

Edgar Filing: Calibre Energy, Inc. - Form 10QSB

Calibre Energy, Inc.
Form 10QSB
May 21, 2007

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

FORM 10-QSB

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

For the quarterly period ended March 31, 2007

Commission File Number 000-50830

CALIBRE ENERGY, INC.

(Exact name of registrant as specified in its charter)

Nevada

State or other jurisdiction
of incorporation or organization

88-0343804

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

1667 K Street NW, Suite 1230
Washington, DC 20006

(Address of principal executive offices) (Zip Code)

(202) 223-4401

(Registrant's telephone number, including area code)

(Former name, former address, and former fiscal year if changed since last
report)

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

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

Indicate the number of shares outstanding of each of the issuer's classes
of common stock, as of the latest practicable date.

Class	Outstanding as of May 18, 2007
----- Common Stock, par value \$.001 per share	62,437,704 -----

Transitional Small Business Format (check one): Yes No

Edgar Filing: Calibre Energy, Inc. - Form 10QSB

CALIBRE ENERGY, INC. QUARTERLY REPORT ON FORM 10-QSB

FOR THE QUARTERLY PERIOD ENDED

March 31, 2007

TABLE OF CONTENTS

PART I

FINANCIAL INFORMATION

- Item 1. Financial Statements
 - Balance Sheets as of March 31, 2007 December 31, 2006 (unaudited)
 - Statement of Operations for the Three months ended March 31, 2007 and 2006 (unaudited)
 - Statement of Shareholders' Equity Three months ended March 31, 2007 and 2006 (unaudited)
 - Statement of Cash Flows for the Three months ended March 31, 2007 and 2006 (unaudited)
 - Notes to Financial Statements
- Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
- Item 3. Controls and Procedures

PART II

OTHER INFORMATION

- Item 1. Legal Proceedings
- Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
- Item 3. Defaults Upon Senior Securities
- Item 4. Submission of Matters to a Vote of Security Holders
- Item 5. Other Information
- Item 6. Exhibits
 - Signatures
 - Index to Exhibits

2

PART I - FINANCIAL INFORMATION

Calibre Energy, Inc.

Balance Sheets

As of March 31, 2007 and December 31, 2006

(Unaudited)

Assets

Current Assets

Cash

Accounts receivable

Oil and gas sales - related party

Related party

Prepaid expenses and other

Ma

\$

Edgar Filing: Calibre Energy, Inc. - Form 10QSB

Total current assets	
Non-Current Assets	
Oil and gas properties, using full cost method	9
Properties subject to amortization	11
Properties not subject to amortization	11
Furniture and office equipment	
Less: Accumulated depreciation, depletion, and amortization	(6)
Net oil and gas properties, furniture and office equipment	15
Advances to operator-related party	
Investments-equity method	
Other assets, net	
Total assets	\$ 16
Liabilities and Shareholders' Equity	
Current Liabilities	
Accounts payable - trade	1
Accounts payable - related party	1
Advances from shareholder	
Accrued expenses	
Rights payable	1
Total current liabilities	5
Non-Current Liabilities	
Asset retirement obligations	
Total Liabilities	\$ 5
Shareholders' Equity	
Preferred stock; \$.001 par value; 10,000,000 authorized; none issued	
Common stock; \$.001 par value; 100,000,000 authorized; 62,437,704 and 62,350,806 issued and outstanding at March 31, 2007, and December 31, 2006, respectively	
Additional paid-in capital	24
Accumulated deficit	(13)
Total shareholders' equity	11
Total liabilities and shareholders' equity	\$ 16

See notes to financial statements.

Edgar Filing: Calibre Energy, Inc. - Form 10QSB

For the Three Months Ended March 31, 2007 and 2006
(Unaudited)

		Thru
		M
Revenue:		
Oil & gas sales	\$	1
Expenses:		
Lease operating expense		1
Severance and ad valorem taxes		1
Depreciation, depletion and amortization		1
General and administrative		1

Net Income (Loss) From Operations		(1)
Loss from equity investment		
Interest income		

Net Income (Loss)	\$	(1)
		=====
Earnings per share - basic and diluted	\$	
Weighted average shares outstanding - basic and diluted		62
See notes to financial statements.		

4

Calibre Energy, Inc.
Statement of Shareholders' Equity
From the Three Month Period ending March 31, 2007
(Unaudited)

	Common Stock		Additional Paid-in Capital	Ac
	Shares	Amount		
Balance, December 31, 2006	62,350,806	\$62,351	\$24,453,099	\$ (1)
Issuance of common stock for:				
- cashless exercise of warrants	14,974	15	(15)	
- exercise of warrants	20,000	20	14,980	
- cash	51,924	51	33,699	
Warrant expense	-	-	388,324	
Stock-based compensation	-	-	57,570	

Edgar Filing: Calibre Energy, Inc. - Form 10QSB

Net loss

Balance, March 31, 2007

62,437,704 \$62,437 \$24,947,657 \$ (1
=====

See notes to financial statements.

