TRIMERICA ENERGY CORP

FORM 10-K
(Annual Report)

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Industry	Oil & Gas Exploration and Production
Sector	Energy
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K

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

For the fiscal year ended **December 31, 2012**

Commission file number **000-28015**

TREATY ENERGY CORPORATION

(Name of Small Business Issuer in Its Charter)

NEVADA	**86-0884116**
(State or other jurisdiction of incorporation or organization)	(Employer Identification No.)

201 St. Charles Ave., Suite 2558
New Orleans, LA 70170
(Address of principal executive offices, including zip code.)

(504) 599-5684
(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer (Do not check if a smaller reporting company)	☐	Smaller reporting company	☑

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity. Based on the closing sale price on June 30, 2012 ($0.030 per share), the aggregate market value of the voting common stock held by non-affiliates (873,017,421) is $26,190,523.

State the number of shares outstanding of each of the registrant's classes of common stock as of May 28, 2013: 1,247,924,036.

Documents Incorporated by reference: None.

TREATY ENERGY CORPORATION
FORM 10-K
For the Year Ended December 31, 2012

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PART 1 – Financial Information

ITEM 1. BUSINESS FACTORS

Information Regarding Forward-Looking Statements

This report contains forward-looking statements that involve risks and uncertainties. We generally use words such as "believe," "may," "could," "will," "intend," "expect," "anticipate," "plan," and similar expressions to identify forward-looking statements. You should not place undue reliance on these forward-looking statements. Our actual results could differ materially from those anticipated in the forward-looking statements for many reasons, including the risks described below and elsewhere in this report. Although we believe the expectations reflected in the forward-looking statements are reasonable, they relate only to events as of the date on which the statements are made, and our future results, levels of activity, performance or achievements may not meet these expectations. We do not intend to update any of the forward-looking statements after the date of this document to conform these statements to actual results or to changes in our expectations, except as required by law.

History

Treaty Energy Corporation, formerly known as Alternate Energy Corp., ("Treaty", the "Company", "we", or "us") was incorporated as COI Solutions, Inc. in the State of Nevada in August, 1997.

We incorporated as COI Solutions, Inc. on August 1, 1997 as a Nevada corporation. On May 22, 2003, we acquired all the assets of AEC I Inc., formerly known as Alternate Energy Corporation, and changed our name to Alternate Energy Corp. We commenced active business operations on June 1, 2003 and were an exploration stage company under Codification Topic No. 915 developing alternate renewable energy sources.

The Company merged with Treaty Petroleum, Inc., a Texas Corporation, under a transaction commonly referred to as a reverse merger. With the change in ownership in December 2008, we embarked on a new business plan, focusing on oil and gas production.

We are a crude oil and natural gas producing company.

Our Business

Treaty is in the business of acquiring oil and gas properties with production capabilities and proven reserves.

Government Regulation

Proposals and proceedings that might affect the oil and gas industry are periodically presented to Congress, the Federal Energy Regulatory Commission ("FERC"), the Minerals Management Service ("MMS"), state legislatures and commissions and the courts. We cannot predict when or whether any such proposals may become effective. The natural gas industry is heavily regulated. There is no assurance that the regulatory approach currently pursued by various agencies will continue indefinitely. Notwithstanding the foregoing, we currently do not anticipate that compliance with existing federal, state and local laws, rules and regulations, will have a material or significantly adverse effect upon our capital expenditures, earnings or competitive position. No material portion of our business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the federal government.

Our operations are subject to various types of regulation at the federal, state and local levels. This regulation includes requiring permits for drilling wells, maintaining bonding requirements in order to drill or operate wells and regulating the location of wells, the method of drilling and casing of wells, the surface use and restoration of properties upon which wells are drilled, the plugging and abandoning of wells and the disposal of fluids used or generated in connection with operations. Our operations are also subject to various conservation laws and regulations. These include the regulation of the size of drilling and spacing units or proration units and the density of wells which may be drilled and the unitization or pooling of oil and natural gas properties. In addition, state conservation laws sometimes establish maximum rates of production from oil and natural gas wells, generally prohibit the venting or flaring of natural gas and impose certain requirements regarding the ratability of production. The effect of these regulations may limit the amount of oil and natural gas we can produce from our wells in a given state and may limit the number of wells or the locations at which we can drill.

Currently, there are no federal, state or local laws that regulate the price for our sales of natural gas, natural gas liquids, crude oil or condensate. However, the rates charged and terms and conditions for the movement of gas in interstate commerce through certain intrastate pipelines and production area hubs are subject to regulation under the Natural Gas Policy Act of 1978, as amended. Pipeline and hub construction activities are, to a limited extent, also subject to regulations under the Natural Gas Act of 1938, as amended. While these controls do not apply directly to us, their effect on natural gas markets can be significant in terms of competition and cost of transportation services, which in turn can have a substantial impact on our profitability and costs of doing business. Additional proposals and proceedings that might affect the natural gas and crude oil extraction industry are considered from time to time by Congress, FERC, state regulatory bodies and the courts. We cannot predict when or if any such proposals might become effective and their effect, if any, on our operations. We do not believe that we will be affected by any action taken in any materially different respect from other crude oil and natural gas producers, gatherers and marketers with whom we compete.

State regulation of gathering facilities generally includes various safety, environmental and in some circumstances, nondiscriminatory take requirements. This regulation has not generally been applied against producers and gatherers of natural gas and crude oil to the same extent as processors, although natural gas and crude oil gathering may receive greater regulatory scrutiny in the future.

Our oil and natural gas production and saltwater disposal operations and our processing, handling and disposal of hazardous materials, such as hydrocarbons and naturally occurring radioactive materials ("NORM") are subject to stringent environmental regulation. Compliance with environmental regulations is generally required as a condition to obtaining drilling permits. State inspectors frequently inspect regulated facilities and review records required to be maintained for document compliance. We could incur significant costs, including cleanup costs resulting from a release of hazardous material, third-party claims for property damage and personal injuries, fines and sanctions, as a result of any violations or liabilities under environmental or other laws. Changes in or more stringent enforcement of environmental laws could also result in additional operating costs and capital expenditures.

Various federal, state and local laws regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, directly impact oil and natural gas exploration, development and production operations, and consequently may impact our operations and costs. These regulations include, among others, (i) regulations by the Environmental Protection Agency ("EPA"), and various state agencies regarding approved methods of disposal for certain hazardous and non-hazardous wastes; (ii) the Comprehensive Environmental Response, Compensation and Liability Act, and analogous state laws, which regulate the removal or remediation of previously disposed wastes (including wastes disposed of or released by prior owners or operators), property contamination (including groundwater contamination), and remedial plugging operations to prevent future contamination; (iii) the Clean Air Act and comparable state and local requirements, which may require certain pollution controls with respect to air emissions from our operations; (iv) the Oil Pollution Act of 1990, which contains numerous requirements relating to the prevention of and response to oil spills into waters of the United States; (v) the Resource Conservation and Recovery Act, which is the principal federal statute governing the treatment, storage and disposal of hazardous wastes; and (vi) state regulations and statutes governing the handling, treatment, storage and disposal of NORM.

In the course of our routine oil and natural gas operations, surface spills and leaks, including casing leaks of oil or other materials may occur, and we may incur costs for waste handling and environmental compliance. It is also possible that our oil and natural gas operations may require us to manage NORM. NORM are present in varying concentrations in sub-surface formations, including hydrocarbon reservoirs, and may become concentrated in scale, film and sludge in equipment that comes in contact with crude oil and natural gas production and processing streams. Some states, including Michigan and Texas, have enacted regulations governing the handling, treatment, storage and disposal of NORM. Moreover, we are able to control directly the operations of only those wells for which we act as the operator. Despite our lack of control over wells owned by us but operated by others, the failure of the operator to comply with the applicable environmental regulations may, in certain circumstances, be attributed to us under applicable state, federal or local laws or regulations.

We are in the process of achieving substantial compliance with all currently applicable environmental laws and regulations. Since these laws and regulations are periodically amended, however, we are unable to predict the additional cost of compliance, if any. To our knowledge, there are currently no material adverse environmental conditions that exist on any of our properties and there are no current or threatened actions or claims by any local, state or federal agency, or by any private landowner against us pertaining to such a condition. Further, we are not aware of any currently existing condition or circumstance that may give rise to such actions or claims in the future.

Competition

We face competition from other oil and natural gas companies in all aspects of our business, including acquisition of producing properties and oil and natural gas leases, marketing of oil and natural gas, and obtaining goods, services and labor. Most of our competitors have substantially larger financial and other resources than we have. Factors that affect our ability to acquire producing properties include available funds, available information about prospective properties and our limited number of employees. Competition is also presented by alternative fuel sources, including heating oil and other fossil fuels. Renewable energy sources may become more competitive in the future.

The availability of a ready market for and the price of any hydrocarbons produced will depend on many factors beyond our control including, but not limited to, the amount of domestic production and imports of foreign oil and liquefied natural gas, the marketing of competitive fuels, the proximity and capacity of natural gas pipelines, the availability of transportation and other market facilities, the demand for hydrocarbons, the effect of federal and state regulation of allowable rates of production, taxation, the conduct of drilling operations and federal regulation of crude oil and natural gas. In addition, the restructuring of the natural gas pipeline industry virtually eliminated the gas purchasing activity of traditional interstate gas transmission pipeline buyers. Producers of natural gas have therefore been required to develop new markets among gas marketing companies, end users of natural gas and local distribution companies. All of these factors, together with economic factors in the marketing arena, generally affect the supply of and/or demand for oil and natural gas and thus the prices available for sales of oil and natural gas.

Employees

Treaty Energy Corporation has no employees. All services are currently done through contracted vendors.

ITEM 1A. RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the following risk factors, other information included in this annual report and information in our other periodic reports filed with the SEC. If any of the following risks actually occur, our business, financial condition or results of operations could be materially and adversely affected.

Risks Related to Our Business

Oil Prices

Oil prices are volatile. A substantial decrease in oil prices would significantly affect our business and impede our growth.

Our revenues, profitability and future growth depend upon prevailing oil prices. Prices also affect the amount of cash flow available for capital expenditures and our ability to borrow and raise additional capital. Lower prices may also reduce the amount of oil that we can economically produce. It is possible that prices will be low at the time periods in which the wells are most productive, thereby reducing overall returns. It is possible that prices will drop so low that production will become uneconomical. If production becomes uneconomical, we may decide to discontinue production until prices improve.

Prices for oil fluctuate widely. The prices for oil are subject to a variety of factors beyond our control, including:

- the level of consumer product demand;
- weather conditions;
- domestic and foreign governmental regulations;
- the price and availability of alternative fuels;

- political conditions in oil producing regions;
- the domestic and foreign supply of oil;
- speculative trading and other market uncertainty; and
- worldwide economic conditions.

The failure to develop reserves could adversely affect our production and cash flows.

Our success depends upon our ability to find, develop or acquire oil and natural gas reserves that are economically recoverable. We will need to conduct successful exploration or development activities or acquire properties containing proved reserves, or both. The business of exploring for, developing or acquiring reserves is capital intensive. We may not be able to make the necessary capital investment to expand our oil and natural gas reserves from cash flows, and external sources of capital may be limited or unavailable. Our drilling activities may not result in significant reserves, and we may not have continuing success drilling productive wells. Exploratory drilling involves more risk than development drilling because exploratory drilling is designed to test formations in which proved reserves have not been discovered. Additionally, while our revenues may increase if prevailing gas prices increase significantly, our finding costs for reserves also could increase, and we may not be able to finance additional exploration or development activities.

We may have difficulty financing our planned growth.

We will require substantial additional financing to fund our planned growth. Additional financing may not be available to us on acceptable terms or at all. If additional capital resources are unavailable, we may be forced to curtail our acquisition, development drilling and other activities or to sell some of our assets on an untimely or unfavorable basis. We are in the process of evaluating strategic alternatives as of the date of this report.

Our current operating activity is concentrated in Texas and Belize. As a result, we may be disproportionately exposed to the impact of drilling and other delays or disruptions of production from these regions caused by weather conditions, governmental regulation, lack of field infrastructure, or other events which impact this area.

We may continue to incur losses.

We reported a net loss attributable to Treaty shareholders for the years ended December 31, 2012 and 2011 of $12,192,929 and $7,149,202, respectively. There is no assurance that we will be able to achieve and maintain profitability.

Our oil and natural gas reserve data are estimates based on assumptions that may be inaccurate and existing economic and operating conditions that may differ from future economic and operating conditions.

- Reservoir engineering is a subjective and inexact process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact manner and is based upon assumptions that may change from year to year and vary considerably from actual results. Accordingly, reserve estimates may be subject to downward or upward adjustment. Actual production, revenue and expenditures with respect to our reserves will likely vary from estimates, and such variances may be material. Information regarding discounted future net cash flows should not be considered as the current market value of the estimated oil and natural gas reserves that will be attributable to our properties. Examples of items that may cause our estimates to be inaccurate include, but are not limited to, the following:
- The estimated discounted future net cash flows from proved reserves are based on twelve-month average prices and costs , while actual future prices and costs may be materially higher or lower;
- Because we have limited operating cost data to draw upon, the estimated operating costs used to calculate our reserve values may be inaccurate;
- Actual future net cash flows also will be affected by factors such as the amount and timing of actual production, supply and demand for oil and natural gas, increases or decreases in consumption, and changes in governmental regulations or taxation;
- Our reserve report for our producing properties assumes that production will be generated from each well for a period of 15 years. Because production is expected for such an extended period of time, the probability is enhanced that conditions at the time of production will vary materially from the current conditions used to calculate future net cash flows; and
- The 10% discount factor, which is required by the Financial Accounting Standards Board to be used in calculating discounted future net cash flows for reporting purposes, is not necessarily the most appropriate discount factor based on interest rates in effect from time to time and risks that will be associated with our operations or the oil and natural gas industry in general.

Going Concern Issues

The accompanying financial statements have been prepared assuming that Treaty will continue as a going concern. As shown in the accompanying financial statements, we had negative cash flows from operations of $3,199,464 in 2012, $1,472,542 in 2011, and a working capital deficit of $3,084,066 at December 31, 2012. These conditions raise substantial doubt as to our ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern. Management intends to finance these deficits by making additional shareholder notes and seeking additional outside financing through debt.

We may incur non-cash charges to our operations as a result of current and future financing transactions.

Under current accounting rules and requirements, we may incur additional non-cash charges to future operations beyond the stated contractual interest payments required under our current and potential future credit facilities. While such charges are generally non-cash, they would impact our results of operations and earnings per share and could be material.

Effect of Royalty and Working Interest Sales

In financing the well operations, the Company has sold various Royalty and Working Interest sales which limits the revenues and cash flows that the Company will realize from oil and gas sales.

ITEM 1B. UNRESOLVED STAFF COMMENTS

The registrant is not an accelerated filer and is therefore not required to complete this section.

ITEM 2. PROPERTIES

Our administrative offices are located at 201 St. Charles Ave., Suite 2506, New Orleans, LA 70170.

ITEM 3. LEGAL PROCEEDINGS

Prior legal proceedings reported in past reports have been settled and no future liability is foreseen.

However, subsequent to December 31, 2013, the following legal issues have arisen:

In January 2013, the Company was advised that legal remedies were being sought by the party involved in the rescission action pertaining to the Belize investment. The Company disputes that the amount of $120,000 had become past due as the stock to be returned had not been returned at that point. Aside from the stated amount due for the rescission and described in Note 13, the Company does not believe that any additional liability will be incurred.

On May 23, 2013, a vendor obtained a judgment against the Company for an unpaid invoice, plus court fees and interest of $98,069.86. The Company acknowledges the liability and is currently working with the vendor for a payment plan to repay the amount due.

We may be involved from time to time in ordinary litigation, negotiation and settlement matters that will not have a material effect on our operations or finances. We are not aware of any pending or threatened litigation against us or our officers and directors in their capacity as such that could have a material impact on our operations or finances.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to the shareholders during the fourth quarter of 2012.

PART II – Other Information

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Our shares currently trade on the electronic OTCMarkets (OTCQB), a regulated quotation service, under the symbol " **TECO** ." Listed below are the highest and lowest bid prices for our common stock for each calendar quarter for 2012 and 2011 as reported on the OTCBB, and represents inter-dealer quotations, without retail markup, markdown, or commission and may not be reflective of actual transactions.

Quarter Ended	**High**	**Low**
March 31, 2012	$ 0.098	$ 0.036
June 30, 2012	0.056	0.026
September 30, 2012	0.060	0.033
December 31, 2012	0.034	0.013
March 31, 2011	$ 0.014	$ 0.008
June 30, 2011	0.077	0.014
September 30, 2011	0.069	0.035
December 31, 2011	0.058	0.033

At December 31, 2012, there were 945,249,192 shares of our common stock issued and outstanding.

Holders

As of December 31, 2012, we had approximately 1,403 shareholders of record, including common shares held by brokerage clearing houses, depositories, or otherwise in unregistered form. We estimate that there are a total of about 6,500 shareholders.

Dividends

We have not declared or paid cash dividends on our common stock since inception and do not anticipate paying such dividends in the foreseeable future. The payment of dividends may be made at the discretion of the Board of Directors and will depend upon, among other factors, our operations, capital requirements, and overall financial condition.

Securities Authorized for Issuance under Equity Compensation Plans

On February 23, 2011 Treaty Energy adopted a stock option plan, the 2011 Stock Benefit Plan (the “Plan”), that is accounted for based on Accounting Standards Codification No. 718, *Compensation – Stock Compensation* . The Plan allows the Company to grant stock and options to persons employed or associated with the Company, including, without limitation, any employee, attorney, accountant, consultant or advisor up to an aggregate of 100,000,000 common shares. The Plan was amended on August 8, 2012 to bring the aggregate number of shares issuable to 155,000,000 common shares.

During the year ended December 31, 2011, we issued 99,776,623 shares under this plan and had 223,377 shares remaining. With the August 8, 2012 amendment of the Plan, the remaining shares available increased to 55,223,377 common shares. During the year ended December 31, 2012, we issued 55,214,392 common shares.

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

The following is a list of unregistered sales of securities for the year ended December 31, 2012. For the accounting treatment of these issuances, see Note 7 to the financial statements.

