



AMEN PROPERTIES

2012 First Quarter Report

Consolidated Financial Statements (Unaudited)

Periods Ended March 31, 2012 and 2011

Shares Outstanding at 3/31/12: 51,333

Amen Properties, Inc.

P. O. Box 835451

Richardson, Texas 75080

Phone: (972) 999-0494

**2012 FIRST QUARTER REPORT
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COMPANY OVERVIEW

Background

Amen Properties was originally incorporated under the name DIDAX in 1997 and soon thereafter began doing business as Crosswalk.com. For several years the company operated one of the leading Christian sites on the web, *crosswalk.com*. In late 2002, on the brink of insolvency, the Company sold almost all of its assets and changed its name to Amen Properties.

Amen Properties is a Christian corporation that donates 10% of its net earnings to Christian organizations with an emphasis on benevolence and youth outreach.

Strategic Asset: Net Operating Loss Carryforward

The Company was unprofitable from its inception through 2002, amassing a **cumulative net operating loss of approximately \$30 million**. This NOL can be used to offset prospective taxable income and eliminate the Company's Federal income tax liability.

Evolution of Strategy – Increasing Focus on Energy

Real Estate

Having sold all of its assets except for the tax NOL, the Company embarked on a new business strategy in 2002 focused on real estate investments in secondary and out-of-favor markets. The Company acquired an 18% interest in an entity which owns over 200 thousand square feet of office space located in Midland, Texas but was unable to find additional viable real estate investment opportunities. Consequently, the Company decided to maintain its relatively small investment in real estate and focus on other areas for growth.

Energy Services

In 2003 deregulation of the Texas electricity market, the largest electricity market in the United States, created numerous opportunities for growth. The Company decided to approach this market in two ways:

- **Retail Electricity Provider (REP):** In 2004 the Company started a REP named W Power. As a REP, W Power sold electricity and provided the related billing, customer service and collection services to residential and commercial customers. ***In June of 2008 the Company decided to shut down the operations of W Power due to the significant credit requirements imposed on REP's by the State of Texas and adverse changes in the business climate of the Texas retail electricity market.***
- **Energy Management and Consulting:** In 2006 the Company acquired Priority Power, one of the leading electricity aggregation, brokering and consulting firms in the State of Texas, for a total purchase price of \$3.5 million. Priority provides services to its customers in the areas of load aggregation, natural gas and electricity procurement, energy risk management, and energy consulting in both regulated and deregulated domestic markets. ***In October of 2010, the Company sold Priority Power to its management team.***

Energy Resources

One of the elements of the Company's revised business plan was to tap into the oil and gas expertise possessed by several of its Directors to acquire profitable oil and gas-related assets. The Company owns a number of oil and gas royalty and working interests in several states, including those acquired from the former Santa Fe Energy Trust in 2007:

- **Santa Fe Energy Trust Assets:** in December 2007 the Company acquired a one-third interest in the royalty (SFF Royalty, LLC) and working (SFF Production, LLC) interests formerly owned by the Santa Fe Energy Trust for a total purchase price of \$10 million. In December 2008 the Company increased its ownership of SFF Production to approximately 79% for an additional investment of \$6.9 million.

People

Amen's Board of Directors

Eric L. Oliver was appointed as a director of AMEN in July 2001, and was appointed Chairman of the Board and Chief Executive Officer on September 19, 2002. Mr. Oliver resigned as Chief Executive Officer effective March 7, 2007. Since 1997, he has been President of SoftSearch Investment, Inc., an investment firm in Abilene, Texas. Since 1998, he has also served as President of Midland Map Company LLC, a company that creates hand drafted ownership maps throughout the Permian Basin. He is on the Board of Directors of the First National Bank of Midland, and of Love and Care Ministries, an inner city homeless initiative. Mr. Oliver is the brother of Kris Oliver, the Company's Chief Financial Officer.

Jon M. Morgan was appointed as a director of AMEN in October 2000. Mr. Morgan has more than 19 years' experience in launching and managing successful businesses in both investment management services and in the energy field. He is founder of several businesses including Morgan Capital Group, Inc., the Packard Fund, and is President of J.M. Mineral & Land Co.

Bruce E. Edgington has been director of AMEN since November 1995. From 1979 through 1988, Mr. Edgington was a registered representative with Johnston Lemon & Co., a securities broker-dealer, where his responsibilities included the management of retail securities accounts and administration. In 1988 he founded and continues to be an officer, director and stockholder of DiBiasio & Edgington, a firm engaged in providing software to investment firms and money managers.

G. Randy Nicholson was appointed to the Board of Directors on February 26, 2003. He graduated from Abilene Christian College in 1959. From 1959 to 1971, Mr. Nicholson was self-employed in Abilene as a CPA. In 1971, he established E-Z Serve, Inc., a gasoline marketing company. Mr. Nicholson has served as Chairman of the Board of Auto-Gas Systems, Inc. since 1987. AutoGas developed the pay-at-the pump technology processing paperless credit and debit card transactions at the fuel island. Headquartered in Abilene, Texas, AutoGas continues to introduce innovative technological advancements in the automated fueling industry, most recently with loyalty products such as DIGITAL REWARDS and Quantum 360sm. He joined the Board of Trustees of Abilene Christian University in 1981. Mr. Nicholson is a member of the Texas Society of Certified Public Accountants and was recently named an honorary member of the American Institute of Certified Public Accountants (AICPA) having been a member for 40 years. He is presently serving as Chairman of the Technology Committee for the City of Abilene.

