2010 as compared to the same period in 2009.

Net premiums written decreased by $95.1 million, or 23.8% for the six months ended June 30, 2010 compared to the six months ended June 30, 2009. The table below details net premiums written by line of business in this segment for the six months ended June 30, 2010 and 2009:

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2010 | 2009 | $ Change | % Change |
| | ($ in Millions) | | | |
| Property | $ 94.3 | $ 77.0 | $ 17.3 | 22.6% |
| Casualty | 184.0 | 255.3 | (71.3) | (27.9)% |
| Accident and Health | 26.3 | 67.4 | (41.1) | (61.0)% |
| Total Diversified Reinsurance | $ 304.6 | $ 399.7 | $ (95.1) | (23.8)% |

Consistent with its disciplined underwriting approach, the Company did not renew certain large Casualty accounts that did not meet its pricing requirements. Due to the nature of certain of these non-renewals, the Company does not anticipate similar non-renewals during the remainder of 2010. In addition, the Company did renew more than 85% of its accounts at its January 1 renewal in this segment. Finally, the Company did not renew certain underperforming Accident and Health accounts as well. These factors contributed to the decrease in net premium written in the six months ended June 30, 2010 as compared to the same period in 2009.

Net premium earned increased by $25.6 million, or 18.8% for the three months ended June 30, 2010 compared to the three months ended June 30, 2009. The table below details net premiums earned by line of business in this segment for the three months ended June 30, 2010 and 2009:

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2010 | 2009 | $ Change | % Change |
| | ($ in Millions) | | | |
| Property | $ 47.6 | $ 39.6 | $ 8.0 | 20.2% |
| Casualty | 95.8 | 71.3 | 24.5 | 34.3% |
| Accident and Health | 18.4 | 25.3 | (6.9) | (27.3)% |
| Total Diversified Reinsurance | $ 161.8 | $ 136.2 | $ 25.6 | 18.8% |

Despite the decrease in net premiums written, earned premiums increased in 2010 as compared to 2009 due to the ongoing implementation of the GMAC Acquisition in 2009, which were assumed net of acquisition costs and which had not yet completed its first full year of operations. These premiums represented a significant portion of the premium earned in 2009, which resulted in lower earned premium in that period and thus also affects comparability from period to period with 2010.

Net premium earned increased by $59.1 million, or 23.3% for the six months ended June 30, 2010 compared to the six months ended June 30, 2009. The table below details net premiums earned by line of business in this segment for the six months ended June 30, 2010 and 2009:

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2010 | 2009 | $ Change | % Change |
| | ($ in Millions) | | | |
| Property | $ 89.3 | $ 65.6 | $ 23.7 | 36.2% |
| Casualty | 184.1 | 137.7 | 46.4 | 33.7% |
| Accident and Health | 39.6 | 50.6 | (11.0) | (21.7)% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total Diversified Reinsurance | $ | 313.0 | $ | 253.9 | $ | 59.1 | 23.3% |

Despite the decrease in net premiums written, earned premiums increased in 2010 as compared to 2009 due to the ongoing implementation of the GMAC Acquisition in 2009, which were assumed net of acquisition costs and which had not yet completed its first full year of operations. These premiums represented a significant portion of the premium earned in 2009, which resulted in lower earned premium in that period and thus also affects comparability from period to period with 2010.

Loss and Loss Adjustment Expenses. Loss and loss adjustment expenses increased by $4.6 million or 4.9% and $15.1 million or 8.2% for the three and six months ended June 30, 2010 compared to the same periods in 2009, respectively. The segments loss ratio decreased to 61.3% and 63.5% for the three and six months ended June 30, 2010 compared to 69.4% and 72.3% for the same periods in 2009. Earned premiums increased in 2010 as compared to 2009 due to the ongoing implementation of the GMAC Acquisition in 2009, as the unearned premiums associated with that transaction were assumed net of acquisition costs and which had not yet completed its first full year of operations. These premiums represented the majority of the premium earned in 2009, which resulted in lower earned premium in that period and thus produced higher loss ratios during 2009. The 2010 ratios more accurately reflect recurring loss ratios as the transition from the GMAC Acquisition was completed near the end of 2009.

In connection with the GMAC Acquisition, Maiden Bermuda entered in a loss portfolio transfer agreement with Motors whereby it assumed the outstanding loss reserves, including a provision for IBNR reserves associated with the GMAC RE business ($755.6 million at October 31, 2008). The loss reserves assumed by Maiden Bermuda from Motors represented the estimate of the unpaid losses to be paid on all of the reinsurance contracts produced by GMAC RE from 1983 until October 31, 2008.These losses are treated as retroactive reinsurance under applicable GAAP. Accordingly, any subsequent change in the estimate of the subject losses since the date of transfer are amortized into the Company’s results of operations based upon the cumulative payment of actual claims in relation to the subject losses transferred.

The Company amortized gains in this segment as a reduction of losses incurred of $7.1 and $8.8 million for the three and six months ended June 30, 2010 as compared to $3.4 and $5.8 million, in the same periods in 2009, respectively. The total favorable development relating to the loss portfolio transfer since the closing of the GMAC Acquisition has been $32.6 million through June 30, 2010 as compared to $18.2 million through December 31, 2009. The remaining unamortized deferred gain recorded as an addition to the Company’s loss reserves are $11.4 million as of June 30, 2010 as compared to $5.7 million as of December 31, 2009.

Commission and Other Acquisition Expenses. Commission and other acquisition expenses increased by $19.5 million or 67.3% and $43.8 million or 96.9% for the three and six months ended June 30, 2010 compared to the same periods in 2009, respectively. This increase was primarily due to the increase in Commission and Other Acquisition Expenses associated with the Diversified Reinsurance segment, which was driven by the following: 1) 2009 reflects only a partial year of earned premiums in this segment as the first full year of operations from the GMAC Acquisition had not yet been completed; 2) the unearned premium portfolio assumed as part of the GMAC Acquisition was acquired net of acquisition costs and thus acquisition costs in 2009 were reduced; and 3) the segments mix of business continues to shift from excess of loss to pro rata business which has a higher acquisition cost ratio. As a result, the acquisition cost ratio increased to 29.9% and 28.4% for the three and six months ended June 30, 2010 as compared to 21.3% and 17.8% for the same periods in 2009, respectively. The 2010 ratios more accurately reflect recurring acquisition ratios as the transition from the GMAC Acquisition was completed near the end of 2009.