5

Calibre Energy, Inc.
Statement of Cash Flows
For the Three Months Ended March 31, 2007 and 2006
(Unaudited)

Cash flows from operating activities

Net loss

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

Non cash recapitalization expense
Non cash warrant expense
Stock based compensation
Depreciation , depletion and amortization
Accretion of asset retirement obligation
Equity in losses of affiliates

Changes in working capital components:
(Increase) in accounts receivable
Decrease/(Increase) in other current assets
Decrease/(Increase) in other assets
Increase in accounts payable
(Decrease)/Increase in accrued expense

Net cash (used in) operating activities

Cash flows from investing activities

Additions to oil and gas properties
Additions to furniture, office equipment, other assets and leasehold improvements
Receipts on notes receivable
Disbursements on note receivable

Net cash (used in) investing activities

Cash flows from financing activities

Advances from shareholder
Proceeds from sale of common stock

Net cash provided by financing activities

Net increase in cash

Edgar Filing: Calibre Energy, Inc. - Form 10QSB

Cash
Beginning of period
End of period

Supplemental cash flow information:
Interest paid
Income taxes paid

See notes to financial statements.

6

CALIBRE ENERGY, INC.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited interim financial statements of Calibre Energy, Inc. ("Calibre") have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission, and should be read in conjunction with the audited financial statements and notes thereto contained in Calibre's annual report filed with the SEC on Form 10-KSB for the period ending December 31, 2006. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements which would substantially duplicate the disclosure contained in the audited financial statements for the most recent fiscal year 2006 as reported in Form 10-KSB have been omitted.

Certain reclassifications have been made to amounts in prior periods to conform with the current period presentation.

Note 2. Organization and Business Operations

Calibre is an independent exploration and production company focused on the acquisition, exploitation, development and sale of crude oil and natural gas; in the Irbil Province of Kurdistan, Iraq; in the Barnett Shale in Texas; and the Fayetteville Shale in Arkansas. Calibre is a Nevada corporation, headquartered in Washington, DC and Houston, Texas. Calibre's predecessor company for financial reporting purposes was formed on August 17, 2005.

Calibre intends to expand and develop its exploration and production business and reserves by focusing on the exploration of the Bina Bawi Project in Kurdistan, Iraq and on its projects in the Barnett Shale. Calibre has a 10% participating interest in the Bina Bawi Exploration and Production Sharing Agreement with the Kurdish Regional Government in Kurdistan, Iraq, pursuant to a joint operating agreement with Hawler Energy, Ltd.

In October of 2005, Calibre commenced its operating activities by focusing on shale gas opportunities in the Barnett Shale and the Fayetteville Shale. Calibre initially targeted the Mississippian developments of the Barnett Shale in the Ft. Worth Basin and the Fayetteville Shale development in the Arkoma Basin. Calibre is currently participating in three projects with Kerogen Resources, Inc., a privately held exploration and production company located in Houston,

Edgar Filing: Calibre Energy, Inc. - Form 10QSB

Texas. The projects are the Reichmann Petroleum project, South Ft. Worth Basin project and Williston Basin project.

Calibre believes that major oil companies, in the course of exploring large tracts of international acreage, frequently choose to ignore or abandon smaller discoveries, or discoveries with special infrastructure requirements. Smaller companies, such as Calibre, without the overhead structures of these larger companies can often, through careful due diligence, planning and local intelligence, acquire and turn such discoveries into economic and profitable developments. Calibre's management has industry experience in many international producing areas and has the capability to continue to expand the scope of our activities as opportunities arise. Key elements of Calibre's ultimate success include our ability to select opportunities that will promote value creation, to form strategic alliances with influential local partners in certain prolific hydrocarbon regions, to develop our potential as an operator of our future projects, and as a non-operator to develop a close association with the operating companies for our projects and to maintain a certain degree of control over the timing, expense levels and execution of our projects.

Note 3. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

7

Calibre's financials are based on a number of significant estimates, including oil and gas reserve quantities which are the basis for the calculation of depreciation, depletion and impairment of oil and gas properties, and timing and costs associated with its retirement obligations.

Oil and Gas Properties

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

Under this method, all costs, including internal costs directly related to acquisition, exploration and development activities are capitalizable as oil and gas property costs. Properties not subject to amortization consist of exploration and development costs which are evaluated on a property-by-property basis. Amortization of these unproved property costs begins when the properties become proved or their values become impaired. Calibre assesses the realizability of unproved properties on at least an annual basis or when there has been an indication that impairment in value may have occurred. Impairment of unproved properties is assessed based on management's intention with regard to future exploration and development of individually significant properties and the ability of Calibre to obtain funds to finance such exploration and development. Calibre is currently participating in oil and gas exploration and development activities on onshore properties in the Fort Worth Basin, the Williston Basin and the Arkoma Basin and in an international onshore project in Irbil, Kurdistan, Iraq. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized. Calibre expects to evaluate the properties

Edgar Filing: Calibre Energy, Inc. - Form 10QSB

not subject to amortization by the end of 2007 or as events occur that indicate the potential for impairment. The costs not subject to amortization as of March 31, 2007 are as follows:

Year Incurred	Acquisition Costs	Exploration Costs	G&G Costs	Development Costs
2007	-	\$1,048,715	-	-
2006	4,076,347	2,269,106	-	-
2005	1,042,418	1,083,130	2,352,687	-
Total	\$5,118,765	\$4,400,951	\$2,352,687	-

The fair value of an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The present value of the estimated asset retirement costs is capitalized as part of the carrying amount of the long-lived asset. For Calibre, asset retirement obligations relate to the abandonment of oil and gas producing facilities. The amounts recognized are based upon numerous estimates and assumptions, including future retirement costs, future recoverable quantities of oil and gas, future inflation rates and the credit-adjusted risk-free interest rate.