Management Team

Kris Oliver was appointed Chief Financial Officer of the Company on March 7, 2007 and assumed the role of Chief Executive Officer in March of 2009. Mr. Oliver is a Certified Public Accountant and began his career in the Audit Practice of Arthur Andersen, where he left as an Audit Senior in 1990. After receiving an MBA in Finance from the University of Texas at Austin in 1992, Mr. Oliver spent 14 years at American Airlines / Sabre in a variety of roles

including Corporate Finance, Business Development, Marketing and Sales. Just prior to joining the Company, Mr. Oliver was a Senior Financial Advisor with Technology Partners International, the world's largest outsourcing advisory firm. Mr. Oliver is the brother of Eric Oliver, the Company's Chairman of the Board of Directors.

MANAGEMENT DISCUSSION and ANALYSIS

2012 FIRST QUARTER FINANCIAL RESULTS

Oil and Gas Activities

The Company recognized \$713 thousand in oil and gas revenue for the quarter, a decrease of 12% versus the same quarter in 2011. This decline in revenue was caused primarily by decreases in commodity prices for natural gas. Income from oil and gas operations was \$(199) thousand for the quarter versus \$147 thousand for the same quarter in 2011. The decline in operating income was driven by the decrease in revenue described above as well as an increase in depletion expense of \$230 thousand.

During the quarter, the Company recognized \$104 thousand of equity income and received cash distributions totaling \$450 thousand in connection with its investment in SFF Royalty, LLC.

Real Estate

The Company recognized equity income of \$131 thousand during the quarter related to its 18% investment in HPG Acquisition, LLC.

Corporate

The Company recognized Net Income of \$(454) thousand for the quarter versus \$65 thousand for the same quarter in 2011. This decrease in Net Income was caused by the decline in oil and gas profitability described above as well as losses of \$(230) thousand recognized in connection with the Company's investment and hedging activities.

The Company declared a dividend of \$18 per common share during the quarter and anticipates making regular quarterly dividends to common stockholders, the amount of which will be largely determined by fluctuations in commodity prices for oil and gas.

AMEN Properties, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

	ASSETS	
	March 31 2012 (Unaudited)	December 31, 2011 (Unaudited)
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,742,307	\$ 1,715,448
Accounts Receivable, net of allowance	334,088	411,402
Marketable Securities	1,044,160	922,346
Other Current Assets	87,636	61,944
Total Current Assets	3,208,191	3,111,140
PROPERTY AND EQUIPMENT	6,868	18,991
OIL AND GAS INVESTMENT IN SFF GROUP	1,096,220	1,441,759
OIL AND GAS ROYALTY AND WORKING INTERESTS	6,740,437	7,281,024
INVESTMENT IN REAL ESTATE	2,518,036	2,393,109
LONG-TERM INVESTMENTS	39,225	45,938
OTHER ASSETS		
Deferred Costs	6,000	6,000
Deposits and Other Assets	86,460	92,489
Total Other Assets	92,460	98,489
TOTAL ASSETS	\$ 13,701,437	\$ 14,390,450
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	\$ 30,989	\$ 75,603
Accrued Liabilities	354,187	456,867
Dividends Payable	923,994	-
Income & Franchise Taxes Payable	-	1,032
Total Current Liabilities	1,309,170	533,502
EQUITY		
Stockholders' Equity:		
Common Stock, \$.01 par value; 20,000,000 shares authorized; 51,333 shares issued and outstanding at March 31, 2012 and December 31, 2011	513	513
Treasury Stock, at cost	(84,600)	(48,000)
Additional Paid-in Capital	53,856,900	53,856,900
Accumulated Deficit	(42,241,363)	(40,832,986)
Accumulated Other Comprehensive Income	(177,713)	(200,627)
Total Stockholders' Equity	11,353,737	12,775,800
Noncontrolling Interest	1,038,530	1,081,148
Total Equity	12,392,267	13,856,948
TOTAL LIABILITIES AND EQUITY	\$ 13,701,437	\$ 14,390,450

These financial statements and the notes thereto present fairly, in all material respects, the financial position of the Company and the results of its operations for the periods presented, in conformity with accounting principles generally accepted in the United States, consistently applied and hereby certified by Kris Oliver, Chief Executive Officer of Amen Properties, Inc.

AMEN Properties, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
Periods Ended March 31, 2012 and 2011

	Three Months Ended	
	March 31	
	2012	2011
	(Unaudited)	(Unaudited)
OPERATING REVENUE		
Oil and Gas Revenue	\$ 712,549	\$ 811,443
Total Operating Revenue	<u>712,549</u>	<u>811,443</u>
OPERATING EXPENSE		
Oil and Gas Operations	309,689	292,608
General and Administrative	240,151	155,502
Depreciation, Amortization and Depletion	564,058	328,390
Corporate Titling	-	-
Total Operating Expenses	<u>1,113,898</u>	<u>776,500</u>
INCOME FROM OPERATIONS	<u>(401,349)</u>	<u>34,943</u>
OTHER INCOME (EXPENSE)		
Interest Income	148	-
Income from Real Estate Investment	130,774	59,120
Income from SFF Group Investment	104,460	69,836
Other Income	(278,407)	(79,745)
Total Other Income	<u>(43,025)</u>	<u>49,211</u>
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	<u>(444,374)</u>	<u>84,154</u>
Income Taxes	<u>(9,851)</u>	<u>(4,490)</u>
INCOME FROM CONTINUING OPERATIONS	(454,225)	79,664
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	-	(14,539)
NET INCOME	(454,225)	65,125
Less: Preferred Stock Dividends	-	(227,735)
Less: Net Income Attributable to the Noncontrolling Interest	<u>(30,658)</u>	<u>(54,624)</u>
NET INCOME APPLICABLE TO COMMON SHAREHOLDERS	<u>\$ (484,883)</u>	<u>\$ (217,234)</u>
Earnings Attributable to Common Shareholders Per Share - Basic		
Income from Continuing Operations	\$ (9.45)	\$ (4.82)
Income from Discontinued Operations	-	(0.35)
Net Income	<u>\$ (9.45)</u>	<u>\$ (5.17)</u>
Earnings Attributable to Common Shareholders Per Share - Diluted		
Income from Continuing Operations	\$ (9.43)	\$ (3.96)
Income from Discontinued Operations	-	(0.28)
Net Income	<u>\$ (9.43)</u>	<u>\$ (4.24)</u>
Weighted Average Number of Common Shares Outstanding - Basic	51,333	42,020
Weighted Average Number of Common Shares Outstanding - Diluted	51,409	51,243
Amounts Attributable to Amen Properties, Inc. Common Shareholders		
Income from Continuing Operations	\$ (484,883)	\$ (202,695)
Discontinued Operations	-	(14,539)
Net Income	<u>\$ (484,883)</u>	<u>\$ (217,234)</u>
Other Comprehensive Income:		
Net Income Applicable to Common Shareholders	\$ (484,883)	\$ (217,234)
Unrealized Gain (Loss) on Investments	<u>(177,713)</u>	<u>(317,543)</u>
Comprehensive Income	<u>\$ (662,596)</u>	<u>\$ (534,777)</u>

