

NORTHERN OIL & GAS, INC.
Form 10-K
February 29, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended December 31, 2011

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934.

For the transition period from _____ to _____

Commission File No. 001-33999

NORTHERN OIL AND GAS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Minnesota

(State or Other Jurisdiction of Incorporation or
Organization)

95-3848122

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

315 Manitoba Avenue – Suite 200, Wayzata, Minnesota 55391

(Address of Principal Executive Offices) (Zip Code)

952-476-9800

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class
Common Stock, \$0.001 par value

Name of Each Exchange On Which Registered
NYSE Amex Equities Market

Securities registered pursuant to Section 12(g) of the Act: None

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

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 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 preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) 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 small reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer <input checked="" type="checkbox"/>	Accelerated Filer <input type="checkbox"/>	Non-Accelerated Filer <input type="checkbox"/>	Smaller Reporting Company <input type="checkbox"/>
		(Do not check if a 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

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant on the last business day of the registrant's most recently completed second fiscal quarter (based on the closing sale price as reported by the NYSE Amex Equities Market) was approximately \$1.296 billion.

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

As of February 15, 2012, the registrant had 63,481,852 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement related to the registrant's 2012 Annual Meeting of Shareholders are incorporated by reference into Part III of this annual report.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

We are including the following discussion to inform our existing and potential security holders generally of some of the risks and uncertainties that can affect our company and to take advantage of the "safe harbor" protection for forward-looking statements that applicable federal securities law affords.

From time to time, our management or persons acting on our behalf may make forward-looking statements to inform existing and potential security holders about our company. All statements other than statements of historical facts included in this report regarding our financial position, business strategy, plans and objectives of management for future operations, industry conditions, and indebtedness covenant compliance are forward-looking statements. When used in this report, forward-looking statements are generally accompanied by terms or phrases such as "estimate," "project," "predict," "believe," "expect," "anticipate," "target," "plan," "intend," "seek," "goal," "will," "should," "may" similar expressions that convey the uncertainty of future events or outcomes. Items contemplating or making assumptions about, actual or potential future sales, market size, collaborations, and trends or operating results also constitute such forward-looking statements.

Forward-looking statements involve inherent risks and uncertainties, and important factors (many of which are beyond our company's control) that could cause actual results to differ materially from those set forth in the forward-looking statements, including the following: crude oil and natural gas prices, our ability to raise or access capital, general economic or industry conditions, nationally and/or in the communities in which our company conducts business, changes in the interest rate environment, legislation or regulatory requirements, conditions of the securities markets, changes in accounting principles, policies or guidelines, financial or political instability, acts of war or terrorism, other economic, competitive, governmental, regulatory and technical factors affecting our company's operations, products and prices.

We have based any forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. Accordingly, results actually achieved may differ materially from expected results in these statements. Forward-looking statements speak only as of the date they are made. You should consider carefully the statements in "Item 1A. Risk Factors" and other sections of this report, which describe factors that could cause our actual results to differ from those set forth in the forward-looking statements. Our company does not undertake, and specifically disclaims, any obligation to update any forward-looking statements to reflect events or circumstances occurring after the date of such statements.

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

GLOSSARY OF TERMS

Unless otherwise indicated in this report, natural gas volumes are stated at the legal pressure base of the state or geographic area in which the reserves are located at 60 degrees Fahrenheit. Crude oil and natural gas equivalents are determined using the ratio of six Mcf of natural gas to one barrel of crude oil, condensate or natural gas liquids.

The following definitions shall apply to the technical terms used in this report.

Terms used to describe quantities of crude oil and natural gas:

“Bbl” – barrel or barrels.

“BOE” – barrels of crude oil equivalent.

“Boepd” – barrels of crude oil equivalent per day.

“MBbl” – thousand barrels.

“MBoe” – thousand barrels of crude oil equivalent.

“Mcf” – thousand cubic feet of gas.

“Mcfe” – thousand cubic feet of gas equivalent.

“MMBbls” – million barrels.

“MMBoe” – million barrels of crude oil equivalent.

“MMbtu” – million British thermal units.

“MMcf” – million cubic feet of gas.

“MMcfe” – million cubic feet of gas equivalent.

“MMcfepd” – million cubic feet of gas equivalent per day.

“MMcfpd” – million cubic feet of gas per day.

“NGL” – natural gas liquids.

Terms used to describe our interests in wells and acreage:

“Completion” means the process of treating a drilled well followed by the installation of permanent equipment for the production of crude oil and/or natural gas.

“Conventional play” is an area that is believed to be capable of producing crude oil and natural gas occurring in discrete accumulations in structural and stratigraphic traps.

“Developed acreage” means acreage consisting of leased acres spaced or assignable to productive wells. Acreage included in spacing units of infill wells is classified as developed acreage at the time production commences from the initial well in the spacing unit. As such, the addition of an infill well does not have any impact on a company’s amount of developed acreage.

“Development well” is a well drilled within the proved area of a crude oil or natural gas reservoir to the depth of stratigraphic horizon (rock layer or formation) noted to be productive for the purpose of extracting proved crude oil or natural gas reserves.

“Dry hole” is an exploratory or development well found to be incapable of producing either crude oil or natural gas in sufficient quantities to justify completion as a crude oil or natural gas well.

“Exploratory well” is a well drilled to find and produce crude oil or natural gas in an unproved area, to find a new reservoir in a field previously found to be producing crude oil or natural gas in another reservoir, or to extend a known reservoir.

“Gross acres” refer to the number of acres in which we own a gross working interest.

“Gross well” is a well in which we own a working interest.

“Held by production” is a provision in an oil and gas lease that extends a company’s right to operate a lease as long as the property produces a minimum quantity of crude oil and natural gas.

“Infill well” is a subsequent well drilled in an established spacing unit to the addition of an already established productive well in the spacing unit. Acreage on which infill wells are drilled is considered developed commencing with the initial productive well established in the spacing unit. As such, the addition of an infill well does not have any impact on a company’s amount of developed acreage.

“Net acres” represent our percentage ownership of gross acreage. Net acres are deemed to exist when the sum of fractional ownership working interests in gross acres equals one (e.g., a 10% working interest in a lease covering 640 gross acres is equivalent to 64 net acres).

“Net acres under the bit” or “net acreage under the bit” means those net leased acres on which wells are spud, drilling, drilled, awaiting completion or completing in the spacing unit only, and not yet classified as developed acreage, regardless of whether or not such acreage contains proved reserves. Acreage included in spacing units of infill wells is not considered under the bit because such acreage was already previously classified as developed acreage when the initial well was completed in the subject spacing unit.

“Net well” is deemed to exist when the sum of fractional ownership working interests in gross wells equals one.

“NYMEX” means the New York Mercantile Exchange, which is a designated contract market that facilitates and regulates the trading of crude oil and natural gas contracts subject to NYMEX rules and regulations.

“OPEC” means the Organization of Petroleum Exporting Countries.

“Productive well” is an exploratory or a development well that is capable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of the production exceed production expenses and taxes.

“Unconventional play” is an area believed to be capable of producing crude oil and/or natural gas occurring in accumulations that are regionally extensive but require recently developed technologies to achieve profitability. These areas tend to have low permeability and may be closely associated with source rock as this is the case with crude oil and natural gas shale, tight crude oil and natural gas sands and coal bed methane.

“Undeveloped acreage” means those leased acres on which wells have not been drilled or completed to a point that would permit the production of economic quantities of crude oil and natural gas, regardless of whether or not such acreage contains proved reserves. Undeveloped acreage includes net acres under the bit until a productive well is established in the spacing unit.

“Working interest” means the right granted to the lessee of a property to explore for and to produce and own crude oil, natural gas, or other minerals. The working interest owners bear the exploration, development, and operating costs on either a cash, penalty, or carried basis.

Terms used to assign a present value to or to classify our reserves:

“Proved reserves” – Proved crude oil and natural gas reserves are those quantities of crude oil and natural gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

“Proved developed reserves (PDP’s)” – Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional crude oil and natural gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery are included in “proved developed reserves” only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

“Proved developed non-producing reserves (PDNP’s)” – Proved crude oil and natural gas reserves that are developed behind pipe, shut-in or that can be recovered through improved recovery only after the necessary equipment has been installed, or when the costs to do so are relatively minor. Shut-in reserves are expected to be recovered from (1) completion intervals which are open at the time of the estimate but which have not started producing, (2) wells that were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe reserves are expected to be recovered from zones in existing wells that will require additional completion work or future recompletion prior to the start of production.

“Proved undeveloped drilling location” – A site on which a development well can be drilled consistent with spacing rules for purposes of recovering proved undeveloped reserves.

“Proved undeveloped reserves (PUD’s)” – Proved crude oil and natural gas reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for development. Reserves on undrilled acreage are limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units are claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Estimates for proved undeveloped reserves are not attributed to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proven effective by actual tests in the area and in the same reservoir.

“Probable reserves” – are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than proved reserves but which together with proved reserves, are as likely as not to be recovered.

“Possible reserves” – are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than probable reserves.

“Pre-tax PV-10% (PV-10)” – means estimated future net revenue, discounted at a rate of 10% per annum, before income taxes and with no price or cost escalation or de-escalation in accordance with guidelines promulgated by the SEC.

“Standardized Measure” – means estimated future net revenue, discounted at a rate of 10% per annum, after income taxes and with no price or cost escalation, calculated in accordance with Accounting Standards Codification (“ASC”) 932, formerly Statement of Financial Accounting Standards No. 69 “Disclosures About Oil and Gas Producing Activities.”

iii

NORTHERN OIL AND GAS, INC.