- On June 7, 2012, the Company issued 177,143 shares of common stock to a related party, to relieve $5,000 of debt. The fair value of the shares was $6,377 resulting in a loss of $1,377.
- On August 3, 2012, the Company issued 15,872,936 shares of common stock valued at $427,500 for cash payments from unrelated investors.
- Also on August 3, 2012, the Company issued 4,592,986 shares of common stock valued at $229,649, to a related party controlled by our Chairman, Andrew Reid, to relieve debt of $126,275 to that company, resulting in a loss of $103,374.
- Also on August 3, 2012, the Company issued 1,000,000 shares of common stock valued at $50,000, for services rendered to the Company by consultants.
- Also on August 3, 2012, the Company issued 557,143 shares of common stock valued at $27,857 for the purchase of equipment. This amount exceeded the invoice amount by $11,357, which was therefore expensed.
- Also on August 3, 2012, the Company issued 1,962,490 shares of common stock valued at $98,125, to pay an outstanding balance to one of our legal consultants.
- On August 8, 2012, the Company issued 22,185,893 shares of common stock valued at $1,082,672 to a principal in a related company controlled by our Chairman and Chief Executive Officer, Andrew Reid as recognition for his efforts in providing shares for fund raising on behalf of the Company and for unpaid and unreimbursed fees and expenses. The value of the shares were expensed.
- On August 9, 2012, the Company issued 7,616,533 shares of common stock valued at 373,210 to our Chairman and Chief Executive Officer, Andrew Reid as recognition for his efforts in providing shares for fund raising on behalf of the Company and for unpaid and unreimbursed fees and expenses. The value of the shares were expensed.
- On August 20, 2012, the Company issued 3,943,750 shares of common stock valued at $104,250 for cash payments from unrelated investors.
- Also on August 20, 2012, the Company issued 28,506,812 shares of common stock valued at $1,331,268, to a related party controlled by our Chairman, Andrew Reid, to relieve debt of $578,400 to that company, resulting in a loss of $752,868.
- Also on August 20, 2012, the Company issued 8,347,188 shares of common stock valued at $389,814, for services rendered to the Company by consultants.
- On August 27, 2012, the Company issued 7,500,000 shares of common stock valued at $345,000, to the Company's new Chief Financial Officer, George Warren, in recognition of his efforts in raising capital for the company. The value of the shares were expensed.
- On August 29, 2012, the Company issued 18,662,011 shares of common stock valued at $839,791, to consultants and others who had provided services to the company.
- On September 5, 2012, the Company issued 600,000 shares of common stock, valued at $60,000 for the conversion of preferred stock. The conversion was consistent with the original issuance agreement, therefore no gain or loss was recognized.
- On September 6, 2012, the Company issued 20,180,000 shares of common stock valued at $864,200, to consultants and others who had provided services to the company.
- On September 17, 2012, the Company issued 5,000,000 shares of common stock valued at $180,000, to consultants and others who had provided services to the company.
- On October 4, 2012, the Company issued 7,380,952 shares of common stock valued at $300,461, to consultants and others who had provided services to the company.
- On October 9, 2012, the Company issued 30,000,000 shares of common stock valued at $1,200,000, to complete the purchase of the 3K Oil Trust.
- Also on October 9, 2012, the Company issued 5,000,000 shares of common stock valued at $150,000, to a consultant who had provided services to the company.
- On October 16, 2012, the Company issued 1,500,000 shares of common stock valued at $66,500, to a consultant who had provided services to the company.
- On November 26, 2012, the Company issued 5,000,000 shares of common stock valued at $150,000, to a consultant who had provided services to the company.
- On November 28, 2012, the Company issued 714,286 shares of common stock valued at $20,000 for cash payments from unrelated investors.
- On December 20, 2012, the Company issued 2,500,000 shares of common stock valued at $47,500, to a consultant who had provided services to the company.

ITEM 6. SELECTED FINANCIAL DATA

A smaller reporting company is not required to provide the information required by this item.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS AND PLAN OF OPERATION

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto, and other financial information included elsewhere in this Form 10-K. This report contains forward-looking statements that involve risks and uncertainties. Actual results in future periods may differ materially from those expressed or implied in such forward-looking statements as a result of a number of factors, including, but not limited to, the risks discussed under the heading "Risk Factors" and elsewhere in this Form 10-K.

Overview

Critical Accounting Policies, Estimates and New Accounting Pronouncements

Management's discussion and analysis of its financial condition and plan of operations is based upon our consolidated 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 that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. At each balance sheet date, management evaluates its estimates. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The estimates and critical accounting policies that are most important in fully understanding and evaluating our financial condition and results of operations include those stated in our financial statements and those listed below:

Going Concern

The accompanying financial statements have been prepared assuming that Treaty will continue as a going concern. As shown in the accompanying financial statements, we had negative cash flows from operations of $3,199,464 in 2012 and $1,472,542 in 2011, and a working capital deficit of $3,084,066 at December 31, 2012. These conditions raise substantial doubt as to our ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern. Management intends to finance these deficits by making additional shareholder notes and seeking additional outside financing through either debt or sales of its common stock.

Recently Adopted Accounting Standards

In October 2012, the FASB issued ASU No. 2012-04, "Technical Corrections and Improvements" in Accounting Standards Update No. 2012-04. The amendments in this update cover a wide range of Topics in the Accounting Standards Codification. These amendments include technical corrections and improvements to the Accounting Standards Codification and conforming amendments related to fair value measurements. The amendments in this update is effective for fiscal periods beginning after December 15, 2012. The adoption of ASU 2012-04 did not have a material impact on its consolidated financial statements.

In August 2012, the FASB issued ASU 2012-03, "Technical Amendments and Corrections to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin (SAB) No. 114, Technical Amendments Pursuant to SEC Release No. 33-9250, and Corrections Related to FASB Accounting Standards Update 2010-22 (SEC Update)" in Accounting Standards Update No. 2012-03. This update amends various SEC paragraphs pursuant to the issuance of SAB No. 114. The adoption of ASU 2012-03 is not expected to have a material impact on its consolidated financial statements.

In July 2012, the FASB issued ASU 2012-02, "Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment" in Accounting Standards Update No. 2012-02. This update amends ASU 2011-08, *Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment* and permits an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30, *Intangibles - Goodwill and Other - General Intangibles Other than Goodwill* . The amendments are effective for annual and interim impairment tests performed for the years ended December 31, 2012 and 2011.

Results of Operations – Comparison of Years Ended December 31, 2012 versus 2011

Revenues

In 2012, we recorded $169,947 of revenues versus $116,241 in 2011. The difference is made up of our production in the Texas leases, all acquired during 2011.

Expenses

Depreciation, Amortization and Depletion

Depreciation, amortization and depletion increased in 2012 versus 2011 ($1,292,737 versus $185,199, respectively) because we depleted a significant portion of the oil reserves in our Texas leases.

Lease Operating Expenses

Our lease operating expenses are up significantly from 2011, $1,200,147 versus $766,279, principally due to the operation of our Texas leases.

General and Administrative Expenses

Our general and administrative expenses increased from $4,399,624 in 2011 to $7,141,408 for the same period in 2012. Non-cash stock-based compensation/commissions during 2012 was $3,358,351 which represents an increase of $394,958 over 2011. The remaining $2,346,826 of the increase is up from 2011 due to additional activity in Belize and Texas.

Interest Expense

Our interest expense is significantly higher in 2012 versus 2011 ($303,680 versus $115,728), principally due to higher debt levels.

Cost of Drilling Operations

We acquired drilling equipment during 2011 and began drilling operations during 2011 in our subsidiary, Treaty Energy Drilling. Although we had no revenues for the year ended December 31, 2012 and 2011, we had drilling operations costs of $501,145 and $82,497, respectively.

Transportation Costs and Production Taxes

Transportation and Production Taxes ($7,608 and $5,069, respectively) represent costs incurred from the production and shipment of oil and gas.

Impairment of Oil and Gas Properties

We impaired $1,121,164 and $354,872 of costs from our oil and gas capitalized costs during the years ended December 31, 2012 and 2011, respectively, whose future expected cash flows did not support their carrying values.

Accretion of Asset Retirement Obligations

We accreted $18,171 and $2,030 for the years ended December 31, 2012 and 2011, respectively of asset retirement obligations, principally on our Texas leases.

Other Income and Expense Items

We had several items affecting Other Income and Expense, collectively totaling a loss of $1,297,312 and $1,519,438 for the years ended December 31, 2012 and 2011, respectively. These included gain and losses on dispositions of property, retirement of debt, sales of ORRI, a recovery on our ARO charges and a penalty for late payment on a promissory note.

Net Loss

Our net loss increased for the year ended December 31, 2012 (a net comprehensive loss attributable to Treaty shareholders of $12,184,507) from the same period in 2011 (a net loss of $7,146,812) for the reasons set forth above.

Liquidity and Capital Resources

Our financial statements have been prepared on a going concern basis that contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business.

Currently, we are not able to maintain our existing operations through the existing cash balances and internally generated cash flows from sales of oil production. Moreover, we have determined that our existing capital structure is not adequate to fund our planned growth. We intend to finance our drilling, workover and acquisition program by issuing additional common stock and through loans from our shareholders. There can be no assurance that we will be successful in procuring the financing we are seeking. Future cash flows are subject to a number of variables, including the level of production, natural gas prices and successful drilling efforts. There can be no assurance that operations and other capital resources will provide cash in sufficient amounts to maintain planned or future levels of capital expenditures.

Plan of Operation

Over the next twelve months we intend to develop the following initiatives:

Texas Projects

We have recently upgraded, and streamlined our operations and our acreage in Texas from around 2000 acreages that was largely made up of mainly older wells that were in the last years of their life cycle, to around the same 2000 acreages of virgin land ready for new drilling projects. The original leased acreage had older wells that were producing only 1 to 5 barrels a day per well and required an enormous amount of attention and expense. When Treaty Energy first entered the oil and gas business, buying existing production was the safest way to build production. Once we “got our feet wet” and now have gone through the necessary learning curve in the field, we now have the knowledge and ability to drill our way to our production goals.

We are in the process of drilling our first two wells on the 40 acre Mitchell Lease in Taylor County, as a part of our larger Farm Out Agreement with U.S. Fuels, Inc. of Breckenridge, Texas, with our drilling partner, TNC Energy of Oklahoma. After we have had the opportunity to study the drilling logs from our first two wells to determine the most prolific pay zones, we will have a meeting with our investment team and investment partners to determine the next plan of action for future drilling projects.

Most of our initial drilling projects will be funded through our previously announced financial partners, who are fully committed to our future growth, as well as industry leading groups as additional partners.

Treaty is reviewing data and reports gathered from our Shelby County leases in East Texas and will be working with our partners in order to set a plan of action that will result in the most efficient ROI for the company. We believe we will be able to go back and possibly bring the Madeley Gas production back on line, as well as enhance the Lakeshore #1 well production. We are evaluating a well on the Isaiah Hill lease in Shelby County in order to determine the best course of action there, as we believe a limited work over could bring back decent Gas production from that well.

Louisiana Projects

Treaty believes that, after months of due diligence in the Louisiana prospect, that the leases will not provide an attractive enough ROI for the company to justify the expense of development and ongoing maintenance of that project.

Treaty Energy Drilling

Treaty Energy Drilling, LLC, a wholly owned Texas company, has secured several contracts that will begin in mid-2013 utilizing the Wilson 42 Rig. We will be actively seeking business in the area and believe the drilling company will be a valuable source of revenue in the second half of 2013.

The Belize Project

Treaty Belize Energy Ltd drilled and completed San Juan #1 and San Juan #2 wells in the Stann Creek area of Belize during 2012.

San Juan #1

This well was perf'ed at an interval between 1222-1232 ft to test the top of the lime section. Swabbing indicates very limited fluid entry of approx 1 bbl overnight. This suggests that we will need to acidize to further evaluate this zone.

San Juan #2

We perf'ed a 10-feet section between 1197-1207 ft to test the top of the cretaceous lime. Initial swabbing produced slight oil and gas, along with significant amounts of fresh water. The well is currently shut in with no casing or tubing pressures.

We plan to shut in both wells before further testing. In the meantime, we are preparing ECP to seek permit to drill two additional wells to test an area closer to San Juan village. We received permission to drill San Juan #3 well on February 11, 2013. San Juan #3 is scheduled to be drilled to a maximum depth of 4,000 feet. Once completed we will evaluate the entire San Juan prospect and Max Mohamed, CEO of Treaty Belize Energy, Ltd, our Belize based operating company, will put together a new development plan in order to submit to the government.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

A smaller reporting company is not required to provide the information required by this item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

INDEX TO FINANCIAL STATEMENTS

M&K CPAS PLLC

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors

Treaty Energy Corporation

We have audited the accompanying balance sheets of Treaty Energy Corporation as of December 31, 2012 and 2011 and the related statements of operations, changes in stockholders' deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Treaty Energy Corporation as of December 31, 2012 and 2011, and the results of its operations, changes in stockholders' deficit and cash flows for the periods noted above in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the Company had negative cash flows from operations and a working capital deficit as of December 31, 2012, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ M&K CPAS, PLLC
Houston, Texas
www.mkacpas.com

June 10, 2013

TREATY ENERGY CORPORATION
Consolidated Balance Sheets
As of December 31, 2012 and 2011

	December 31, 2012	December 31, 2011
ASSETS		
Cash and equivalents	$ 2,235	$ 14,716
Accounts receivable	8,863	23,438
Total current assets	11,098	38,154
Oil and gas properties (successful efforts), net	84,486	87,407
Oil and gas properties - unproved, net	-	48,075
Oilfield support equipment, net	685,534	1,034,349
Net Oil and Gas Properties	770,020	1,169,831
Other property, plant and equipment, net	836,309	494,473
Other assets	69,863	65,363
Carved out interests, net	70,235	76,005
TOTAL ASSETS	$ 1,757,525	$ 1,843,826
LIABILITIES		
Accounts payable and accrued liabilities	$ 1,267,757	$ 717,612
Accrued expenses to related parties	74,000	-
Notes and accrued interest payable to related parties	114,628	-
Purchase option liability	-	25,000
Notes and accrued interest payable, net of discounts of $ 111,816 and $3,984, respectively	1,638,779	829,095
Total current liabilities	3,095,164	1,571,707
Asset retirement obligation	225,881	130,397
Deferred revenue	504,094	545,507
Total Non-current liabilities	729,975	675,904
TOTAL LIABILITIES	$ 3,825,139	$ 2,247,611
COMMITMENTS AND CONTINGENCIES		
Convertible Redeemable Class A Preferred Stock (0 and 12,000 shares issued and outstanding at December 31, 2012 and December 31, 2011, respectively, $5 redemption value)	-	60,000

The accompanying notes are an integral part of these financial statements

STOCKHOLDERS' EQUITY (DEFICIT)
and
NON- CONTROLLING INTERESTS

	December 31, 2012	December 31, 2011
Preferred stock - par value $5.00, 50 million shares authorized, none issued or outstanding at December 31, 2012 and December 31, 2011	-	-
Common stock – par value $0.001, 950 million shares authorized, 945,249,192 and 746,449,069 shares issued and 945,249,192 and 737,449,069 outstanding at December 31, 2012 and December 31, 2011	945,249	746,449
Treasury Stock	-	(355,500)
Additional paid in capital	17,763,235	8,730,631
Common stock payable	1,274,576	85,875
Accumulated deficit - exploration stage	(644,829)	(644,829)
Accumulated deficit	(21,156,758)	(8,963,829)
Accumulated other comprehensive income	8,812	390
Total stockholders' equity (deficit) attributable to Treaty Energy Corporation shareholders	(1,809,715)	(400,813)
Non-Controlling Interest	(257,899)	(62,972)
Total stockholders' equity (deficit)	(2,067,614)	(463,785)
TOTAL LIABILITIES, CONVERTIBLE REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' (DEFICIT)	$ 1,757,525	$ 1,843,826

The accompanying notes are an integral part of these financial statements

TREATY ENERGY CORPORATION
Consolidated Statements of Operations
For the Years Ended December 31, 2012 and 2011

	Year Ended December 31, 2012	Year Ended December 31, 2011
REVENUES		
Sales of oil	$ 169,947	$ 116,241
Total revenues	169,947	116,241
EXPENSES		
Lease operating expenses	1,200,147	766,279
Cost of drilling operations	501,145	82,497
Transportation costs	29,559	11,203
Production taxes	7,608	5,069
Impairment of oil and gas properties	1,121,164	354,872
General and administrative	7,141,408	4,399,624
Depreciation, depletion and amortization	1,292,737	185,199
Accretion of asset retirement obligation	18,171	2,030
Total expenses	11,311,939	5,806,773
OPERATING LOSS	(11,141,992)	(5,690,532)
OTHER INCOME/EXPENSE		
Gain(Loss) on dispositions of property	(175,039)	61,933
Gain(Loss) on Retirement of Debt	(857,620)	(1,465,644)
ARO recovery	89,028	-
Interest expense	(303,680)	(115,728)
Foreign currency transaction gain (loss)	(4)	-
Interest income	3	1
Loan default penalty	(50,000)	-
Net Loss	(12,439,304)	(7,209,970)
Less: Loss attributable to non-controlling interest	246,375	60,768
Net Loss attributable to Treaty Energy	(12,192,929)	(7,149,202)

The accompanying notes are an integral part of these financial statements

	Year Ended December 31, 2012	Year Ended December 31, 2011
Foreign currency translation gain(loss)	8,422	390
Add: Loss attributable to non-controlling interest	(246,375)	(60,768)
Total Comprehensive Loss	(12,430,882)	(7,209,580)
Less: comprehensive loss attributable to non- controlling interest	246,375	60,768
Comprehensive Loss attributable to Treaty Energy Corporation	(12,184,507)	(7,148,812)
Net loss per common shares - basic and diluted	$ (0.01)	$ (0.01)
Weighted average common shares outstanding - basic and diluted	813,452,997	659,779,623

The accompanying notes are an integral part of these financial statements

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TREATY ENERGY CORPORATION
Consolidated Statement of Changes in Stockholders' Deficit
For the Period from December 31, 2010 to December 31, 2012

	Common Stock		Treasury Stock		Additional Paid In	Common Stock	Accumulated Deficit-	Accumulated	Non-Controlling	Accumulated Other	
	Shares	Amount	Shares	Amount	Capital	Payable	Stage	Deficit	Interest	Income	Total
Balances, December 31, 2010	496,605,424	496,605	-	-	527,483	204,000	(644,829)	(1,814,627)	-	-	(1,231,368)
Stock Issued for:											
Cash	21,601,441	21,601			332,148	20,000					373,749
Services	89,031,616	89,032			2,874,361						2,963,393
Extinquishment of stock payable	15,000,000	15,000			189,000	(204,000)					-
Acquisition of O & G properties	6,000,000	6,000			77,400						83,400
Acquisition of equipment	11,283,333	11,283			156,417						167,700
Extinguishment of debt	76,918,502	76,919			3,168,398						3,245,317
Reimbursement to Shareholder	26,808,753	26,809			(26,809)						(0)
Conversion of preferred stock	3,200,000	3,200			116,800						120,000
Purchase of Treasury Shares			(20,000,000)	(790,000)							(790,000)
Sale of Treasury Shares			11,000,000	434,500	(214,500)	26,875					246,875
Forgiveness of debt					679,948						679,948
Stock payable related to debt issuance						39,000					39,000
Forgiveness of accrued expenses					91,363						91,363
Imputed interest					35,853						35,853
Sale of equity interest in subsidiary					102,204				(2,204)		100,000
Conversion of related-party debt for over-riding royalty interests					620,565						620,565
Effect of foreign currency translation										390	390
Net Loss for the year ended 12/31/11								(7,149,202)	(60,768)		(7,209,970)
Balances, December 31, 2011	746,449,069	746,449	(9,000,000)	(355,500)	8,730,631	85,875	(644,829)	(8,963,829)	(62,972)	390	(463,785)
Stock Issued for:											
Cash	19,816,686	19,817			511,933						531,750
Services	112,586,863	112,587			4,746,560						4,859,147
Acquisition of O & G properties	30,000,000	30,000			1,170,000						1,200,000
Acquisition of equipment	557,143	557			27,300						27,857
Extinguishment											

of debt	35,239,431	35,239	1,630,179	1,665,418

The accompanying notes are an integral part of these financial statements

	Common Stock		Treasury Stock		Additional Paid	Common Stock	Accumulated Deficit-	Accumulated	Non-Controlling	Accumulated Other	
	Shares	**Amount**	**Shares**	**Amount**	**In Capital**	**Payable**	**Deficit**	**Stage**	**Interest**	**Income**	**Total**
Imputed interest					57,676						57,676
Treasury Stock issued to relieve debt			9,000,000	355,500	4,500	(26,875					333,125
Forgiveness of debt					881,404						881,404
Forgiveness of accrued expenses					90,100						90,100
Stock payable for cash					-	1,297,576					1,297,576
Stock payable assumed by Related Party						(82,000					(82,000)
Shareholder rescission of interest in Belize					(146,448)				51,448		(95,000)
Common stock issued for conversion of preferred stock	600,000	600			59,400						60,000
Foreign Currency translation (loss) gain										8,422	8,422
Net Loss for the year ended 12/31/12								(12,192,929)	(246,375)		(12,439,304)
Balances, December 31, 2012	945,249,192	945,249	-	-	17,763,235	1,274,576	$ (644,829)	(21,156,758)	(257,899)	8,812	(2,067,614)

The accompanying notes are an integral part of these financial statements .