These financial statements and the notes thereto present fairly, in all material respects, the financial position of the Company and the results of its operations for the periods presented, in conformity with accounting principles generally accepted in the United States, consistently applied and hereby certified by Kris Oliver, Chief Executive Officer of Amen Properties, Inc.

AMEN Properties, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
Periods Ended March 31, 2012 and 2011

	2012	2011
	(Unaudited)	(Unaudited)
Cash Flows from Operating Activities		
Income from Continuing Operations	\$ (454,225)	\$ 79,664
<i>Adjustments to Reconcile Net Income to</i>		
<i>Cash Provided by Operating Activities</i>		
Depreciation, Amortization & Depletion	564,059	328,390
Equity Income from Real Estate Investment	(130,774)	(59,120)
Equity Income from SFF Royalty Investment	(104,460)	(69,836)
<i>Changes in Operating Assets and Liabilities</i>		
Accounts Receivable	77,314	(12,064)
Other Assets	(19,663)	28,300
Accounts Payable	(44,614)	(61,067)
Income and Franchise Taxes Payable	(1,032)	-
Accrued Liabilities	(102,680)	(88,907)
	<hr/>	<hr/>
Cash Flows from Continuing Operations	(216,075)	145,360
Cash Flows from Discontinued Operations	500	(14,540)
Net Cash Provided by / (Used In) Operations	<hr/>	<hr/>
	(215,575)	130,820
 Cash Flows from Investing Activities		
(Purchases) / Sales of Property & Equipment	11,453	-
Development of Oil & Gas Interests	(10,242)	(64,178)
(Purchases) / Sales of Marketable Securities, net	(98,900)	7,415
Distributions to Non-Controlling Interest	(73,276)	(73,375)
Distributions from SFF Royalty	449,999	350,000
	<hr/>	<hr/>
Cash Flows from Continuing Operations	279,034	219,862
Cash Flows from Discontinued Operations	-	-
Net Cash Provided by Investing Activities	<hr/>	<hr/>
	279,034	219,862
 Cash Flows from Financing Activities		
Purchase of Treasury Stock	(36,600)	(38,000)
Payment of Preferred Stock Dividends	-	(227,735)
	<hr/>	<hr/>
Cash Flows from Continuing Operations	(36,600)	(265,735)
Cash Flows from Discontinued Operations	-	-
Net Cash Provided by / (Used In) Financing Activities	<hr/>	<hr/>
	(36,600)	(265,735)
 Net Increase / (Decrease) in Cash	26,859	84,947
 Cash at Beginning of Period	<hr/>	<hr/>
	1,715,448	3,191,386
 Cash at End of Period	<hr/>	<hr/>
	\$ 1,742,307	\$ 3,276,333
 Non-Cash Financing and Investing Activities:		
Unrealized Gain / (Loss) on Marketable Securities	\$ (177,713)	\$ (317,543)
Accrual of Common Dividends	923,994	-

These financial statements and the notes thereto present fairly, in all material respects, the financial position of the Company and the results of its operations for the periods presented, in conformity with accounting principles generally accepted in the United States, consistently applied and hereby certified by Kris Oliver, Chief Financial Officer of Amen Properties, Inc.

AMEN Properties, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
First Quarter 2012

NOTE A - DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. *Organization*

Company Background

- The Company was originally incorporated as DIDAX, Inc., in January 1997
- Until December 2002 the Company operated under the name Crosswalk.com; its primary businesses were operation of the Christian web portal *crosswalk.com*[™] and a direct mail advertising service.
- During the last quarter of 2002, the Company sold substantially all of its assets with the exception of the Company's accumulated Net Operating Loss ("NOL") and changed its name to AMEN Properties, Inc.
- A revised business plan was approved by the shareholders in 2002, and called for the Company to grow via the selective acquisition of cash-generating assets in three categories:
 - Commercial real estate in secondary stagnant markets
 - Commercial real estate in out of favor growth markets
 - Oil and gas royalties

During the time the Company operated as Crosswalk.com, it generated a Net Operating Loss in excess of \$30 million. Provisions in the United States Federal Tax Code dictate that a significant ownership change (in excess of 50% in a three-year period) would eliminate the Company's ability to use the NOL to offset its Federal Income Tax liability. It is the Company's intention to preserve its NOL, which requires funding our growth without access to many traditional sources of capital which would result in a significant change in ownership.