TABLE OF CONTENTS

		Page
Part I		
Item 1.	Business	2
Item 1A.	Risk Factors	9
Item 1B.	Unresolved Staff Comments	20
Item 2.	Properties	20
Item 3.	Legal Proceedings	26
Item 4.	Mine Safety Disclosures	27
Part II		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	28
Item 6.	Selected Financial Data	31
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	33
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	49
Item 8.	Financial Statements and Supplementary Data	50
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	50
Item 9A.	Controls and Procedures	50
Item 9B.	Other Information	53
Part III		
Item 10.	Directors, Executive Officers and Corporate Governance	54
Item 11.	Executive Compensation	54
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	54
Item 13.	Certain Relationships and Related Transactions, and Director Independence	54
Item 14.	Principal Accountant Fees and Services	55
Part IV		
Item 15.	Exhibits and Financial Statement Schedules	55
Signatures		56
Index to Financial Statements		F-1

NORTHERN OIL AND GAS, INC.

ANNUAL REPORT ON FORM 10-K

FOR FISCAL YEAR ENDED DECEMBER 31, 2011

PART I

Item 1. Business

Overview

We are a growth-oriented independent energy company engaged in the acquisition, exploration, development and production of crude oil and natural gas properties, primarily in the Bakken and Three Forks formations within the Williston Basin in North Dakota and Montana. We primarily engage in crude oil and natural gas exploration and production by participating on a “heads-up” basis alongside third-party interests in wells drilled and completed in spacing units that include our acreage. We typically depend on drilling partners to propose, permit and initiate the drilling of wells.

We believe that we are able to create value via strategic acreage acquisitions and convert that value or portion thereof into production by utilizing experienced industry partners specializing in the specific areas of interest. We have targeted specific prospects and have consistently participated in crude oil drilling activities in the Williston Basin region since the fourth fiscal quarter of 2007.

Our business approach is to identify and exploit repeatable and scalable resource plays that can be quickly developed in a cost effective manner. We also intend to take advantage of our expertise in aggressive land acquisition to continue to pursue exploration and development projects as a non-operating working interest partner, participating in drilling activities primarily on a heads-up basis proportionate to our working interest. Our business does not depend upon any intellectual property, licenses or other proprietary property unique to our company, but instead revolves around our ability to acquire mineral rights and participate in drilling activities by virtue of our ownership of such rights and through the relationships we have developed with our operating partners. We believe our competitive advantage lies in our ability to acquire property, specifically in the Williston Basin, in a nimble and efficient fashion.

We historically have acquired properties by purchasing individual or small groups of leases directly from mineral owners or from landmen or lease brokers, as well as purchasing lease packages in identified project areas controlled by specific operators. We continue to utilize a variety of methods to acquire properties, and are increasingly focusing our efforts on acquiring properties subject to specific drilling projects or included in permitted or drilling spacing units.

We are focused on maintaining a low cash overhead structure. We believe we are in a position to efficiently exploit and identify high production crude oil and natural gas properties due to our unique non-operator model through which we are able to diversify our risk and participate in the evolution of technology by the collective expertise of those operators with which we partner. We intend to continue to pursue acquisitions of crude oil, natural gas and mineral leases in desired prospects of the Williston Basin that generate attractive rates of return, complement our core areas and provide a portfolio of lower risk, long-lived oil and gas properties.

We acquired approximately 43,239 net mineral acres at an average cost of approximately \$1,832 per net acre in 2011. Additionally, we participated in the completion of 354 gross wells with a 100% success rate in the Bakken and Three Forks formations during 2011. As of December 31, 2011, our principal assets included approximately 167,562

net acres located in the Williston Basin region of the northern United States and approximately 1,281 net acres located in Yates County, New York, as more fully described under the heading “Properties – Leasehold Properties” in Item 2.

Since inception we have drilled and completed, or are currently in the process of drilling and completing, 839 gross wells, consisting of five exploration and 834 developmental wells with a 100% success rate targeting the Bakken and Three Forks formations. At December 31, 2011, we owned working interests in 664 successful discoveries, consisting of 659 targeting the Bakken and Three Forks formations and five exploratory wells targeting other formations. As of December 31 2011, we had developed approximately 52,219 net acres and had approximately 17,290 net acres currently in the process of drilling and completing.

The following table provides information regarding our assets and operations.

At December 31, 2011					Year Ended December 31, 2011
Proved Reserves(a) (MBoe)	Pre-Tax PV10%(b)(c) (Thousands)	% Oil	Productive Wells		Average Daily Production Volumes(d) (BOE)
			Gross	Net	
46,822	\$ 1,101,333	89	% 664	57.9	5,275

- (a) MBoe is defined as one thousand barrels of oil equivalent determined using the ratio of six Mcf of natural gas to one barrel of crude oil, condensate or natural gas liquids.
- (b) The prices used to calculate this measure were \$90.17 per barrel of crude oil and \$6.18 per Mcf of natural gas, using a BTU factor of 1.5 to reflect liquids and condensates (natural gas liquids are included with natural gas). Under SEC guidelines, these prices represent the average prices per barrel of crude oil and per Mcf of natural gas at the beginning of each month in the 12-month period prior to the end of the reporting period, which averages are then adjusted to reflect applicable transportation and quality differentials.
- (c) Pre-Tax PV 10% ("PV-10") may be considered a non-GAAP financial measure as defined by the SEC. We believe that the presentation of PV-10 is relevant and useful to our investors as supplemental disclosure to the standardized measure, or after-tax amount, because it presents the discounted cash flows attributable to our proved reserves before taking into account future corporate income taxes and our current tax structure. While the standardized measure is dependent on the unique tax situation of each company, PV-10 can be used with the industry and by creditors and security analysts to value estimated net cash flows from proved reserves on a more comparable basis. The difference between the standardized measure at December 31, 2011, which was \$839 million, and the PV-10 amount was discounted estimated future income tax of \$263 million at December 31, 2011.
- (d) Average daily production volumes calculated based on 365 day year. Average daily production on a BOE volume basis during the fourth quarter of 2011 was 6,950.

Business Strategy

Our business strategy is to create value for our shareholders by growing reserves, production and cash flow on a cost-efficient basis. Key elements of our strategy include:

- Developing and exploiting our existing properties. Development of our existing position in the Williston Basin resource play is our primary objective. We plan to continue to concentrate our capital expenditures in the Williston Basin, where we believe our current acreage position provides an attractive return on the capital employed on our multi-year drilling inventory.
- Maintain Long-Life Reserve Base. We focus our acreage acquisition and development activities on resources that target long-life oil and gas reserves. Long-life oil and gas reserves provide a more stable growth platform than short-life reserves. Long-life reserves reduce reinvestment risk as they lessen the amount of reinvestment capital deployed each year to replace production. Long-life crude oil and natural gas reserves also assist us in minimizing costs as stable production makes it easier to build and maintain operating economies of scale.

- **Disciplined Financial Approach.** Our goal is to remain financially strong, yet flexible, through the prudent management of our balance sheet and active management of commodity price volatility. We have historically funded our growth activity through a combination of equity and bank borrowings and internally generated cash flow, as appropriate, to maintain our strong financial position. We periodically enter into derivative contracts to support cash flow generation on our existing properties and help ensure expected cash flows from our properties. Typically, we use costless collars and fixed price oil contracts to provide an attractive base commodity price level.

Industry Operating Environment

The crude oil and natural gas industry is affected by many factors that we generally cannot control. Government regulations, particularly in the areas of taxation, energy, climate change and the environment, can have a significant impact on operations and profitability. Significant factors that will impact crude oil prices in the current fiscal year and future periods include: political and social developments in the Middle East, demand in Asian and European markets, and the extent to which members of OPEC and other oil exporting nations manage oil supply through export quotas. Daily WTI crude oil prices averaged \$95.11 per barrel in 2011 with a high of \$114.83 per barrel in May and a low of \$74.95 per barrel in October. Additionally, natural gas prices continue to be under pressure due to concerns over excess supply of natural gas due to the high productivity of emerging shale plays in the United States and continued lower product demand caused by a weakened economy. Natural gas prices are generally determined by North American supply and demand and are also affected by imports of liquefied natural gas. Weather also has a significant impact on demand for natural gas since it is a primary heating source.

Development

We primarily engage in crude oil and natural gas exploration and production by participating on a proportionate basis alongside third-party interests in wells drilled and completed in spacing units that include our acreage. We typically depend on drilling partners to propose, permit and initiate the drilling of wells. Prior to commencing drilling, our partners are required to provide all owners of crude oil, natural gas and mineral interests within the designated spacing unit the opportunity to participate in the drilling costs and revenues of the well to the extent of their pro-rata share of such interest within the spacing unit. We assess each drilling opportunity on a case-by-case basis and participate in wells that we expect to meet our return thresholds based upon our estimates of ultimate recoverable crude oil and natural gas, expertise of the operator and completed well cost from each project, as well as other factors. At the present time we expect to participate pursuant to our working interest in substantially all, if not all, of the wells proposed to us.

We do not manage our commodities marketing activities internally, but our operating partners generally market and sell crude oil and natural gas produced from wells in which we have an interest. Our operating partners coordinate the transportation of our crude oil production from our wells to appropriate pipelines pursuant to arrangements that such partners negotiate and maintain with various parties purchasing the production. We understand that our partners generally sell our production to a variety of purchasers at prevailing market prices under separately negotiated short-term contracts. The price at which production is sold generally is tied to the spot market for crude oil. Williston Basin Light Sweet Crude from the Bakken source rock is generally 41-42 API crude oil and is readily accepted into the pipeline infrastructure. The weighted average differential reported to us by our producers during 2011 was \$6.02 per barrel below NYMEX pricing. Our weighted average differential was approximately \$5.01 during the fourth quarter of 2011. This differential represents the imbedded transportation costs in moving the crude oil from wellhead to refinery and will fluctuate based on availability of pipeline, rail and other transportation methods.

Competition

The crude oil and natural gas industry is intensely competitive, and we compete with numerous other crude oil and natural gas exploration and production companies. Some of these companies have substantially greater resources than we have. Not only do they explore for and produce crude oil and natural gas, but also many carry on midstream and refining operations and market petroleum and other products on a regional, national or worldwide basis. The operations of other companies may be able to pay more for exploratory prospects and productive crude oil and natural gas properties. They may also have more resources to define, evaluate, bid for and purchase a greater number of properties and prospects than our financial or human resources permit.