TREATY ENERGY CORPORATION
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2012 and 2011

	Year Ended December 31, 2012	Year Ended December 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (12,439,304)	$ (7,209,970)
Adjustments to reconcile net loss to net cash provided by / (used in) operating activities		
Depreciation, depletion and amortization	1,292,737	185,199
(Gain) Loss on dispositions of properties	175,039	(61,932)
(Gain) Loss on conversion of debt for equity	857,620	1,465,644
Royalty interests issued for services and interest	-	15,692
Impairment of oil and gas properties	1,121,164	354,872
Amortization of discount on notes payable	29,786	45,854
Accretion of asset retirement obligation	18,171	2,030
Stock based compensation	4,859,147	2,963,393
Interest imputed on related-party notes	57,676	35,853
Shares issued for equipment above fair market value - expensed	11,357	-
ARO recovery	(89,028)	-
Changes in operating assets and liabilities:		
Accounts receivable	14,575	(23,438)
Inventories	-	34,254
Accounts payable and accrued expenses	712,602	813,235
Accounts payable and accrued expenses- related parties	224,930	-
Prepaid expenses and other assets	(4,500)	(65,362)
Deferred revenue	(41,436)	(27,866)
Net cash used in operating activities	(3,199,464)	(1,472,542)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of oil and gas properties	(350,000)	(150,000)
Development of oil and gas properties	-	(26,984)
Sale of equity interest in subsidiary	-	100,000
Acquisition of O & G equipment	(70,142)	-
Purchases of other fixed assets	(369,796)	(422,786)
Proceeds from sales of oil and gas properties	60,000	166,925
Proceeds from sale of ORRI	150,000	600,000
Cash received for future purchase option in potential subsidiary	-	25,000
Net provided by (used in) investing activities	(579,938)	292,155

The accompanying notes are an integral part of these financial statements

	Year Ended December 31, 2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (repayments) to related parties	1,465,035	770,424
Proceeds from notes payable	1,067,200	350,000
Principal payments on notes payable	(603,099)	(548,465)
Common stock issued for cash	1,829,326	373,749
Proceeds from sale of Treasury Stock	-	246,875
Bank overdraft	-	1,982
Net cash provided by financing activities	3,758,462	1,194,565
Foreign currency translation gain	8,459	390
Net increase / (decrease) in cash and cash equivalents	(12,481)	14,568
Cash and cash equivalents, beginning of period	14,716	148
Cash and cash equivalents, end of period	2,235	14,716
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 107,016	$ 17,791
Cash paid for income taxes	-	-
Shares issued for retirement of debt	-	3,245,316
Common shares issued to acquire equipment and oil and gas properties	1,200,000	251,100
Preferred shares issued for acquisition of oil and gas properties	-	180,000
Acquisition of oil and gas for promissory note & related party debt	379,832	300,000
Equipment purchases with promissory notes	38,001	25,000
Revenue interests issued for related party and non-related party debt relief	-	765,000
Acquired asset retirement obligations and revisions	180,610	129,084
Promissory notes and accrued liabilities issued for acquisitions of equipment and oil and gas properties	90,486	935,581
Company debts paid by related parties	-	147,000
Common shares issued to extinquish stock payable	-	204,000
Common shares issued as enticement on promissory note recorded at a discount	-	39,000
Treasury stock purchased with increase in related party note	-	790,000
Debt forgiven by related party	971,504	771,310
Shares issued to reimburse shareholder	-	26,808
Conversion of preferred stock to common	60,000	120,000

The accompanying notes are an integral part of these financial statements

	Year Ended December 31,	
	2012	2011
Equipment given in exchange for debt relief	-	69,011
ORRI issued as enticement on promissory notes recorded as a discount on debt	137,620	1,570
Gains on ORRI related-party sales recorded to Additional Paid in Capital	-	620,565
Shares issued by related party on behalf of company for potential acquisition	140,000	-
Shares issued to relieve Related Party debt	709,673	-
Shares issued to relieve Accrued Expenses	98,125	-
Treasury shares issued to relieve Rampant debt	333,125	-
Shares issued for equipment	16,500	-
Purchase back of 4% interest in Belize subsidiary	95,000	-
Asset retirement obligations relieved with disposition of O & G properties	14,269	-
O & G acquisition with related party debt	50,000	-
Stock payable assumed by Rampant	82,000	-

The accompanying notes are an integral part of these financial statements.

TREATY ENERGY CORPORATION
Notes to Consolidated Financial Statements

Note 1– Organization and Nature of Business

Treaty Energy Corporation, formerly known as Alternate Energy Corp., ("Treaty", "the Company", "we", or "us") was incorporated as COI Solutions, Inc. in the State of Nevada in August, 1997.

We incorporated as COI Solutions, Inc. on August 1, 1997 as a Nevada corporation. On May 22, 2003, we acquired all the assets of AEC 1 Inc., formerly known as Alternate Energy Corporation, and changed our name to Alternate Energy Corp. We commenced active business operations on June 1, 2003 and were an exploration stage company under Codification Topic No. 915 developing alternate renewable energy sources.

The Company merged with Treaty Petroleum, Inc., a Texas Corporation, under a transaction commonly referred to as a reverse merger. With the change in ownership in December 2008, we embarked on a new business plan, focusing on oil and gas production.

We are an oil producing company.

Note 2 – Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The financial statements of the Company have been prepared in accordance with Generally Accepted Accounting Principles in the United States. Accounting policies used by us and our subsidiaries conform to US GAAP. Significant policies are discussed below. Our consolidated accounts include our accounts and the accounts of our wholly-owned subsidiaries and subsidiaries of which we own a 50% interest or greater.

These consolidated financial statements include the accounts of the parent company Treaty Energy Corporation, the wholly owned subsidiaries: Treaty Energy Drilling, LLC and C&C Petroleum Management, LLC, and the majority owned subsidiary: Treaty Energy Belize, LLC. All intercompany transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates underlying these consolidated financial statements include the estimated quantities of proved oil reserves used to compute depletion and impairment of oil and natural gas properties and the estimated fair value of asset retirement obligations.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an initial maturity of 3 months or less to be cash equivalents. The Company's bank accounts periodically exceed federally insured limits. The Company maintains its deposits with high quality financial institutions and, accordingly, believes its credit risk exposure associated with cash is remote. There were no cash equivalents as of December 31, 2012 and 2011.

Accounts Receivable

Accounts receivable consists of amounts due for the sale of oil. Accounts receivable are evaluated for collectability based upon the financial condition of the customer and the age of the amount due. Amounts due to us for oil and gas receivables were $8,863 and $23,438 at December 31, 2012 and 2011, respectively.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the useful lives (5-7 years) of the related assets. Expenditures for maintenance and repairs are charged to expenses as incurred.

As of December 31, 2012 and 2011, the Company recorded depreciation of $ 165,070 and 53,135, respectively.

Oil Producing Properties

We account for our oil producing property costs using the successful efforts accounting method. Under the successful efforts method, lease acquisition costs and intangible drilling and development costs on successful wells are capitalized. Costs of drilling exploratory wells are initially capitalized, but charged to expense if and when a well is determined to be unsuccessful.

Capitalized proved property acquisition costs are depleted on the unit-of-production method on the basis of total estimated units of proved reserves. Development costs relating to producing properties are depleted on the unit-of-production method on the basis of total estimated units of proved developed reserves. When significant development costs are incurred in connection with a planned group of development wells before all of the planned wells have been drilled, it is occasionally necessary to exclude a portion of those development costs in determining the unit-of-production amortization rate until the additional development wells are drilled. However, in no case are future development costs anticipated in computing our amortization rate. Estimated dismantlement, restoration and abandonment costs are taken into account in determining depreciation, amortization and depletion provisions.

Expenditures for repairs and maintenance are charged to expense as incurred; renewals and betterments are capitalized. The costs and related accumulated depreciation, depletion, and amortization of properties sold or otherwise retired are eliminated from the accounts, and gains or losses on disposition are reflected in the statements of operations.

We perform a review for impairment of proved oil producing properties on a depletable unit basis when circumstances suggest there is a need for such a review. To determine if a depletable unit is impaired, we compare the carrying value of the depletable unit to the undiscounted future net cash flows by applying management's estimates of future oil and gas prices to the estimated future production of oil and gas reserves over the economic life of the property. Future net cash flows are based upon our reservoir engineers' estimate of proved reserves. In addition, other factors such as probable and possible reserves are taken into consideration when justified by economic conditions and actual or planned drilling or other development activities. For a property determined to be impaired, an impairment loss equal to the difference between the carrying value and the estimated fair value of the impaired property will be recognized. Fair value is estimated to be the present value of the aforementioned expected future net cash flows discounted at 10%. Any impairment charge incurred is recorded in accumulated depreciation, depletion, impairment and amortization to reduce our recorded basis in the asset. Each part of this calculation is subject to a large degree of judgment, including the determination of the depletable units' reserves, future cash flows and fair value.

Costs directly associated with the acquisition and evaluation of unproved properties are excluded from the amortization base until the related properties are developed. Unproved properties are assessed quarterly and any impairment in value is charged to impairment expense. The costs of unproved properties which are determined to be productive are transferred to proved oil and gas properties and amortized on a unit-of-production basis.

Oil Reserves

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

Revenue Recognition

Oil revenue is recognized when persuasive evidence of an arrangement exists, our oil is delivered, the fee is fixed and determinable and collectability is reasonably assured.

Sales of Mineral Interests

From time to time we sell over-riding royalty ("ORRI") and working interests in our properties to raise cash or to settle obligations.

For sales of interests in proved properties, we allocate a portion of the accumulated intangible lease costs, including acquired asset retirement obligations, to the sale of these working interests and record a gain or loss between the value of consideration received upon the sale and the allocated portion of the accumulated intangible costs., recording the gain or loss in the Other Income and Expense Items of our Consolidated Statement of Operations. In the case of a sale to a related party, any potential gain is recorded as an increase to Additional Paid in Capital.

For sales of interests in unproved properties, the proceeds received are treated as cost recoveries for the properties disposed of and the property is credited with no gain or loss unless the proceeds exceed the carrying value of the property disposed of or the proceeds received indicate the property's cost is above fair market value. In a case indicating an impairment is necessary the property would be impaired down to its fair value.

Carved-Out Interests

A carved-out interest is one where an obligation is expressed not in monetary terms, but as an obligation to deliver, free and clear of all expenses associated with the operation of the property, a specified quantity of oil or gas out of a specified share of future production. We follow Accounting Standards Codification Topic 932 – *Extractive Activities – Oil and Gas* ("ASC 932") in accounting for carved-out interests. ASC 932 requires that no gain or loss be recognized in recording the sale of a carved-out interest because the seller has a substantial future obligation for future performance. As such, we recognize the consideration received as unearned revenue to be recognized as the oil or gas is delivered. The percentage of the related oil and gas assets is reclassified to other assets, is recorded at cost and amortized by the unit-of-production method as delivery takes place.

Treasury Stock

We record treasury stock purchases at cost, which includes incremental direct transaction costs. Amounts are recorded as reductions in shareholders' equity in the consolidated balance sheets.

Stock-Based Compensation

Stock options and other stock-based compensation issued to employees, directors and consultants are recorded at grant-date fair value and are expensed over the requisite service period. Stock-based compensation to non-employees is re-measured at each reporting period until the instrument vests which represents the final measurement date.

Non-controlling interests

We account for changes in our controlling interests of subsidiaries according to Accounting Codification Standards 810 – *Consolidations* ("ASC 810"). ASC 810 requires that we record such changes as equity transactions, recording no gain or loss on such a sale.

Our non-controlling interests arise from the sale of equity in our Belize subsidiary. It represents the portion of our Belize subsidiary that we do not own. ASC 810 requires that we account for the equity and income or loss on that operation separately from other Treaty Energy Corporation activity. In the equity section of our Consolidated Balance Sheet, we present the portion of the negative equity attributable to non-controlling interests in the Belize subsidiary. In our Consolidated Statement of Operations, we present the portion of current period net loss in our Belize subsidiary attributable to non-controlling interests.

Class A Convertible Preferred shares

We account for convertible instruments depending on the nature and attributes contained within the instrument. During the year ended December 31, 2011, we issued 36,000 shares of Class A Convertible Preferred shares. During the years ended December 31, 2012 and 2011, 12,000 and 24,000 shares, respectively, of the Class A Convertible Preferred shares were converted to common stock.

Because these shares were conditionally redeemable under circumstances that were not within the control of the Company, they were accounted for outside of permanent equity and liabilities consistent with the applicable literature on conditionally redeemable preferred stock. The instruments are carried at their redemption values and were evaluated for beneficial conversion features on the grant date. None were present. See Note 7 for a complete description of this transaction.

Purchase Price Allocations

We occasionally acquire assets and assume liabilities in transactions accounted for as business combinations. In connection with a business combination, the acquiring company must allocate the cost of the acquisition to assets acquired and liabilities assumed based on fair values as of the acquisition date. Deferred taxes must be recorded for any differences between the assigned values and tax bases of assets and liabilities. Any excess of the purchase price over amounts assigned to assets and liabilities is recorded as goodwill. Any excess of amounts assigned to assets and liabilities over the purchase price is recorded as a gain on bargain purchase. The amount of goodwill or gain on bargain purchase recorded in any particular business combination can vary significantly depending upon the values attributed to assets acquired and liabilities assumed.

In estimating the fair values of assets acquired and liabilities assumed in a business combination, we make various assumptions. The most significant assumptions relate to the estimated fair values assigned to proved and unproved crude oil and natural gas properties. If sufficient market data is not available regarding the fair values of proved and unproved properties, we must prepare estimates. To estimate the fair values of these properties, we prepare estimates of crude oil and natural gas reserves. We estimate future prices to apply to the estimated reserves quantities acquired, and estimate future operating and development costs, to arrive at estimates of future net cash flows. For estimated proved reserves, the future net cash flows are discounted using a market-based weighted average cost of capital rate determined appropriate at the time of the acquisition. The market-based weighted average cost of capital rate is subjected to additional project-specific risking factors. To compensate for the inherent risk of estimating and valuing unproved reserves, the discounted future net cash flows of probable and possible reserves are reduced by additional risk-weighting factors.

Estimated deferred taxes are based on available information concerning the tax bases of assets acquired and liabilities assumed and loss carryforwards at the acquisition date, although such estimates may change in the future as additional information becomes known.

Estimated fair values assigned to assets acquired can have a significant effect on results of operations in the future. A higher fair value assigned to a property results in higher DD&A expense, which results in lower net earnings. Fair values are based on estimates of future commodity prices, reserves quantities, operating expenses and development costs. This increases the likelihood of impairment if future commodity prices or reserves quantities are lower than those originally used to determine fair value, or if future operating expenses or development costs are higher than those originally used to determine fair value. Impairment would have no effect on cash flows but would result in a decrease in net income for the period in which the impairment is recorded.

Asset Impairments

We assess proved crude oil and natural gas properties and other investments for possible impairment at least annually at year-end, or earlier, when circumstances indicate that the recorded carrying values of the assets may not be recoverable. We recognize an impairment loss as a result of an event that causes us to consider the possibility that impairment may have occurred and when the estimated undiscounted future cash flows from a property or other investment are less than the carrying value. If impairment is indicated, the carrying values are written down to fair value, which, in the absence of comparable market data, is estimated using a discounted cash flow method. In our cash flow method, cash flows are discounted using a risk-adjusted rate and compared to the carrying value for determining the amount of the impairment loss to record. Estimated future cash flows are based on management’s expectations for the future and include estimates of crude oil and natural gas reserves and future commodity prices, revenues and operating and development costs. Negative revisions in estimates of reserves quantities or expectations of falling commodity prices or rising operating or development costs could result in a reduction in undiscounted future cash flows and could indicate property impairment.

During 2012 and 2011, we assessed proved properties for possible impairment due to lack of estimated future production and/or changes in our intended use. Certain assets were determined to be impaired and were written down to their estimated fair values under a discounted cash flow model. The discounted cash flow model included management’s estimates of future oil and gas production; commodity prices based on an average of the spot price on the first day of each month during the year; operating and development costs, and discount rates.

We recorded total pre-tax (non-cash) asset impairment charges of $1,121,164 in 2012 and $354,872 in 2011.