Company Organization

In initiating the 2002 business plan the Company, in October 2002, formed the following entities:

- NEMA Properties LLC ("NEMA"), a Nevada limited liability company 100% owned by AMEN
- AMEN Delaware LP ("Delaware"), a Delaware limited partnership owned 99% by NEMA as the sole limited partner and 1% by AMEN, as the sole general partner
- AMEN Minerals LP ("Minerals"), a Delaware limited partnership, owned 99% by NEMA as the sole limited partner and 1% by AMEN, as the sole general partner.

On July 30, 2004, the Company formed W Power and Light LP ("W Power"), a Delaware limited partnership owned 99% by NEMA as the sole limited partner and 1% by AMEN, as the sole general partner. On May 18, 2006, the Company acquired 100% of Priority Power Management, Ltd. and Priority Power Management Dallas, Ltd. (collectively "Priority Power") effective April 1, 2006. Priority Power is owned 1% by AMEN, as the sole general partner, and 99% by NEMA, as the sole limited Partner.

Corporate Reorganization

On December 17, 2007, the Company approved a corporate reorganization (the "Reorganization") effective January 1, 2008. As part of the Reorganization, the Delaware Partnership, the Minerals Partnership, the PPM Partnership, and the W Power Partnership were each converted from limited partnerships into limited liability companies with AMEN owning 100% of the shares and as the sole managing member of each entity. The converted entities are:

- AMEN Delaware, LLC, ("Delaware")
- AMEN Minerals, LLC, ("Minerals")
- NEMA Properties, LLC, ("NEMA")
- Priority Power Management, LLC ("Priority Power")
- W Power and Light, LLC, ("W Power")

AMEN Properties, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED), CONTINUED
First Quarter 2012

On May 31, 2008, as part of the Reorganization, NEMA was converted from a Nevada Limited Liability Company to a Texas Limited Liability Company.

As used herein, the terms “Company” and “AMEN” and references to “we” and “our” refer to all of AMEN Properties, Inc., NEMA, Delaware, Minerals, and W Power and Priority Power unless the context otherwise requires.

On September 28th, 2009, the Company approved a reorganization plan effective January 1, 2010 whereby Delaware, Minerals and NEMA were dissolved and the assets and liabilities of each entity were conveyed to Amen Properties, Inc.

Status of 2002 Business Plan

The Company’s first act in implementing the 2002 business plan was the acquisition of a 64.9% limited partnership interest in TCTB Partners, Ltd. (“TCTB”), a real estate investment partnership which owned two commercial office properties in Midland, Texas (collectively referred to as “the Properties”). Effective January 1, 2004, the Company acquired an additional 6.4% limited partnership interest in TCTB giving the Company a 71.3% interest.

Effective September 27, 2006, the Company entered into an agreement to contemporaneously distribute TCTB’s assets to the limited partners and sell 75% of their undivided interest in the Properties to an unaffiliated third party. TCTB continues to hold record title to the remaining undivided 25% interest in the Properties beneficially owned by the Partners of TCTB (“Selling Partners”), including the Company’s 18.0% ownership in the Properties. After the sale, TCTB, the Selling Partners and the Buyers, as all of the owners of the Properties, entered into a Management Agreement with TCTB Management Group, LLC (“Management”) dated September 29, 2006 relating to the management of the Properties. The owners of Management are the Selling Partners (including the Company) and the Buyers in the same percentages as their proportionate ownership of the Properties. Mr. Jon Morgan, President and CEO of the Company, is the managing member of Management.

Due to the Company’s inability to find viable real estate investment opportunities in secondary and out-of-favor markets, the decision was made to revise the business plan and focus on other opportunities for growth. The distribution and sale of a majority of TCTB’s assets resulted in the Company maintaining a relatively small investment in Real Estate and deemphasizing that market as a source of growth.

One of the original components of the 2002 Business Plan was to leverage the expertise of the Company’s management in the acquisition of oil and gas royalties. In December of 2007, the Company acquired a one third interest in SFF Royalty, LLC (“SFF Royalty”) and SFF Production, LLC (“SFF Production”), (collectively “SFF Group”). Through its ownership in these entities, the Company participates in the income generated from oil and gas royalties and working interests in over 1,200 properties in several states.

Expansion into Electricity

A new opportunity was created when the Texas Legislature adopted the Texas Electric Choice Plan, which effectively deregulated the electricity marketplace in the State of Texas, the largest electricity market in the United States. The Company formed a new subsidiary, W Power, to serve the Texas market as a retail electricity provider (“REP”). In September 2004 the Public Utility Commission of Texas (“PUCT”) awarded W Power a license to begin commercial REP operations in Texas and in November 2004 W Power received its certification from the Electric Reliability Council of Texas (“ERCOT”). As a REP, W Power sells electricity and provides the related billing, customer service, collection and remittance services to residential, commercial, and industrial customers. W Power offers its customers low electricity rates, flexible payment and pricing choices, simple terms and responsive customer service. The Texas regulatory structure and legislation permits independent REPs (companies unaffiliated with an incumbent utility in a particular geographic area), such as W Power, to procure and sell electricity at unregulated prices and pay the local transmission and distribution utilities a regulated tariff rate for delivering electricity to the customers.

AMEN Properties, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED), CONTINUED
First Quarter 2012

On June 25, 2008 the Company approved a plan to discontinue the operations of W Power. Management recommended this plan to the Board based on significant adverse changes in the business climate of the Texas retail electricity market. The Company settled W Power's existing supply contracts and transferred its customers and their contracts to another retail electricity provider.

Deregulation of the Texas electricity market also created opportunities for companies to provide energy management and consulting services to commercial customers. In 2006 the Company acquired Priority Power, one of the leading electricity aggregation, brokering and consulting firms in the State of Texas. Priority provides services to its customers in the areas of load aggregation, natural gas and electricity procurement, energy risk management, and energy consulting in both regulated and deregulated domestic markets. In October of 2010, the Company sold Priority Power to its management team.