Our larger or integrated competitors may have the resources to be better able to absorb the burden of existing, and any changes to federal, state, and local laws and regulations more easily than we can, which would adversely affect our competitive position. Our ability to discover reserves and acquire additional properties in the future will be dependent upon our ability and resources to evaluate and select suitable properties and to consummate transactions in this highly competitive environment. In addition, we may be at a disadvantage in producing crude oil and natural gas properties and bidding for exploratory prospects, because we have fewer financial and human resources than other companies in our industry. Should a larger and better financed company decide to directly compete with us, and be successful in its efforts, our business could be adversely affected.

Marketing and Customers

The market for crude oil and natural gas that we will produce depends on factors beyond our control, including the extent of domestic production and imports of crude oil and natural gas, the proximity and capacity of natural gas pipelines and other transportation facilities, demand for crude oil and natural gas, the marketing of competitive fuels and the effects of state and federal regulation. The crude oil and natural gas industry also competes with other industries in supplying the energy and fuel requirements of industrial, commercial and individual consumers.

Our crude oil production is expected to be sold at prices tied to the spot crude oil markets. Our natural gas production is expected to be sold under short-term contracts and priced based on first of the month index prices or on daily spot market prices. We rely on our operating partners to market and sell our production. Our operating partners involve a variety of exploration and production companies, from large publicly-traded companies to small, privately-owned companies. We do not believe the loss of any single operator would have a material adverse effect on our company as a whole.

Title to Properties

Our properties are subject to customary royalty interests, liens under indebtedness, liens incident to operating agreements, liens for current taxes and other burdens, including other mineral encumbrances and restrictions. Our credit agreement is also secured by a first lien on substantially all of our assets. We do not believe that any of these burdens materially interfere with the use of our properties or the operation of our business.

We believe that we have satisfactory title to or rights in all of our producing properties. As is customary in the oil and gas industry, minimal investigation of title is made at the time of acquisition of undeveloped properties. In most cases, we investigate title and obtain title opinions from counsel only when we acquire producing properties or before commencement of drilling operations.

Principal Agreements Affecting Our Ordinary Business

We do not own any physical real estate, but, instead, our acreage is comprised of leasehold interests subject to the terms and provisions of lease agreements that provide our company the right to drill and maintain wells in specific geographic areas. All lease arrangements that comprise our acreage positions are established using industry-standard terms that have been established and used in the crude oil and natural gas industry for many years. Some of our leases may be acquired from other parties that obtained the original leasehold interest prior to our acquisition of the leasehold interest.

In general, our lease agreements stipulate three to five year terms. Bonuses and royalty rates are negotiated on a case-by-case basis consistent with industry standard pricing. Once a well is drilled and production established, the well is considered held by production. Other locations within the drilling unit created for a well may also be drilled at any time with no time limit as long as the lease is held by production. Given the current pace of drilling in the Bakken play at this time, we do not believe lease expiration issues will materially affect our North Dakota position.

Governmental Regulation and Environmental Matters

Our operations are subject to various rules, regulations and limitations impacting the crude oil and natural gas exploration and production industry as whole.

Regulation of Crude Oil and Natural Gas Production

Our crude oil and natural gas exploration, production and related operations, when developed, are subject to extensive rules and regulations promulgated by federal, state, tribal and local authorities and agencies. For example, North Dakota and Montana require permits for drilling operations, drilling bonds and reports concerning operations and impose other requirements relating to the exploration and production of crude oil and natural gas. Such states may also have statutes or regulations addressing conservation matters, including provisions for the unitization or pooling of crude oil and natural gas properties, the establishment of maximum rates of production from wells, and the regulation of spacing, plugging and abandonment of such wells. Failure to comply with any such rules and regulations can result in substantial penalties. The regulatory burden on the crude oil and natural gas industry will most likely increase our cost of doing business and may affect our profitability. Although we believe we are currently in substantial compliance with all applicable laws and regulations, because such rules and regulations are frequently amended or reinterpreted, we are unable to predict the future cost or impact of complying with such laws. Significant expenditures may be required to comply with governmental laws and regulations and may have a material adverse effect on our financial condition and results of operations.

Environmental Matters

Our operations and properties are subject to extensive and changing federal, state and local laws and regulations relating to environmental protection, including the generation, storage, handling, emission, transportation and discharge of materials into the environment, and relating to safety and health. The recent trend in environmental legislation and regulation generally is toward stricter standards, and this trend will likely continue. These laws and regulations may:

- require the acquisition of a permit or other authorization before construction or drilling commences and for certain other activities;

- limit or prohibit construction, drilling and other activities on certain lands lying within wilderness and other protected areas; and

- impose substantial liabilities for pollution resulting from its operations.

The permits required for our operations may be subject to revocation, modification and renewal by issuing authorities. Governmental authorities have the power to enforce their regulations, and violations are subject to fines or injunctions, or both. In the opinion of management, we are in substantial compliance with current applicable environmental laws and regulations, and have no material commitments for capital expenditures to comply with existing environmental requirements. Nevertheless, changes in existing environmental laws and regulations or in interpretations thereof could have a significant impact on our company, as well as the crude oil and natural gas industry in general.

The Comprehensive Environmental, Response, Compensation, and Liability Act (“CERCLA”) and comparable state statutes impose strict, joint and several liability on owners and operators of sites and on persons who disposed of or arranged for the disposal of “hazardous substances” found at such sites. It is not uncommon for the neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. The Federal Resource Conservation and Recovery Act (“RCRA”) and comparable state statutes govern the disposal of “solid waste” and “hazardous waste” and authorize the imposition of substantial fines and penalties for noncompliance. Although CERCLA currently excludes petroleum from its definition of “hazardous substance,” state laws affecting our operations may impose clean-up liability relating to

petroleum and petroleum related products. In addition, although RCRA classifies certain crude oil field wastes as “non-hazardous,” such exploration and production wastes could be reclassified as hazardous wastes thereby making such wastes subject to more stringent handling and disposal requirements.

The Oil Pollution Act of 1990 (“OPA”) and regulations issued under OPA impose strict, joint and several liability on “responsible parties” for damages resulting from oil spills into or upon navigable waters, adjoining shorelines or in the exclusive economic zone of the United States. A “responsible party” includes the owner or operator of an onshore facility and the lessee or permittee of the area in which an offshore facility is located. The OPA establishes a liability limit for onshore facilities of \$350.0 million, while the liability limit for offshore facilities is the payment of all removal costs plus up to \$75.0 million in other damages, but these limits may not apply if a spill is caused by a party’s gross negligence or willful misconduct; the spill resulted from violation of a federal safety, construction or operating regulation; or if a party fails to report a spill or to cooperate fully in a cleanup. We are not aware of any action or event that would subject us to liability under OPA, and we believe that compliance with OPA’s requirements will not have a material adverse effect on us.

The Endangered Species Act (“ESA”) seeks to ensure that activities do not jeopardize endangered or threatened animal, fish and plant species, nor destroy or modify the critical habitat of such species. Under ESA, exploration and production operations, as well as actions by federal agencies, may not significantly impair or jeopardize the species or its habitat. ESA provides for criminal penalties for willful violations of ESA. Other statutes that provide protection to animal and plant species and that may apply to our operations include, but are not necessarily limited to, the Fish and Wildlife Coordination Act, the Fishery Conservation and Management Act, the Migratory Bird Treaty Act and the National Historic Preservation Act. Although we believe that our operations will be in substantial compliance with such statutes, any change in these statutes or any reclassification of a species as endangered could subject our company (directly or indirectly through our operating partners) to significant expenses to modify our operations or could force discontinuation of certain operations altogether.

The Clean Air Act, as amended, and comparable state laws restrict the emission of air pollutants from many sources, including compressor stations. These laws and any implementing regulations may require us or our operating partners to obtain pre-approval for the construction or modification of certain projects or facilities expected to produce air emissions, impose stringent air permit requirements, or use specific equipment or technologies to control emissions. While we may be required (directly or indirectly through our operating partners) to incur certain capital expenditures in the next few years for air pollution control equipment in connection with maintaining or obtaining operating permits addressing other air emission-related issues, we do not believe that such requirements will have a material adverse effect on our operations.

Changes in environmental laws and regulations sometimes occur, and any changes that result in more stringent and costly waste handling, storage, transport, disposal or cleanup requirements for any substances used or produced in our operations could materially adversely affect our operations and financial position, as well as those of the oil and gas industry in general. For instance, recent scientific studies have suggested that emissions of certain gases commonly referred to as “greenhouse gases” and including carbon dioxide and methane, may be contributing to warming of the Earth’s atmosphere. See “climate change” below.

The Federal Water Pollution Control Act of 1972, or the Clean Water Act (the “CWA”), imposes restrictions and controls on the discharge of produced waters and other pollutants into navigable waters. Permits must be obtained to discharge pollutants into state and federal waters and to conduct construction activities in waters and wetlands. The CWA and certain state regulations prohibit the discharge of produced water, sand, drilling fluids, drill cuttings, sediment and certain other substances related to the oil and gas industry into certain coastal and offshore waters without an individual or general National Pollutant Discharge Elimination System discharge permit.

The EPA had regulations under the authority of the CWA that required certain oil and gas exploration and production projects to obtain permits for construction projects with storm water discharges. However, the Energy Policy Act of 2005 nullified most of the EPA regulations that required storm water permitting of oil and gas construction projects. There are still some state and federal rules that regulate the discharge of storm water from some oil and gas construction projects. Costs may be associated with the treatment of wastewater and/or developing and implementing storm water pollution prevention plans. The CWA and comparable state statutes provide for civil, criminal and administrative penalties for unauthorized discharges of oil and other pollutants and impose liability on parties responsible for those discharges, for the costs of cleaning up any environmental damage caused by the release and for natural resource damages resulting from the release.