Foreign Currency Translation

The Belize dollar is considered the functional currency for our Belize subsidiary. Transactions that are completed in Belize Dollars are translated into US dollars in the financial statements at prevailing foreign exchange rates. Assets and liabilities are translated on the balance sheet date, revenues and expenses are translated during the period incurred, and equity is translated based on their historical exchange rates. Gains and losses on foreign currency translation are recorded within other comprehensive income.

There were limited foreign currency transactions which generated $(4) and $0 of gain or (loss) during the years ended December 31, 2012 and 2011, respectively.

Earnings Per Share

Basic earnings per common share is computed by dividing net earnings or loss (the numerator) by the weighted average number of common shares outstanding during each period (the denominator). Diluted earnings per common share is similar to the computation for basic earnings per share, except that the denominator is increased by the dilutive effect of stock options outstanding and unvested restricted shares and share units, computed using the treasury stock method. There are currently no common stock equivalents.

Income Taxes

We recognize deferred tax assets and liabilities based on differences between the financial reporting and tax bases of assets and liabilities using the enacted tax rates that are expected to be in effect when the differences are expected to be recovered. We provide a valuation allowance for deferred tax assets for which we do not consider realization of such assets to be more likely than not.

See Note 8 for our reconciliation of income tax expense and deferred income taxes as of and for the years ended December 31, 2012 and 2011.

Fair Value Measurement

In September 2006, the FASB issued ASC (Accounting Standards Codification) 820, *Fair Value Measurements and Disclosures* . ASC 820 defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. ASC 820 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. ASC 820 is effective for fiscal years beginning after November 15, 2007.

ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 establishes a three-tiered fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows.

- Level 1. Observable inputs such as quoted market prices in active markets.
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly:, and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

See Note 10 – Fair Value Measurements and Disclosures.

Accounting for Conditional Asset Retirement Obligations

In June, 2006, the Company adopted the accounting guidance with respect to accounting for conditional obligations. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated. The Company estimates a fair value of the obligation on each well in which it owns an interest by identifying costs associated with the future dismantlement and removal of production equipment and facilities and the restoration and reclamation of a production operation’s surface to a condition similar to that existing before oil and natural gas extraction began.

In general, the amount of an Asset Retirement Obligation ("ARO") and the costs capitalized will be equal to the estimated future cost to satisfy the abandonment obligation using current prices that are escalated by an assumed inflation factor up to the estimated settlement date which is then discounted back to the date that the abandonment obligation was incurred using an assumed cost of funds for the Company. After recording these amounts, the ARO is accreted to its future estimated value using the same assumed cost of funds and the liability is increased each period as the retirement obligation approaches. See Note 6 for a discussion of our estimated Asset Retirement Obligation.

We had $225,881 and $130,397 of asset retirement obligations.at December 31, 2012 and 2011, respectively.

New Accounting Pronouncements

In October 2012, the FASB issued ASU No. 2012-04, "Technical Corrections and Improvements" in Accounting Standards Update No. 2012-04. The amendments in this update cover a wide range of Topics in the Accounting Standards Codification. These amendments include technical corrections and improvements to the Accounting Standards Codification and conforming amendments related to fair value measurements. The amendments in this update is effective for fiscal periods beginning after December 15, 2012. The adoption of ASU 2012-04 is not expected to have a material impact on its consolidated financial statements.

In August 2012, the FASB issued ASU 2012-03, "Technical Amendments and Corrections to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin (SAB) No. 114, Technical Amendments Pursuant to SEC Release No. 33-9250, and Corrections Related to FASB Accounting

Standards Update 2010-22 (SEC Update)" in Accounting Standards Update No. 2012-03. This update amends various SEC paragraphs pursuant to the issuance of SAB No. 114. The adoption of ASU 2012-03 is not expected to have a material impact on its consolidated financial statements.

In July 2012, the FASB issued ASU 2012-02, "Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment" in Accounting Standards Update No. 2012-02. This update amends ASU 2011-08, *Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment* and permits an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30, *Intangibles - Goodwill and Other - General Intangibles Other than Goodwill* . The amendments are effective for annual and interim impairment tests performed for the years ended December 31, 2012 and 2011. The adoption of ASU 2012-02 03 did not have a material impact on its consolidated financial statements.

Accounting for Business Combinations

In December 2010, the FASB Accounting Standards Update 2010-29 Business Combinations Topic 805, which requires a public entity to disclose pro forma information for business combinations that occurred in the current reporting period. The disclosures include pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. Effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption did not have an impact on the Company's financial position and results of operations.

Note 3 – Going Concern

The accompanying financial statements have been prepared assuming that Treaty will continue as a going concern. As shown in the accompanying financial statements, we had negative cash flows from operations of $3,199,464 in 2012, $1,472,542 in 2011, and a working capital deficit of $3,084,066 at December 31, 2012. These conditions raise substantial doubt as to our ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern. Management intends to finance these deficits by making additional shareholder notes and seeking additional outside financing through debt.

Note 4 – Oil Producing Properties

Pickett County, Tennessee

On April 13, 2010, we acquired 100% undivided working interest (82.5% royalty interest) in eight leases in Pickett County, Tennessee in exchange for 1.5 million shares which were contributed by a major shareholder. These leases are: Herbert Groce #1, 77 acres; Herbert Groce #2, 80 acres; Leeta West, 20 acres; Joseph Schwallie, 47 acres; Byron Hill, 18.5 acres, Robin Moody, 18.5 acres, Terry Williams, 18.5 acres and Kimberly Hicks, 18.5 acres.

We valued the 1.5 million shares at the closing price on April 13, 2010 and valued the Tennessee properties at $19,500, or $0.013 per share. We then divided the purchase price, plus commissions and other costs, equally among the three properties expected to be developed during 2010, and arrived at a cost basis of $10,158 per well. Finally, we recorded a liability to the major shareholder in the amount of $19,500, the value of the shares given in exchange for the leases.

Joseph Schwallie #1

On June 11, 2010, we entered into an agreement to sell 35% of our working interest in the Joseph Schwallie #1 well to an investor for $20,000 cash.

Also on June 11, 2010, we entered into an agreement to sell another 20% of the Joseph Schwallie #1 well for $55,000 in cash. Under the terms of this agreement, we are obligated to increase the distributions of cash flows to this investor from 20% to 34% until such time as the investor has received $55,000, after which the distribution obligation will revert to the 20% working interest.

As a result of the two above sales, we recorded a reduction in our historical cost basis of the Joseph Schwallie well from $10,158 to $4,571, recorded a liability in the amount of $55,000 and a gain on the two sales in the amount of $14,413.

On June 22, 2011, we entered into an agreement creditor to convert a $55,000 liability into 2.5 million shares of common stock. We valued the shares at the closing price on the grant date, crediting equity with $97,500, reducing our liability by $55,000 with an offsetting loss on extinguishment of debt of $42,500.

Robin Moody #1

On May 27, 2010, we entered into an agreement to sell 50% of our working interest in the Robin Moody #1 well for $20,000 in cash. Under the terms of this agreement, we are obligated to increase the distributions of cash flows to this investor from 50% to 56% until such time as the investor has received $20,000, after which the distribution obligation will revert to the 50% working interest.

On June 11, 2010, we sold a 20% interest in the Robin Moody lease for $55,000 in cash. Under the terms of this agreement, we are obligated to increase the distributions of cash flows to this investor from 20% to 29% until such time as the investor has received $55,000, after which the distribution obligation will revert to the 20% working interest.

As a result of the two above sales of our interests in the Robin Moody well #1, we recorded a reduction in our historical cost basis of the Robin Moody lease from $10,158 to $3,047, recorded liabilities in the amount of $75,000 and a loss on the two sales in the amount of $7,111.

On June 15, 2011, we entered into an agreement with the holder of the $55,000 note to convert the debt into a 1% royalty interest in all existing and future Texas leases. We allocated a portion of the carrying values of the Texas leases to the sale of the royalty interest, reduced the carrying value of the oil and gas property by $6,015. Since the holder of the note was a related party, we recorded a credit to Additional Paid in Capital of $48,985 instead of recording a gain on the sale.

Additionally, on June 16, 2012, we entered into an agreement with the holder of the $20,000 note to convert the outstanding debt into common stock. This was done in conjunction with the conversion of $100,000 of debt related to our Belize acquisition.

We issued 8,250,000 shares to eliminate the debt. We valued the shares at the grant date ($330,000), removing the $120,000 of unpaid principal and $5,761 of unpaid interest, resulting in a loss on conversion of $204,239.

Herbert Groce #1

On June 18, 2010, we entered into an agreement to sell 50% of our working interest in the Herbert Groce #1 well for $45,000 in cash. We recorded the sale by reducing the carrying value of our interest in the Herbert Groce #1 well by an amount equal to the pro-rata portion of our historical cost in the property, and recorded a gain of $39,921.

Belize Concession and Joint Venture with Princess Petroleum Ltd.

On April 20, 2010, we entered into a 50/50 Joint Venture agreement with Princess Petroleum Limited, a company organized under the laws of Belize to explore for oil and gas on approximately 2 million acres in Belize. The country of Belize is located in Central America, in the south of the Yucatan Island to the southeast of Mexico. It is surrounded by Mexico in the north, by Guatemala in the west and south and by the Caribbean Sea in the east. Prior to becoming an independent country in 1981, Belize was known as British Honduras.

A major shareholder of the Company paid $100,000 cash as required under the agreement. We have recorded our basis in the $100,000 property and the corresponding debt to our shareholder.

On July 15, 2010, we sold a 10% interest (5% total) working interest in our Belize concession for $250,000 in cash.

On September 2, 2011, we sold a 25% working interest (50% of Treaty's working interest) in Belize well numbers 1 and 2 to an investor for $156,925 in cash.

Acquisition of the Compton (Hope) Field

On March 30, 2011, we closed our asset acquisition of the Compton (Hope) field in Texas which consists of developed, non-producing wells. We initially paid $50,000 in cash, gave a note payable in the amount of $300,000 payable in 12 monthly installments. We also paid 6 million shares of common stock which we valued at the closing price on March 30, 2011 (the date of the original agreement) and valued the shares at $83,400. In addition, we issued 36,000 shares of Class A Convertible Preferred Stock whose terms and accounting treatment are enumerated below.

The 36,000 shares of Class A Convertible Redeemable Preferred Stock (the "Preferred Stock"), stated value $5 per share, are convertible in three separate tranches: 12,000 shares are convertible at $0.03 per share, 12,000 at $0.05 per share and 12,000 at $0.10 per share. Therefore, tranche 1 would convert into 2 million shares (12,000 times $5 divided by $0.03), tranche 2 into 1.2 million shares and tranche 3 into 600,000 shares. The conversion price of all tranches was greater than market price of our common stock on the date of grant, therefore no beneficial conversion feature was recorded for the redeemable preferred shares. In the event that the Company's stock price does not reach the level that would trigger conversion by April 8, 2013, then the Company would be liable for payment of $60,000 per tranche, or $180,000 in total. These shares were recorded upon issuance at the face value of the shares equal to the $180,000 total. The unconverted portion remaining as of December 31, 2012 and 2011, respectively, equal -0- and 12,000 shares with values of $-0- and $60,000, have been classified outside of permanent equity and liabilities based on the conditional redemption features of the shares

Based on the lack of estimated proved reserves associated with this property it was determined that the necessary inputs required in a business combination were not present, and therefore the acquisition was considered an asset acquisition rather than a business combination.

We valued the preferred stock at its stated value of $5 per share. If the preferred share tranche does not convert, then the Company has an obligation to repay the stated value of the preferred shares to the shareholder.

Based on the above consideration paid, we valued the properties acquired at:

Initial cash paid	50,000
Note payable in 12 installments	300,000
6 million shares of common stock	83,400
36,000 shares of Class A Convertible Preferred shares	180,000
Total value of consideration paid	$ 613,400

We allocated the purchase price to inventories, well equipment and intangible lease costs using their relative fair values and recorded assets as follows:

Oil inventories	34,254
Tangible well equipment	426,460
Intangible lease costs	152,686
Total purchase price allocated	$ 613,400

In addition to the consideration explicitly given for this property, we also inherited $9,930 of asset retirement obligations and expended $13,161 in development costs. A summary of oil and gas asset acquisitions and dispositions is given at the end of this explanatory note.

During 2011, we collectively sold 23.05% of the net royalty interests in these leases to investors. We allocated $36,760 of carrying value and netted these costs against the proceeds of the royalty sales in calculating the gain or loss on the royalty disposition.

The remaining net royalty interest to Treaty at year end for these leases is 56.95% before considering the carved-out interest of 15% payable until daily production exceeds 200 barrels.

On April 8, 2011, we made a cash payment of $15,000 on the outstanding promissory note, bringing the note balance to $285,000.

On June 28, 2011, we entered into an agreement with the previous owners of C&C Petroleum to settle the outstanding note for 8,906,250 shares. We valued the shares at the closing price on the date of the agreement, crediting capital with $356,250, retiring the obligation of $285,000 and recording a loss on conversion of debt of $71,250.

Acquisition of the Great Eight leases in Texas

On May 31, 2011, we acquired eight producing leases in Texas for $700,000, with $50,000 paid at closing and issuing a promissory note for the difference. The asset was treated as a business acquisition. Subsequent to closing, the seller incurred an additional expenses totaling $42,538. The promissory note was changed to $692,538 to reflect the additional expenses.

Due to the wells being in production this acquisition was considered a business combination. This determination was made based on the property acquired having proved and producing reserves which provided the necessary inputs combined with the processes applied by the Company to create a revenue stream (output). US GAAP defines a business as an asset or group of assets that by themselves or with a market participant have the presence of the necessary inputs and processes to create outputs.

We allocated the purchase price to well equipment and intangible lease costs using their fair values and recorded assets as follows:

Tangible well equipment	434,900
Intangible lease costs	265,100
Total purchase price allocated	$ 700,000

In addition to the consideration explicitly given for this property, we also inherited $82,963 of asset retirement obligations bringing the carrying value before dispositions and impairments to $782,963. A summary of oil and gas asset acquisitions and dispositions is given at the end of this explanatory note.

During 2011, we collectively sold 23.05% of the net royalty interests in these leases to investors. We allocated $94,127 of carrying value and netted these costs against the proceeds of the royalty sales in calculating the gain or loss on the royalty disposition.

The remaining net royalty interest to Treaty in these leases varies from 51.95% to 60.95% before considering the carved-out interest of 15% payable until daily production exceeds 200 barrels.

The carrying value of the Great 8 leases as of December 31, 2012, per the 2012 reserve study was $77,541. All other amounts have been impaired during the years ended December 31, 2012 and 2011.

Purchase of the Shotwell leases in Texas

On May 25, 2011, we acquired two developed, non-producing leases in Texas for $170,000 paying $50,000 at closing and $120,000 subsequent to closing. This was treated as an asset acquisition.

Based on the lack of estimated proved reserves associated with this property it was determined that the necessary inputs required in a business combination were not present, and therefore the acquisition was considered an asset acquisition rather than a business combination.

We allocated the purchase price to well equipment and intangible lease costs using their relative fair values and recorded assets as follows:

Tangible well equipment	78,560
Intangible lease costs	91,440
Total purchase price allocated	$ 170,000

In addition to the consideration explicitly given for this property, we also inherited $14,896 of asset retirement obligations bringing the carrying value before dispositions and impairments to $184,896. A summary of oil and gas asset acquisitions and dispositions is given at the end of this explanatory note.

During 2011, we collectively sold 22.55% of the net royalty interests in these leases to investors. We allocated $94,127 of carrying value and netted these costs against the proceeds of the royalty sales in calculating the gain or loss on the royalty disposition.

The remaining net royalty interest to Treaty in these leases is 64.95% before considering the carved-out interest of 15% payable until daily production exceeds 200 barrels.

Purchase of the Wooldridge lease in Texas

On November 30, 2011, we acquired two developed, non-producing leases in Texas for $170,000 payable in multiple installments. This was treated as an asset acquisition. As the promissory note contained no interest payment stipulation, we discounted the expected payments at 8% and recorded the discounted value of the note at $165,581, with a discount of $4,419 to be amortized over the term of the note.

Based on the lack of estimated proved reserves associated with this property it was determined that the necessary inputs required in a business combination were not present, and therefore the acquisition was considered an asset acquisition rather than a business combination.

We allocated the purchase price to well equipment and intangible lease costs using their relative fair values and recorded assets as follows:

Tangible well equipment		147,859
Intangible lease costs		17,722
Total purchase price allocated	$	165,581

In addition to the consideration explicitly given for this property, we also inherited $11,311 of asset retirement obligations bringing the carrying value before dispositions and impairments to $176,892. A summary of oil and gas asset acquisitions and dispositions is given at the end of this explanatory note.

During 2011, we collectively sold 27.55% of the net royalty interests in these leases to investors. We allocated $6,237 of carrying value and netted these costs against the proceeds of the royalty sales in calculating the gain or loss on the royalty disposition.

The remaining net royalty interest to Treaty in these leases is 49.45% % before considering the carved-out interest of 15% payable until daily production exceeds 200 barrels.

Recent Acquisitions

East Texas properties

On August 15, 2012, the Company purchased three leases from 3K Oil Trust increasing the Company’s holdings by 357 acres. The purchase was made with a payment of $400,000 and issued 30,000,000 shares of the Company’s common stock. Of the $400,000 cash payment, $50,000 was paid by a related party resulting in an increase in related party debt. The 30,000,000 shares were valued at the closing price on the agreement date resulting in a value of $1,200,000.

At the time of the acquisition, these wells were not in operation and based on the reserve study at December 31, 2012, these wells were impaired down to a $6,945 carrying value.

We allocated the purchase price to well equipment and intangible lease costs using their relative fair values and recorded assets as follows:

Tangible well equipment	125,500
Intangible lease costs	1,474,500
Total purchase price allocated	$ 1,600,000

Converse leases

On September 21, 2012, the Company purchased the Converse lease for $379,832, which included cash payments of $51,820 and a mortgage obligation of $328,012. Tangible well equipment was not identified in the purchase agreement; therefore all of the purchase price was allocated to intangible lease costs. The cash payment of $51,820 was paid by a related party and resulted in an increase in related party debt. Based on the lack of proved reserves, the lease acquisition cost has been impaired to $0.

Pro Forma Financial Information

Pro Forma Financial Information (Unaudited)

As discussed in Note 4, we acquired the Great 8 lease during the year ended December 31, 2011 and the 3K Oil lease during the year ended December 31, 2012. We accounted for these acquisitions as a business combinations according to ASC 805 – Business Combinations.