2. *Basis of Presentation*

The consolidated financial statements include the accounts of the Company and its majority-owned/controlled subsidiaries and affiliates. Inter-company balances and transactions have been eliminated.

Management uses estimates and assumptions in preparing the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses in the consolidated financial statements, and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

3. *Cash Equivalents*

The Company considers cash on hand, cash on deposit in banks, money market mutual funds and highly liquid debt instruments purchased with a maturity of three months or less to be a cash equivalent.

4. *Marketable Investments*

The Company invests in U.S. government bonds and treasury notes, municipal bonds, certificates of deposit, corporate bonds and other securities. Investments with original maturities greater than three months but less than twelve months from the balance sheet date are short-term investments. Those investments with original maturities greater than twelve months from the balance sheet date are long-term investments.

The Company's marketable securities are classified as available-for-sale as of the balance sheet date, and are reported at fair value with unrealized gains and losses, net of tax, recorded in stockholders' equity. Realized gains or losses and permanent declines in value, if any, on available-for-sale investments are reported in other income or expense as incurred.

5. *Fair Value of Financial Instruments*

The carrying value of cash and cash equivalents, investments, accounts receivable, notes receivable, and accounts payable approximate fair value because of the relatively short maturity of these instruments.

6. *Accounts Receivable*

Management regularly reviews accounts receivable and estimates the necessary amounts to be recorded as an allowance for doubtful accounts.

7. *Depreciation, Amortization and Depletion*

Property and equipment are stated at cost. Depreciation is determined using the straight-line method over the estimated useful lives ranging from three to 10 years. Royalty acquisitions are stated at cost. Depletion is

AMEN Properties, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED), CONTINUED
First Quarter 2012

determined using the units-of-production method based on the estimated oil and gas reserves.

8. *Impairment of Long-Lived Assets*

Generally accepted accounting principles specify circumstances in which certain long-lived assets must be reviewed for impairment. If the carrying amount of an asset exceeds the sum of its expected cash flows, the asset's carrying value must be written down to fair value. The Company periodically evaluates the recoverability of the carrying value of its long-lived assets and identifiable intangibles by monitoring and evaluating changes in circumstances that may indicate that the carrying amount of the asset may not be recoverable. Examples of events or changes in circumstances that indicate that the recoverability of the carrying amount of an asset should be assessed include but are not limited to the following: a significant decrease in the market value of an asset, a significant change in the extent or manner in which an asset is used or a significant physical change in an asset, a significant adverse change in legal factors or in the business climate that could affect the value of an asset or an adverse action or assessment by a regulator, an accumulation of costs significantly in excess of the amount originally expected to acquire or construct an asset, and/or a current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with an asset used for the purpose of producing revenue.

The Company considers historical performance and anticipated future results in its evaluation of potential impairment. Accordingly, when indicators or impairments are present, the Company evaluates the carrying value of these assets in reaction to the operating performance of the business and future discounted and nondiscounted cash flows expected to result from the use of these assets. Impairment losses are recognized when the sum of expected future cash flows are less than the assets' carrying value.

9. *Investment in Real Estate and SFF Group*

The Company's determination of the appropriate accounting method with respect to investments in limited partnerships, limited liability companies and other subsidiaries is based on control. For general partner interests, the Company is presumed to control (and therefore consolidate) the entity, unless the other limited partners have substantive rights that overcome this presumption of control. These substantive rights allow the limited partners to participate in significant decisions made in the ordinary course of the entity's business. The Company accounts for its non-controlling general partner investments in these entities under the equity method. This treatment also applies to the Company's managing member interests in limited liability companies.

The Company's determination of the appropriate accounting method for all other investments in subsidiaries is based on the amount of influence the Company has (including our ownership interest) in the underlying entity. Those other investments where the Company has the ability to exercise significant influence (but not control) over operating and financial policies of such subsidiaries (including certain subsidiaries where the Company has less than 20% ownership) are accounted for using the equity method. The Company eliminates transactions with such equity method subsidiaries to the extent of the ownership in such subsidiaries. Accordingly, the Company's share of the earnings or losses of these equity method subsidiaries is included in net earnings. All of the Company's remaining investments are carried at cost. Under either the equity or cost method, impairment losses are recognized upon evidence of other-than-temporary losses of value.

The Company owns approximately 18% of HPQ Acquisition, LLC, ("HPG") a real estate company which owns commercial properties located in Midland, Texas (see Note E). The Company accounts for its investment in HPG using the equity method of accounting.

The Company's investment in real estate and SFF Group (see Note L) is recorded at cost, adjusted for its equity share of earnings, using the equity method of accounting, and cash contributions and distributions.

10. *Income and Franchise Taxes*

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". Under this method, deferred tax assets and liabilities are determined based on differences between the financial

AMEN Properties, Inc. and Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED), CONTINUED
First Quarter 2012

reporting and tax basis of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. For the periods ended March 31, 2012 and 2011, no income tax expense has been incurred for Federal income taxes due to the utilization of the Company's net operating losses.

11. Corporate Tithing

The Company shall, to the extent permitted by law, expend from the revenues of the Company such sums as are deemed prudent by the Board of Directors to support, encourage, or sustain persons or entities which in the judgment of the Board of Directors are expected to make significant efforts to propagate the Gospel of Jesus Christ in any manner not in conflict with the Statement of Faith. Such expenditures may be made without regard to the tax status or nonprofit status of the recipient. It is expected that the expenditures paid out under the provisions of this policy shall approximate ten percent (10%) of the amount that would otherwise be the net profits of the Company for the accounting period.