Climate Change

Significant studies and research have been devoted to climate change and global warming, and climate change has developed into a major political issue in the United States and globally. Certain research suggests that greenhouse gas

emissions contribute to climate change and pose a threat to the environment. Recent scientific research and political debate has focused in part on carbon dioxide and methane incidental to crude oil and natural gas exploration and production. Many states and the federal government have enacted legislation directed at controlling greenhouse gas emissions, and future legislation and regulation could impose additional restrictions or requirements in connection with our drilling and production activities and favor use of alternative energy sources, which could negatively impact operating costs and demand for crude oil products. As such, our business could be materially adversely affected by domestic and international legislation targeted at controlling climate change.

Employees

We currently have 19 full time employees. Our Chief Executive Officer and Chairman, Michael L. Reger, and our President, Ryan R. Gilbertson, are responsible for all material policy-making decisions. They are assisted in the implementation of our company's business by our Chief Financial Officer and our Chief Operating Officer. All employees have entered into written employment agreements. As drilling production activities continue to increase, we may hire additional technical or administrative personnel as appropriate. We do not expect a significant change in the number of full time employees over the next 12 months based upon our currently-projected drilling plan. We are using and will continue to use the services of independent consultants and contractors to perform various professional services. We believe that this use of third-party service providers enhances our ability to contain general and administrative expenses.

Office Locations

Our executive offices are located at 315 Manitoba Avenue, Suite 200, Wayzata, Minnesota 55391. Our office space consists of 4,653 square feet of leased space. We believe our current office space is sufficient to meet our needs for the foreseeable future.

Organizational Background

Our company took its present form on March 20, 2007, when Northern Oil and Gas, Inc. ("Northern"), a Nevada corporation engaged in our current business, merged with and into our subsidiary, with Northern remaining as the surviving corporation (the "Merger"). Northern then merged into us, and we were the surviving corporation. We then changed our name to Northern Oil and Gas, Inc. As a result of the Merger, Northern was deemed to be the acquiring company for financial reporting purposes and the transaction was accounted for as a reverse merger. Our primary operations are now those formerly operated by Northern as well as other business activities since March 2007.

On June 30, 2010, we reincorporated in the State of Minnesota from the State of Nevada pursuant to a plan of merger between Northern Oil and Gas, Inc., a Nevada corporation, and Northern Oil and Gas, Inc., a Minnesota corporation and wholly-owned subsidiary of the Nevada corporation. Upon the reincorporation, each outstanding certificate representing shares of the Nevada corporation's common stock was deemed, without any action by the holders thereof, to represent the same number and class of shares of our company's common stock. As of June 30, 2010, the rights of our shareholders began to be governed by Minnesota corporation law and our current articles of incorporation and bylaws.

Available Information – Reports to Security Holders

Our website address is www.northernoil.com. We make available on this website under "Investor Relations," free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file those materials with, or furnish those materials to, the SEC. These filings are also available to the public at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Electronic filings with the SEC are also available on the SEC internet website at www.sec.gov.

We have also posted to our website our Audit Committee Charter, Compensation Committee Charter, Nominating Committee Charter and our Code of Business Conduct and Ethics, in addition to all pertinent company contact information.

Item 1A. Risk Factors

Risks Related to our Business

The possibility of a global financial crisis may significantly impact our business and financial condition for the foreseeable future.

The credit crisis and related turmoil in the global financial system may adversely impact our business and our financial condition, and we may face challenges if conditions in the financial markets do not improve. Our ability to access the capital markets may be restricted at a time when we would like, or need, to raise financing, which could have a material negative impact on our flexibility to react to changing economic and business conditions. The economic situation could have a material negative impact on operators upon whom we are dependent for drilling our wells, our lenders or customers, causing them to fail to meet their obligations to us. Additionally, market conditions could have a material negative impact on our crude oil hedging arrangements if our counterparties are unable to perform their obligations or seek bankruptcy protection. We believe we will have sufficient capital to fund our 2012 drilling program. However, additional capital would be required in the event that we accelerate our drilling program or that crude oil prices decline substantially resulting in significantly lower revenues.

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

We expect that our cash position, credit facility and revenues from crude oil and natural gas sales will be sufficient to fund our 2012 drilling program. However, those funds may not be sufficient to fund both our continuing operations and our planned growth. We may require additional capital to continue to grow our business via acquisitions and to further expand our exploration and development programs. We may be unable to obtain additional capital if and when required.

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

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

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

Our ability to obtain financing, if and when necessary, may be impaired by such factors as the capital markets (both generally and in the crude oil and natural gas industry in particular), the location of our crude oil and natural gas properties and prices of crude oil and natural gas on the commodities markets (which will impact the amount of asset-based financing available to us) and the departure of key employees. Further, if crude oil or natural gas prices on the commodities markets decline, our revenues will likely decrease and such decreased revenues may increase our

requirements for capital. If the amount of capital we are able to raise from financing activities, together with our revenues from operations, is not sufficient to satisfy our capital needs (even to the extent that we reduce our operations), we may be required to cease our operations, divest our assets at unattractive prices or obtain financing on unattractive terms.

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

We are highly dependent on Michael Reger, our Chief Executive Officer, Chairman and Director, and Ryan Gilbertson, President. The loss of either of them, upon whose knowledge, leadership and technical expertise we rely, would harm our ability to execute our business plan.

Our success depends heavily upon the continued contributions of Michael Reger and Ryan Gilbertson, whose knowledge, leadership and technical expertise would be difficult to replace, and on our ability to retain and attract experienced engineers, geoscientists and other technical and professional staff. If we were to lose their services, our ability to execute our business plan would be harmed. Mr. Reger and Mr. Gilbertson have entered into employment agreements with our company; however, they may terminate their employment with our company at any time.

Our lack of diversification may increase the risk of an investment in our company.

Our business focus is on the crude oil and natural gas industry in a limited number of properties, primarily in Montana and North Dakota. Other companies may have the ability to manage their risk by diversification. However, the narrow focus of our business, in terms of both the nature and geographic scope of our business, means that we will likely be impacted more acutely by factors affecting our industry or the regions in which we operate than we would if our business were more diversified. This enhances our risk profile. We do not currently intend to expand either the nature or geographic scope of our business.

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

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

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

As a non-operator, our development of successful operations relies extensively on third-parties who, if not successful, could have a material adverse affect on our results of operation.

We have only participated in wells operated by third-parties. Our current ability to develop successful business operations depends on the success of our consultants and drilling partners. As a result, we do not control the timing or

success of the development, exploitation, production and exploration activities relating to our leasehold interests. If our consultants and drilling partners are not successful in such activities relating to our leasehold interests, or are unable or unwilling to perform, our financial condition and results of operation would be materially adversely affected.

We are subject to financing and interest rate exposure risks

Our business and operating results can be harmed by factors such as the availability, terms of and cost of capital, increases in interest rates or a reduction in our credit rating. These changes could cause our cost of doing business to increase, limit our ability to pursue acquisition opportunities, reduce cash flow used for drilling and place us at a competitive disadvantage. For example, at December 31, 2011, all of our debt is at variable interest rates.

Continuing disruptions and volatility in the global finance markets may lead to a contraction in credit availability impacting our ability to finance our operations. We require continued access to capital; a significant reduction in cash flows from operations or the availability of credit could materially and adversely affect our ability to achieve our planned growth and operating results. We are exposed to some credit risk related to our credit facility to the extent that one or more of our lenders may be unable to provide necessary funding to us under our existing revolving line of credit if it experiences liquidity problems.

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

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

We exist in a litigious environment.

Any constituent could bring suit regarding our existing or planned operations or allege a violation of an existing contract. Any such action could delay when planned operations can actually commence or could cause a halt to existing production until such alleged violations are resolved by the courts. Not only could we incur significant legal and support expenses in defending our rights, but halting existing production or delaying planned operations could impact our future operations and financial condition. Such legal disputes could also distract management and other personnel from their primary responsibilities.

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

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

meet our capital needs;

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

allocate our human resources optimally;

identify and hire qualified employees or retain valued employees; or

incorporate effectively the components of any business that we may acquire in our effort to achieve growth.

If we are unable to manage our growth, our financial condition and results of operations may be materially adversely affected.

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

We generally expect to enter into swaps, collars or other derivatives arrangements from time-to-time to hedge our expected production depending on reserves and market conditions. While intended to reduce the effects of volatile crude oil and natural gas prices, such transactions may limit our potential gains and increase our potential losses if crude oil and natural gas prices were to rise substantially over the price established by the hedge. In addition, such transactions may expose us to the risk of loss in certain circumstances, including instances in which:

our production is less than expected;

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

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

Risks Related To Our Industry

Crude oil and natural gas prices are very volatile. A protracted period of depressed crude oil and natural gas prices may adversely affect our business, financial condition, results of operations or cash flows.

The crude oil and natural gas markets are very volatile, and we cannot predict future crude oil and natural gas prices. The price we receive for our crude oil and natural gas production heavily influences our revenue, profitability, access to capital and future rate of growth. The prices we receive for our production and the levels of our production depend on numerous factors beyond our control. These factors include, but are not limited to, the following:

changes in global supply and demand for crude oil and natural gas;

the actions of OPEC;

the price and quantity of imports of foreign crude oil and natural gas;

political and economic conditions, including embargoes, in crude oil-producing countries or affecting other crude oil-producing activity;

the level of global crude oil and natural gas exploration and production activity;

the level of global crude oil and natural gas inventories;

weather conditions;

technological advances affecting energy consumption;

domestic and foreign governmental regulations;

proximity and capacity of crude oil and natural gas pipelines and other transportation facilities;

the price and availability of competitors' supplies of crude oil and natural gas in captive market areas; and

the price and availability of alternative fuels.

The recent worldwide financial and credit crisis reduced the availability of liquidity and credit to fund the continuation and expansion of industrial business operations worldwide. The shortage of liquidity and credit combined with recent substantial losses in worldwide equity markets led to a worldwide economic recession. The slowdown in economic activity caused by future similar recessions could reduce worldwide demand for energy resulting in lower crude oil and natural gas prices and restrict our access to liquidity and credit.