The following table summarizes the pro forma effects on consolidated results of operations for the year ended December 31, 2011 assuming the acquisition of the Great 8 lease actually occurred on January 1, 2011. The wells on the 3K Oil lease were shut in for the period of January 1, 2011 through our purchase in September, 2012, so there are no revenue or costs to report on the pro forma table. The table presents the actual financial results as presented in the audited income statement, the unaudited results of operations for the leases prior to the acquisition date, and the unaudited pro forma results of operations assuming the leases were held for the entire periods presented.

	Year Ended December 31, 2011		
	As Originally Reported	**Operating Activity**	**Pro Forma**
Total Revenues	$ 116,241	$ 165,638	$ 281,879
Total Expenses	5,806,773	236,768	6,043,541
Operating Income (Loss)	(5,690,532)	(71,130)	(5,761,662)
Other Income(Loss)	(1,519,048)	(6,967)	(1,526,015)
NET LOSS	(7,209,580)	(78,097)	(7,287,677)
Comprehensive Loss attributable to non-controlling interests	60,768		60,768
NET COMPREHENSIVE LOSS	$ (7,148,812)	$ (78,097)	$ (7,226,909)
Net loss per common shares - basic & diluted	$ (0.01)	$ -	$ (0.01)
Weighted average common shares oustanding - basic and diluted	659,779,623	-	659,779,623

Sales of Royalty Interests

On August 15, 2012, we issued a 7.0% ORRI on certain Texas leases to a creditor as an inducement on debt in the amount of $750,000. We allocated a portion of the accumulated historical cost of these Texas leases to the transfer of the ORRI, reducing the carrying values of these leases by $137,620 and recorded a discount against the amounts due under the promissory note. Additionally, during the period of the promissory note repayment, up to 24 months, the lender will receive an additional 5.0% ORRI on the production proceeds which is applied toward principal repayment.

On December 19, 2012, we sold a 4.0% ORRI on the West Texas leases for $150,000. The cost basis for this interest was $3,400, resulting in a gain on the royalty sale of $146,600.

Sale of Oil and Gas Interests

On July 11, 2013, we agreed to terminate the Eula lease. The cost basis of the assets disposed of, net of depreciation, amortization, and asset retirement obligations was $48,241. We have recorded the loss of $48,241 under Gains (Losses) on Disposition of Property.

On September 24, 2012, we sold the Henderson, Long and Barnes leases for $60.000. The cost basis of the assets disposed of, net of depreciation, amortization, and asset retirement obligations was $325,983. We have recorded the loss of $265,983 under Gains (Losses) on Disposition of Property.

Carved Out Production Payment

In addition to the royalty sale enumerated above, in 2011 we entered into an agreement with an investor to sell a 5% permanent royalty (included in the royalties enumerated above on a lease-by-lease basis) and a 15% temporary royalty to be paid until production reaches 200 barrels per day (not included in the above royalty sales discussions) for $600,000. The interests for both the 5% permanent and 15% temporary relate to all current and future Texas leases. The 15% will be paid until daily production exceeds 200 barrels per day at which time the temporary 15% interest reverts back to Treaty.

To account for this transaction, we treated it as two components: a sale of 5% over-riding royalty interest (“ORRI”), and the other 15% as an advance on a production payment liability. Since the amount of proceeds to be paid out in the future is not readily determinable and the Company is not responsible for any shortfall in payments related to future production, the temporary 15% interest and the temporary 5.0% interest are treated as a “Carved-Out Production Payment Payable in Product” consistent with ASC 932 – *Extractive Activities – Oil and Gas* . Moreover, since the payout amounts are uncertain, no allocation of the proceeds between the actual ORRI and the temporary ORRIs was made, and therefore, no gain or loss was recorded on the transaction.

Consistent with the aforementioned guidance, the cash received related to the carved out production interests are treated as deferred revenue. The deferred revenue will be recognized with production and payment to the holder. The proportional amount of carrying value of oil and gas assets has been carved out of other capitalized costs and will be amortized with production to match the costs to the production periods.

Amortization was based on the independent reserve report and is subject to future changes in estimates.

See Note 2 - *Asset Impairments* for a discussion of our policy regarding asset impairments.

The following table depicts all items affecting the carrying values of our oil and gas properties during the years ended December 31, 2011 and 2012:

	Proved	Unproved	Oilfield Support Equipment			Total Oil and Gas
	Properties	Properties	Cost	Accum. Deprec.	Net	Properties
2011						
Balance at 12/31/2010	-	212,323	40,101	-	40,101	252,424
Acquisition Costs	526,948	-	1,087,778	-	1,087,778	1,614,726
Aquired Asset Retirement Obligation	119,100					119,100
Revision of Estimates of Retirement Obligations		9,984				9,984
Development Costs	13,161		13,823		13,823	26,984
Sales of Royalty and Working Interests	(136,392)	(156,925)				(293,317)
DD & A	(18,086)	125		(107,353)	(107,353)	(125,314)
Carved Out Production Payment	(79,884)					(79,884)
Impairment	(337,440)	(17,432)				(354,872)
Carrying Value at 12/31/11	87,407	48,075	1,141,702	(107,353)	1,034,349	1,169,831
2012						
Acquisition Costs	1,854,332		195,642		195,642	2,049,974
Disposal of Properties	(141,020)		(491,147)	103,819	(387,328)	(528,348)
Acquired Asset Retirement Obligation	180,610				-	180,610
DD & A	(963,754)			(157,129)	(157,129)	(1,120,883)
Impairment	(933,089)	(48,075)			-	(981,164)
Carrying Value at 12/31/12	84,486	-	846,197	(160,663)	685,534	770,020

NOTE 5 – PROPERTY, PLANT AND EQUIPMENT

Other property, plant and equipment consist principally of drilling rigs, and office furniture and equipment. Historical cost and accumulated depreciation are as follows:

	12/31/12	12/31/11
Drilling rigs and related equipment	$ 835,146	$ 467,656
Office equipment	5,165	3,958
Furniture and fixtures	1,049	1,000
Vehicles	188,556	42,520
Equipment	24,598	32,474
Total property, plant and equipment - at cost	1,054,514	547,608
Less: accumulated depreciation	(218,205)	(53,135)
Net property, plant and equipment - other	$ 836,309	$ 494,473

The Company recorded depreciation expense of $165,592 and $53,135 for the years ended December 31, 2012 and 2011, respectively.

Note 6 – Notes Payable

At December 31, 2012 and 2011, we have the following liabilities to related and unrelated parties:

	December 31,	
	2012	2011
Notes and interest payable related to:		
Property Acquisition	$ 476,521	$ 474,521
Prevous officers and directors	-	174,188
In default as December 31	572,001	-
Other	702,072	184,670
	1,750,594	833,379
Related-party notes and interest payable		
Advances from affiliates	64,629	-
Note payable from related party	50,000	-
Total related-party notes and interest payable	114,629	-
Discounts on debt	(111,816)	(3,984)
Net debt, related and non-related	$ 1,753,407	$ 829,395

Liability relating to property acquisitions

Changes for the years ended December 31, 2012 and 2011 are as follows:

	Year Ended December 31,	
	2012	2011
Beginning of Year	$ 470,237	$ 312,097
Discount Amortization	3,984	44,133
Principal payments	(332,025)	(548,465)
Conversion of debt into common stock	-	(515,761)
Conversion of debt into royalty interest	-	(80,000)
New debt issued	328,012	1,395,000
Discounts recorded on new debt	-	(4,419)
Interest accruals	21,507	14,904
Interest payments	(15,194)	(17,791)
Devts paid by related parties	-	(147,000)
Seller lease operating expenses incurred at acquisition	-	42,539
Gain on extinguishment of debt	-	(25,000)
End of Year	$ 476,521	$ 470,237

Conversions of debt into common stock

On June 30, 2011, we issued 8.25 million shares to convert certain notes payable for debts we owed in connection with our Tennessee and Belize acquisitions. We valued the shares at the closing price on the grant date, crediting equity with $330,000, reducing interest and principal due to these creditors by $125,761 with an offsetting loss on extinguishment of debt of $204,239.

On June 21, 2011, we issued 2,500,000 shares to convert a note payable related to our Tennessee acquisition in the amount of $55,000. We valued the shares at the closing price on the grant date, crediting equity with $97,500, extinguishing the $55,000 liability and recording a loss on conversion of $42,500.

On July 19, 2011, the Company issued 8,906,250 shares to convert the acquisition liability owed to C&C Petroleum of $285,000. We valued the shares at the closing price on the grant date, crediting equity with $356,250, extinguishing the $285,000 liability and recording a loss on conversion of $71,250.

On July 18, 2011, we issued 2 million shares to convert a promissory note in the amount of $50,000 related to our Tennessee acquisition. We valued the shares at the closing price on the grant date, crediting equity with $95,000, extinguishing the $50,000 liability and recording a loss on conversion of $45,000.

There were no conversions of debt to stock during the year ended December 31, 2012.

Conversion of debt into royalty interests

On July 26, 2011, we entered into an agreement to sell a 3% over-riding royalty interest (“ORRI”) in all current and future Texas leases to a creditor in exchange for a reduction of debt in the amount of $80,000. We allocated a portion of the accumulated historical cost of these Texas leases to the transfer of the ORRI, reducing the carrying values of the Texas leases by $18,068 and recorded a gain on the sale of the ORRI of $61,932.

There were no conversions of debt into royalty interests during the year ended December 31, 2012.

Crockett County Leases

As is discussed more thoroughly in Note 4 to our annual report on Form 10-K as of December 31, 2010, we lost the Crockett County, Texas leases due to our failure to hold the leases by production. At the point the leases were lost, we had net note balance owed of $85,049. The note balance was $150,000 prior to settlement.

During 2011 the debt was extinguished with a cash payment of $125,000 from a related party on which we were released from any remaining liability on this obligation. We recorded a $25,000 gain on extinguishment of debt upon settlement. The note balance was $150,000 prior to settlement.

Liabilities relating to our 2010 acquisitions of properties in Tennessee

These liabilities arose in 2010 related to our acquisition of the Robin Moody #1, the Groce #1 and the Joseph Schwallie #1 wells.

On June 15, 2011, we entered into an agreement with a creditor who loaned us money to drill the Robin Moody well in Tennessee to convert the $55,000 balance owed to him into an overriding royalty interest of 1%.

On June 22, 2011, we issued 2.5 million shares to two creditors who loaned us money to acquire the leases in Tennessee to convert their debt balances to equity. We valued the shares at the closing price on the grant date, crediting equity with $97,500, reducing our liability by $55,000 with an offsetting loss on extinguishment of debt of $42,500.

On June 30, 2011, we issued 8.25 million shares to convert certain notes payable for debts we owed in connection with our Tennessee and Belize acquisitions. We valued the shares at the closing price on the grant date, crediting equity with $330,000, reducing interest and principal due to these creditors by $125,761 with an offsetting loss on extinguishment of debt of $204,239.

Liabilities relating to 2011 and 2012 oil and gas property acquisitions

We issued several promissory notes throughout the year in relation to the acquisition of oil and gas producing assets and equipment.

New debt related to acquisitions:

- On May 25, 2011, we acquired two leases in Texas for $170,000 issuing a promissory note. The note was fully repaid during the year.

- On June 6, 2011, we issued a promissory note in the amount of $25,000 for the purchase of a Schramm Drilling Rig.

- On May 31, 2011, we issued a promissory note in the amount of $692,539 for the Great 8 leases in Texas, the payment terms of which are: monthly payments including interest and principal with the final payment due on June 1, 2012. This note accrues interest at 5%. $42,539 was expensed as it represented lease operating expenses rather than acquisition costs. The Company made cash payments of $338,465 for the year ended December 31, 2012 and has an outstanding unpaid principal balance of $211,494 and $6,460 of accrued interest at December 31, 2012. This note is in default, however, the Company is working with the lender to resolve the delinquency.

- On November 30, 2011, we issued a promissory note in the amount of $120,000 for two Texas leases. The promissory note does not contain a provision for interest payments. We therefore discounted the note at 8% and recorded a debt discount of $4,419. During the year ended December 31, 2011, we amortized $436 to interest expense and had an unamortized discount balance of $3,983 at year end. This note was paid in full during 2012.

- On April 8, 2011, we issued a note payable in the amount of $300,000 for the acquisition of C&C Petroleum Management, LLC, payable in 12 monthly installments. We made cash payments of $15,000 during the year. On July 19, 2011, the Company issued 8,906,250 shares to convert the remaining balance owed to C&C Petroleum. The value of the shares was equal to $356,250 which was recorded to equity at June 30, 2011. The difference between the share value and the value of the liabilities relieved was recorded as a loss for $71,250 during the second quarter.

- On September 21, 2012, we issued a note payable in the amount of $328,012 for the acquisition of the Converse lease, payable in periodic installments, with an interest rate of 7%. We made cash payments of $75,000 on this note during the year ended December 31, 2012, which included $5,356 of interest charges. At December 31, 2012, the Company was in default on this note. In early 2013, we terminated the agreement and were absolved of further liability with the transfer of the Converse lease back to the seller.

Other Notes Payable

Changes in other notes payable for the years ended December 31, 2012 and 2011, are as follows:

	Year Ended December 31,	
	2012	2011
Beginning of Year	$ 184,670	$ -
New debt issued	1,067,200	220,000
Borrowing for fixed asset addition	67,101	-
Principal payments	(123,665)	-
Debt paid by related party	(24,000)	-
Interest accruals	116,148	2,170
Interest paid	(13,418)	-
Debt discount	(137,620)	-
Debt discount amortization	25,804	-
Conversion of debt to common stock	-	(37,500)
Change in foreign currency translation	37	-
End of Year	$ 1,162,257	$ 184,670

On November 9, 2011, we entered into an agreement with a creditor to supply $700,000 in cash, of which $150,000 had been received as of December 31, 2012. The agreement does not explicitly state an interest rate, but our repayment schedule implies an interest rate of 18.77%. The repayment schedule (applying to the full $700,000) is four quarterly installments of $196,000, beginning May 1, 2012. No additional borrowings were made under this agreement during 2012. At December 31, 2012, the outstanding principal balance was $120,239, with accrued interest of $5,905.

In June, 2011, we issued a promissory note in the amount of $50,000 for cash in the same amount. As an inducement to the creditor, we issued a 0.5% over-riding royalty interest (“ORRI”) in the Barnes, Henderson, Long and the Great 8 Texas leases. We allocated a portion of the carrying value of these leases and recorded a charge to interest expense of $2,288. In December, 2011, we issued another promissory note to this creditor for $20,000 for cash in the same amount.

The promissory note bears no interest and is due on demand. On August 12, 2011, we issued 1 million shares to this creditor to retire $37,500 of the unpaid principal. We valued the shares at the grant date and recorded a reduction of the note of $37,500 and a loss on conversion of debt in the amount of $28,800.

On January 13, 2012, we issued a promissory note in the amount of $50,000 in return for a cash advance. Payments are interest only at 5% per month for one year at which time the principal amount is due and payable. As of December 31, 2012, we are in arrears by nine months of the interest payments ($22,500) and have been negotiating with the lender to satisfy the default.

On January 30, 2012, we issued a promissory note in the amount of $100,000 in return for a cash advance. Payments are interest only at 5% per month for one year at which time the principal amount is due and payable. This note is collateralized with 10,000,000 common shares of the Company. In the event the Company defaults on the note these shares would be owed to the lender. The agreement requires that the Company provide additional collateral if the fair value of the shares decreases below $200,000 while the note is outstanding. As of December 31, 2012, the Company had not made any interest payments and was in arrears by $55,000. The Company is in negotiations with the lender to satisfy the debt. The collateral on the note had a market value of $150,000 as of December 31, 2012. As such, the Company recorded an additional expense of $50,000 for the default..

On May 1, 2012, we purchased a wire-line truck for $73,101, and issued a promissory note for $67,101. The purchase was treated as a rent to own agreement and in lieu of interest, rental payments of $ 9,138 was paid in 2012. As of December 31, 2012, the balance on the note was $13,001, which was 75 days in default..

On August 12, 2012, we issued a promissory note in the amount of $750,000 in return for a cash advance. Payments are structured to be paid at a rate of 5% of royalties earned on three of the East Texas leases, plus one-half (1/2) of the net income derived from those wells until the note is paid in full. The note specifies that repayment must be completed within 24 months.

There is no stated interest rate on the note, however, the Company has assigned a 7% royalty interest to the lender that will continue after the note is paid in full. The Company has recognized the royalty interest as a discount on the note for $137,620 and is amortizing it over a 24 month period. Amortization of $25,804 was recognized for the year ended December 31, 2012, and the remaining discount, as of that date, was $111,816.

On September 21, 2012, the Company purchased the Converse lease and issued a promissory note in the amount of $328,012. The note requires two (2) $20,000 payments in October, 2012, and $20,000 per month thereafter. Interest accrues at a rate of 7%. As of December 31, 2012, the Company was in default by $2,500 on the December payment. Subsequently, in 2013, the property was sold back to the original seller to pay off the note.

On September 28, 2012, we issued a demand note for a cash advance of $8,000. The note bears an interest rate of 6% and was due within 30 days. At December 31, 2012 we were in default on the note. In early 2013, the note was satisfied with the issuance of the Company's common stock.

On November 28, 2012, we issued a note for a cash advance of $40,000. The note bears an interest rate of 12% and is due one year from the date of issuance. We have accrued $434 of interest as of December 31, 2012.

On December 6, 2012, we issued a note for a cash advance of $70,000. The note bears an interest rate of 12% and is due one year from the date of issuance. We have accrued $575 of interest as of December 31, 2012.

On December 11, 2012, we issued a note for a cash advance of $20,000. The note bears an interest rate of 18%. Per the terms, payment was due on December 21, 2012, after which, in addition to interest on the outstanding amount, the Company is obligated to issue 100,000 shares per day until it is paid in full. As of December 31, 2012, we have accrued $100 in interest and $17,110 for the value of the stock that was due on that date. The stock was priced at the closing price of the stock on each day of accrual.

During 2012, Princess Entertainment, our concession partner in Belize has advanced us operating funds, which as of December 31, 2012, had a net total due of $29,200. There is no stated interest rate or terms on these advances.

Advances from an Affiliate

This liability relates to transactions between Company affiliates. Changes for the years ended December 31, 2012 and 2011, are as follows:

	Year Ended December 31,	
	2012	2011
Beginning of Year	$ -	$ 298,722
Borrowings from related parties	2,885,938	2,155,617
Principal payments on debt to related parties	(1,470,903)	(1,385,193)
Issuance of stock to extinquish related party debt	(1,042,800)	(1,040,508)
Conversion of related party debt to royalty interest	-	(685,000)
Purchases of treasury stock from related parties	-	790,000
Company debts paid by related parties	347,820	147,000
Transfer of equipment to related party	-	(68,885)
Discount on related party debt arising from stock issuance	-	(39,000)
Amortization of discounts on related party debt	-	39,000
Accrued compensation (net)	225,978	468,194
Forgiveness of related party debt	(881,404)	(679,947)
End of Year	$ 64,629	$ -

During 2011 the Company issued 36,762,252 shares to extinguish related party debts. All gains resulting upon extinguishment were recorded as increases to additional paid in capital rather than as gains due to the lenders being considered related parties. The total fair value of the shares issued was $1,976,266. The total debt and accrued interest relieved with the extinguishments was $920,508. The loss on extinguishments from these issuances was $1,055,758.