General and Administrative Expenses. General and administrative expenses increased by $1.6 million or 40.0% and $1.8 million or 18.3%, for the three and six months ended June 30, 2010 compared to same period in 2009, respectively. The general and administrative expense ratio was 3.5% and 3.7% for the three and six months ended June 30, 2010 compared to 3.0% and 3.9% in the same periods in 2009, respectively. The overall expense ratio (including acquisition costs) was 33.4% and 32.1% for the three and six months ended June 30, 2010 compared to 24.3% and 21.7% in the same periods in 2009, respectively. The increase in the ratio is due to the factors cited under Commissions and Other Acquisition Expenses.

AmTrust Quota Share Segment

Underwriting income improved significantly in the three and six months ended June 30, 2010 as compared to the same period in 2009, due to ongoing premium growth in the segment combined with a lower combined ratio, the result of improved loss ratios. The combined ratio for the segment was 95.5% in the three months ended June 30, 2010 as compared to 98.0% for the same period in 2009, and 95.7% in the six months ended June 30, 2010 as compared to 96.6% for the same period in 2009. The following table summarizes the underwriting results and associated ratios for the AmTrust Quota Share segment for the three and six months ended June 30, 2010 and 2009:

| | Three Months Ended June 30, 2010 | Three Months Ended June 30, 2009 | Six Months Ended June 30, 2010 | Six Months Ended June 30, 2009 |
|---|---|---|---|---|
| | ($ in Millions) | | | |
| Net premiums written | $ 109.1 | $ 89.8 | $ 230.7 | $ 175.2 |
| | | | | |
| Net premiums earned | $ 101.7 | $ 87.6 | $ 212.3 | $ 180.1 |
| Net losses and loss expenses | (63.4) | (56.5) | (133.0) | (113.8) |
| Commissions and other acquisition expenses | (33.1) | (28.7) | (69.2) | (59.1) |
| General and administrative expenses | (0.6) | (0.7) | (1.1) | (1.1) |
| Underwriting income | $ 4.6 | $ 1.7 | $ 9.0 | $ 6.1 |
| | | | | |
| Net loss and loss expense ratio | 62.4% | 64.4% | 62.6% | 63.2% |
| Acquisition cost ratio | 32.5% | 32.8% | 32.6% | 32.8% |
| General and administrative expense ratio | 0.6% | 0.8% | 0.5% | 0.6% |
| Expense ratio | 33.1% | 33.6% | 33.1% | 33.4% |
| Combined ratio | 95.5% | 98.0% | 95.7% | 96.6% |

Premiums Written. Net premiums written increased by $19.3 million or 21.5% for the six months ended June 30, 2010 as compared to the same period in 2009. The increase in net premiums written was primarily due to a substantial increase in the Specialty Risk and Extended Warranty line of business, where AmTrust continues expand, particularly internationally. The table below details components of net premiums written for the three months ended June 30, 2010 as compared to the same period in 2009:

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2010 | 2009 | $ Change | % Change |
| | ($ in Millions) | | | |
| Small Commercial Business | $ 44.9 | $ 45.9 | $ (1.0) | (2.3)% |
| Specialty Program Business | 20.8 | 12.8 | 8.0 | 62.5% |
| Specialty Risk and Extended Warranty | 43.4 | 31.1 | 12.3 | 39.5% |
| | | | | |
| Total AmTrust Quota Share | $ 109.1 | $ 89.8 | $ 19.3 | 21.5% |

Net premiums written increased by $55.5 million or 31.7% for the six months ended June 30, 2010 as compared to the same period in 2009. The table below details components of net premiums written for the six months ended June 30, 2010 as compared to the same period in 2009:

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2010 | 2009 | $ Change | % Change |
| | ($ in Millions) | | | |
| Small Commercial Business | $ 103.8 | $ 98.9 | $ 4.9 | 5.0% |
| Specialty Program Business | 30.9 | 22.0 | 8.9 | 40.5% |
| Specialty Risk and Extended Warranty | 96.0 | 54.3 | 41.7 | 76.8% |
| | | | | |
| Total AmTrust Quota Share | $ 230.7 | $ 175.2 | $ 55.5 | 31.7% |

Premiums Earned. Net premiums earned increased by $14.1 million or 16.0% for the three months ended June 30, 2010 as compared to the same period in 2009. The increase in net premiums earned was primarily due to a substantial increase in the Specialty Risk and Extended Warranty line of business, where AmTrust continues to expand, particularly internationally. The table below details components of net premiums earned for the three months ended June 30, 2010 as compared to the same period in 2009:

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2010 | 2009 | $ Change | % Change |
| | ($ in Millions) | | | |
| Small Commercial Business | $ 56.2 | $ 52.1 | $ 4.1 | 7.8% |
| Specialty Program Business | 16.7 | 13.1 | 3.6 | 27.6% |
| Specialty Risk and Extended Warranty | 28.8 | 22.4 | 6.4 | 28.4% |
| Total AmTrust Quota Share | $ 101.7 | $ 87.6 | $ 14.1 | 16.0% |

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Net premiums earned increased by $32.2 million or 17.9% for the six months ended June 30, 2010 as compared to the same period in 2009. The table below details components of net premiums earned for the six months ended June 30, 2010 as compared to the same period in 2009:

| | Six Months Ended June 30, 2010 | | | |
|---|---|---|---|---|
| | 2010 | 2009 | $ Change | % Change |
| | ($ in Millions) | | | |
| Small Commercial Business | $ 108.1 | $ 106.8 | $ 1.3 | 1.2% |
| Specialty Program Business | 31.5 | 26.4 | 5.1 | 19.1% |
| Specialty Risk and Extended Warranty | 72.7 | 46.9 | 25.8 | 55.1% |
| Total AmTrust Quota Share | $ 212.3 | $ 180.1 | $ 32.2 | 17.9% |

Loss and Loss Adjustment Expenses. Net losses and loss expenses increased by $6.9 million or 12.3% and $19.2 million and 16.9% for the three and six months ended June 30, 2010 as compared to the same periods in 2009, respectively. The segments loss ratio decreased to 62.4% and 62.6% for the three and six months ended June 30, 2010 compared to 64.4% and 63.2% for the same periods in 2009.