Lower crude oil and natural gas prices may not only decrease our revenues on a per unit basis but also may reduce the amount of crude oil and natural gas that we can produce economically and therefore potentially lower our reserve bookings. A substantial or extended decline in crude oil or natural gas prices may result in impairments of our proved crude oil and natural gas properties and may materially and adversely affect our future business, financial condition, results of operations, liquidity or ability to finance planned capital expenditures. To the extent commodity prices received from production are insufficient to fund planned capital expenditures, we will be required to reduce spending or borrow to cover any such shortfall. Lower crude oil and natural gas prices may also reduce the amount of our borrowing base under our credit agreement, which is determined at the discretion of the lenders based on the collateral value of our proved reserves that have been mortgaged to the lenders, and is subject to regular redeterminations, as well as special redeterminations described in the credit agreement.

Drilling for and producing crude oil and natural gas are high risk activities with many uncertainties.

Our future success will depend on the success of our development, exploitation, production and exploration activities. Our crude oil and natural gas exploration and production activities are subject to numerous risks beyond our control, including the risk that drilling will not result in commercially viable crude oil or natural gas production. Our decisions to purchase, explore, develop or otherwise exploit prospects or properties will depend in part on the evaluation of data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often inconclusive or subject to varying interpretations. Our cost of drilling, completing and operating wells is often uncertain before drilling commences. Overruns in budgeted expenditures are common risks that can make a particular project uneconomical. Further, many factors may curtail, delay or cancel drilling, including the following:

delays imposed by or resulting from compliance with regulatory requirements;

pressure or irregularities in geological formations;

shortages of or delays in obtaining qualified personnel or equipment, including drilling rigs and completion crews;

equipment failures or accidents; and

adverse weather conditions, such as freezing temperatures, hurricanes and storms.

The presence of one or a combination of these factors at our properties could adversely affect our business, financial condition or results of operations.

Our business of exploring for crude oil and natural gas is risky and may not be commercially successful, and the advanced technologies we use cannot eliminate exploration risk.

Our future success will depend on the success of our exploratory drilling program. Crude oil and natural gas exploration involves a high degree of risk. These risks are more acute in the early stages of exploration. Our ability to produce revenue and our resulting financial performance are significantly affected by the prices we receive for crude oil and natural gas produced from wells on our acreage. Especially in recent years, the prices at which crude oil and natural gas trade in the open market have experienced significant volatility and will likely continue to fluctuate in the foreseeable future due to a variety of influences including, but not limited to, the following:

domestic and foreign demand for crude oil and natural gas by both refineries and end users;

the introduction of alternative forms of fuel to replace or compete with crude oil and natural gas;

domestic and foreign reserves and supply of crude oil and natural gas;

competitive measures implemented by our competitors and domestic and foreign governmental bodies;

political climates in nations that traditionally produce and export significant quantities of crude oil and natural gas (including military and other conflicts in the Middle East and surrounding geographic region) and regulations and tariffs imposed by exporting and importing nations;

weather conditions; and

domestic and foreign economic volatility and stability.

Our expenditures on exploration may not result in new discoveries of crude oil or natural gas in commercially viable quantities. Projecting the costs of implementing an exploratory drilling program is difficult due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions, such as over-pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

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

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

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

Future crude oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-downs of connected wells resulting from extreme weather conditions, problems in storage and distribution and adverse geological and mechanical conditions. While we will endeavor to effectively manage these conditions, we cannot be assured of doing so optimally, and we will not be able to eliminate them completely in any case. Therefore, these conditions could diminish our revenue and cash flow levels and result in the impairment of our crude oil and natural gas interests.

Our business depends on crude oil and natural gas transportation and processing facilities, which are owned by third parties.

The marketability of our crude oil and natural gas depends in part on the availability, proximity and capacity of pipeline systems and processing facilities owned by third parties. The lack of available capacity on these systems and facilities could result in the shut-in of producing wells or the delay or discontinuance of development plans for properties. Although the operators of our properties have some contractual control over the transportation of our product, material changes in these business relationships could materially affect our operations. Federal and state regulation of crude oil and natural gas production and transportation, tax and energy policies, changes in supply and demand, pipeline pressures, damage to or destruction of pipelines and general economic conditions could adversely affect our ability to produce, gather and transport crude oil and natural gas. If any of these third party pipelines and other facilities become partially or fully unavailable to transport or process our product, or if the natural gas quality

specifications for a natural gas pipeline or facility changes so as to restrict our ability to transport natural gas on those pipelines or facilities, our revenues could be adversely affected.

The disruption of third-party facilities due to maintenance or weather could negatively impact our ability to market and deliver our products. In particular, the disruption of certain third-party crude oil transportation in the Williston Basin could materially affect our ability to market and deliver crude oil over what prices will be charged. A total shut-in of production could materially affect us due to a lack of cash flow, and if a substantial portion of the production is hedged at lower than market prices, those financial hedges would have to be paid from borrowings absent sufficient cash flow.

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

We make estimates of crude oil and natural gas reserves, upon which we base our financial projections. We make these reserve estimates using various assumptions, including assumptions as to crude oil and natural gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. Some of these assumptions are inherently subjective, and the accuracy of our reserve estimates relies in part on the ability of our management team, engineers and other advisors to make accurate assumptions. Economic factors beyond our control, such as crude oil and natural gas prices and interest rates, will also impact the value of our reserves.

Determining the amount of crude oil and natural gas recoverable from various formations where we have exploration and production activities involves great uncertainty. For example, in 2006, the North Dakota Industrial Commission published an article that identified three different estimates of generated crude oil recoverable from the Bakken formation. An organic chemist estimated 50% of the reserves in the Bakken formation to be technically recoverable, a crude oil company estimated a recovery factor of 18%, and values presented in the North Dakota Industrial Commission Oil and Gas Hearings ranged from 3 to 10%.

The process of estimating crude oil and natural gas reserves is complex and will require us to use significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each property. As a result, our reserve estimates will be inherently imprecise. Actual future production, crude oil and natural gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable crude oil and natural gas reserves may vary substantially from those we estimate. If actual production results vary substantially from our reserve estimates, this could materially reduce our revenues and result in the impairment of our crude oil and natural gas interests.

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

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

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

We may become responsible for costs associated with abandoning and reclaiming wells, facilities and pipelines which we use for production of crude oil and natural gas reserves. Abandonment and reclamation of these facilities and the costs associated therewith is often referred to as "decommissioning." We accrue a liability for decommissioning costs associated with our wells, but have not established any cash reserve account for these potential costs in respect of any of our properties. If decommissioning is required before economic depletion of our properties or if our estimates of the costs of decommissioning exceed the value of the reserves remaining at any particular time to cover such decommissioning costs, we may have to draw on funds from other sources to satisfy such costs. The use of other funds to satisfy such decommissioning costs could impair our ability to focus capital investment in other areas of our

business.

15

If crude oil or natural gas prices decrease or drilling efforts are unsuccessful, we may be required to record writedowns of our crude oil and natural gas properties.

We could be required to write down the carrying value of certain of our crude oil and natural gas properties. Writedowns may occur when crude oil and natural gas prices are low, or if we have downward adjustments to our estimated proved reserves, increases in our estimates of operating or development costs, deterioration in our drilling results or mechanical problems with wells where the cost to redrill or repair is not supported by the expected economics.

Accounting rules require that the carrying value of crude oil and natural gas properties be periodically reviewed for possible impairment. Impairment is recognized for the excess of book value over fair value when the book value of a proved property is greater than the expected undiscounted future net cash flows from that property and on acreage when conditions indicate the carrying value is not recoverable. We may be required to write down the carrying value of a property based on crude oil and natural gas prices at the time of the impairment review, or as a result of continuing evaluation of drilling results, production data, economics, divestiture activity, and other factors. While an impairment charge reflects our long-term ability to recover an investment, it does not impact cash or cash flow from operating activities, but it does reduce our reported earnings and increases our leverage ratios.

Significant capital expenditures are required to replace our reserves.

Our exploration, development and acquisition activities require substantial capital expenditures. Historically, we have funded our capital expenditures through a combination of cash flow from operations, our credit facility and debt and equity issuances. We have also engaged in asset monetization transactions. Future cash flows are subject to a number of variables, such as the level of production from existing wells, prices of crude oil and natural gas and our success in developing and producing new reserves. If our access to capital were limited due to numerous factors, which could include a decrease in revenues due to lower crude oil and natural gas prices or decreased production or deterioration of the credit and capital markets, we would have a reduced ability to replace our reserves. We may not be able to incur additional bank debt, issue debt or equity, engage in asset monetization or access other methods of financing on an economic basis to meet our reserve replacement requirements.

The amount available for borrowing under our credit facility is subject to a borrowing base, which is determined by our lenders, at their discretion, taking into account our estimated proved reserves and is subject to periodic redeterminations based on pricing models determined by the lenders at such time. The decline in crude oil and natural gas prices in 2008 adversely impacted the value of our estimated proved reserves and, in turn, the market values used by our lenders to determine our borrowing base. If commodity prices (particularly crude oil prices) decline, it will have similar adverse effects on our reserves and borrowing base.

Our future success depends on our ability to replace reserves that we produce.

Because the rate of production from crude oil and natural gas properties generally declines as reserves are depleted, our future success depends upon our ability to economically find or acquire and produce additional crude oil and natural gas reserves. Except to the extent that we acquire additional properties containing proved reserves, conduct successful exploration and development activities or, through engineering studies, identify additional behind-pipe zones or secondary recovery reserves, our proved reserves will decline as reserves are produced. Future crude oil and natural gas production, therefore, is highly dependent upon our level of success in acquiring or finding additional reserves that are economically recoverable. We cannot assure you that we will be able to find or acquire and develop additional reserves at an acceptable cost.