On July 1, 2011 the Company acquired 20,000,000 shares of their previously issued shares from a related party for $790,000. The value of the shares on the date of acquisition was also $790,000. The shares were acquired through increasing the debt owed to the related party for the same amount.

On December 31, 2011 all related party debt holders forgave debt balances owed to them for various cash and other advances as shown above. The total balance relieved with the forgiveness was $679,947.

On March 31, 2012 the affiliate forgave debt balances owed to them for various cash and other advances as shown above. The total balance relieved with the forgiveness was $881,404.

During 2012 the Company issued 42,276,971 shares to unrelated parties who had purchased shares through a related party. To offset the investment, we extinguished the related party debts from affiliates. All gains resulting upon extinguishment were recorded as increases to additional paid in capital rather than as gains due to the lenders being considered related parties. The total fair value of the shares issued was $1,927,295. The total debt and accrued interest relieved with the extinguishments was $1,069,675. The loss on extinguishments from these issuances was $857,620.

During the final quarter of 2012, settlement was reached on the lawsuits with former officers and directors of the Company. While the Company was absolved of any legal responsibility, we had historically carried a liability to address any damages, if awarded. Ultimately, a liability against a partner of a related party was assessed and the Company funded the settlement amount of $342,000. This relieved the debt and accrued interest we had maintained of $177,699. The balance of the settlement, $164,301 was charged to consulting expense for the partner of the related party.

On November 6, 2012, an officer and director of the company advanced $50,000 to the Company. The note bears interest of 10%

Accrued compensation to officers and directors

This liability arises from our contracts with Andrew Reid, our current CEO, George Warren, CFO, and two other consultants related through their association with a company controlled by Andrew Reid, pursuant to their employment agreements with the Company.

Changes for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Beginning of Year	$ -	$ 79,000
Compensation expense	380,000	60,000
Stock issued to extinquish debt	(180,000)	(120,000)
Compensation paid	(36,000)	-
Reclassification to accrued expense	-	(19,000)
Compensation donated to Additional Paid in Capital	(90,000)	-
End of Year	$ 74,000	$ -

During 2011 the Company issued their CEO 3,500,000 shares to extinguish debts owed to him. The total fair value of the shares issued was $142,000. The total liabilities relieved with the extinguishments was $120,000. The loss on extinguishments from these issuances was $22,000.

On March 31, 2012 the officers and directors forgave debt balances owed to them for various cash and other advances as shown above. The total balance relieved with the forgiveness was $90,000.

During 2012 the Company issued these related parties 3,798,983 shares to extinguish debts owed to them. The total fair value of the shares issued was $186,150. The total liabilities relieved with the extinguishments totaled $180,000. The loss on extinguishments from these issuances was $6,150.

Note 7 – Asset Retirement Obligation

In June, 2006, the Company adopted accounting guidance relating to accounting for conditional asset retirement obligations. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated. The Company estimates a fair value of the obligation on each well in which it owns an interest by identifying costs associated with the future dismantlement and removal of production equipment and facilities and the restoration and reclamation of a field’s surface to a condition similar to that existing before oil and natural gas extraction began.

In general, the amount of an Asset Retirement Obligation (“ARO”) and the costs capitalized will be equal to the estimated future cost to satisfy the abandonment obligation using current prices that are escalated by an assumed inflation factor up to the estimated settlement date which is then discounted back to the date that the abandonment obligation was incurred using an assumed cost of funds for the Company. After recording these amounts, the ARO is accreted to its future estimated value using the same assumed cost of funds and the liability is increased each period as the retirement obligation approaches.

Our Asset Retirement Obligation was zero at December 31, 2010. Changes to our Asset Retirement Obligation were as follows:

	December 31, 2012	December 31, 2011
Balance, beginning of year	$ 130,397	$ -
Liabilities assumed on acquired properties	95,578	128,367
Liabilities settled	(14,269)	-
Accretion expense	18,171	2,030
Revision of existing liabilities	(3,996)	-
Balance, end of year	$ 225,881	$ 130,397

Note 8 – Shareholders' Equity

On January 31, 2011, we amended our articles of incorporation to increase the number of shares authorized from 750 million to 950 million.

During the years ended December 31, 2011 and 2012, we issued the following shares:

- On February 14, 2011, we issued 10,296,609 shares for cash and received $60,750.
- On March 1, 2011, we issued 1 million shares to a consultant. We valued the shares at the closing price on the date of grant and recorded a charge to general and administrative expense of $8,200.
- Also on March 1, 2011, we issued 2,250,000 shares to our previous operator in Tennessee to settle contractual amounts owed by us to him. We valued the shares at the closing price on the grant date and reduced his liability from $20,000 to $1,550 for amounts expensed during the year.
- On March 3, 2011, we issued 23,500,000 shares to our geoscience consultant in Belize, Patrick Wayne Maloy. 15 million of these shares were for services rendered in 2010. We reduced our stock payable to the consultant from $204,000 to zero. 8.5 million of these shares were in payment of an aircraft for use on our Belize project. These shares were valued at the closing price on the date of grant and we recorded our cost basis in the aircraft at $72,250. During the quarter ended September 30, 2011, this aircraft was transferred to a related party to relieve debt to that party of $68,855. The carrying value of the asset was equal to the debt relieved as of the transfer date.
- Also on March 3, 2011, we issued 13,597,874 shares to a consultant for work performed. We valued the shares at the closing price on the grant date at $115,582.

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- On March 16, 2011, we issued 4 million shares to a previous director. We valued the shares at the closing price on the grant date and charged general and administrative expenses with $34,000.
- On March 29, 2011, we issued 14 million shares to our previous CEO and Chairman, Randall Newton, for work performed during 2009 and 2010, and repayment of cash contributions made by him. We valued the shares at the closing price on the grant date, reduced our liability to him from $269,024 to zero, and recorded a gain on retirement of debt of $87,024. This party was not considered to be related to the Company based on his resignation being during 2009 and he not holding a material share interest.
- On March 31, 2011, we issued 7,900,000 shares to our current CEO and Chairman, Andrew Reid in payment for services. We valued the shares at the closing price on the grant date at $102,700.
- On April 6, 2011 we issued 1.5 million shares to a consultant for commissions on our Belize acquisition, valuing them at the closing price on the grant date and charging lease operating expense with $22,200.
- On April 8, 2011, we issued 6 million shares to the seller of one of our Texas acquisitions (see Note 4). We valued the shares at the closing price on the grant date and included the value of $83,400 the stock in our carrying value of the Texas leases.
- On May 10, 2011, we issued 3.2 million shares for conversion of tranches 1 and 2 associated with our Texas leases (see Note 4). We retired $120,000 mezzanine liability included in Commitments and Contingencies. The conversion was according to the terms of the agreement. Therefore, no gain or loss was recognized.

- On April 27, 2011, we issued 5,675,989 shares to an affiliate for services. We valued the shares at the closing price on the grant date and charged general and administrative expenses with $306,503.

- On May 12, 2011, we issued 1 million shares to our President and Chief Operating Officer as a signing bonus. We valued the shares on the grant date and charged general and administrative expense with $40,000.

- On June 22, 2011 we issued 2,333,333 shares to acquire certain equipment. We valued the shares at the closing price on the date of grant, or $91,000, and recorded the equipment as an asset equal to the cash price of $77,000. The difference of $14,000 is included in general and administrative expenses.

- Also on June 22, 2011 we issued 7,050,000 shares to various consultants for services. We valued the shares at the closing price on the grant date and charged general and administrative expense with $255,340.

- On June 22, 2011, we issued 2,367,886 to certain creditors of a company controlled by our Chairman and Chief Executive Officer, Andrew Reid. We valued the shares at the closing price on the grant date, crediting equity with $95,483, reducing our liability to the affiliate company by $67,083 and recording a loss on extinguishment of debt in the amount of $28,400.

- Also on June 22, 2011 we issued 11 million shares to the same company controlled by our Chairman and Chief Executive Officer, Andrew Reid in conversion of the outstanding balance of $664,190. We valued the shares at the closing price on the grant date, crediting equity with $418,000, reducing our liability by $664,190 with an offsetting gain on extinguishment of debt. Because the gain here and loss above were from a related party, we included the net gain in Additional Paid in Capital rather than recognizing a gain.

- Also on June 22, 2011, we issued 2.5 million shares to two creditors who loaned us money to acquire the leases in Tennessee to convert their debt balances to equity. We valued the shares at the closing price on the grant date, crediting equity with $97,500, reducing our liability by $55,000 with an offsetting loss on extinguishment of debt of $42,500.

- Also on June 30, 2011, we issued 8.25 million shares to convert certain notes payable for debts we owed in connection with our Tennessee and Belize acquisitions. We valued the shares at the closing price on the grant date, crediting equity with $330,000, reducing interest and principal due to these creditors by $125,761 with an offsetting loss on extinguishment of debt of $204,239.

- Also on June 22, 2011, we issued 450,000 shares in connection with our acquisition of certain heavy equipment. We valued the shares at the closing price on the date of grant, or $18,450, and recorded the equipment as an asset equal to the cash price of $18,000. The difference of $450 is included in Asset Impairments.

- Also on June 22, 2011, we issued 5,670,000 shares to several accredited investors for $137,000 in cash.

- Also on June 22, 2011, we issued an affiliate 77,258,753 shares as reimbursement for personal shares the affiliate used in various deals in Belize, Tennessee, Louisiana and Texas. Of the 77,258,753, 26,808,753 shares were issued at par because the costs associated with the issuances were recorded in previous periods when the affiliate originally paid the shares to the recipient. The 26,808,753 shares were:

    - 16 million shares issued to a previous director for services during 2009. The shares were valued at the then fair value on the grant date and $209,600 was included in expense.

    - 4 million shares issued to a previous director for services during 2009. The shares were valued at the then fair value on the grant date and $19,650 was included in expense.

    - 1,068,000 shares were issued to an accredited investor for $10,000 in cash.

    - 5,740,753 shares were issued to the previous majority shareholder of Alternate Energy Corporation, the corporation that ultimately became Treaty Energy Corporation through a reverse merger. The shares reduced the liability to him in the amount of $211,827.

In addition to the above, the difference, or 50,450,000 shares were issued as follows :

- 27,750,000 shares were issued for services. We valued the shares at their grant dates and charged expense with $1,407,500.
- 1 million shares were issued for $12,000 in cash.
- 21,700,000 were issued for reduction of debt. We valued the shares at the grant date, reduced debt by $119,500 and recorded a loss on conversion of $1,052,300.

- On July 1, 2011, we contracted to provide a broker with 20,000,000 shares at a discounted price over a period of nine months. On the same date, we issued 11,000,000 million of those shares from Treasury stock that we acquired from a related party. Total amount due on this contract is $400,000, of which we have been paid $225,000 as of December 31, 2011. 1,343,750 shares valued at $26,875 were accrued within stock payable at 12/31/11.
- Also on July 01, 2011 we issued 504,500 shares to a consultant for services. We valued the shares at the closing price on the grant date and charged general and administrative expense with $19,928.
- On July 13, 2011, we issued 1,530,000 shares to various consultants for services. We valued the shares at the closing price on the grant date and charged general and administrative expense with $71,190.
- Also on July 13, 2011, we issued 2,000,000 shares to a consultant for services. We valued the shares at the closing price on the grant date and charged general and administrative expense with $79,400.
- On June 25, 2011, the Company issued 2,625,000 shares to convert related party liabilities owed of $105,000. The value of the shares owed was equal to $110,000 which was recorded to stock payable at June 30,2011. The difference between the share value and the value of the liabilities relieved was recorded as a loss for $5,000 due to these parties being employed by the company and the excess being considered as additional compensation to the recipients
- Also on July 13, 2011, we issued 2,090,119 shares to various investors who paid a total of $48,000.
- On July 18, 2011, we issued 2,000,000 shares to extinguish a debt from advances by an investor. We valued the shares as of the date the stock was granted at $95,000. The value of the debt relieved was $50,000 resulting in a loss of $45,000.
- On July 19,2011, the Company issued 8,625,000 shares to convert the acquisition liability owed to C&C Petroleum of $285,000. The value of the shares owed was equal to $345,000 which was recorded to stock payable at June 30, 2011. The difference between the share value and the value of the liabilities relieved was recorded as a loss for $60,000 during the second quarter.
- Also on July 19, 2011, the Company issued 500,000 shares to a consultant for services. We valued the shares at the closing price on the grant date and charged general and administrative expense with $20,000.
- Also on July 19, 2011, we issued 76,548 shares to an investor who paid $2,000.
- On July 26, 2011, we issued 1,135,526 shares to a consultant for services. We valued the shares at the closing price on the grant date and charged general and administrative expense with $44,853.
- Also on July 26, 2011, we issued 2,000,000 shares to our current CEO and Chairman, Andrew Reid in payment of a signing bonus for his contract dated May 1, 2011. We valued the shares at the closing price on the grant date, and charged general and administrative expense for $137,000.
- On July 29, 2011, we issued 5,537,727 shares to various consultants for services. We valued the shares at the closing price on the grant date and charged general and administrative expense for $55,377.
- On August 8, 2011, we issued 2,000,000 shares to a consultant for services. We valued the shares at the closing price on the grant date and charged general and administrative expense with $108,000.
- On July 29, 2011, we issued 545,454 shares to extinguish $21,818 in debt. We valued the shares at the grant date fair value and recorded a credit to equity of $21,545, a reduction of debt of $21,818 and a gain on extinguishment of debt of $273.
- On August 12, 2011, we issued 1,400,000 shares to an individual for both cash payments and reduction of an advance. She paid $8,000 in cash (400,000 shares), and loaned the company $50,000. In return for the remaining 1,000,000 shares she reduced the debt by $37,500. A loss of $28,800 was recorded for the difference in fair value of shares issued and the debt relieved.

- Also on August 12, 2011, we issued 23,912 shares to a vendor who had provided services to a related party. The related party's obligation was $2,917 and reduced our liability to the related party in the same amount. A gain of $1,269 was recorded for the difference in fair value of shares issued and the debt relieved

- Also on August 12, 2011, we issued 3,068,165 shares to investors who had paid a cash total of $98,000.

- On August 16, 2011, we issued 1,750,000 shares to a consultant for services. We valued the shares at the closing price on the grant date and charged general and administrative expense with $87,500.

- On November 30, 2011, we issued 350,000 shares to a consultant for services. We valued the shares at the closing price on the grant date and charged general and administrative expenses with $19,950.

- On December 30, 2011, we issued 2 million shares to our Chief Executive Officer, Andrew Reid to extinguish $60,000 of accrued salary. We valued the shares at the closing price on the grant date, recorded an increase to Additional Paid in Capital of $82,000, reduced our liability to Mr. Reid by $60,000 and recorded a loss on conversion of debt of $22,000.

- On June 7, 2012, the Company issued 177,143 shares of common stock to a unrelated party, to relieve $5,000 of debt. The fair value of the shares was $6,377 resulting in a loss of $1,377.

- On August 3, 2012, the Company issued 15,872,936 shares of common stock valued at $427,500 for cash payments from unrelated investors.

- Also on August 3, 2012, the Company issued 4,592,986 shares of common stock valued at $229,649, to a related party controlled by our Chairman, Andrew Reid, to relieve debt of $126,275 to that company, resulting in a loss of $103,374.

- Also on August 3, 2012, the Company issued 1,000,000 shares of common stock valued at $50,000, for services rendered to the Company by consultants.

- Also on August 3, 2012, the Company issued 557,143 shares of common stock valued at $27,857 for the purchase of equipment. This amount exceeded the invoice amount by $11,357, which was therefore expensed.

- Also on August 3, 2012, the Company issued 1,962,490 shares of common stock valued at $98,125, to pay an outstanding balance to one of our legal consultants.

- On August 8, 2012, the Company issued 22,185,893 shares of common stock valued at $1,082,672 to a principal in a related company controlled by our Chairman and Chief Executive Officer, Andrew Reid as recognition for his efforts in providing shares for fund raising on behalf of the Company and for unpaid and unreimbursed fees and expenses. The value of the shares were expensed.

- On August 9, 2012, the Company issued 7,616,533 shares of common stock valued at 373,210 to our Chairman and Chief Executive Officer, Andrew Reid as recognition for his efforts in providing shares for fund raising on behalf of the Company and for unpaid and unreimbursed fees and expenses. The value of the shares were expensed.

- On August 20, 2012, the Company issued 3,943,750 shares of common stock valued at $104,250 for cash payments from unrelated investors.

- Also on August 20, 2012, the Company issued 28,506,812 shares of common stock valued at $1,331,268, to a related party controlled by our Chairman, Andrew Reid, to relieve debt of $578,400 to that company, resulting in a loss of $752,868.

- Also on August 20, 2012, the Company issued 8,347,188 shares of common stock valued at $389,814, for services rendered to the Company by consultants.

- On August 27, 2012, the Company issued 7,500,000 shares of common stock valued at $345,000, to the Company's new Chief Financial Officer, George Warren, in recognition of his efforts in raising capital for the company. The value of the shares were expensed.

- On August 29, 2012, the Company issued 18,662,011 shares of common stock valued at $839,791, to consultants and others who had provided services to the company.

- On September 5, 2012, the Company issued 600,000 shares of common stock, valued at $60,000 for the conversion of preferred stock. The conversion was consistent with the original issuance agreement, therefore no gain or loss was recognized.

- On September 6, 2012, the Company issued 20,180,000 shares of common stock valued at $864,200, to consultants and others who had provided services to the company.

- On September 17, 2012, the Company issued 5,000,000 shares of common stock valued at $180,000, to consultants and others who had provided services to the company.

- On October 4, 2012, the Company issued 7,380,952 shares of common stock valued at $300,461, to consultants and others who had provided services to the company.

- On October 9, 2012, the Company issued 30,000,000 shares of common stock valued at $1,200,000, to complete the purchase of the 3K Oil Trust.

- Also on October 9, 2012, the Company issued 5,000,000 shares of common stock valued at $150,000, to a consultant who had provided services to the company.

- On October 16, 2012, the Company issued 1,500,000 shares of common stock valued at $66,500, to a consultant who had provided services to the company.

- On November 26, 2012, the Company issued 5,000,000 shares of common stock valued at $150,000, to a consultant who had provided services to the company.