Under full cost accounting rules for each cost center, capitalized costs of proved properties, less accumulated amortization and related deferred income taxes, shall not exceed an amount (the "cost ceiling") equal to the sum of (a) the present value of future net cash flows from estimated production of proved oil and gas reserves, based on current economic and operating condition, discounted at 10 percent, plus (b) the cost of properties not being amortized, plus (c) the lower of cost or estimated fair value of any unproved properties included in the costs being amortized, less (d) any income tax effects related to differences between the book and tax basis of the properties involved. If capitalized costs exceed this limit, the excess is charged as an impairment expense.

Investments

Investments are accounted for under the equity method in circumstances where we are deemed to exercise significant influence over the operations of the investee. Under the equity method, we recognize our share of the investee's earnings and losses in our statements of operations. Included in investments at March 31, 2007 is an equity investment of \$78,750. This investment has been accounted for under the equity method.

Revenue and Cost Recognition

Calibre uses the sales method of accounting for natural gas and oil revenues. Under this method, revenues are recognized based on the actual volumes of gas and oil sold to purchasers. The volume sold may differ from the volumes to which Calibre is entitled based on our interest in the properties. Costs associated with production are expensed in the period incurred.

Note 4. Going Concern

As shown in the accompanying financial statements, Calibre has incurred operating losses since inception and expects to continue to incur losses through

Edgar Filing: Calibre Energy, Inc. - Form 10QSB

2007. At March 31, 2007, Calibre had an accumulated deficit of \$13,345,057 and a working capital deficit of \$4,303,724. However, of this \$4,303,724 working capital deficit, \$1,703,446, consisted of a non-cash liability related to a charge for a registration delay expense that will be settled in Calibre common stock. Calibre has limited financial resources until such time that Calibre is able to raise additional capital or generate positive cash flow from operations. These factors raise substantial doubt about Calibre's ability to continue as a going concern. Calibre's ability to achieve and maintain profitability and positive cash flow is dependent upon Calibre's ability to locate profitable properties, generate revenue from their planned business operations, and control exploration cost. Management plans to fund its future operations by obtaining additional financing and commencing commercial production. However, there is no assurance that Calibre will be able to obtain additional financing from investors or private lenders and, if available, such financing may not be on commercial terms acceptable to Calibre or its shareholders.

Note 5. Reichmann Petroleum Bankruptcy

On December 8, 2006, the operator of the properties in the Barnett Shale Project, Reichmann Petroleum, filed for voluntary Chapter 11 bankruptcy protection. All development activity on this joint venture with Reichmann has ceased pending the resolution of legal claims. Calibre's interests in the Reichmann-operated properties are held through Calibre's agreement with Kerogen. As a result of the bankruptcy, Calibre's net share of working interest production is expected to be paid into a separate account under the control of the bankruptcy court. As of March 31, 2007, Calibre had an outstanding related party accounts receivable balance of \$518,021 from Kerogen related to revenue from certain wells in the Reichmann project. Furthermore, as of March 31, 2007, Calibre had an outstanding joint interest payable balance of approximately \$1.7 million to Kerogen for capital expenditures. As a result of the bankruptcy, related party accounts receivable may or may not be collectible. Calibre has petitioned the bankruptcy court and expects a resolution in the bankruptcy court that will permit payment of Calibre's share of working interest production. Calibre believes it will be successful in collecting its share of production revenues either in cash or in production-in-kind from Reichmann and Kerogen. Accordingly, no allowance has been made for the related party accounts receivable.

Additionally, Kerogen has petitioned the bankruptcy court to potentially continue with the development of the Reichmann leases with a new operator. Calibre believes, but cannot provide assurance, that the bankruptcy court will resolve to permit ongoing development operations on the project leases, however, the terms of the leases for the project generally require commencement of drilling operations within the primary term of each lease. If development does not proceed as a result of the Reichmann bankruptcy, those undeveloped and partially developed leases in the project will terminate and Calibre will have to impair these properties. Capital expenditures invested to date in these partially developed wells are approximately \$1.3 million.