Commission and Other Acquisition Expenses. Commission and other acquisition expenses increased by $4.4 million or 15.2% and $10.1 million or 17.1% for the three and six months ended June 30, 2010 compared to the same periods in 2009, respectively. The increase in commissions and other acquisition expenses is consistent with the increase in earned premiums.

General and Administrative Expenses. General and administrative expenses decreased by $0.1 million for the three months ended June 30, 2010 compared to the same period in 2009. These expenses were largely unchanged for the six months ended June 30, 2010 as compared to the same period in 2009.

ACAC Quota Share Segment

This segment commenced on March 1, 2010. Please refer to the ACAC Transaction discussed previously. For the three months ended June 30, 2010 and for the period from March 1 to June 30, 2010, the combined ratio was 96.8%, consisting of a loss ratio of 62.5% and an expense ratio of 34.3%.

| | For the Three Months Ended June 30, | | For the period March 1, to June 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | ($ in Millions) | | | |
| Net premiums written | $ 67.2 | $ – | $ 89.0 | $ – |
| Net premiums earned | $ 20.4 | $ – | $ 22.4 | $ – |
| Net losses and loss expenses | (12.7) | – | (14.0) | – |
| Commissions and other acquisition expenses | (7.0) | – | (7.7) | – |
| General and administrative expenses | – | – | – | – |
| Underwriting income | $ 0.7 | $ – | $ 0.7 | $ – |
| Net loss and loss expense ratio | 62.5% | –% | 62.5% | –% |
| Acquisition cost ratio | 34.3% | –% | 34.3% | –% |

| | | | | |
|---|---|---|---|---|
| General and administrative expense ratio | –% | –% | –% | –% |
| Expense ratio | 34.3% | –% | 34.3% | –% |
| Combined ratio | 96.8% | –% | 96.8% | –% |

Premiums. The table below details components of net premiums written and earned for the period from March 1 to June 30, 2010:

| | For the Three Months Ended June 30, 2010 | | For the period March 1 to June 30, 2010 | |
|---|---|---|---|---|
| | Written | Earned | Written | Earned |
| | ($ in Millions) | | | |
| Automobile liability | $ 38.5 | $ 11.4 | $ 51.0 | $ 12.6 |
| Automobile physical damage | 28.7 | 8.9 | 38.0 | 9.8 |
| | | | | |
| Total ACAC Quota Share | $ 67.2 | $ 20.3 | $ 89.0 | $ 22.4 |

Liquidity and Capital Resources

Liquidity

Maiden Holdings is a holding company and transacts no business of its own. We therefore rely on cash flows to Maiden Holdings in the form of dividends, advances and loans and other permitted distributions from its subsidiary companies to make dividend payments on its common shares.

The jurisdictions in which our operating subsidiaries are licensed to write business impose regulations requiring companies to maintain or meet various defined statutory ratios, including solvency and liquidity requirements. Some jurisdictions also place restrictions on the declaration and payment of dividends and other distributions.

The payment of dividends from Maiden Holdings' Bermuda-domiciled operating subsidiary Maiden Bermuda is, under certain circumstances, limited under Bermuda law, which requires our Bermuda operating subsidiary to maintain certain measures of solvency and liquidity. In addition, Bermuda regulations require approval from the Bermuda Monetary Authority for any reduction of capital in excess of 15% of statutory capital, as defined in the Bermuda Insurance Act of 1978. At June 30, 2010, the statutory capital and surplus of Maiden Bermuda was $607.0 million, and the amount of capital and surplus required to be maintained was $428.5 million. During 2010 and 2009, Maiden Bermuda paid no dividends to Holdings.

Maiden Holdings' U.S. domiciled operating subsidiaries, Maiden US and Maiden Specialty, are subject to significant regulatory restrictions limiting their ability to declare and pay dividends by their states of domicile, which are Missouri and North Carolina, respectively. In addition, there are restrictions based on risk-based capital tests which are the threshold that constitutes the authorized control level. If Maiden US or Maiden Specialty's statutory capital and surplus falls below the authorized control level, their respective domiciliary insurance regulators are authorized to take whatever regulatory actions are considered necessary to protect policyholders and creditors. The inability of the subsidiaries of Maiden Holdings to pay dividends and other permitted distributions could have a material adverse effect on Maiden Holdings' cash requirements and ability to make principal, interest and dividend payments on its senior notes and common shares. During 2010 and 2009, Maiden US and Maiden Specialty paid no dividends.

Our sources of funds primarily consist of premium receipts net of commissions, investment income, net proceeds from capital raising activities, which may include the issuance of common shares, and proceeds from sales and redemption of investments. Cash is used primarily to pay losses and loss expenses, general and administrative expenses and dividends, with the remainder made available to our investment managers for investment in accordance with our investment policy. A summary of cash flows from and (used) in operating, investing and financing activities for the six months ended June 30, 2010 and 2009 is as follows:

| | June 30, | |
|---|---|---|
| | 2010 | 2009 |
| | ($ in Millions) | |
| Operating activities | $ 72.5 | $ (38.6) |
| Investing activities | 33.6 | (67.9) |
| Financing activities | (33.6) | 124.2 |
| Effect of foreign exchange on cash | (0.8) | 1.2 |
| Total increase in cash and cash equivalents | $ 71.7 | $ 18.9 |

Cash flows provided by operations for the six months ended June 30, 2010 were $72.5 million compared to cash flow used in operations of $38.6 million for the six months ended June 30, 2009. The increase in net premiums written offset by a slightly higher combined ratio accounted for the change in operating cash flow.