- On November 28, 2012, the Company issued 714,286 shares of common stock valued at $20,000 to consultants who had provided services to the company.

- On December 20, 2012, the Company issued 2,500,000 shares of common stock valued at $47,500, to a consultant who had provided services to the company.

Options and Warrants

Options and warrants outstanding at December 31, 2012 and 2011 are as follows:

	12/31/12	12/31/11
Outstanding at beginning of period	2,687,419	3,248,669
New grants	-	-
Exercises	-	-
Expired	(124,492)	(561,250)
Outstanding at end of period	2,562,927	2,687,419

These potentially dilutive securities expire as follows:

Strike Price	Date Granted	Term	Expiry Date	No. of Warrants / Options
$ 0.01	06/22/06	7 Yr	06/22/13	138,435
$ 0.01	06/22/07	7 Yr	06/22/14	124,492
$ 0.01	03/31/08	7 Yr	06/22/18	2,300,000
Total				**2,562,927**

Class A Convertible Preferred shares

During the quarter ended June 30, 2011 the Company issued 36,000 shares of Class A Convertible Preferred shares. These shares have a stated value of $5 per share. The preferred shares are convertible into common stock at varying rates for each third (12,000 shares) of the preferred stock issued. The first tranche is convertible according to the stated value of the preferred shares divided by $0.03, the second tranche at $0.05, and the final tranche at $0.10. These preferred shares are also to be repaid to the holder in the event that the Company’s share price does not exceed the conversion value during the 24 months from the issuance date. The preferred shares are redeemable at their stated value of $5 per share on April 8, 2013 if this event occurs.

Because these shares were conditionally redeemable under circumstances that are not within the control of the Company, they were accounted for outside of permanent equity and liabilities consistent with the applicable literature on conditionally redeemable preferred stock. The shares will be re-classed to permanent equity upon conversion to common stock or to liabilities if redemption becomes certain to occur.

As of December 31, 2012 and December 30, 2011, -0- and 12,000 shares (valued at $60,000), respectively were outstanding and is included on our Consolidated Balance Sheet under in the Commitments and Contingencies section.

Treasury Shares

In July, 2011, the Company purchased 20,000,000 shares of its common stock of which 11,000,000 were immediately sold for a cash payment with the balance to be purchased by the same party based on a promissory note for additional payments. The buyer defaulted on the arrangement. The original related party agreed to repurchase the shares as repayment for the monies advanced to the Company. In 2012, the Company issued the remaining 9,000,000 Treasury shares to the related party to relieve $333,125 of debt and $26,875 of stock payable. The fair value of the shares on the date of grant was equal to the debts relieved, therefore no gain or loss was recognized.

Stock Payable

At December 31, 2012, the Company had received $1,274,576 for the purchase of shares from unrelated parties. During the first quarter of 2013, the Company issued 106,865,530 shares of its common stock to relieve the stock payable.

Related Party Interest

During the year ended December 31, 2012, the Company imputed $57,676 for interest expense for non-interest bearing debts owed to related parties. That balance was added to the Additional Paid in Capital of the Company.

Note 9 – Income Taxes

Deferred income taxes reflect the tax consequences on future years of differences between the tax bases:

	December 31, 2012	December 31, 2011
Deferred tax asset	$ 4,250,212	$ 1,682,466
Valuation allowance	(4,250,212)	(1,682,466)
Net future income tax asset	$ -	$ -

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Management has provided for a valuation allowance on all of its losses as there is no assurance that future tax benefits will be realized.

Our tax loss carry-forward of $12,500,623 will begin to expire in 2021.

Note 10 – Supplemental Information on Oil Producing Properties (Unaudited)

Supplemental Reserve Information

The information set forth below on our proved oil reserves is presented pursuant to the disclosure requirements of Accounting Standards Codification Topic 932 – *Extractive Activities – Oil and Gas* ("ASC 932"). The Company emphasizes that reserve estimates are inherently imprecise. Our reserve estimates were generally based upon extrapolation of historical production trends, analogy to similar properties and volumetric calculations. Accordingly, these estimates are expected to change and such changes could be material and occur in the near term as future information becomes available.

The Company retained the service of an independent petroleum consultant Huddleston & Co., Inc., Petroleum and Geological Engineers, to estimate its proved oil reserves at December 31, 2012 and 2011.

The following table sets forth a summary of changes in estimated reserves for 2012 and 2011:

	Year Ended December 31,	
Change of reserve quantity information (Bbls)	**2012**	**2011**
Proved reserves at beginning of year	7,938.8	-
Acquisitions of oil and gas producing properties	853.0	8,683.0
Revisions of previous estimates	(2,343.4)	
Production	(1,765.4)	(744.2)
Proved reserves at end of year	4,683.0	7,938.8
Proved developed reserves at beginning of year	7,939	-
Proved developed reserves at end of year	4,683	7,939

Standardized Measure of Discounted Future Net Cash Flow Relating to Proved Oil Reserves

The following information has been developed utilizing procedures prescribed by ASC 932 and based on oil reserve and production volumes estimated by the Company's independent reserve engineers. It may be useful for certain comparison purposes but should not be solely relied upon in evaluating the Company or its performance. Further, information contained in the following table should not be considered as representative of realistic assessments of future cash flows nor should the Standardized Measure of Discounted Future Net Cash Flows be viewed as representative of the current value of the Company.

The future cash flows presented below are computed by applying the average prices for the first day of the twelve months ended December 31, 2012 and 2011 to year-end quantities of proved oil and natural gas reserves. Future production and development costs are computed by estimating the expenditures to be incurred in producing the Company's proved reserves based on year-end costs and assuming continuation of existing economic conditions. It is expected that material revisions to some estimates of oil and natural gas reserves may occur in the future, development and production of the reserves may occur in periods other than those assumed, and actual prices realized and costs incurred may vary significantly from those used.

Management does not rely upon the following information in making investment and operating decisions. Such decision are based upon a wide range of factors, including estimates of proved reserves, and varying price and cost assumptions are considered more representative of a range of possible economic conditions that may be anticipated.

The following table sets forth our future net cash flows relating to proved oil reserves based on the standardize measure prescribed in ASC 932:

	As of December 31, 2012	2011
Future cash inflows	410,656	719,177
Future production costs	(412,817)	(617,802)
Future income taxes		-
Future net cash flows	(2,161)	101,375
10% annual discount for estimated timing of cash flows	(10,754)	(13,968)
Standardized measure of discounted future net cash flows	(12,915)	87,407

1. Oil revenues are based on average twelve-month 2012 prices ($87.69 per barrel) and average twelve-month 2011 prices ($90.59 per barrel). There is no consideration of risks associated with future production of proved reserves.
2. Based on economic conditions at year-end and does not include administrative, general, or financing costs.
3. The future income tax rate for the period covered under these properties (approximately 15 years) is assumed to be zero due to tax loss carryforwards.

Changes in Standardized Measure of Discounted Future Cash Flows

The following table sets forth the principal sources of change in the standardized measure of discounted future net cash flows:

	As of December 31, 2012	2011
Beginning of period	87,407	-
Sales of O&G produced net of production costs	2,161	(135,192)
Extensions and discoveries	-	-
Previously estimated development cost incurred during the period	-	-
Net change in prices and production costs	(111,940)	-
Change in future development costs	-	-
Revisions in Quantity and timing of estimates	(36,029)	-
Accretion of discount	8,741	-
Change in income taxes	-	-
Purchase (sale) of reserves in place	78,510	222,599
Other	(41,765)	-
End of Period	(12,915)	87,407

1. In our first year of operating the Texas producing leases, revenues from oil sales did not cover direct lease operating expenses, production taxes and transportation costs. To include a value for “Sales of oil net of production costs” would have caused the Standardized Measure to increase for that line item. We therefore allocated all changes to the Standardized Measure to either “Purchases of minerals in place” or “Sales of minerals in place”.

Capitalized Costs Related to Oil Producing Activities

The following table sets forth the capitalized costs relating to the Company's oil and natural gas producing activities:

	As of December 31,	
	2012	2011
Proved properties	$ 2,354,287	$ 460,365
Unproved properties	48,075	48,075
Oilfield support equipment	846,197	1,141,702
Total oil producing properties	3,248,559	1,650,142
Accumulated depreciation, depletion, amortization and impairments	(2,478,539)	(480,311)
Oil producing properties, net	$ 770,020	$ 1,169,831

Costs Incurred in Oil and Gas Property Acquisition, Exploration and Development Activities (Unaudited)

Costs incurred in connection with crude oil and natural gas acquisition, exploration and development are as follows:

	As of December 31,	
	2012	2011
Property acquisition costs:		
Proved properties	$ 1,854,332	$ 526,948
Unproved properties	-	-
Total acquisition costs	1,854,332	526,948
Development costs	-	13,161
Total	$ 1,854,332	$ 540,109

Results of Operations

The Company's results of operations related to oil and natural gas activities are set forth below. The following table includes revenues and expenses associated directly with our oil and natural gas producing activities. It does not include any interest costs, general and administrative costs or provision for income taxes due to the net operating loss carry-forward, and therefore, is not necessarily indicative of the contribution to consolidated net operating results of our oil and natural gas operations.

	Year Ended December 31,	
	2012	2011
Sales of oil	$ 169,947	$ 116,241
Lease operating expenses	1,200,147	766,279
Cost of drilling operations	501,145	82,497
Transportation costs	29,559	11,203
Production taxes	7,608	5,069
Depreciation, depletion and amortization	2,413,901	540,071
Accretion of asset retirement obligation	18,171	2,030
Results of producing activities	$ (4,000,584)	$ (1,290,908)

Note 11 – Fair Value Measurements and Disclosures

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The company had no assets or liabilities re-valued on a recurring basis as of December 31, 2012 and 2011.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis in our consolidated balance sheets.

Asset Impairments – Oil and gas properties are reviewed to determine whether the estimated undiscounted future cash flows from a property or other investment are less than the carrying value. See Note 2 Basis of Presentation and Summary of Significant Accounting Policies for a discussion of the assumptions and methods for calculating impairment.

	Fair Value Measurement Using			
	Level 1	Level 2	Level 3	
	Quoted Prices in Active Markets (1)	Significant Other Observable Inputs (1)	Significant Unobservable Inputs (2)	Total Pre-tax (Non-cash) Impairment Loss
Year Ended December 31, 2012:				
Impaired oil and gas properties	-	-	84,485	1,121,164
Year Ended December 31, 2011:				
Impaired oil and gas properties	-	-	87,407	354,872

1. See Note 2. Summary of Significant Accounting Policies - Fair Value Measurements for a description of the fair value hierarchy.

Note 12 – Related-Party Transactions

Throughout 2011 and 2012, we funded much of our operations with advances from related parties. In addition to those loans, we had other non-cash transactions with related parties. During the year ended December 31, 2011, we borrowed $2,155,617 in cash and made cash repayments to affiliates of $1,385,193. During the year ended December 31, 2012, we borrowed $3,006,288 in cash and made cash repayments to affiliates of $1,541,253.

During the year ended December 31, 2012, we issued 42,276,941 shares to convert related-party debt balances and to pay creditors of related parties. We valued the shares at the closing price on their respective grant dates and collectively credited equity with $1,927,295, reduced related-party debt and accrued interest by $1,069,675, and recorded a loss on conversion of $857,620.

At March 31, 2012, affiliates forgave all debts owed by us to them aggregating $971,504. We reduced the debt to zero and increased Additional Paid in Capital.

During 2012, the Court absolved the Company of any liability with respect to the lawsuit brought by former officers and directors. The lawsuit was settled which established a liability against a consultant and owner of a related party. On behalf of this individual, the Company paid the settlement amount of $342,000 and relieved a liability that had been accrued on the Company's books of $177,699. An additional amount that exceeded the previously accrued expense by $164,301 was expensed to consulting services by the related party.

In 2012, the Company issued 49,264,916 shares, as follows:

- 47,302,426 shares were issued for services. We valued the shares at their grant dates and charged expense with $2,223,382.

- 1,962,490 were issued for reduction of debt. We valued the shares at the grant date, reduced debt by $98,125 and recorded a gain on conversion of $ 2,633.

During the year ended December 31, 2011, we issued 40,262,252 shares to convert related-party debt balances and to pay creditors of related parties. We valued the shares at the closing price on their respective grant dates and collectively credited equity with $2,118,266, reduced related-party debt and accrued interest by $920,508, reduced related-party accrued salaries by $120,000 and recorded a loss on conversion of $1,077,758.

Also on June 22, 2011, we issued an affiliate 77,258,753 shares as reimbursement for personal shares the affiliate used in various deals in Belize, Tennessee, Louisiana and Texas. Of the 77,258,753, 26,808,753 shares were issued at par because the costs associated with the issuances were recorded in previous periods when the affiliate originally paid the shares to the recipient. The 26,808,753 shares were:

- 16 million shares issued to a previous director for services during 2009. The shares were valued at the then fair value on the grant date and $209,600 was included in expense.

- 4 million shares issued to a previous director for services during 2009. The shares were valued at the then fair value on the grant date and $19,650 was included in expense.

- 1,068,000 shares were issued to an accredited investor for $10,000 in cash.

- 5,740,753 shares were issued to the previous majority shareholder of Alternate Energy Corporation, the corporation that ultimately became Treaty Energy Corporation through a reverse merger. The shares reduced the liability to him in the amount of $211,827.

In 2011, additionally, the Company issued 50,450,000 shares, as follows :

- 27,750,000 shares were issued for services. We valued the shares at their grant dates and charged expense with $1,407,500.

- 1 million shares were issued for $12,000 in cash.

- 21,700,000 were issued for reduction of debt. We valued the shares at the grant date, reduced debt by $119,500 and recorded a loss on conversion of $1,052,300.

During the year ended December 31, 2011, we extinguished $685,000 of related-party debt by issuing over-riding royalty interests ("ORRI") to related parties and creditors of related parties totaling 12.3% in existing and future Texas leases. We allocated a portion of the accumulated historical cost of these Texas leases to the transfer of the ORRI, reducing the carrying values of the Texas leases by $68,192. In addition to the above, and since we received $10,000 in cash as part of the above transactions, we credited the excess of value received ($685,000 in debt reduction and $10,000 in cash) over the carrying value allocated to the 12.3% ORRI ($68,192), we increased Additional Paid in Capital by $626,808.

On July 1, 2011, we purchased 20 million shares of our stock from a related company also controlled by our Chairman and Chief Executive Officer, Andrew Reid. The shares were valued at $790,000, the amount the company agreed to re-pay with an outstanding liability. The value was equal to the market price of the shares on the date the shares were repurchased.

During the year ended December 31, 2011, related parties paid $147,000 of Company debts.

We transferred equipment with a net carrying value of $68,885 to a related party.

On May 20, 2011, we entered into a promissory note with a related party for $100,000 in cash. As an additional enticement for the loan, we are to issue 1 million shares (in Common Stock Payable at December 31, 2011). We valued the shares at the grant date and recorded a discount on the related party promissory note in the amount of $39,000. During the year ended December 31, 2011, we amortized the entire $39,000 to interest expense.

During the year ended December 31, 2011, we accrued $468,194 of compensation to related parties.

At December 31, 2011, affiliates forgave all debts owed by us to them aggregating $679,947. We reduced the debt to zero and increased Additional Paid in Capital.

Note 13 – Non-Controlling Interest in Subsidiary

On September 12, 2011, we sold 400 shares (representing a 4% interest) of our subsidiary, Belize Energy, Ltd. for $100,000 in cash The shares have an anti-dilution clause and the Company received an option to purchase 600 additional shares at varying prices depending on their option exercise dates. None of the options were exercised during 2012. The agreement also specifies that the lender received an option to purchase up to 15% of a company in Belize which we received an additional $25,000 in cash. On October 18, 2012, the 4% interest was returned and the option cancelled for a commitment from us to pay $120,000. As of December 31, 2012, this amount was still outstanding. In addition to relieving the $25,000 purchase option, we reduced the equity balance for non-controlling interests by $51,448. This also required a reduction of $146,448 to Additional Paid in Capital.

Note 14 – Commitments and Contingencies

None as of December 31, 2012.

Five-Year Cash Payout

Our commitment over the next five years for our office space in New Orleans, LA is as follows:

Year	**Obligation**
2013	$ -
2014	-
2015	-
2016	-
2017	-
Total	$ -

Note 15 – Subsequent Events

The Company has evaluated subsequent events through the date these financial statements were issued:

Sale of Property

During the first quarter of 2013, the Company returned the Converse property to the seller and the remaining loan balance was cancelled.

Equity Authorization

On January 14, 2013, the Company increased its authorized shares of common stock from 950,000,000 shares to 1.25 Billion shares.

Stock Issuances

On February 1, 2013, the Company issued 2,500,000 shares of common stock to eliminate a debt of $50,000 from a private lender. The shares were valued at $38,750.

Also, on February 1, 2013, the Company issued 3,906,250 shares of its common stock to convert $25,000 owed on a note payable.

On February 4, 2013, the Company issued 62,600,847 shares of its common stock to a related entity controlled by Andrew Reid to eliminate a debt of $329,000 to the related entity. The shares were valued at $970,313.

On February 13, 2013, the Company issued 60,486,530 shares of its common stock for $767,243 of cash investments by various investors.

Also, on February 13, 2013, the Company issued 3,846,154 shares of its common stock to convert $25,000 owed on a note payable.

On February 19, 2013, the Company issued 30,179,000 shares of its common stock for $277,359 of cash payments and advances from investors.

On February 21, 2013, the Company issued 13,074,324 shares of its common stock valued at $173,889 for services rendered by a consultant.

On February 22, 2013, the Company issued 2,500,000 shares of its common stock valued at $33,750 for services rendered by a consultant.

Also, on February 22, 2013, the Company issued 400,000 shares of its common stock valued at $5,400 for legal services rendered.

On February 25, 2013, the Company issued 4,098,360 shares of its common stock to convert $25,000 owed on a note payable.

On February 26, 2013, the Company issued 3,500,000 shares of its common stock valued at $47,250 for services rendered by a consultant.

On February 27, 2013, the Company issued 19,235,174 shares of its common stock valued at $255,828 for services rendered by a consultant.

On February 28, 2013, the Company issued 1,000,000 shares of its common stock valued at $12,000 for services rendered by a consultant.

On March 4, 2013, the Company issued 26,750,000 shares of its common stock for $268,500 of cash payments.

Also, on March 4, 2013, the Company issued 4,000,000 shares of its common stock valued at $40,000 for services rendered by a consultant.

Also, on March 4, 2013, the Company issued 1,000,000 shares of its common stock valued at $10,000 to a lender as a late payment.

On March 5, 2013, the Company issued 4,000,000 shares of its common stock valued at $392,000 for services rendered by a consultant.