12. Management Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from such estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the recognition of revenues, the estimate of the allowance for doubtful accounts, the estimate of asset impairments and the determination of depreciation and amortization expense.

13. Income Per Share

Income per share is computed based on the weighted average common shares and common stock equivalents outstanding during each period.

14. Environmental

The Company is subject to extensive federal, state and local environmental laws and regulations. These laws regulate asbestos in buildings that require the Company to remove or mitigate the environmental effects of the disposal of the asbestos at the buildings.

Environmental costs that relate to current operations are expensed or capitalized as appropriate. Costs are expensed when they relate to an existing condition caused by past operations and will not contribute to current or future revenue generation. Liabilities related to environmental assessments and/or remedial efforts are accrued when property or services are provided or can be reasonably estimated.

15. Recently Issued Accounting Pronouncements

New authoritative accounting guidance under Financial Accounting Standards Board ("FASB") ASC Topic 105, "Generally Accepted Accounting Principles" ("ASC Topic 105") established the FASB Accounting Standards Codification as the source of authoritative U.S. GAAP recognized by the FASB to be applied to nongovernmental entities. ASC Topic 105 supersedes existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force, and related literature. All other accounting literature is considered non-authoritative. ASC Topic 105 changes the way the Company cites authoritative guidance within the Company's financial statements and accounting policies. The new authoritative guidance under ASC Topic 105 became effective for periods ending on or after September 15, 2009, and did not have a material impact on the Company's consolidated financial statements.

New authoritative accounting guidance under FASB ASC Topic 805, "Business Combinations" (ASC Topic 805")

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requires the acquiring entity in a business combination to recognize and measure all assets and liabilities assumed in the transaction and any non-controlling interest in the acquiree at fair value as of acquisition date. ASC Topic 805 further amends the initial recognition and measurement, subsequent measurement and accounting, and disclosures of assets and liabilities arising from contingencies in a business combination. The new authoritative guidance under ASC Topic 805 became effective for the Company on January 1, 2009, and the impact on the Company's consolidated financial statements will largely be dependent on the size and nature of the business combinations completed. The Company has not made any significant acquisitions since adoption.

New authoritative accounting guidance under FASB ASC topic 810, "Consolidation" (ASC Topic 810") established accounting and reporting standards that require non-controlling interests to be reported as a component of equity along with any changes in the parent's ownership interest. The new authoritative guidance under ASC Topic 810 became effective for the Company on January 1, 2009, and did not have a material impact on the Company's consolidated financial statements.

New authoritative accounting guidance under FASB ASC Topic 825, "Financial Instruments" ("ASC Topic 825") requires the Company to include disclosures about the fair value of its financial instruments whenever it issues financial information for interim reporting periods and annual reporting periods, whether recognized or not recognized in the consolidated balance sheets. The new authoritative guidance under ASC topic 825 became effective for the Company on April 1, 2009, and did not have a material impact on the Company's consolidated financial statements.

New authoritative accounting guidance under ASC Topic 855 established general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be basis for the date, and whether that date represents the date the financial statements were issued. The new authoritative guidance under ASC Topic 855 became effective for the Company on April 1, 2009, and did not have a material impact on the Company's consolidated financial statements.

In January 2010, the FASB issued ASC Update 2010-06, "Fair Value Measurements and Disclosures" ("ASC Update 2010-06") that requires additional disclosures surrounding transfers in and out of Levels 1 and 2, inputs and valuation techniques used to value Level 2 and 3 measurements, and push down of previously prescribed fair value disclosures to each class of asset and liability for Levels 1, 2, and 3. This new authoritative guidance is effective for interim and annual reporting periods beginning after December 15, 2009. The Company will apply the new authoritative guidance in 2010. ASC Update 2010-06 also requires that purchases, sales, issuances, and settlements for Level 3 measurements be disclosed. This portion of the new authoritative guidance is effective for interim and annual reporting periods beginning after December 15, 2010. The Company will apply this new authoritative guidance in the Company's 2011 financial statements. The adoption of ASC Update 2010-06 will not have a material impact on the Company's financial statements.

NOTE B – CONCENTRATIONS OF CREDIT RISK

The Company maintains cash balances at several financial institutions, which at times may exceed federally insured limits. The Company had no uninsured cash and cash equivalents at March 31, 2012 and December 31, 2011, respectively. The Company has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risks on such accounts.

NOTE C – PURCHASE OF NOTE RECEIVABLE

On September 29, 2010 the Company purchased 23.0769% of a loan from First Southern National Bank ("FSNB") for the price of \$1.5 million. The face value of 100% of the loan is \$11MM and it is collateralized by a 206,351 square foot office building in Daytona Beach, Florida. The terms of the participation agreement specify that FSNB will retain 10% of the discount earned on the loan (funds received at payoff less the original purchase price). Jess Correll, founder and Chairman of the Board for First Southern Bancorp, Inc., parent company of FSNB, was a director of the Company at the time of this transaction. Mr. Correll subsequently resigned as a director.

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On April 28, 2011 the Company assigned its interest in the loan to Universal Guaranty Life Insurance Company (“UGLIC”), an affiliate of FSNB, in order to retire the \$1,479,236 of Preferred D stock that UGLIC owned. The Company retained an 11.54% profits interest in the discount earned by FSNB from the loan.

NOTE D – PROPERTY AND EQUIPMENT

Property and equipment, at cost, consisted of the following at March 31, 2012 and December 31, 2011:

	<u>3/31/2012</u>	<u>12/31/2011</u>
Furniture, fixtures and equipment	\$ 17,729	\$ 40,507
Less: accumulated depreciation	<u>(10,861)</u>	<u>(21,516)</u>
	<u>\$ 6,868</u>	<u>\$ 18,991</u>

NOTE E – INVESTMENT IN REAL ESTATE

The Company owns approximately 18% of HPQ Acquisition, LLC, (“HPG”) a real estate company which owns commercial properties located in Midland, Texas. The Company accounts for its investment in HPG using the equity method.