Investing cash flows consist primarily of proceeds on the sale of investments and payments for investments acquired. We generated $33.6 million in net cash from investing activities during the six months ended June 30, 2010 compared to using $67.9 million for the six months ended June 30, 2009. During the second quarter of 2010, the Company sold certain mortgage-backed and floating rate securities with the intention of re-investing these proceeds in fixed maturity investments which would not only capture gains embedded in those securities but also enable the Company to reinvest these funds at higher yields. A number of these securities were sold in the latter stages of the second quarter, and as a result, had not yet been re-invested at the conclusion of the quarter, resulting in the decreased cash flow used by investing activities in 2010 as compared to 2009.

Cash flows used by financing activities were $33.6 million for the six months ended June 30, 2010 compared to $124.2 million provided by financing activities for the six months ended June 30, 2009. In 2010, cash flow used consisted of dividends paid of $9.1 million and the repayment of $24.4 million of the proceeds from the securities sold under agreements to repurchase, at contract value. Cash flows provided by financing activities for the six months ended June 30, 2009 were the TRUPS Offering (net of expenses) of $255.7 million, reduced by dividends paid of $7.7 million and the repayment of $123.8 million of the proceeds from the securities sold under agreements to repurchase, at contract value.

At June 30, 2010, the Company has cash and cash equivalents (including restricted cash and cash equivalents) totaling $347.5 million, which was an increase from $180.4 million at March 31, 2010 and $252.3 million at December 31, 2009. The increase was due to a significant increase in cash flow from operations and investing activities in the three months ended June 30, 2010. This increase in cash and cash equivalents, which is considered temporary, may limit the continuing increases in investment income until these elevated levels of cash and cash equivalents are fully invested, particularly in light of the continuing low interest rate environment.

Restrictions, Collateral and Specific Requirements

Maiden Bermuda is neither licensed nor admitted as an insurer, nor is it accredited as a reinsurer, in any jurisdiction in the United States. As a result, it is generally required to post collateral security with respect to any reinsurance liabilities it assumes from ceding insurers domiciled in the United States in order for U.S. ceding companies to obtain credit on their U.S. statutory financial statements with respect to insurance liabilities ceded to them. Under applicable statutory provisions, the security arrangements may be in the form of letters of credit, reinsurance trusts maintained by trustees or funds-withheld arrangements where assets are held by the ceding company.

At this time, Maiden Bermuda uses trust accounts primarily to meet collateral requirements – cash equivalents and investments pledged in favor of ceding companies in order to comply with relevant insurance regulations.

Maiden US also offers to its clients, on a voluntary basis, the ability to collateralize certain liabilities related to the reinsurance contracts it issues. Under these arrangements, Maiden U.S. retains broad investment discretion in order to achieve its business objectives while offering clients the additional security a collateralized arrangement offers. We believe this offers the Company a significant competitive advantage and improves the Company's retention of high-quality clients. As a result of the transition of relationships as a result of the GMAC Acquisition, as of June 30, 2010, certain of these liabilities and collateralized arrangements are recorded in Maiden Bermuda while the remaining are recorded in Maiden US.

As of June 30, 2010, total trust account deposits were $1,320.2 million compared to $1,375.6 million as of December 31, 2009. The following table details additional information on the trust account deposits by segment and by underlying asset as of December 31, 2010 and 2009:

| | June 30, 2010 | | | December 31, 2009 | | |
|---|---|---|---|---|---|---|
| | Cash & Equivalents | Fixed Maturities | Total | Cash & Equivalents | Fixed Maturities | Total |
| | | | ($ in Millions) | | | |
| Maiden US | $ 34.6 | $ 430.8 | $ 465.4 | $ 38.6 | $ 258.9 | $ 297.5 |
| Maiden Bermuda | 81.5 | 470.5 | 552.0 | 94.8 | 776.3 | 871.1 |
| Total Diversified Reinsurance Segment | 116.1 | 901.3 | 1,017.4 | 133.4 | 1,035.2 | 1,168.6 |
| Maiden Bermuda | 52.3 | 250.5 | 302.8 | 11.5 | 195.5 | 207.0 |
| Total AmTrust Quota Share Segment | 52.3 | 250.5 | 302.8 | 11.5 | 195.5 | 207.0 |
| Total | $ 168.4 | $ 1,151.8 | $ 1,320.2 | $ 144.9 | $ 1,230.7 | $ 1,375.6 |

As part of the AmTrust Quota Share, Maiden Bermuda has also loaned funds totaling $168.0 million as of June 30, 2010 and December 31, 2009, respectively, to AII to satisfy collateral requirements. In addition, Maiden Bermuda has outstanding letters of credit totaling $23.2 million and $19.6 million as of June 30, 2010 and December 31, 2009, respectively.

Collateral arrangements with ceding insurers may subject our assets to security interests or require that a portion of our assets be pledged to, or otherwise held by, third parties. Both our trust accounts and letter of credit are fully collateralized by assets held in custodial accounts. Although the investment income derived from our assets while held in trust accrues to our benefit, the investment of these assets is governed by the terms of the letter of credit facilities or the investment regulations of the state or territory of domicile of the ceding insurer, which may be more restrictive than the investment regulations applicable to us under Bermuda law. The restrictions may result in lower investment yields on these assets, which may adversely affect our profitability.

We do not currently anticipate that the restrictions on liquidity resulting from restrictions on the payments of dividends by our subsidiary companies or from assets committed in trust accounts or to collateralize the letter of credit facilities will have a material impact on our ability to carry out our normal business activities, including, our ability to make dividend payments on our common shares.