On March 6, 2013, the Company issued 5,000,000 shares of its common stock to convert $25,000 owed on a note payable.

On March 11, 2013, the Company issued 36,142,856 shares of its common stock for cash payments of $295,000.

On March 15, 2013, the Company issued 3,400,000 shares of its common stock valued at $40,460 for services rendered by a consultant.

Also, on March 15, 2013, the Company issued 2,840,909 shares of its common stock to convert $12,500 owed on a note payable.

On April 1, 2013, the Company issued 3,253,012 shares of its common stock to convert $12,500 owed on a note payable.

On April 3, 2013, the Company issued 90,000 shares of its common stock to correct for an under-issuance to one investor during 2012.

On April 15, 2013, the Company issued 5,571,428 shares of its common stock for cash payments of $38,000.

Also, on April 15, 2013 the Company issued 3,300,000 shares of its common stock valued at $33,000 for services rendered by a consultant.

Legal Issues

In January, 2013, the Company was advised that legal remedies were being sought by the party involved in the rescission action pertaining to the Belize investment. The Company disputes that the amount of $120,000 had become past due as the stock to be returned had not been returned at that point. Aside from the stated amount due for the rescission and described in Note 13, the Company does not believe that any additional liability will be incurred.

On May 23, 2013, a vendor obtained a judgment against the Company for an unpaid invoice, plus court fees and interest of $98,069.86. The Company acknowledges the liability and is currently working with the vendor for a payment plan to repay the amount due.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered in this report, our disclosure controls and procedures were not effective to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the required time periods and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. To address the material weaknesses, we performed additional analysis and other post-closing procedures in an effort to ensure our consolidated financial statements included in this annual report have been prepared in accordance with generally accepted accounting principles. Accordingly, management believes that the financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

Management's Report on Internal Control over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act, as amended. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. We have identified the following material weaknesses.

1. As of December 31, 2012, we did not maintain effective controls over the control environment. Specifically we have not developed and effectively communicated to our employees its accounting policies and procedures. This has resulted in inconsistent practices. Further, the Board of Directors does not currently have any independent members and no director qualifies as an audit committee financial expert as defined in Item 407(d)(5)(ii) of Regulation S-B. Since these entity level programs have a pervasive effect across the organization, management has determined that these circumstances constitute e a material weakness.

2. As of December 31, 2012, we did not maintain effective controls over financial statement disclosure. Specifically, controls were not designed and in place to ensure that all disclosures required were originally addressed in our financial statements. Accordingly, management has determined that this control deficiency constitutes a material weakness.

Because of these material weaknesses, management has concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2012, based on the criteria established in "Internal Control-Integrated Framework" issued by the COSO.

Change In Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our last fiscal year that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Attestation Report of the Registered Public Accounting Firm

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

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

As of December 31, 2012, the directors and executive officers and their positions, are as follows:

Name	Position
Andrew V. Reid	Chairman and Chief Executive Officer Corporate Secretary and Director
Bruce Gwyn	President

None of our directors or executive officers is currently a director of any company that files reports with the SEC, except as described below. None of our directors have been involved in any bankruptcy or criminal proceeding (excluding traffic and other minor offenses), nor has been enjoined from engaging in any business. Our directors are elected at the annual meeting of stockholders and hold office until their successors are duly elected and qualified. Officers are appointed by our Board of Directors and serve at the pleasure of the Board and are subject to employment agreements, if any, approved and ratified by the Board.

Andrew V. Reid, Chairman and Chief Executive Officer

Andrew V. Reid has served as President and Director of Treaty Energy Corporation since March 2010 and appointed to serve in the additional roles Chairman and CEO of the Company since April 2010.

Andrew Reid has more than 20 years of corporate finance and management experience. In 2006 Mr. Reid started NOLA Commercial Finance Inc., a commercial finance company. During the past 4 years he has focused on helping small regional Oil & Gas companies with debt and equity funding. He has helped fund in excess of $50 million for various types of income producing properties.

In 1998 Mr. Reid started his own investment firm where he focused on the Oil & Gas Industry. In 2004 he sold the business to spend more time with family, but continued to do consulting work.

Mr. Reid grew up in the Houston, Texas and went on to attend St. Edwards University and the University of Texas in Austin. After college, he joined the GMS Group LLC in Houston, a small boutique investment firm his father helped found. There Mr. Reid specialized in municipal and corporate debt finance, mergers, and restructurings.

Bruce A. Gwyn, Director and President

Bruce Gwyn has served as a Director since April 2011 and as Co-Chief Executive Officer since November 2011.

Bruce Gwyn is the founder and managing member and General Partner of the Hedge Fund Level III Trading Partners L.P. He is a listed Principal (effective June 19, 2007) and CFTC registered Associated Person (effective July 3, 2007) of the General Partner as well as an Associate Member of the NFA in such capacities. Additionally, Mr. Gwyn is a listed Principal (effective May 11, 2007) and CFTC registered Associated Person (effective June 22, 2007) of LEVEL III TRADING, LLC, a CFTC registered Introducing Broker and NFA member since June 22, 2007.

Mr. Gwyn graduated from Tulane University in 1985 with a Bachelor of Arts.

Paul L. Fourt, Jr., Director

Paul L. Fourt, Jr. has served as a Director of Treaty Energy Corporation in May 2010.

Mr. Fourt is currently Managing Partner of the Law Offices of Paul L. Fourt, Jr. of Brownsville, Texas, a general practice law firm with a main focus on civil and criminal litigation. From 1999 to 2000 M. Fourt served as an Assistant District Attorney in the Dallas County District Attorney Office.

In prior years, Mr. Fourt was affiliated with a number of Texas law firms, and handled a broad spectrum of legal cases, giving him the broad legal credentials that have prepared him for his current responsibilities.

Mr. Fourt has a J.D. Degree from Oklahoma City University School of Law and a B.A. Degree in History from the University of Texas at Austin

Lee C. Schlesinger, Executive Vice President, Chief Investment Officer and Director

Lee C. Schlesinger has served as Executive Vice President, Chief Investment Officer and Director since November, 2011.

Mr. Schlesinger was born May 14, 1969 and is a native of New Orleans, Louisiana. In March 1999, Mr. Schlesinger was hired by an Investment Bank, Southcoast Capital, a New Orleans based oil and gas institutional investment firm. Mr. Schlesinger started as an Institutional Salesman, advising mutual funds and large hedge funds with their oil and gas investments, private and publicly traded. Southcoast Capital was acquired by Hibernia Bank which was subsequently acquired by Capital One.

In 2006, Mr. Schlesinger founded and managed Battenkill Capital Management, which specialized in oil and gas investments, Battenkill Capital Management also advised clients such as Fidelity, Wells Fargo, T. Rowe Price and Friess Associates.

Mr. Schlesinger is currently Co-Chairman of the Board of the Latter Library. He is FINRA Series 7 and Series 63 examination qualified and holds a degree in Business from the University of Arizona.

Board of Directors and Committees

Our Board of Directors presently consists of five members: Andrew V. Reid, Bruce A. Gwyn, Paul L. Fourt, Jr., Lee C. Schlesinger, and George Warren. Our Bylaws generally provide for majority approval of directors in order to adopt resolutions. The Board of Directors may be expanded in the future. All executive officer compensation, including payroll expenditures, salaries, stock options, stock incentives, and bonuses, must be approved by the unanimous consent of the Board of Directors. The entire Board of Directors acts as the Audit Committee and the Compensation Committee.

On compensation matters, the Board considers and recommends payroll expenditures, salaries, stock options, stock incentive and bonus proposals for our employees. Acting in its audit committee function, the Board reviews, with our independent accountants, our annual financial statements prior to publication, and reviews the work of, and approves non-audit services performed by, such independent accountants. The Board appoints the independent public accountants for the ensuing year. The Board also reviews the effectiveness of the financial and accounting functions and the organization, operation and management of our Company.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 and the rules there under require our officers and directors, and persons who beneficially own more than ten percent of our common stock to file reports of ownership and changes in ownership with the Securities and Exchange Commission and to furnish us with copies.

Based on our reviews of the copies of the Section 16(a) forms received by it, or written representations from certain reporting persons, we believe that, during the last fiscal year, none of our directors or executive officers satisfied their Section 16(a) filing requirements. Such persons are in the process, with the assistance of counsel, to file all required and missing reports.

Code of Ethics

On March 12, 2004, the Board of Directors adopted a written Code of Ethics designed to deter wrongdoing and promote honest and ethical conduct, full, fair and accurate disclosure, compliance with laws, prompt internal reporting and accountability to adherence to the Code of Ethics. This Code of Ethics has been filed with the Securities and Exchange Commission as an Exhibit to this Form 10-K. The new Board of Directors has ratified this code. We will provide a copy of our Code of Ethics to any shareholder without charge upon a written request.

Procedure for Nominating Directors

We have not made any material changes to the procedures by which security holders may recommend nominees to our board of directors.

The board does not have a written policy or charter regarding how director candidates are evaluated or nominated for the board. Additionally, the board has not created particular qualifications or minimum standards that candidates for the board must meet. Instead, the board considers how a candidate could contribute to the Company's business and meet the needs of the Company and the board.

The board will consider candidates for director recommended by our shareholders. Candidates recommended by shareholders are evaluated with the same methodology as candidates recommended by management or members of the board. To refer a candidate for director, please send a resume or detailed description of the candidate's background and experience with a letter describing the candidate's interest in the Company to 201 St. Charles Ave., Suite 2558, New Orleans, LA 17170. All candidate referrals are reviewed by at least one current board member.

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation

The following table shows the compensation paid or accrued during the fiscal years ended December 31, 2011 and 2010, to our officers and directors.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year Ended 12/31	Base Salary	Option Awards	Dollar Value of Total Compensation for the Covered Fiscal Year
Andrew V. Reid	2012	240,000	-	240,000
Chairman and Chief Executive Officer	2011	236,000	-	236,000
Bruce A. Gwyn	2012	85,671	-	85,671
Director and President	2011	5,000	-	5,000
George Warren	2012	20,000		20,000
Chief Financial Officer/Director	2011	-		-
Paul L. Fourt, Jr.	2012	-	-	-
Director	2011	-	-	-
Lee C. Schlesinger	2012	83,500	-	83,500
Director, Executive V.P. and Chief Investment Officer	2011	5,144	-	5,144

Narrative to Summary Compensation Table

Employment Agreements of Named Executive Officers
Andrew V. Reid currently has a compensation agreement with the Company. Mr. Reid's agreement provides for cash payment of $20,000 per month.

Mr. Warren's agreement, which commenced November 1, 2012, provides for cash payments of $10,000 per month.

Long-term Incentive Plans
We do not have any long-term incentive plans, pension plans or any similar compensatory plans for any of our directors or executive officers. Nor do we currently have any intention to initiate any such plans in the near future.

Outstanding Equity Awards at Fiscal Year End
None of our current officers or directors has outstanding equity awards as December 31, 2012.

Retirement Benefits
We do not have any material terms or plans that provide for the payment of retirement benefits, or benefits that will be paid primarily following retirement, including but not limited to tax-qualified defined benefit plans, supplemental executive retirement plans, tax-qualified defined contribution plans and nonqualified defined contribution plans.

Nonqualified Deferred Compensation
We do not have any nonqualified defined contribution plans or other deferred compensation plans

Potential Payments Upon Termination or Change of Control

We do not, as of December 31, 2012, have any material terms, contracts, agreements, plans or arrangements, written or unwritten, that provides for payment(s) to a CEO at, following, or in connection with the resignation, retirement or termination of a CEO, or a change in control of the company or a change in the CEO's responsibilities following a change in control, with respect to each CEO.

Director Compensation

The following table sets forth a summary of the compensation earned by our directors and/or paid to certain of our directors during 2012 and 2011.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year Ended 12/31	Fees Earned or Paid in Cash	Stock Awards	Option Awards	Non-Equity Deferred Comp Earnings	Non-Qualified Deferred Comp. Earnings	All Other	Total
Andrew V. Reid	2012	$ 240,000	$ -	$	$	$	$	$ 240,000
Chairman and Co-Chief Executive Officer	2011	236,000	137,000	-	-	-	-	373,000
Bruce Gwyn	2012	85,671	-	-	-	-	-	85,671
Director and Co-Chief Executive Officer	2011	5,000	-	-	-	-	-	5,000
Paul L. Fourt, Jr.	2012	-	-	-	-	-	-	-
Director	2011	-	-	-	-	-	-	-
Lee C. Schlesinger	2012	83,500	-	-	-	-	-	83,500
Director, Executive V.P. and Chief Investment Officer	2011	5,144		5,144	-	-	-	10,288
Stephen L. York	2012	168,000	1,000	-	-	-	-	169,000
Director and Chief Operating Officer	2011	$ 139,808	$ 40,000	$ -	$ -	$ -	$ -	$ 179,808

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information as to the record ownership of our common stock by our (i) directors and executive officers, (ii) all of the officers and directors as a group and (iii) each person who owns more than 5% or more of our common stock. The persons named in this table possess the sole voting and investment power with respect to the shares of common stock shown unless otherwise indicated. In general, beneficial ownership includes those shares that a person has the power to vote, sell, or otherwise dispose. Beneficial ownership also includes that number of shares, which an individual has the right to acquire within 60 days (such as stock options) of the date this table was prepared. Two or more persons may be considered the beneficial owner of the same shares. The inclusion in this section of any shares deemed beneficially owned does not constitute an admission by that person of beneficial ownership of those shares. All ownership of securities is direct ownership unless otherwise indicated.

Name of Beneficial Owner	Address	Nature of Beneficial Ownership	Amount of Beneficial Ownership	% of Class
Andrew V. Reid	201 St. Charles Ave., Suite 2558 New Orleans, LA 70170	Officer/Director	7,332,067	.0.78%
Lee C. Schlesinger	201 St. Charles Ave., Suite 2558 New Orleans, LA 70170	Officer/Director	39,500,000	4.18%
George W. Warren Jr.	201 St. Charles Ave., Suite 2558 New Orleans, LA 70170	Officer/Director	8,916,667	0.94%
Directors and officers as a group	201 St. Charles Ave., Suite 2558 New Orleans, LA 70170		72,231,771	7.6%

(1) Applicable percentage owned is based on 945,249,192 shares outstanding at December 31, 2012.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Certain Relationships and Related Transactions
Related parties include Andrew V. Reid, our Chairman and Chief Executive Officer, Rampant Leon Financial Corporation, an entity controlled by Mr. Reid, GAGA, LLC, and Basco, LLC, entities controlled or operated by our Director and Chief Executive Officer, Bruce Gwyn.

During the year ended December 31, 2012, we borrowed $3,006,288 in cash and made cash repayments to affiliates of $1,541,253. During the year ended December 31, 2011, we borrowed $2,155,617 from and made principal payments of $1,385,193 to related parties. Other non-cash related party transactions are enumerated in Note 12 to the financial statements.

Director Independence
As our common stock is currently traded on the OTC Bulletin Board, we are not subject to the rules of any national securities exchange which require that a majority of a listed company's directors and specified committees of the board of directors meet independence standards prescribed by such rules.

We have however, adopted our own rules governing director independence. That is, a director is deemed not independent if

- The director owns more than 5% of the outstanding common stock of the Company.
- The director is an officer of the Company

Our directors and their independence at December 31, 2012 are as follows:

Andrew V. Reid, Chairman – not independent
Paul L. Fourt, Jr. – Director –independent
Bruce A. Gwyn – Director – not independent
Lee C. Schlesinger – Director – not independent
Stephen L. York – Director – not independent
George W. Warren Jr. – Director – not independent

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

We paid M&K, CPAS, PLLC audit and review fees of $65,000 for 2012 and $68,300 for 2011.

Tax Fees. We have not paid any money for tax related services.

All Other Fees. We have not paid any money for other fees.

Audit Committee pre-approval policies and procedures. The entire Board of Directors, which acts as our audit committee, approved the engagement of M&K, CPAS, PLLC.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, SIGNATURES

Exhibit No.	Description of Exhibit
3.1	Articles of Incorporation, as filed August 1, 1997 (included as Exhibit 3.1 to the Form 10-SB12G filed November 10, 1999, and incorporated herein by reference).
3.2	Bylaws (included as Exhibit 3.2 to the Form 10-SB12G filed November 10, 1999, and incorporated herein by reference).
14.1	Corporate Code of Ethics (included as Exhibit 14 to From 10-KSB filed March 16, 2004, and incorporated herein by reference).
2.1	Subsidiaries of the registrant (filed herewith).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Officers pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Officers pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: June 26, 2013	**By:**	*/s / Andrew V. Reid* Andrew V. Reid Chairman and Chief Executive Officer
Date: June 26, 2013	**By:**	*/s / Bruce Gwyn* Bruce Gwyn Director and President
Date: June 26, 2013	**By:**	*/s / Paul L. Fourt, Jr.* Paul L. Fourt., Jr. Director
Date: June 26, 2013	**By:**	*/s / Lee C. Schlesinger* Lee C. Schlesinger Director
Date: June 26, 2013	**By:**	*/s / George Warren, Jr.* George Warren, Jr. Director and Chief Financial Officer

EXHIBIT 2.1

Subsidiaries of the Registrant

ARGY Merger Sub, Inc. is a Nevada corporation and a wholly-owned subsidiary of Treaty Energy Corporation.

Treaty Belize Energy, Ltd. is an entity formed under the laws of Belize. Treaty Energy Corporation owns 76% of this subsidiary.

C&C Petroleum Management, LLC, a wholly-owned Texas Limited Liability Company.

EXHIBIT 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Andrew V. Reid, Co-Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Treaty Energy Corporation (the “registrant”);

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ Andrew V. Reid
By Andrew V. Reid
Chairman and Chief Executive Officer
June 26, 2013

EXHIBIT 31.2

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Bruce Gwyn, Co-Chief Executive Officer, certify that:

6. I have reviewed this annual report on Form 10-K of Treaty Energy Corporation (the “registrant”);

7. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

8. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

9. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   e) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   f) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   g) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   h) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

10. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   c) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   d) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ George Warren, Jr.
By George Warren, Jr.
Director and Chief Financial Officer
June 26, 2013

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officers of Treaty Energy Corporation, a Nevada corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 10-K for the periods ending December 31, 2012 and 2011 (the "Form 10-K") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Andrew V. Reid
By Andrew V. Reid
Chairman and Chief Executive Officer
June 26, 2013

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officers of Treaty Energy Corporation, a Nevada corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Annual Report on Form 10-K for the periods ending December 31, 2012 and 2011 (the "Form 10-K") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ George Warren, Jr.
By George Warren, Jr.
Director and Chief Financial Officer
June 26, 2013