The Company’s Investment in real estate consisted of the following at March 31, 2012 and December 31, 2011:

	<u>3/31/2012</u>	<u>12/31/2011</u>
Real estate investment	\$ 2,393,109	\$2,362,591
Equity earnings	130,774	320,973
Step-up Depreciation	(5,847)	(23,388)
Distributions from HPG	-	<u>(267,067)</u>
	<u>\$ 2,518,036</u>	<u>\$2,393,109</u>

The Company’s real estate investment and equity earnings results for the fourth quarter of 2011 are based on the results of HPG Acquisition, LLC and its subsidiaries. HPG Acquisition, LLC reported the following consolidated financial information at March 31, 2012:

	<u>3/31/2012</u>
Total Assets	\$18,558,005
Total Liabilities	735,757
Net Income	767,347

NOTE F – OIL AND GAS ROYALTY AND WORKING INTERESTS

The Company owns oil and gas royalty and working interests in a number of states. Under accounting principles generally accepted in the United States of America, revenues and expenses are recognized on an accrual basis. Oil and gas revenue is generally received one to two months following the month of production and the Company uses estimates to accrue.

Depletion expense for the periods ended March 31, 2012 and 2011 was \$551 thousand and \$321 thousand, respectively, and accumulated depletion was \$4.6 million and \$3.1 million, respectively.

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SFF Interests

As described in Note L, the Company owns an indirect interest in oil gas and gas royalties through its ownership of 33% of the membership interests of SFF Royalty, LLC. Additionally, the Company controls oil and gas working interests owned by SFF Production, LLC through its ownership of 79.1% of the membership interests of that entity. The working interests owned by SFF Production are consolidated with the financial statements of the Company with the noncontrolling interest's share of equity and income reflected on the balance sheet and statement of operations.

Anthem Prospects

On June 4, 2010 the Company entered into working interest participation agreements with Anthem Oil & Gas ("Anthem") for four unproved prospects located in the Permian Basin of Texas for total consideration of \$71,552. Under the terms of the participation agreements, Amen acquired the following interests:

Prospect	Working Interest to Casing Point: 1 st Well	Working Interest to Completion	Working Interest After Payout
Four Corners	33.33%	25.00%	22.50%
Diamond Draw	26.67%	20.00%	18.00%
Nevins	33.33%	25.00%	22.50%
Wico	33.33%	25.00%	22.50%

Jon Morgan is a Director of the Company and is President and co-owner of Anthem. As compensation for securing the prospects for the Company, Anthem received a 1/3rd for 1/4 carry to "casing point" election on the Company's interest for the first well. Thereafter, the Company will participate at the percentage shown above in the "Working Interest to Completion" column. Once the Company's initial investment is recovered ("payout"), it will convey 1/10th of its interest to the drilling company and retain the interest shown in the "Working Interest After Payout" column.

Through 12/31/2011, the Company has invested approximately \$490 thousand in these prospects, all of which has been recorded as dry hole expense. The Company is not actively engaged in any further exploration related to these prospects.

In 2011 the Company also collaborated with Anthem on three potential wells on the Stroman field in the Permian Basin of Texas. After investing over \$600 thousand and achieving limited production, the Company sold its interests in these wells for \$467 thousand and recorded a loss on sale of \$132 thousand.

NOTE G – ACCRUED LIABILITIES

Accrued liabilities consisted of the following at March 31, 2012 and December 31, 2011:

	<u>3/31/2012</u>	<u>12/31/2011</u>
Accrued oil & gas operating expenses	207,962	260,184
Accrued corporate tithing	78,911	99,213
W Power shutdown expenses	67,208	101,208
Other liabilities	106	(3,738)
Total Accrued Liabilities	<u>\$ 354,187</u>	<u>\$ 456,867</u>

NOTE H – RELATED PARTY TRANSACTIONS

Preferred Dividends

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Certain current and former directors and affiliated parties own shares of the Company's Preferred Stock as shown in the table below:

Related Party	Preferred D		Preferred E	
	Face Value	Quarterly Dividend	Face Value	Quarterly Dividend
Eric Oliver	\$ 1,643,759	\$ 34,930	\$ 941,875	\$ 23,547
Jon Morgan	-	-	596,501	14,913
Bruce Edgington	61,300	1,303	-	-
Jess Correll	-	-	2,619,335	65,483
Affiliates	183,900	3,908	1,272,536	31,814
Totals	\$ 1,888,959	\$ 40,141	\$ 5,430,247	\$ 135,757

Conversion of Preferred E

As discussed in Note J, the Company's Preferred E stock was converted into common stock on December 15, 2011. Certain of the Company's current and former directors and affiliates participated in this conversion.

Redemption of Preferred D

As discussed in Note J, the Company's Preferred D stock was redeemed on September 30, 2011. Certain of the Company's current and former directors and affiliates participated in this redemption.

Purchase of Oil & Gas Working Interests

As discussed in Note F, the Company purchased working interests from Anthem Oil & Gas. Jon Morgan, one of the Company's directors, is the President and co-owner of Anthem.

Purchase of Note Receivable

As discussed in Note C, the Company purchased a portion of a loan from First Southern National Bank. One of the Company's former directors, Jess Correll, is founder and Chairman of the Board for First Southern Bancorp, Inc., parent company of First Southern National Bank. The Company's ownership in the loan was subsequently assigned to UGLIC, an affiliate of FSNB, in redemption of the Preferred D shares owned by UGLIC.