Investments

Our funds are primarily invested in liquid, high-grade fixed income securities. The table below shows the aggregate amounts of our invested assets at fair value at June 30, 2010 and December 31, 2009:

| June 30, 2010 | Original or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | | ($ in Millions) | | |
| Fixed Maturities: | | | | |
| U.S. Treasury bonds | $ 58.4 | $ 1.0 | $ (0.0) | $ 59.4 |
| U.S. Agency bonds – mortgage and asset-backed | 707.2 | 26.3 | (0.6) | 732.9 |
| U.S. Agency bonds – other | 153.0 | 2.7 | – | 155.7 |
| Corporate fixed maturities | 636.5 | 46.4 | (19.1) | 663.8 |
| Municipal bonds | 21.2 | 0.9 | – | 22.1 |
| Total available for sale fixed maturities | 1,576.3 | 77.3 | (19.7) | 1,633.9 |
| Other investments | 5.8 | – | (0.1) | 5.7 |
| Total investments | $ 1,582.1 | $ 77.3 | $ (19.8) | $ 1,639.6 |

| December 31, 2009 | Original or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Gains | Fair Value |
|---|---|---|---|---|
| | | ($ in Millions) | | |
| Fixed Maturities: | | | | |
| U.S. Treasury bonds | $ 39.3 | $ 0.2 | $ (0.3) | $ 39.2 |
| U.S. Agency bonds – mortgage and asset-backed | 779.4 | 17.5 | (2.3) | 794.6 |
| U.S. Agency bonds – other | 217.2 | 4.8 | (0.5) | 221.5 |
| Corporate fixed maturities | 564.8 | 38.0 | (20.1) | 582.7 |
| Municipal bonds | 22.7 | 1.0 | – | 23.7 |
| Total available for sale fixed maturities | 1,623.4 | 61.5 | (23.2) | 1,661.7 |
| Other investments | 5.7 | – | (0.1) | 5.6 |
| Total investments | $ 1,629.1 | $ 61.5 | $ (23.3) | $ 1,667.3 |

Despite the growth in premium and significant improvement in cash flow from operations in 2010 as compared to 2009, total investments in fixed maturities were relatively unchanged at June 30, 2010 as compared to 2009. As noted in the section on Liquidity and Cash Flow, the Company experienced a significant increase in cash flow from operations and investing activities in the three and six months ended June 30, 2010 as compared to the same periods in 2009, respectively, but had not as yet fully invested this cash flow in fixed maturity investments. This increase in cash and cash and equivalents, which is considered temporary, may limit the continuing increases in investment income until these elevated levels of cash and cash equivalents are fully invested.

The Company may, from time to time, engage in investment activity that will be considered trading activity, in amounts generally less than $100 million. This trading activity is generally focused on taking long or short positions in United States Treasury securities. These activities, which commenced in the second quarter of 2010 are classified as trading for the purpose of augmenting where possible investment returns. As of June 30, 2010, the Company maintained one open position in a U.S. treasury bond sold but not yet purchased valued at $52.3 million which to date has resulted in an unrealized loss of $2.7 million which is recorded in net realized and unrealized gains (losses) on the Company’s consolidated statements of income.

The following table presents information regarding our invested assets that were in an unrealized loss position at June 30, 2010 and December 31, 2009 by the amount of time in a continuous unrealized loss position:

| June 30, 2010 | Less than 12 Months Fair Value | Less than 12 Months Unrealized Losses | 12 Months or More Fair Value | 12 Months or More Unrealized Losses | Total Fair Value | Total Unrealized Losses |
|---|---|---|---|---|---|---|
| | ($ in Millions) | | | | | |
| Available-for-sale securities: | | | | | | |
| U.S. treasury bonds | $ – | $ – | $ 3.3 | $ (0) | $ 3.3 | $ (0) |
| U.S. agency bonds – mortgage and asset - backed | 56.5 | (0.6) | – | – | 56.5 | (0.6) |
| U.S. agency bonds – other | 6.0 | (0) | – | – | 6.0 | (0) |
| Corporate fixed maturities | 47.6 | (1.8) | 176.7 | (17.3) | 224.3 | (19.1) |
| Total available for sale fixed maturities | $ 110.1 | $ (2.4) | $ 180.0 | $ (17.3) | $ 290.1 | $ (19.7) |
| Other investments | $ – | $ – | $ 4.9 | $ (0.1) | $ 4.7 | $ (0.1) |
| Total | $ 110.1 | $ (2.4) | $ 184.9 | $ (17.4) | $ 295.0 | $ (19.8) |

As of June 30, 2010, there were approximately 34 securities in an unrealized loss position with a fair value of $295.0 million and unrealized losses of $19.8 million. Of these securities, there are 14 securities that have been in an unrealized loss position for 12 months or greater with a fair value of $184.9 million and unrealized losses of $17.4 million.

| December 31, 2009 | Less than 12 Months Fair Value | Less than 12 Months Unrealized Losses | 12 Months or More Fair Value | 12 Months or More Unrealized Losses | Total Fair Value | Total Unrealized Losses |
|---|---|---|---|---|---|---|
| | ($ in Millions) | | | | | |
| Available-for-sale securities: | | | | | | |
| U.S. treasury bonds | $ 8.6 | $ (0.3) | $ – | $ – | $ 8.6 | $ (0.3) |
| U.S. agency bonds – mortgage and asset - backed | 235.0 | (2.3) | 0.7 | – | 235.7 | (2.3) |
| U.S. agency bonds – other | 59.5 | (0.5) | – | – | 59.5 | (0.5) |
| Corporate fixed maturities | 11.7 | (0.6) | 193.7 | (19.5) | 205.4 | (20.1) |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total available for sale fixed maturities | $ | 314.8 | $ | (3.7) | $ | 194.4 | $ | (19.5) | $ | 509.2 | $ | (23.2) |
| Other investments | $ | – | $ | – | $ | 4.9 | $ | (0.1) | $ | 4.9 | $ | (0.1) |
| Total | $ | 314.8 | $ | (3.7) | $ | 199.3 | $ | (19.6) | $ | 514.1 | $ | (23.3) |

As of December 31, 2009, there were approximately 34 securities in an unrealized loss position with a fair value of $514.1 million and unrealized losses of $23.3 million. Of these securities, there are 14 securities that have been in an unrealized loss position for 12 months or greater with a fair value of $199.3 million and unrealized losses of $19.6 million.