We may acquire significant amounts of unproved property to further our development efforts. Development and exploratory drilling and production activities are subject to many risks, including the risk that no commercially productive reservoirs will be discovered. We acquire both producing and unproved properties as well as lease undeveloped acreage that we believe will enhance growth potential and increase our earnings over time. However, we cannot assure you that all prospects will be economically viable or that we will not abandon our initial investments. Additionally, there can be no assurance that unproved property acquired by us or undeveloped acreage leased by us will be profitably developed, that new wells drilled by us in prospects that we pursue will be productive or that we will recover all or any portion of our investment in such unproved property or wells.

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

In order to sell the crude oil and natural gas that we are able to produce, the operators of our wells may have to make arrangements for storage and distribution to the market. We will rely on local infrastructure and the availability of transportation for storage and shipment of our products, but infrastructure development and storage and transportation facilities may be insufficient for our needs at commercially acceptable terms in the localities in which we operate. This situation could be particularly problematic to the extent that our operations are conducted in remote areas that are difficult to access, such as areas that are distant from shipping and/or pipeline facilities. These factors may affect our ability to explore and develop properties and to store and transport our crude oil and natural gas production and may increase our expenses.

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

Environmental risks may adversely affect our business.

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

Federal and state legislative and regulatory initiatives relating to hydraulic fracturing could result in increased costs and additional operating restrictions or delays.

The U.S. Congress is considering legislation that would amend the federal Safe Drinking Water Act by repealing an exemption for the underground injection of hydraulic fracturing fluids near drinking water sources. Hydraulic fracturing is an important and commonly used process for the completion of crude oil and natural gas wells in shale formations, and involves the pressurized injection of water, sand and chemicals into rock formations to stimulate production. Sponsors of the legislation have asserted that chemicals used in the fracturing process could adversely affect drinking water supplies. If enacted, the legislation could result in additional regulatory burdens such as permitting, construction, financial assurance, monitoring, recordkeeping, and plugging and abandonment requirements. The legislation also proposes requiring the disclosure of chemical constituents used in the fracturing process to state or federal regulatory authorities, who would then make such information publicly available. The availability of this information could make it easier for third parties opposing the hydraulic fracturing process to initiate legal proceedings based on allegations that specific chemicals used in the fracturing process could adversely affect groundwater. In addition, various state and local governments are considering increased regulatory oversight of hydraulic fracturing through additional permit requirements, operational restrictions, and temporary or permanent bans on hydraulic fracturing in certain environmentally sensitive areas such as watersheds. The adoption of any federal or state legislation or implementing regulations imposing reporting obligations on, or otherwise limiting, the

hydraulic fracturing process could lead to operational delays or increased operating costs and could result in additional regulatory burdens that could make it more difficult to perform hydraulic fracturing and increase our costs of compliance and doing business.

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

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

Challenges to our properties may impact our financial condition.

Title to crude oil and natural gas interests is often not capable of conclusive determination without incurring substantial expense. While we intend to make appropriate inquiries into the title of properties and other development rights we acquire, title defects may exist. In addition, we may be unable to obtain adequate insurance for title defects, on a commercially reasonable basis or at all. If title defects do exist, it is possible that we may lose all or a portion of our right, title and interests in and to the properties to which the title defects relate. If our property rights are reduced, our ability to conduct our exploration, development and production activities may be impaired. To mitigate title problems, common industry practice is to obtain a title opinion from a qualified crude oil and natural gas attorney prior to the drilling operations of a well.

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

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

Risks Related to our Common Stock

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

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

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

- announcements of new acquisitions, reserve discoveries or other business initiatives by us or third parties;

- our ability to take advantage of new acquisitions, reserve discoveries or other business initiatives;

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

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

changes in the demand for crude oil and natural gas, including changes resulting from economic conditions, governmental regulation or the introduction or expansion of alternative fuels;

quarterly variations in our revenues and operating expenses;

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

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

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

additions and departures of key personnel;

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

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

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

significant sales of our common stock, including sales by selling shareholders following the registration of shares under a prospectus.

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

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

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

Shareholders will experience dilution upon the exercise of options and issuance of common stock under our incentive plans.

As of December 31, 2011, we had options for 262,463 shares of common stock outstanding pursuant to our 2006 Incentive Stock Option Plan. Our 2009 Amended and Restated Equity Incentive Plan (the "2009 Plan") permits us to issue up to 4,000,000 shares of our common stock either upon exercise of stock options granted under such plan or through restricted stock awards under such plan. As of December 31, 2011, we had 1,139,118 shares remaining available for issuance pursuant to our 2009 Plan. No options have been issued under our 2009 Plan. If the holders of outstanding options exercise those options or our Compensation Committee determines to grant additional stock awards under our incentive plans, shareholders may experience dilution in the net tangible book value of our common stock. Further, the sale or availability for sale of the underlying shares in the marketplace could depress our stock price.

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

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

We may issue additional stock without shareholder consent.

Our Board of Directors has authority, without action or vote of the shareholders, to issue all or part of our authorized but unissued shares. Additional shares may be issued in connection with future financing, acquisitions, employee stock plans, or otherwise. Any such issuance will dilute the percentage ownership of existing shareholders. We are also currently authorized to issue up to 5,000,000 shares of preferred stock. The Board of Directors can issue preferred stock in one or more series and fix the terms of such stock without shareholder approval. Preferred stock may include the right to vote as a series on particular matters, preferences as to dividends and liquidation, conversion and redemption rights and sinking fund provisions. The issuance of preferred stock could adversely affect the rights of the holders of common stock and reduce the value of the common stock. In addition, specific rights granted to holders of preferred stock could discourage, delay or prevent a transaction involving a change in control of our company, even if doing so would benefit our shareholders, and could also discourage proxy contests and make it more difficult for you and other shareholders to elect directors of your choosing and to cause us to take other corporate actions you desire.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Leasehold Properties

As of December 31, 2011, our principal assets included approximately 168,843 net acres located in the northern region of the United States. Net acreage represents our percentage ownership of gross acreage. The following table summarizes our estimated gross and net developed and undeveloped acreage by state at December 31, 2011.

	Developed Acreage		Undeveloped Acreage		Total Acreage	
	Gross	Net	Gross	Net	Gross	Net
North Dakota	196,771	48,510	337,045	88,711	533,815	137,221
Montana	10,961	3,709	62,422	26,632	73,383	30,341
New York	–	–	1,281	1,281	1,281	1,281
Total	207,732	52,219	400,748	116,624	608,479	168,843

Recent Acreage Acquisitions

In 2011, we acquired leasehold interests covering an aggregate of approximately 43,239 net mineral acres in our key prospect areas, for an average cost of \$1,832 per net acre. These acquisitions consisted of an average of approximately 244 net mineral acres per transaction.

We generally assess acreage subject to near-term drilling activities on a lease-by-lease basis because we believe each lease's contribution to a subject spacing unit is best assessed on that basis if development timing is sufficiently clear. Consistent with that approach, the majority of our acreage acquisitions involve properties that are "hand-picked" by us on a lease-by-lease basis for their contribution to a well expected to be spud in the near future, and the subject leases are then aggregated to complete one single closing with the transferor. As such, we generally view each acreage assignment from brokers, landmen and other parties as involving several separate acquisitions combined into one closing with the common transferor for convenience. However, in certain instances an acquisition may involve a larger number of leases presented by the transferors as a single package without negotiation on a lease-by-lease basis. In those instances, we still review each lease on a lease-by-lease basis to ensure that the package as a whole meets our acquisition criteria and drilling expectations.

Divestitures

In November 2009, we agreed to participate in the exploration and development of Slawson Exploration Company, Inc.'s ("Slawson") Anvil project in Roosevelt and Sheridan Counties, Montana and Williams County, North Dakota. In April 2011, we sold our interest in the Anvil project for \$5.0 million. As of the date of sale, our cost basis in the Anvil project was \$1.8 million. We sold our interest in the project along with Slawson, who also desired to sell its entire interest in the project. Slawson had drilled and completed one well in the project area prior to the divestiture – the Mayhem #1-19H well – and we retained our interest in that wellbore in connection with the divestiture. The proceeds from the sale were applied to reduce the capitalized costs of oil and gas properties.

Acreage Expirations

As a non-operator, we are subject to lease expirations if an operator does not commence the development of operations within the agreed terms of our leases. All of our leases for undeveloped acreage summarized in the table below will expire at the end of their respective primary terms, unless we renew the existing leases, establish commercial production from the acreage or some other “savings clause” is exercised. In addition, our leases typically provide that the lease does not expire at the end of the primary term if drilling operations have been commenced. While we generally expect to establish production from most of our acreage prior to expiration of the applicable lease terms, there can be no guarantee we can do so. The approximate expiration of our gross and net acres which are subject to expire between 2012 and 2016 and thereafter, are set forth below:

Year Ended	Acres Expiring	
	Gross	Net
December 31, 2012	45,503	17,677
December 31, 2013	75,521	23,765
December 31, 2014	76,231	23,371
December 31, 2015	73,160	20,925
December 31, 2016 and thereafter	27,255	17,998
Total	297,670	103,738

During 2011, we had leases expire in Montana, New York and North Dakota covering approximately 26,428 net acres, of which approximately 15,673 net acres were prospective for the Bakken and Three Forks Formations in Montana and North Dakota. The 2011 lease expirations carried a \$9 million cost which was transferred to the costs subject to depletion. We believe that the expired acreage was not material to our capital deployed in these prospects. We do not consider the expiration of acreage during 2011 to be material.

Unproved Properties

All properties that are not classified as proved properties are considered unproved properties and, thus, the costs associated with such properties are not subject to depletion. Once a property is classified as proved, all associated acreage and drilling costs are subject to depletion.

We historically have acquired our properties by purchasing individual or small groups of leases directly from mineral owners or from landmen or lease brokers, which leases generally have not been subject to specified drilling projects, and by purchasing lease packages in identified project areas controlled by specific operators. We generally participate in drilling activities on a proportionate basis by electing whether to participate in each well on a well-by-well basis at the time wells are proposed for drilling, with the exception of three defined drilling projects with Slawson.