Note 6. Related Party Transactions

Kerogen Resources

Our President and Chairman, Mr. Prentis B. Tomlinson, Jr., owns a 8.47% (on a fully diluted basis) stake of Kerogen Resources, Inc. ("Kerogen"), a privately held oil and gas exploration company. Calibre is party to three agreements with Kerogen pursuant to which we are participating in the following projects: the Reichmann project; the South Ft. Worth Basin project; and the Williston Basin project. We made no payments to or received any funds from Kerogen during the period ending March 31, 2007 with respect to these agreements. We recorded the estimated amount of revenue due from Kerogen in respect of these agreements for the three months ended March 31, 2007.

Edgar Filing: Calibre Energy, Inc. - Form 10QSB

Standard Drilling, Inc.

On January 16, 2007, Calibre entered into a Business Opportunity Agreement with Standard Drilling, Inc. pursuant to which Calibre agreed not to acquire, invest in or operate any oil field services business. Calibre also agreed to advise Standard Drilling, Inc., of any such opportunities presented to Calibre. In exchange, Standard Drilling, Inc. agreed not to acquire, invest in or operate any exploration and production business other than what it currently holds and to advise Calibre of any exploration and production business that is presented to it.

Hawler Energy, Ltd.

Pursuant to a Novation Agreement dated September 11, 2006, Calibre purchased for \$5.5 million a 10% participating interest from Hawler in the Exploration and Production Sharing Agreement (the "EPSA") between A&T, Hawler Energy and the Oil and Gas Petrochemical Establishment of the Kurdistan Regional Government (the "OGE"), subject to final approval of OGE. The EPSA provides for the exploration and development of the Bina Bawi prospects. In connection with the agreement, Calibre paid Hawler \$2.0 million on September 15, 2006 and agreed to pay an additional \$1.0 million upon completion of the first well of the Bina Bawi prospect. Further, Calibre agreed to pay up to \$2.5 million of Hawler's participating interests similar to a carried interest. Calibre paid Hawler Energy \$910,000 during the three months ending March 31, 2007 and has paid a total of \$4,356,606 since inception.

9

Advances from Shareholder

On February 9, 2007, our Chairman and Chief Executive Officer, Prentis B. Tomlinson, Jr., began advancing Calibre cash to cover general and administrative costs until additional financing could be secured. As of March 31, 2007, Mr. Tomlinson had advanced the Company \$199,000, which is shown in the accompanying financial statements as Advances from Shareholder. Calibre is obligated to repay Mr. Tomlinson on demand.

Note 7. 2005 Stock Incentive Plan

Calibre adopted the 2005 Stock Incentive Plan (the "Plan") in October 2005. Under the Plan, options may be granted to key employees and other persons who contribute to the success of Calibre. Calibre has reserved 9,000,000 shares of common stock for the Plan. Option awards are generally granted with an exercise price equal to the market price of Calibre's stock at the date of grant. During the three month period ended March 31, 2007, no options were granted or exercised.

A summary of option activity as of March 31, 2007 is presented below:

Weighted Average

Weighted Average
Remaining

Edgar Filing: Calibre Energy, Inc. - Form 10QSB

Options	Shares	Exercise Price	Contractual Te
Outstanding at January 1, 2007	2,850,000	\$0.45	
Granted	-	-	
Exercised, Forfeited, or Expired	-	-	
Outstanding at March 31, 2007	2,850,000	\$0.45	8
Exercisable at March 31, 2007	1,962,500	\$0.13	8

Note 8. Warrants

Calibre's warrants outstanding and exercisable as of March 31, 2007 are:

Warrants	Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Te
Outstanding at January 1, 2007	17,207,500	\$1.26	0.
Issued	1,000,000	0.75	0.
Exercised, Forfeited, or Expired	(45,000)	0.75	
Outstanding at March 31, 2007	18,162,500	\$1.24	0.
Exercisable at March 31, 2007	18,162,500	\$1.24	0.

During the three months ended March 31, 2007, 45,000 warrants were exercised, 25,000 on a cashless basis and 20,000 at \$0.75 per share, resulting in the issuance of 34,974 shares of common stock.

On February 23, 2007, Calibre issued a total of 1,000,000 warrants, with each warrant exercisable into one share of common stock at an exercise price of \$0.75 per share, in anticipation of obtaining additional financing from the parties involved in the November 2006 Private Placement. The warrants will expire two years after the date of issuance. For the three month period ended March 31, 2007, Calibre recorded general and administrative expense of \$388,324 to recognize these financing costs. The fair value of each warrant issued was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield \$0, expected volatility of 95.56%, risk-free interest rate of 4.7%, and expected lives of two years. The expected term of warrants granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

10

Note 9. Subsequent Events

Private Placement

On April 13, 2007, Calibre completed a private placement of 8,000,000 shares of Series A Convertible Preferred Stock with BlueWater Capital Group, LLC, a private investment group controlled by Calibre's Chairman, CEO and

Edgar Filing: Calibre Energy, Inc. - Form 10QSB

President, Prentis B. Tomlinson, Jr., in exchange for net proceeds of \$5,000,000 of which \$1,000,000 has been received by Calibre and the remaining \$4,000,000 has been structured as a non-interest bearing note payable to Calibre in monthly increments of \$800,000 through September 2007. The Series A Convertible Preferred Stock provide for votes equal to 51% of the total votes entitled to be cast by all outstanding capital stock. After the receipt of the total proceeds, the preferred shares may be convertible, at the election of the Holder, into a fixed amount of common stock, equal to 75% of total outstanding shares then issued and outstanding at the time of conversion.