The following table summarizes the fair value by contractual maturity of our fixed maturity investment maturity distribution of our fixed income portfolio (on a fair value basis) as of June 30, 2010 and December 31, 2009 was as follows:

| | June 30, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | ($ in Millions) | % of Total | ($ in Millions) | % of Total |
| Due in one year or less | $ 144.0 | 8.8% | $ 159.4 | 9.6% |
| Due after one year through five years | 184.6 | 11.3% | 222.4 | 13.4% |
| Due after five years through ten years | 493.0 | 30.1% | 366.7 | 22.1% |
| Due after ten years | 79.4 | 4.9% | 118.6 | 7.1% |
| U.S. agency bonds - mortgage-backed securities | 732.9 | 44.9% | 794.6 | 47.8% |
| Total | $ 1,633.9 | 100.0% | $ 1,661.7 | 100.0% |

As of June 30, 2010 and December 31, 2009, more than 99% of our fixed income portfolio consisted of investment grade securities. We define a security as being below-investment grade if it has an S&P credit rating of BB or less. The following table summarizes the composition of the fair value of our fixed maturity investments at the dates indicated by ratings as assigned by Standard & Poor's ("S&P") and/or other rating agencies when S&P ratings were not available:

| Ratings as of June 30, 2010 | Amortized Cost | Fair Market Value | % of Total Fair Market Value |
|---|---|---|---|
| | | ($ in Millions) | |
| U.S. treasury bonds | $ 58.4 | $ 59.4 | 3.6% |
| AAA U.S. agency bonds – mortgage backed securities | 707.1 | 732.9 | 44.9% |
| AAA | 204.7 | 210.9 | 12.9% |
| AA+, AA, AA- | 67.4 | 73.7 | 4.5% |
| A+, A, A- | 307.8 | 307.3 | 18.8% |
| BBB+, BBB, BBB- | 224.8 | 243.7 | 14.9% |
| B or lower | 6.1 | 6.0 | 0.4% |
| Total | $ 1,576.3 | $ 1,633.9 | 100.0% |

| Ratings as of December 31, 2009 | Amortized Cost | Fair Market Value | % of Total Fair Market Value |
|---|---|---|---|
| | | ($ in Millions) | |
| U.S. treasury bonds | $ 39.3 | $ 39.2 | 2.4% |
| AAA U.S. agency bonds – mortgage backed securities | 779.4 | 796.6 | 47.8% |
| AAA | 265.6 | 272.2 | 16.5% |
| AA+, AA, AA- | 51.6 | 57.4 | 3.4% |
| A+, A, A- | 290.0 | 285.4 | 17.2% |
| BBB+, BBB, BBB- | 187.6 | 201.4 | 12.1% |
| B or lower | 9.9 | 9.5 | 0.6% |
| Total | $ 1,623.4 | $ 1,661.7 | 100.0% |

The Company holds no asset-backed securities or sovereign securities of foreign governments. The majority of the Company's U.S. government agency-based securities holdings are mortgage-backed securities. Additional details on the mortgage-backed securities component of our U.S. government agency-based investment portfolio at June 30, 2010 and December 31, 2009 are provided below:

| | June 30, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Fair Value | % of Total | Fair Value | % of Total |
| | ($ in Millions) | | | |
| Mortgage-backed securities | | | | |
| Residential mortgage-backed (RMBS) | | | | |
| GNMA – Fixed Rate | $ 327.1 | 36.8% | $ 333.1 | 32.8% |
| FNMA – Fixed Rate | 166.7 | 18.8% | 125.5 | 12.3% |
| FNMA – Variable Rate | 93.4 | 10.5% | 135.7 | 13.4% |
| FHLMC – Fixed Rate | 143.5 | 16.1% | 200.3 | 19.7% |
| FHLMC – Variable Rate | 2.2 | 0.3% | – | –% |
| Total agency RMBS | 732.9 | 82.5% | 794.6 | 78.2% |
| Non-agency RMBS | – | –% | – | –% |
| Total RMBS | 732.9 | 82.5% | 794.6 | 78.2% |
| Commercial mortgage-backed | – | –% | – | –% |
| Total mortgage-backed securities | 732.9 | 82.5% | 794.6 | 78.2% |
| Non-MBS fixed rate Agency securities | 155.7 | 17.5% | 221.5 | 21.8% |
| Total US Agency bonds | $ 888.6 | 100.0% | $ 1,016.1 | 100.0% |

The Company has also increased its holdings of corporate securities in 2010 and 2009 to take advantage of various investment opportunities in this asset class. As of June 30, 2010 and December 31, 2009, 36.4% and 46.8% of its corporate securities were floating rate securities. Security holdings by sector in this asset class as of June 30, 2010 and December 31, 2009 are as follows:

| | June 30, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Fair Value | % of Total | Fair Value | % of Total |
| | ($ in Millions) | | | |
| Corporate Securities | | | | |
| Financial Institutions | $ 481.7 | 72.6% | $ 430.4 | 73.9% |
| Industrials | 132.3 | 19.9% | 108.6 | 18.6% |
| Utilities/Other | 49.8 | 7.5% | 43.7 | 7.5% |
| Total Corporate Securities | $ 663.8 | 100.0% | $ 582.7 | 100.0% |

As of June 30, 2010 and December 31, 2009, the Company has no fixed income investments that are guaranteed by third parties. The Company also has no direct exposure to third party guarantors as of June 30, 2010 or December 31, 2009.

Financial Strength Ratings

Financial strength ratings represent the opinions of rating agencies on our capacity to meet our obligations. Some of our reinsurance treaties contain special funding and termination clauses that are triggered in the event that we or one of our subsidiaries is downgraded by one of the major rating agencies to levels specified in the treaties, or our capital is significantly reduced. If such an event were to happen, we would be required, in certain instances, to post collateral in the form of letters of credit and/or trust accounts against existing outstanding losses, if any, related to the treaty. In a limited number of instances, the subject treaties could be cancelled retroactively or commuted by the cedant and might affect our ability to write business. As of June 30, 2010, our financial strength rating from A.M. Best was A-.