NOTE I – COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company is subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position of the Company.

NOTE J – STOCKHOLDERS' EQUITY

Series D Preferred Stock

As described in Note L, the Company issued 429,100 shares of Class D Preferred Stock on December 17, 2007 for total proceeds of \$4,291,000 to finance the Company's investment in SFF Royalty and SFF Production. Below is a summary of the significant characteristics of the Preferred D:

- Pays a coupon of 8.5% annually.
- Has limited voting rights.
- Is not convertible into common stock.

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- Is redeemable upon demand by the Company.

Certain of the Company's Directors purchased Preferred D Stock as described in Note H. A portion of the Preferred D shares was redeemed on April 28, 2011 as described in Note D. The remainder of the Preferred D shares was redeemed on September 30, 2011.

Series E Preferred Stock

As described in Note L, on December 31, 2008 the Company financed the purchase of additional membership interests in SFF Production, LLC totaling 45.8% via the issuance of 549,406 shares of Series E Preferred Stock for total proceeds of \$5,494,060. Below is a summary of the significant characteristics of the Preferred E:

- Pays a coupon of 10% annually.
- Is convertible at a conversion price of \$6/share into 915,677 shares of Amen Common Stock and has proportionate voting rights.
- Has a minimum holding period of three years during which time the Company cannot redeem.

Certain of the Company's Directors were issued Preferred E Stock as described in Note H. The Series E Preferred Stock was converted into 9,157 shares of common stock on December 15, 2011.

Treasury Stock

The Company has purchased 95 shares under the Company's stock repurchase program. These shares are being held by the Company as treasury stock and are reflected on the balance sheet at cost.

Common Dividend

During the quarter, the Company's Board of Directors declared a dividend of \$18 per common share with a record date of March 27, 2012 and payment date of April 2, 2012.

NOTE K – STOCK OPTION PLAN

Since the inception of the Company, various options have been granted by the Board of Directors to founders, directors, employees, consultants and ministry partners. In February 1997, the Company authorized 671 additional shares of common stock to underlie additional options reserved for key employees and for future compensation to members of the Board of Directors. The Board of Directors also adopted, and the Stockholders approved, the 1997 Stock Option Plan ("1997 Plan"), which provides for the granting of either qualified or non-qualified options to purchase an aggregate of up to 5,145 shares of common stock, inclusive of the 671 shares mentioned above, and any and all options or warrants granted in prior years by the Company. As of March 31, 2012, all options available under the 1997 Plan have been granted: 751 options have been exercised, and no options remain outstanding.

The 1998 Stock Option Plan ("1998 Plan") was approved by the Board of Directors in April 1998, with approved amendment in May 2000. The 1998 Plan gives the Company the authority to issue 300,000 options to purchase AMEN common stock. If any stock options granted under the 1998 Plan terminate, expire or are canceled, new stock options may thereafter be granted covering such shares. In addition, any shares purchased under the 1998 Plan subsequently repurchased by the Company, if management elects, pursuant to the terms hereof may again be granted under the 1998 Plan. The shares issued upon exercise of stock options under the 1998 Plan may, in whole or in part, be either authorized but unissued shares, or issued shares reacquired by the Company. As of March 31, 2012, 240 options have been exercised and 812 options are outstanding and are fully vested and range in price from \$198 to \$4,550.

The table below summarizes the stock option activity for the period ended March 31, 2012:

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<u>Options Outstanding</u>	<u>Options Outstanding</u>	<u>Weighted Average Price</u>
Outstanding December 31, 2011	1,198	\$ 528
Options exercised	--	--
Options forfeited	(386)	435
Options issued	--	--
Outstanding March 31, 2012	812	\$ 572

At March 31, 2012 the 812 outstanding options are fully vested and exercisable. They range in price from \$198 to \$6,136 and have a weighted average contractual maturity of 4.28 years.

NOTE L – INVESTMENT IN SFF GROUP

On December 17, 2007, the Company invested \$7.6 million in SFF Royalty, LLC (“SFF Royalty”) and \$2.4 million in SFF Production (“SFF Production”) in exchange for a one-third ownership interest in each entity. Also on December 17, 2007, SFF Royalty and SFF Production acquired the following properties from Santa Fe Energy Trust (the “Trust”) and Devon Energy Production Company, LP (“Devon”):

<u>Acquiring Entity</u>	<u>Acquired from the Trust</u>		<u>Acquired from Devon</u>		<u>Total Purchase</u>
	<u>Description</u>	<u>Purchase Amount</u>	<u>Description</u>	<u>Purchase Amount</u>	
SFF Royalty	Net profits interests in royalty interests owned by Devon	\$ 21,077,688	Royalty interests subject to Trust’s net profits interests	\$ 2,254,662	\$ 23,332,350
SFF Production	Net profits interests in working interests owned by Devon	6,072,125	Working interests subject to Trust’s net profits interests	649,531	6,721,656
Totals		\$ <u>27,149,813</u>		\$ <u>2,904,193</u>	\$ <u>30,054,006</u>

The Company’s Investment in SFF Group consisted of the following at March 31, 2012 and December 31, 2011:

	<u>3/31/2012</u>	<u>12/31/2011</u>
Investment in SFF Group	\$ 1,441,759	\$ 2,760,870
Capital Distributions	(449,999)	(1,766,666)
Equity Earnings	104,460	447,555
	<u>\$ 1,096,220</u>	<u>\$ 1,441,759</u>

The Company’s investment and equity earnings results for the first quarter of 2012 are based on the results of SFF Royalty, LLC. SFF Royalty, LLC reported the following consolidated financial information at March 31, 2012:

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	<u>SFF Royalty</u>
Total Assets	\$ 3,600,356
Total Liabilities	96,443
Net Income	313,412