Each holder of shares of Series A Convertible Preferred Stock shall be entitled at the election of the holder to cause any or all of such shares to be converted into shares of common stock on the basis of the Conversion Ratio then in effect, provided, however, that the conversion of the Series A Convertible Preferred Stock shall not be effective until the Articles of Incorporation of the Company have been amended to increase the number of authorized shares of common stock to at least 200,000,000 shares (the "Amendment"). Each share of Series A Convertible Preferred Stock shall be convertible into shares of common stock based on the ratio required to cause the number of shares of common stock issuable upon the conversion of 8,000,000 shares of Series A Preferred Stock to equal 75% of the number of shares of common stock then issued and outstanding after the conversion (the "Conversion Ratio").

The Series A Convertible Preferred Stock are not entitled to receive any dividends unless dividends are declared and paid on the Company's common stock. If dividends are paid on common stock, then each holder of a share of Series A Convertible Preferred Stock shall be entitled to receive the amount of dividends such holder would have received if its shares of Series A Convertible Preferred Stock had already been converted into shares of common stock. The Series A Convertible Preferred Stock were not issued in conjunction with any warrants.

Prior to conversion, the Series A Convertible Preferred Stock have a liquidation preference equal to \$5 million. In the event of any liquidation, dissolution or winding up of Calibre, either voluntary or involuntary (a "liquidation event"), a holder of the Series A Convertible Preferred Stock shall be entitled to receive out of Calibre's assets, prior to the holders of the common stock and the holders of Preferred Stock with rights junior to the Series A Convertible Preferred Stock, for each share of Series A Convertible Preferred Stock held by such holder, \$.625 per share (the "Liquidation Preference").

The voting power of each share of Series A Convertible Preferred Stock shall be equal to the number of votes required to cause the aggregate of the votes entitled to be cast by all of the issued and outstanding Series A Convertible Preferred Stock to equal 51% of all votes entitled to be cast by all classes of stock. The Series A Convertible Preferred Stock shall be entitled to vote on any and all matters brought to a vote of holders of common stock. Holders of Series A Convertible Preferred Stock shall be entitled to notice of all shareholder meetings or written consents with respect to which they would be entitled to vote, which notice would be provided to the holders of the common stock pursuant to the Company's Bylaws and applicable statutes.

11

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

The following discussion and analysis should be read in conjunction with the unaudited financial statements and notes thereto included elsewhere in this report. The terms "Calibre Energy," "Calibre," "we," "us" and "our" refer to Calibre Energy, Inc.

Edgar Filing: Calibre Energy, Inc. - Form 10QSB

Overview

Cautionary Statement Regarding Forward-Looking Statements

This report contains certain "forward-looking statements". Statements included in this report that are not historical facts, that address activities, events or developments that we expect or anticipate will or may occur in the future, including things such as plans for growth of the business, future capital expenditures, competitive strengths, goals, references to future goals or intentions or other such references are forward-looking statements. These statements can be identified by the use of forward-looking terminology, including "may," "believe," "expect," "anticipate," "estimate," "continue," or similar words. These statements are made by us based on our past experience and our perception of historical trends, current conditions and expected future developments as well as other considerations we believe are appropriate under the circumstances. Whether actual results and developments in the future will conform to our expectation is subject to numerous risks and uncertainties, many of which are beyond our control. Therefore, actual outcomes and results could materially differ from what is expressed, implied or forecast in these statements. Any differences could be caused by a number of factors, including, but not limited to:

- o a decline in or substantial volatility of crude oil and natural gas commodity prices;
- o the incurrence of significant costs and liabilities in the future resulting from our failure to comply with new or existing environmental regulations or an accidental release of hazardous substances into the environment;
- o political, economic, and legal uncertainty in Iraq; and
- o other financial, operational and legal risks and uncertainties detailed from time to time in our Securities and Exchange Commission filings.

All forward-looking statements included in this report and all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements speak only as of the date made, other than as required by law, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Plan of Operation

We are an independent exploration and production company focused on the acquisition, exploitation, development and sale of crude oil and natural gas in Irbil Province of Kurdistan, Iraq; in the Barnett Shale in Texas; and the Fayetteville Shale in Arkansas. We are a Nevada corporation, headquartered in Washington, DC and Houston, Texas. Our predecessor company for financial reporting purposes was formed on August 17, 2005.

We intend to expand and develop our exploration and production business and reserves by focusing on the exploration of the Bina Bawi Project in Kurdistan, Iraq and on our projects in the Barnett Shale. We have a 10% participating interest in the Bina Bawi Exploration and Production Sharing Agreement with the Kurdish Regional Government in Kurdistan, Iraq, pursuant to a joint operating agreement with Hawler Energy, Ltd. (Bina Bawi Project).

Acquisition, exploration and development.

Edgar Filing: Calibre Energy, Inc. - Form 10QSB

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

General and administrative.