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Other Material Changes in Financial Position

The following summarizes other material changes in the financial position of the Company as of June 30, 2010 and December 31, 2009.

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| | ($ in Millions) | |
| Reinsurance balances receivable | $ 271.2 | $ 208.5 |
| Prepaid reinsurance | 31.8 | 28.8 |
| Deferred acquisition costs | 196.9 | 173.0 |
| Reserve for loss and loss adjustment expenses | (1,077.1) | (1,006.3) |
| Unearned premiums | (664.7) | (583.5) |

The increase in reinsurance balances receivable and unearned premium reflects the growth in net premiums written in the AmTrust and ACAC Quota Shares in the first six months of 2010.

Capital Resources

Capital resources consist of funds deployed or available to be deployed in support of our business operations. Our total capital resources at June 30, 2010 and December 31, 2009 were as follows:

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| | ($ in Millions) | |
| Junior subordinated debt | $ 215.2 | $ 215.1 |
| Shareholders' equity | 724.8 | 676.5 |
| Total capital resources | $ 940.0 | $ 891.6 |
| Ratio of debt to total capitalization | 22.9% | 24.1% |

As of June 30, 2010, our shareholders' equity was $724.8 million, a 7.1% increase compared to $676.5 million as of December 31, 2009. The increase was due primarily to net income for the six months ended June 30, 2010 of $32.2 million and unrealized gains on investments of $24.7 million offset by dividends declared of $9.1 million.

On January 20, 2009, as part of the TRUPS Offering the Company established a special purpose trust for the purpose of issuing trust preferred securities. This involved private placement of 260,000 units (the "Units"), each Unit consisting of $1,000 principal amount of capital securities (the "Trust Preferred Securities") of Maiden Capital Financing Trust (the "Trust") and 45 common shares, $.01 par value, of the Company (the "Common Shares"), for a purchase price of $1,000.45 per Unit.

As part of the transaction, the Company issued 11,700,000 common shares to the purchasers of the Trust Preferred Securities. The Trust Preferred Securities mature in 2039 and carry an interest rate of 14% and an effective rate of interest of 16.76%. The proceeds from such issuances, together with the proceeds of the related issuances of common securities of the trusts, were invested by the trusts in subordinated debentures issued by the Company. The gross proceeds to the Company were approximately $260.1 million in the form of junior subordinated debt, before approximately $4.3 million of placement agent fees and expenses.

Under the terms of the TRUPS Offering, the Company can repay the principal balance in full or in part at any time. However, if the Company repays such principal within five years of the date of issuance, it is required to pay an additional amount equal to one full year of interest on the amount of Trust Preferred Securities repaid. If the full amount of the Trust Preferred Securities were repaid within five years of the date of issuance, the additional amount

due would be $36.4 million, which would be a reduction in earnings.

Further, the value of the common shares issued to purchasers of the Trust Preferred Securities are being carried as a reduction of the liability for the Trust Preferred Securities with the value being amortized against the Company's earnings over the 30-year term of the Trust Preferred Securities. At June 30, 2010, the unamortized amount carried as a reduction of the Company's liability for the Trust Preferred Securities was $44.8 million. If the Company were to repay the Trust Preferred Securities in full or in part at any time prior to their maturity date, the Company would have to recognize a commensurate amount as a reduction of earnings at that time.

Currency and Foreign Exchange

The Company's reporting currency is the U.S. dollar. The Company has exposure to foreign currency risk as certain portions of the Diversified Reinsurance and AmTrust Quota Share segment, including underwriting reinsurance exposures, collecting premiums and paying claims and other operating expenses in currencies other than the U.S. dollar and holding certain net assets in such currencies. The Company's most significant foreign currency exposure is to the British pound. The Company may, from time to time, experience losses resulting from fluctuations in the values of foreign currencies, which could have an effect on the Company's results of operations. During 2010, foreign exchange markets have experienced elevated levels of volatility due to ongoing and deepening structural governmental deficits in many countries around the world, which may continue in the near term based on consensus economic outlooks.

We measure monetary assets and liabilities denominated in foreign currencies at year end exchange rates, with the resulting foreign exchange gains and losses recognized in the Consolidated Statements of Operations. Revenues and expenses in foreign currencies are converted at average exchange rates during the year. The effect of the translation adjustments for foreign operations is included in accumulated other comprehensive income.

Net foreign exchange losses amounted to $0.4 and $1.6 million during the three and six months ended June 30, 2010 compared to gains of $2.4 and $2.2 million during the same periods in 2009, respectively.

Effects of Inflation

The effects of inflation are considered implicitly in pricing and estimating reserves for unpaid losses and loss expenses. The effects of inflation could cause the severity of claims to rise in the future. To the extent inflation causes these costs, particularly medical treatments and litigation costs, to increase above reserves established for these claims, the Company will be required to increase the reserve for losses and loss expenses with a corresponding reduction in its earnings in the period in which the deficiency is identified. The actual effects of inflation on the results of operations of the Company cannot be accurately known until claims are ultimately settled.

Off-Balance Sheet Arrangements

As of June 30, 2010, we did not have any off-balance sheet arrangements as defined by Item 303(a)(4)(ii) of Regulation S-K.

Recent Accounting Pronouncements

See Item 1, Note 2 to the Consolidated Financial Statements for a discussion on recently issued accounting pronouncements not yet adopted.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk that we will incur losses in our investments due to adverse changes in market rates and prices. Market risk is directly influenced by the volatility and liquidity in the market in which the related underlying assets are invested. We believe that we are principally exposed to two types of market risk: changes in interest rates and changes in credit quality of issuers of investment securities and reinsurers.

Interest Rate Risk

Interest rate risk is the risk that we may incur economic losses due to adverse changes in interest rates. The primary market risk to the investment portfolio is interest rate risk associated with investments in fixed maturity securities. Fluctuations in interest rates have a direct impact on the market valuation of these securities. At June 30, 2010, we had fixed maturity securities with a fair value of $1,633.9 million that are subject to interest rate risk.