As of December 31, 2011, we were participating in three defined drilling projects with Slawson covering an aggregate of approximately 17,400 net acres controlled by us. The Windsor project area includes approximately 2,700 net acres controlled by us, primarily located in Mountrail and surrounding counties of North Dakota. The South West Big Sky project includes approximately 3,900 total net acres controlled by us in Richland County, Montana. The Lambert project includes approximately 10,800 total net acres controlled by us in Richland and Dawson Counties, Montana.

We believe that the majority of our unproved costs will become subject to depletion within the next five years by proving up reserves relating to its acreage through exploration and development activities, by impairing the acreage that will expire before we can explore or develop it further or by determining that further exploration and development activity will not occur. The timing by which all other properties will become subject to depletion will be dependent

upon the timing of future drilling activities and delineation of our reserves.

Production History

The following table presents information about our produced crude oil and natural gas volumes during the year ended December 31, 2011, 2010 and 2009. As of December 31, 2011, we were selling crude oil and natural gas from a total of 664 gross (57.9 net) wells. As of December 31, 2010, we were selling crude oil and natural gas from a total of 311 gross (26.0 net) wells. As of December 31, 2009, we were selling crude oil and natural gas from a total of 179 gross (9.2 net) wells. All of the forgoing wells were located within the Williston Basin. All data presented below is derived from accrued revenue and production volumes for the relevant period indicated.

	Year Ended December 31,		
	2011	2010	2009
Net Production:			
Crude Oil (Bbl)	1,791,979	849,845	274,328
Natural Gas (Mcf)	800,207	234,411	47,305
Barrel of Crude Oil Equivalent (BOE)	1,925,347	888,914	282,212
Average Sales Prices:			
Crude Oil (per Bbl)	\$86.01	\$68.27	\$54.60
Effect of crude oil hedges on average price (per Bbl)	(7.48)	(0.55)	(2.28)
Crude Oil net of hedging (per Bbl)	78.53	67.72	52.32
Natural Gas and other liquids (per Mcf)	6.63	6.26	4.11
Realized price on a BOE basis including all realized derivative settlements	75.85	66.39	51.55
Average Production Costs:			
Barrel of Oil Equivalent (per BOE)	\$6.77	\$3.70	\$2.68

Depletion of crude oil and natural gas properties

Our depletion expense is driven by many factors including certain exploration costs involved in the development of producing reserves, production levels and estimates of proved reserve quantities and future developmental costs. The following table presents our depletion expenses during 2011, 2010 and 2009.

	Year Ended December 31,		
	2011	2010	2009
Depletion of crude oil and natural gas properties	\$40,815,426	\$16,884,563	\$4,250,983

Drilling and Development Activity

The following table sets forth the number of gross and net productive and non-productive wells for all of our drilling and development activity in the years ended December 31, 2011, 2010 and 2009. No wells have been permitted or drilled on any of our Yates County, New York acreage. The following table does not include wells that were awaiting completion, in the process of completion or awaiting flowback subsequent to fracture stimulation. We have not participated in any wells solely targeting natural gas reserves. We have classified all wells drilled to-date targeting the Bakken and Three Forks formations as development wells. As of December 31, 2011, we have had 100% success rate in our North Dakota and Montana Bakken and Three Forks wells.

	Year Ended December 31,					
	2011		2010		2009	
	Gross	Net	Gross	Net	Gross	Net
Exploratory Wells:						
Crude oil	1	0.01	2	0.44	1	0.23
Natural gas	–	–	–	–	–	–
Non-productive	1	0.33	–	–	–	–
Development Wells:						
Crude oil	353	32.26	168	16.41	144	6.86
Natural gas	–	–	–	–	–	–
Non-productive	–	–	–	–	–	–
Total Productive Exploratory and Development Wells	354	32.27	170	16.85	145	7.09

The following table summarizes our cumulative gross and net productive crude oil wells by state at each of December 31, 2011, 2010 and 2009.

	Year Ended December 31,					
	2011		2010		2009	
	Gross	Net	Gross	Net	Gross	Net
North Dakota	642	54.40	300	23.90	170	8.17
Montana	22	3.53	11	2.13	9	1.02
Total	664	57.94	311	26.03	179	9.19

Research and Development

We do not anticipate performing any significant research and development under our plan of operation.

Proved Reserves

We recently completed our most current reservoir engineering calculation as of December 31, 2011.

Based on the results of our December 31, 2011 reserve analysis, our proved reserves increased approximately 198% during 2011 primarily as a result of increased drilling activity involving our acreage and our acquisition of acreage subject to specific drilling projects or included in permitted or drilling spacing units. We incurred approximately \$300 million of capital expenditures for drilling activities and \$80 million for acreage acquisitions during the year ended December 31, 2011, all of which directly contributed to the increase in our proved developed reserves. No other expenditures materially contributed to the development of proved developed reserves in 2011. Our proved undeveloped reserves increased by approximately 234% during 2011 primarily as a result of drilling activity and our acquisitions of acreage. Based on our independent reservoir engineering firm's calculation of proved undeveloped reserves as of December 31, 2010, approximately 16% of our proved undeveloped reserves were converted to proved developed reserves during 2011. We expect that our proved undeveloped reserves will continue to be converted to proved developed producing reserves as additional wells are drilled including our acreage. We do not have any material amounts of proved undeveloped reserves that have remained undeveloped for five years or more.

At 2011 year end, approximately 31% of our Bakken and Three Forks prospective acreage was developed. In addition, at 2011 year end, we had approximately 17,290 net acres being drilled and completed and approximately 12,886 net acres held by production, for a total of approximately 82,395 net acres, or approximately 49% of our prospective Bakken and Three Forks position, either developed, under the bit or held by production. All of our proved reserves are located in North Dakota and Montana.

Preparation of our reserve report is outlined in our Sarbanes-Oxley Act Section 404 internal control procedures. Our procedures require that our reserve report be prepared by a third-party registered independent engineering firm at the end of every year based on information we provide to such engineer. We utilize historical production and expense data for our wells, calculate historical differentials, validate working interests and net revenue interests, and obtain updated authorizations for expenditure (“AFEs”) from our operations department. This data is forwarded to our third-party engineering firm for review and calculation. Our Chief Executive Officer provides a final review of our reserve report and the assumptions relied upon in such report.

We have utilized Ryder Scott Company, LP (“Ryder Scott”), an independent reservoir engineering firm, as our third-party engineering firm. The selection of Ryder Scott is approved by our Audit Committee. Ryder Scott is one of the largest reservoir-evaluation consulting firms and evaluates crude oil and natural gas properties and independently certifies petroleum reserves quantities for various clients throughout the United States and internationally. Ryder Scott has substantial experience calculating the reserves of various other companies with operations targeting the Bakken and Three Forks formations and, as such, we believe Ryder Scott has sufficient experience to appropriately determine our reserves. Ryder Scott utilizes proprietary technology, systems and data to calculate our reserves commensurate with this experience.

In December 2011, we hired an internal reserve engineer who is responsible for overseeing the preparation of our reserves estimates. Our internal reserve engineer possesses a B.S. in chemical and petroleum engineering from the University of Pittsburgh and has ten years of oil and gas experience on the reservoir side. He has worked for large independents and financial firms on projects and acquisitions, both domestic and international. The proved reserves tables below summarize our estimated proved reserves as of December 31, 2011, based upon reports prepared by Ryder Scott. The reports of our estimated proved reserves in their entirety are based on the information we provide to them. Ryder Scott is a Texas Registered Engineering Firm (F-1580). Our primary contact at Ryder Scott is James L. Baird, Managing Senior Vice President. Mr. Baird is a State of Colorado Licensed Professional Engineer (License #41521).

In accordance with applicable requirements of the SEC, estimates of our net proved reserves and future net revenues are made using average prices at the beginning of each month in the 12-month period prior to the date of such reserve estimates and are held constant throughout the life of the properties (except to the extent a contract specifically provides for escalation).

The reserves set forth in the Ryder Scott report for the properties are estimated by performance methods or analogy. In general, reserves attributable to producing wells and/or reservoirs are estimated by performance methods such as decline curve analysis which utilizes extrapolations of historical production data. Reserves attributable to non-producing and undeveloped reserves included in our report are estimated by analogy. The estimates of the reserves, future production, and income attributable to properties are prepared using the economic software package Aries for Windows, a copyrighted program of Halliburton.

To estimate economically recoverable crude oil and natural gas reserves and related future net cash flows, we consider many factors and assumptions including, but not limited to, the use of reservoir parameters derived from geological, geophysical and engineering data which cannot be measured directly, economic criteria based on current costs and SEC pricing requirements, and forecasts of future of production rates. Under the SEC regulations 210.4-10(a)(22)(v) and (26), proved reserves must be demonstrated to be economically producible based on existing economic conditions including the prices and costs at which economic producibility from a reservoir is to be determined as of the effective date of the report. With respect to the property interests we own, production and well tests from examined wells, normal direct costs of operating the wells or leases, other costs such as transportation and/or processing fees, production taxes, recompletion and development costs and product prices are based on the SEC regulations, geological maps, well logs, core analyses, and pressure measurements.

The reserve data set forth in the Ryder Scott report represents only estimates, and should not be construed as being exact quantities. They may or may not be actually recovered, and if recovered, the actual revenues and costs could be more or less than the estimated amounts. Moreover, estimates of reserves may increase or decrease as a result of future operations.

Reservoir engineering is a subjective process of estimating underground accumulations of crude oil and natural gas that cannot be measured in an exact manner. There are numerous uncertainties inherent in estimating crude oil and natural gas reserves and their estimated values, including many factors beyond our control. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geologic interpretation and judgment. As a result, estimates of different engineers, including those used by us, may vary. In addition, estimates of reserves are subject to revision based upon actual production, results of future development and exploration activities, prevailing crude oil and natural gas prices, operating costs and other factors. The revisions may be material. Accordingly, reserve estimates are often different from the quantities of crude oil and natural gas that are ultimately recovered and are highly dependent upon the accuracy of the assumptions upon which they are based. Our estimated net proved reserves, included in our SEC filings, have not been filed with or included in reports to any other federal agency. See “Item 1A. Risk Factors – Estimates of crude oil and natural gas reserves that we make may be inaccurate and our actual revenues may be lower than our financial projections.”