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

12

Results of Operations for Three Month Period Ended March 31, 2007

Oil and Gas Revenues.

For the three months ended March 31, 2007, our oil and gas net sales were \$232,346 versus \$39,342 for the three months ended March 31, 2006. Oil and gas revenues are derived from our proportionate share of working interests in oil and gas properties.

On December 8, 2006, the operator of the properties in the Barnett Shale Project, Reichmann Petroleum, filed for voluntary Chapter 11 bankruptcy protection. All development activity on this joint venture with Reichmann has ceased pending the resolution of legal claims. Calibre's interests in the Reichmann-operated properties are held through Calibre's agreement with Kerogen. As a result of the bankruptcy, Calibre's net share of working interest production is expected to be paid into a separate account under the control of the bankruptcy court. As a result of the bankruptcy, receivable revenue may or may not be collectible. Calibre has petitioned the bankruptcy court and expects a resolution in the bankruptcy court that will permit payment of Calibre's share of working interest production. Calibre believes it will be successful in collecting its share of production revenues either in cash or in production-in-kind from Reichmann and Kerogen. Accordingly, no allowance has been made for the receivable.

General and Administrative Expenses.

For the three months ended March 31, 2007, general and administrative expenses totaled \$1,195,449 versus \$713,440 for the three months ended March 31, 2006. A total of \$546,184, which includes \$388,324 of warrant expense, was for costs associated with our general and administrative expenses, versus \$211,866 in the prior period, \$318,133 was for professional fees principally associated with public company costs versus \$246,568 in the prior period, and \$331,132 was for compensation expense versus \$255,006 in the prior period.

Net Loss.

For the three months ended March 31, 2007, we had a net loss of \$1,183,945 versus a net loss of \$673,612 for the three months ended March 31, 2006. The net loss is primarily attributable to minimal operating revenues to support general and administrative costs until such time as we achieve more substantial operating results from our drilling program.

Liquidity and Capital Resources.

Edgar Filing: Calibre Energy, Inc. - Form 10QSB

As of May 10, 2007, we had approximately \$1,565 in cash, and expect to realize an additional \$4,000,000 in equity proceeds from the April 13, 2007 placement of our Series A Preferred Convertible Stock with BlueWater Capital Group, LLC a private investment group controlled by our Chairman and Chief Executive Officer, Prentis B. Tomlinson, Jr. We anticipate that the proceeds from the Series A Preferred will be sufficient to cover our planned capital and operating expense budget for the remainder of 2007.

Our operations beyond 2007 will require substantial capital expenditures. If we are not able to continue to raise funds or dramatically increase our operational cash flow, we will be forced to curtail certain operations and may be unable to continue as a going concern. Additional financing through partnering, public or private equity financings, lease transactions or other financing sources may not be available on acceptable terms, or at all. Additional equity financings could result in significant dilution to our stockholders.

As of March 31, 2007, we had cash of \$4,913 and negative working capital of \$4,303,724, of which \$1,703,446 is for a non-cash registration penalty to certain shareholders arising from the inability to obtain an effective registration.

On April 13, 2007, Calibre completed a private placement of 8,000,000 shares of Series A Convertible Preferred Stock with BlueWater Capital Group, LLC, a private investment group controlled Calibre's our Chairman, CEO and President, Prentis B. Tomlinson, Jr., in exchange for net proceeds of \$5,000,000 of which \$1,000,000 has been received by Calibre and the remaining \$4,000,000 has been structured as a non interest bearing note payable to Calibre in monthly increments of \$800,000 over the next 5 months. The Series A Preferred provides for votes equal to 51% of the total votes entitled to be cast by all outstanding capital stock. After the receipt of the total proceeds, the preferred shares may be convertible, at the election of the Holder, into a fixed amount of common stock, equal to 75% of total outstanding shares of common stock at the time of conversion.

13

Each holder of shares of Series A Convertible Preferred Stock shall be entitled at the election of the holder to cause any or all of such shares to be converted into shares of Common Stock on the basis of the Conversion Ratio then in effect, provided, however, that the conversion of the Series A Convertible Preferred Stock shall not be effective until the Articles of Incorporation of the Company have been amended to increase the number of authorized shares of Common Stock to at least 200,000,000 shares (the "Amendment"). Each share of Series A Convertible Preferred Stock shall be convertible into shares of Common Stock based on the ratio required to cause the number of shares of Common Stock issuable upon the conversion of 8,000,000 shares of Series A Preferred Stock to equal 75% of the number of shares of Common Stock then issued and outstanding after the conversion (the "Conversion Ratio").

The Series A Preferred are not entitled to receive any dividends unless dividends are declared and paid on the Company's Common Stock. If we pay dividends on our Common Stock, then each holder of a share of Series A Convertible Preferred Stock shall be entitled to receive the amount of dividends such holder would have received if its shares of Series A Convertible Preferred Stock had already been converted into shares of Common Stock. The Series A Preferred were not issued in conjunction with any warrants.