The table below summarizes the interest rate risk associated with our fixed maturity securities by illustrating the sensitivity of the fair value and carrying value of our fixed maturity securities as of June 30, 2010 to selected hypothetical changes in interest rates, and the associated impact on our stockholders' equity. Temporary changes in the fair value of our fixed maturity securities that are held as available-for-sale do impact the carrying value of these securities and are reported in our shareholders' equity as a component of other comprehensive income. The selected scenarios in the table below are not predictions of future events, but rather are intended to illustrate the effect such events may have on the fair value and carrying value of our fixed maturity securities and on our shareholders' equity, as of June 30, 2010.

| Hypothetical Change in Interest Rates | Fair Value | Estimated Change in Fair Value | Hypothetical Percentage Increase (Decrease) in Shareholders' Equity |
|---|---|---|---|
| | ($ in Millions) | | |
| 200 basis point increase | $ 1,531.7 | $ (102.2) | -14.1% |
| 100 basis point increase | 1,586.4 | (47.5) | -6.6% |
| No change | 1,633.9 | – | –% |
| 100 basis point decrease | 1,670.1 | 36.2 | 5.0% |
| 200 basis point decrease | $ 1,695.0 | $ 61.1 | 8.4% |

The impact of a hypothetical change in interest rates on the $168 million loan to related party, which carries an interest rate of one month LIBOR plus 90 basis points, of a fluctuation of 100 and 200 basis points in LIBOR would be an increase or decrease in our earnings and cash flows of $1.7 million and $3.4 million, respectively, on an annual basis, depending on the direction of the change in LIBOR, but it would not increase or decrease the carrying value of the loan.

Credit Risk

In providing reinsurance, we will have premiums receivable subject to credit risk of the ceding company. The Company has exposure to credit risk as it relates to its reinsurance balances receivable and reinsurance recoverable on paid and unpaid losses. Reinsurance balances receivable from the Company's clients at June 30, 2010 were $271.2 million, including balances currently due and accrued. The Company believes that credit risk related to these balances is mitigated by several factors, including but not limited to, credit checks performed as part of the underwriting process and monitoring of aged receivable balances. In addition, as the vast majority of its reinsurance agreements permit the Company the right to offset reinsurance balances receivable from clients against losses payable to them, the Company believes that the credit risk in this area is substantially reduced. Our credit risk results from our insureds' potential inability to meet their premium obligations.

We also are exposed to credit risk on our investment portfolio. Our credit risk is the potential loss in market value resulting from adverse change in the borrower's ability to repay its obligations. Our investment objectives are to preserve capital, generate investment income and maintain adequate liquidity for the payment of claims and debt service, if any. We seek to achieve these goals by investing in a diversified portfolio of securities. We manage credit risk through regular review and analysis of the creditworthiness of all investments and potential investments. If we retrocede business to other reinsurers, we will have reinsurance recoverables subject to credit risk. To mitigate the risk of these counterparties' nonpayment of amounts due, we will establish business and financial standards for reinsurer approval, incorporating ratings and outlook by major rating agencies and considering then-current market information.

Further, we are subject to the credit risk that AII and/or AmTrust will fail to perform their obligations to pay interest on and repay principal of amounts loaned to AII pursuant to its loan agreement with Maiden Bermuda, and to reimburse Maiden Bermuda for any assets or other collateral of Maiden that AmTrust's U.S. insurance company subsidiaries apply or retain, and income on those assets.

Given the recent turmoil in the financial markets, we believe that there is potential for significant write-downs of our, and other insurers', invested assets in future periods if the ongoing turmoil in the financial markets were to persist for an extended period of time.

The U.S. dollar is our reporting currency and the functional currency of all of our operating subsidiaries. We enter into insurance and reinsurance contracts where the premiums receivable and losses payable are denominated in currencies

other than the U.S. dollar. Assets in non-U.S. currencies are generally converted into U.S. dollars at the time of receipt. When we incur a liability in a non-U.S. currency, we carry such liability on our books in the original currency. These liabilities are converted from the non-U.S. currency to U.S. dollars at the time of payment. As a result, we have an exposure to foreign currency risk resulting from fluctuations in exchange rates. During 2010, foreign exchange markets have experienced elevated levels of volatility due to ongoing and deepening structural governmental deficits in many countries around the world, which may continue in the near term based on consensus economic outlooks.

As of June 30, 2010, 0.5% of our total investments and cash and cash equivalents were denominated in currencies other than the U.S. dollar compared to 0.6% as of December 31, 2009. For the six months ended June 30, 2010 and 2009, approximately 12.0% and 8.6%, respectively, of our business written was denominated in currencies other than the U.S. dollar.

Our foreign exchange losses for the three and six months ended June 30, 2010 were $0.4 million and $1.6 million in 2010 compared to gains of $2.4 and $2.2 million for the same periods in 2009, respectively.

Off-Balance Sheet Transactions

We have no off-balance sheet arrangements or transactions with unconsolidated, special purpose entities.

Item 4. Controls and Procedures

Our management, with the participation and under the supervision of our principal executive officer and principal financial officer, has evaluated the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) and has concluded that, as of the end of the period covered by this report, such disclosure controls and procedures were effective. During the most recent fiscal quarter, there were no changes in the Company's internal controls over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 6. Exhibits.

| Exhibit Number | Description |
| --- | --- |
| 31.1 | Certification of the Chief Executive Officer, pursuant to Rule 13a-14(a) or 15d-14(a), for the quarter ended June 30, 2010. |
| 31.2 | Certification of the Chief Financial Officer, pursuant to Rule 13a-14(a) or 15d-14(a), for the quarter ended June 30, 2010. |
| 32.1 | Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, for the quarter ended June 30, 2010. |
| 32.2 | Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, for the quarter ended June 30, 2010. |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

MAIDEN HOLDINGS, LTD.
(Registrant)

Date: August 9, 2010

/s/ ARTURO M. RASCHBAUM
Arturo M. Raschbaum
President and Chief Executive Officer
(Principal Executive Officer)

/s/ JOHN MARSHALECK
John Marshaleck
Chief Financial Officer
(Principal Financial and Accounting Officer)