Ryder Scott prepared our reserve report valuing our proved reserves at December 31, 2011. The report values only our proved reserves and does not value our probable reserves or our possible reserves. The following table sets forth our estimated proved reserves based on the SEC rules as defined in Rule 4.10(a) of Regulation S-X and Item 1200 of Regulation S-K (“SEC Pricing Proved Reserves”).

SEC Pricing Proved Reserves(1)

	Crude Oil (barrels)	Natural Gas (Mcf)	Total (BOE)(2)	Pre-Tax PV10% Value \$M(3)
PDP Properties	13,308,105	7,779,168	14,604,633	\$534,492
PDNP Properties	1,030,471	673,488	1,142,718	\$17,084
PUD Properties	27,538,402	21,216,508	31,074,487	\$549,757
Total Proved Properties:	41,876,978	29,669,164	46,821,838	\$1,101,333

(1)The SEC Pricing Proved Reserves table above values crude oil and natural gas reserve quantities and related discounted future net cash flows as of December 31, 2011 assuming constant realized prices of \$90.17 per barrel of crude oil and \$6.18 per Mcf of natural gas, using a BTU factor of 1.5 to reflect liquids and condensates (natural gas liquids are included with natural gas). Under SEC guidelines, these prices represent the average prices per barrel of crude oil and per Mcf of natural gas at the beginning of each month in the 12-month period prior to the end of the reporting period, which averages are then adjusted to reflect applicable transportation and quality differentials.

(2)BOE are computed based on a conversion ratio of one BOE for each barrel of crude oil and one BOE for every 6,000 cubic feet (i.e., 6 Mcf) of natural gas.

(3)Pre-tax PV10% may be considered a non-GAAP financial measure as defined by the SEC and is derived from the standardized measure of discounted future net cash flows, which is the most directly comparable GAAP measure. Pre-tax PV10% is computed on the same basis as the standardized measure of discounted future net cash flows but without deducting future income taxes. We believe Pre-tax PV10% is a useful measure for investors for evaluating the relative monetary significance of our crude oil and natural gas properties. We further believe investors may utilize our Pre-tax PV10% as a basis for comparison of the relative size and value of our reserves to other companies because many factors that are unique to each individual company impact the amount of future income taxes to be paid. Our management uses this measure when assessing the potential return on investment related to our crude oil and natural gas properties and acquisitions. However, Pre-tax PV10% is not a substitute for the standardized measure of discounted future net cash flows. Our Pre-tax PV10% and the standardized measure of discounted future net cash flows do not purport to present the fair value of our crude oil and natural gas reserves.

The table above assumes prices and costs discounted using an annual discount rate of 10% without future escalation, without giving effect to non-property related expenses such as general and administrative expenses, debt service and depreciation, depletion and amortization, or federal income taxes. The "Pre-tax PV10%" values of our proved reserves presented in the foregoing tables may be considered a non-GAAP financial measure as defined by the SEC.

The following table reconciles the pre-tax PV10% value of our SEC Pricing Proved Reserves to the standardized measure of discounted future net cash flows.

SEC Pricing Proved Reserves (in thousands)	
Standardized Measure Reconciliation	
Pre-tax Present Value of estimated future net revenues (Pre-tax PV10%)	\$ 1,101,333
Future income taxes, discounted at 10%	262,636
Standardized measure of discounted future net cash flows	\$ 838,697

Uncertainties are inherent in estimating quantities of proved reserves, including many risk factors beyond our control. Reserve engineering is a subjective process of estimating subsurface accumulations of crude oil and natural gas that cannot be measured in an exact manner. As a result, estimates of proved reserves may vary depending upon the engineer valuing the reserves. Further, our actual realized price for our crude oil and natural gas is not likely to average the pricing parameters used to calculate our proved reserves. As such, the crude oil and natural gas quantities and the value of those commodities ultimately recovered from our properties will vary from reserve estimates.

Additional discussion of our proved reserves is set forth under the heading “Supplemental Oil and Gas Information” to our financial statements included later in this report.

Delivery Commitments

We do not currently have any delivery commitments for product obtained from our wells.

Item 3. Legal Proceedings

On August 23, 2010, plaintiff Donald Rensch filed a shareholder derivative complaint (the “Original Complaint”) in the United States District Court for the District of Minnesota against our company as nominal defendant, Michael L. Reger, Ryan R. Gilbertson, James R. Sankovitz and Chad D. Winter, James Randall Reger, James Russell Reger, Weldon W. Gilbertson, Douglas M. Polinsky, Joseph A. Geraci, II and Voyager Oil & Gas, Inc. (“Voyager”). The Original Complaint alleged breach of fiduciary duty of loyalty and usurping of corporate opportunities by Messrs. M. Reger, Gilbertson, Sankovitz and Winter; asserted allegations against Messrs. James Randall Reger, Weldon W. Gilbertson, James Russell Reger, Douglas M. Polinsky and Joseph A. Geraci, II of aiding and abetting our officers in breaching their fiduciary duties and usurping of corporate opportunities in connection with the formation, capitalization, and operation of Plains Energy (Voyager’s predecessor); and asserted a claim against Voyager for tortious interference with a prospective business relationship. The plaintiff sought injunctive relief and damages, including imposing on Voyager and all of its assets a constructive trust for our company’s benefit. On June 20, 2011, the District Court granted a motion to dismiss the lawsuit, and the complaint was dismissed without prejudice.

On July 20, 2011 plaintiff Donald Rensch filed an amended shareholder derivative complaint (the “Amended Complaint”) in the same court against our company as nominal defendant, Michael L. Reger, Ryan R. Gilbertson, James R. Sankovitz and Voyager. All other defendants from the Original Complaint were not included as defendants in the Amended Complaint. The Amended Complaint alleges breach of fiduciary duty of loyalty and usurping of corporate opportunities by Messrs. Reger, Gilbertson and Sankovitz in connection with the formation, capitalization, and operation of Plains Energy (Voyager’s predecessor), and also includes related aiding and abetting claims against Voyager and Messrs. Reger and Gilbertson. The plaintiff seeks unspecified equitable relief and damages. We believe that each of the above claims lacks merit and intend to strongly defend our company and each of our current and/or former officers and directors in connection with this lawsuit. A motion to dismiss the lawsuit in the United States

District Court for the District of Minnesota was filed on September 9, 2011. The motion was heard before the Court on December 20, 2011, but the Court has not yet issued a ruling on the motion.

In addition to the foregoing, our company is subject from time to time to litigation claims and governmental and regulatory proceedings arising in the ordinary course of business.

Item 4. Mine Safety Disclosures

None.

Executive Officers of the Registrant

Our executive officers, their ages and offices held, as of February 15, 2012 are as follows:

Name	Age	Positions
Michael L. Reger	35	Chairman, Chief Executive Officer and Director
Ryan R. Gilbertson	35	President
Thomas W. Stoelk	56	Chief Financial Officer
James R. Sankovitz	37	Chief Operating Officer

Michael L. Reger has served as our Chief Executive Officer and Chairman of the Board of Directors since March 2007. Mr. Reger has been primarily involved in the acquisition of crude oil, gas and mineral rights for his entire professional life and is a director of Reger Oil based in Billings, Montana. Mr. Reger holds a Bachelor of Arts in Finance and an MBA in Finance/Management from the University of St. Thomas in St. Paul, Minnesota. The Reger family has a history of acreage acquisition in the Williston Basin dating to 1952.

Ryan R. Gilbertson has served as our President since March 2010 and served as a Director of our company from March 2007 to August 2011. Mr. Gilbertson previously served as our Chief Financial Officer from March 2007 to March 2010. Mr. Gilbertson's last position prior to co-founding Northern was at Piper Jaffray in Minneapolis from March 2004 to August 2006. Prior to Piper Jaffray, Mr. Gilbertson was a portfolio manager at Telluride Asset Management, a multi-strategy hedge fund based in Wayzata, Minnesota. Mr. Gilbertson holds a BA from Gustavus Adolphus College in International Business/Finance.

Thomas W. Stoelk has served as our Chief Financial Officer since December 2011. Prior to joining our company, Mr. Stoelk served as the Vice President of Finance and Chief Financial Officer at Superior Well Services, Inc. from 2005 to 2011. Prior to Superior Well Services, Inc., Mr. Stoelk served as the Chief Financial Officer of Great Lakes Energy Partners, LLC from 1999 to 2005 and the Senior Vice President of Finance and Administration for Range Resources Corporation from 1994 to 1999. Prior to his employment with Range Resources Corporation, Mr. Stoelk was a senior manager at Ernst & Young LLP and worked as a certified public accountant in their auditing practice. Mr. Stoelk holds a BS in Industrial Administration from Iowa State University.

James R. Sankovitz has served as our Chief Operating Officer since March 2010, and previously served as our General Counsel from March 2008 until October 2011. Prior to joining our company, Mr. Sankovitz was a partner at the law firm Adams, Monahan & Sankovitz, LLP from November 2004 to March 2008, where he represented various public and private companies and individuals concerning state and federal securities laws, corporate finance matters, mergers and acquisitions, capital structuring, regulatory compliance and other business-related matters. Mr. Sankovitz has assisted clients as an attorney and consultant in pursuing capital-raising transactions (including private placements, mergers, tender offers, bond offerings, bridge financings and bank financings), structuring complex transactions, completing mergers, acquisitions and similar transactions, developing strategic business plans, exploring licensing opportunities, evaluating cash needs and resources, negotiating various agreements and addressing securities law compliance and general corporate matters.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock commenced trading on the AMEX on March 26, 2008 under the symbol "NOG." The high and low sales prices for shares of common stock of our company for each quarter during 2010 and 2011 are set forth below.

	Sales Price	
	High	Low
Fiscal Year Ended December 31, 2011		
First Quarter	\$33.98	\$23.50
Second Quarter	27.25	