Prior to conversion, the Series A Preferred has a liquidation preference equal to \$5 million. In the event of any liquidation, dissolution or winding up of Calibre, either voluntary or involuntary (a "liquidation event"),

Edgar Filing: Calibre Energy, Inc. - Form 10QSB

a holder of the Series A Convertible Preferred Stock shall be entitled to receive out of Calibre's assets, prior to the holders of the Common Stock and the holders of Preferred Stock with rights junior to the Series A Preferred, for each share of Series A Convertible Preferred Stock held by such holder, \$0.625 per share (the "Liquidation Preference").

The voting power of each share of Series A Convertible Preferred Stock shall be equal to the number of votes required to cause the aggregate of the votes entitled to be cast by all of the issued and outstanding Series A Convertible Preferred Stock to equal 51% of all votes entitled to be cast by all classes of stock. The Series A Convertible Preferred Stock shall be entitled to vote on any and all matters brought to a vote of holders of common stock. Holders of Series A Convertible Preferred Stock shall be entitled to notice of all shareholder meetings or written consents with respect to which they would be entitled to vote, which notice would be provided to the holders of the common stock pursuant to the Company's Bylaws and applicable statutes.

Cash flow from operating activities

For the three month period ended March 31, 2007, net cash used in operating activities was \$456,997, primarily attributed to a net loss of \$1,183,945 in the period, versus net cash used in operating activities of a \$141,946 in the three month period ended March 31, 2006.

Cash flow from investing activities

For the three month period ended March 31, 2007, net cash used in investing activities was \$1,042,974, primarily attributed to our investment in the Bina Bawi project, versus net cash used in investing activities of a \$3,469,743 for the three month period ended March 31, 2006.

Cash flow from financing activities

For the three month period ended March 31, 2007, net cash flows from financing activities was an advance from a shareholder for \$199,000 and proceeds from new equity of \$48,750 versus net cash flows from financing activities of a \$5,814,594 for the three month period ended March 31, 2006.

Hedging

We did not hedge any of our oil or natural gas production during 2006 and have not entered into any such hedges from January 1, 2007 through the date of this filing.

Contractual Commitments - March 31, 2007

	Payments Due By Pe		
	Less Than	Year 2	Year 3
	1 Year	Year 2	Year 3
Obligations	\$212,842	\$184,675	\$108,261
Drilling Well in Progress	584,258	2,494,258	-
Total	\$797,100	\$2,678,933	\$108,261

Edgar Filing: Calibre Energy, Inc. - Form 10QSB

All of our drilling well obligations are associated with the Bina Bawi Project.

As of March 31, 2007, we had no long-term debt obligations, capital lease obligations or purchase obligations. We have asset retirement obligations of \$54,088.

Off-Balance Sheet Arrangements

As of March 31, 2007, we had no off-balance sheet arrangements.

Related Party Transactions

Our President and Chairman, Mr. Prentis B. Tomlinson, Jr., owns a 8.47% (on a fully diluted basis) stake of Kerogen Resources, Inc. ("Kerogen"), a privately held oil and gas exploration company. Calibre is party to three agreements with Kerogen pursuant to which we are participating in the following projects: the Reichmann project; the South Ft. Worth Basin project; and the Williston Basin project. We made no payments to or received any funds from Kerogen during the period ending March 31, 2007 with respect to these agreements. We recorded the estimated amount of revenue due from Kerogen in respect of these agreements for the three months ended March 31, 2007.

Pursuant to a Novation Agreement dated September 11, 2006, Calibre purchased for \$5.5 million a 10% participating interest from Hawler in the Exploration and Production Sharing Agreement (the "EPSA") between A&T, Hawler Energy and the Oil and Gas Petrochemical Establishment of the Kurdistan Regional Government (the "OGE"), subject to final approval of OGE. The EPSA provides for the exploration and development of the Bina Bawi prospects. In connection with the agreement, Calibre paid Hawler \$2.0 million on September 15, 2006 and agreed to pay an additional \$1.0 million upon completion of the first well of the Bina Bawi prospect. Further, Calibre agreed to pay up to \$2.5 million of Hawler's participating interests similar to a carried interest. Calibre paid Hawler Energy \$910,000 during the three months ending March 31, 2007 and has paid a total of \$4,356,606 since inception.

We share facilities and certain overhead costs with Standard Drilling in Washington D.C. We have entered into a service agreement by which Standard Drilling will pay us for office space and supplies, use of office equipment, secretarial services and any other services we provide to them in sharing the Washington D.C. office space. Standard Drilling reimburses us for 50% of the costs of the health insurance provided to officers who are employed by both companies. The average payment by Standard Drilling to Calibre under the services agreement is \$70,000 per quarter for 2006 and will be reviewed for any potential adjustment in January 2007. The services agreement may be terminated by either party on 30 days notice.

Potomac Energy, LLC ("Potomac") is a joint venture entity formed by Standard Drilling and us to acquire software licenses and data sufficient to build and maintain a land title database that will cover a portion of the Ft. Worth Basin in north central Texas. We and Standard Drilling each own 50% of Potomac and each contributed \$87,500 to Potomac. We and Standard Drilling will share 50/50 in all costs of Potomac. Each of us will have access to the Potomac database. In addition, we will each have a right to participate in 50% of any prospect generated by the database. Potomac had no activities in the period ended March 31, 2007. Potomac is governed by a two person board comprised of one representative of Standard Drilling and one of our representatives. William B. Nunnallee, our Vice President of Land, serves as an officer and director of Potomac.

On February 9, 2007, our Chairman and Chief Executive Officer, Prentis B. Tomlinson, Jr., began advancing the Company sums to cover general and

Edgar Filing: Calibre Energy, Inc. - Form 10QSB

administrative costs until additional financing could be secured, under a note receivable. As of March 31, 2007, Mr. Tomlinson had advanced the Company \$199,000, which is shown in the balance sheet in the accompanying financial statements as Advances from Shareholders. Calibre is obligated to repay Mr. Tomlinson on demand.

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

Critical Accounting Policies

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

15

Item 3. Controls and Procedures.

Our management, with the participation of our Chief Executive Officer and Interim Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of March 31, 2007. Based on this evaluation, our Chief Executive Officer and Interim Chief Financial Officer, Prentis B. Tomlinson, Jr., and has concluded that, as of March 31, 2007, our disclosure controls and procedures were not effective. Our conclusion was based on (1) our lack of systematic accounting and disclosure procedures, (2) the initial stages of the development of our IT systems, (3) the hiring and development of new personnel and (4) the number of adjustments identified by our independent auditors during the course of their review. We attribute all of the identified weaknesses to the formative stage of our organizational development. We currently lack the personnel resources to ensure that our disclosure controls and procedures are adequate. We are addressing the procedural and control issues by adding more formalized accounting procedures and IT systems to maintain and monitor our oil and gas properties and reserves.

Calibre has substantially increased its business activities since the merger on January 27, 2006. Accordingly, Calibre has been required to improve its system of internal control over financial reporting during the fiscal quarter covered by this report by (1) initiating a plan to formalize accounting and disclosure procedures for oil and gas properties and reserve calculations; (2) further development of our internal IT systems; (3) performing additional reviews of our internal oil and gas properties and reserve calculations prior to review by our independent auditors to ensure that no items that would have a material affect or are reasonably likely to have a material affect on internal control over financial reporting will be identified prior to issuance of our reports.

There were no significant changes in our internal control over financial reporting during the quarter ended March 31, 2007 that have materially

Edgar Filing: Calibre Energy, Inc. - Form 10QSB

affected or are reasonably likely to materially affect our internal control over financial reporting.

16

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Our management is not aware of any significant litigation, pending or threatened, that would have a significant adverse effect on our financial position or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Recent Sales of Unregistered Securities. Set forth below is certain information concerning all issuances of securities by the Company during the fiscal quarter ended March 31, 2007 that were not registered under the Securities Act.

In January of 2007, Calibre issued 34,974 shares of common stock in exchange for the exercise of 45,000 warrants; 25,000 were exercised on a cashless basis and 20,000 were exercised at \$0.75 per share. In March of 2007, Calibre issued 51,924 shares of common stock pursuant to a Private Placement.

On February 23, 2007, Calibre issued a total of 1,000,000 warrants at an exercise price of \$0.75 in anticipation of obtaining additional financing from the parties involved in the November 2006 Private Placement. The warrants will expire two years after the date of issuance.

On April 13, 2007, we completed a private placement of 8,000,000 shares of Series A Convertible Preferred Stock with BlueWater Capital Group, LLC, a private investment group controlled by our Chairman, CEO and President, Prentis B. Tomlinson, Jr., in exchange for net proceeds of \$5,000,000 of which \$1,000,000 has been received by Calibre and the remaining \$4,000,000 has been structured as a non interest bearing note payable to Calibre in monthly increments of \$800,000 over the next 5 months. The Series A Convertible Preferred Stock has that number of votes equal to 51% of the total votes entitled to be cast by all outstanding capital stock. After the receipt of the total proceeds, the preferred shares may be convertible, at the election of the Holder, into a fixed amount of common stock, equal to 75% of total outstanding shares of common stock after the time of conversion.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None. Item 6. Exhibits.

Exhibit 31.1* Chief Executive Officer and Chief Financial Officer Certification Pursuant to Section 13a-14 of the Securities Exchange Act

Exhibit 32.1* Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Edgar Filing: Calibre Energy, Inc. - Form 10QSB

*Filed herewith

17

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, thereunto duly authorized.

CALIBRE ENERGY, INC.
Registrant

Dated: May 21, 2007 By: S/ Prentis B. Tomlinson, Jr.
Prentis B. Tomlinson, Jr.
Chairman and Chief Executive Officer and Interim Chief Financial Officer

18

INDEX TO EXHIBITS

OF

CALIBRE ENERGY, INC.

Exhibit 31.1 *	Chief Executive Officer and Chief Financial Officer Certification Pursuant to Section 13a-14 of the Securities Exchange Act
Exhibit 32.1 *	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

*Filed herewith

19