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CRIMSON EXPLORATION INC.
Form 10-K
March 31, 2006

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

FORM 10-K

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

For the fiscal year ended December 31, 2005

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 number: 000-21644

CRIMSON EXPLORATION INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-3037840
(I.R.S. Employer
Identification No.)

480 N. Sam Houston Parkway East, Suite 300
Houston, Texas
(Address of principal executive offices)

77060
(Zip Code)

(281) 820-1919
(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock,
\$0.001 par value per share

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

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

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 [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405
of Regulation S-K 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, or a non-accelerated filer. See definition of "accelerated
filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. Large
accelerated filer [] Accelerated filer [] Non-accelerated filer [X]

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

As of March 29, 2006, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$17,269,535 based on the closing sales price of \$.75. For purposes of this computation, all executive officers, directors and 10% beneficial owners of the registrant are deemed to be affiliates. Such a determination should not be deemed an admission that such executive officers, directors and 10% beneficial owners are affiliates.

On March 29, 2006, there were 33,041,332 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Definitive Proxy Statement for the 2006 Annual Meeting, expected to be filed within 120 days of our fiscal year end, are incorporated by reference into Part III.

PART I

This summary highlights selected information contained elsewhere in this Annual Report. The following summary does not contain all of the information that may be important. You should read the detailed information appearing elsewhere in this Annual Report before making an investment decision. Certain terms that we use in our industry are italicized and defined in the "Glossary of Industry Terms and Abbreviations". Unless otherwise indicated, all references to "GulfWest", the "Company", "we", "us" and "our" refer to Crimson Exploration Inc. and our subsidiaries.

We make forward-looking statements throughout this Annual Report. Whenever you read a statement that is not simply a statement of historical fact (such as when we describe what we "believe," "expect" or "anticipate" will occur, and other similar statements), you must remember that our expectations may not be correct, even though we believe they are reasonable. We do not guarantee that the transactions and events described in this Annual Report will happen as described (or that they will happen at all). The forward-looking information contained in this Annual Report is generally located in the material set forth under the headings "Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" but may be found in other locations as well. These forward-looking statements generally relate to our plans and objectives for future operations and are based upon our management's reasonable estimates of future results and trends.

ITEM 1. Business

Our Business.

We are primarily engaged in the acquisition, development, exploitation and production of crude oil and natural gas, primarily in the onshore producing regions of the United States. Our focus is on increasing production from our existing properties through further exploitation, development and exploration, and on acquiring additional interests in undeveloped and underdeveloped crude oil and natural gas properties.

Since we made our first significant acquisition in 1993, we have substantially increased our ownership in producing properties and our crude oil and natural gas reserves through a combination of acquisitions and the further exploitation and development of our properties. At December 31, 2005, our part of the estimated proved reserves these properties contained was approximately

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2.7 million barrels (MBbl) of oil and 24.7 billion cubic feet (Bcf) of natural gas with an estimated Net Present Value discounted at 10% (PV-10) of \$171.6 million. At present, all of our properties are located on land in Texas, Colorado, Louisiana and Mississippi, except for the property in the shallow inland boundaries of Grand Lake, Louisiana. In the future, we plan to expand by acquiring additional properties in those areas, and in similar properties located in other producing regions of the United States, including the shallow waters of the Gulf of Mexico.

Our gross revenues are derived from the following sources:

1. Oil and gas sales that are proceeds from the sale of crude oil and natural gas production to midstream purchasers.
2. Operating overhead and other income that consists of administrative fees received for operating crude oil and natural gas properties for other working interest owners, and for marketing and transporting natural gas for those owners. This also includes earnings from other miscellaneous activities.

Our operations are considered to fall within a single industry segment, which is the acquisition, development, production and servicing of crude oil and natural gas properties. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our Common Stock is traded over-the-counter (OTC) under the symbol "CXPI.OB".

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Our Company.

We were formed as a corporation under the laws of the State of Utah in 1987 as Gallup Acquisitions, Inc., and subsequently changed our name to First Preference Fund, Inc in 1992. We became a Texas corporation by a merger effected in July 1992, through which our name became GulfWest Oil Company. On May 21, 2001, we changed our name to GulfWest Energy Inc.

On June 29, 2005 we merged with and into Crimson Exploration Inc., a Delaware corporation ("Crimson"), for the purpose of changing our state of incorporation from Texas to Delaware (the "Reincorporation"). The Reincorporation was accomplished pursuant to an Agreement and Plan of Merger, dated June 28, 2005, which was approved by GulfWest's shareholders at the 2005 Annual Shareholders' Meeting held June 1, 2005.

Our principal office is located at 480 North Sam Houston Parkway East, Suite 300, Houston, Texas 77060 and our telephone number is (281) 820-1919.

Prior to March 2, 2006 Crimson Exploration Inc. had six active and three inactive, direct or indirect, wholly owned subsidiaries. The active subsidiaries were:

1. GulfWest Oil and Gas Company, a Texas corporation, was organized February 18, 1999 and was the owner of record of interests in certain crude oil and natural gas properties located in Colorado and Texas. It had one wholly owned subsidiary, GulfWest Oil and Gas Company (Louisiana) LLC.

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2. GulfWest Oil and Gas Company (Louisiana) LLC, a Louisiana company, was formed July 31, 2001 and was the owner of record of interests in certain crude oil and natural gas properties in Louisiana.
3. SETEX Oil and Gas Company, a Texas corporation, was organized August 11, 1998 and was the operator of crude oil and natural gas properties in which we own a majority working interest.
4. RigWest Well Service, Inc., a Texas corporation, was organized September 5, 1996 and operates well servicing equipment for our own account and for others when not being utilized for our own account.
5. DutchWest Oil Company, a Texas corporation, was organized July 28, 1997 and was the owner of record of interests in certain crude oil and natural gas properties located along the Gulf Coast of Texas.
6. GulfWest Development Company, a Texas corporation, was organized November 9, 2000 and was the owner of record of interests in certain crude oil and natural gas properties located in Texas and Mississippi.

On January 5, 2006 we formed Crimson Exploration Operating, Inc., a Delaware corporation, as our wholly owned subsidiary through which all oil and gas operations will be conducted. Effective March 2, 2006 we merged all our subsidiaries referred to above, into this newly formed corporation. LTW Pipeline Co. remains an inactive subsidiary of Crimson Exploration Inc.

Balance. At December 31, 2005, our proved reserves were comprised of 40% crude oil and 60% natural gas. We will continue to expand our role in the domestic natural energy industry by (i) acquiring additional interests in crude oil and natural gas properties, (ii) increasing the production and reserve base of our existing producing properties, and (iii) developing an internal prospect generation capability for exploratory prospects. Our goal is to have greater control of our natural gas transportation and marketing, and an expanded role in the transportation of natural gas produced by other parties in our area of operations. We are presently focusing our workover and development efforts on both crude oil and natural gas reserves to take advantage of the higher prices of both commodities.

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Financial Recapitalization

On February 28, 2005, we sold in a private placement, 81,000 shares of our Series G Preferred Stock to OCM GW Holdings, LLC ("OCMGW") for an aggregate offering price of \$40.5 million. GulfWest Oil and Gas Company ("GWOG"), a subsidiary of the Company, issued, in a private placement, 2,000 shares of our Series A Preferred Stock, having a liquidation preference of \$1.0 million, to OCMGW for \$1.5 million. Net proceeds of the offerings of approximately \$38.2 million after expenses were used for the repayment of substantially all of our outstanding debt and other past due liabilities and for general corporate purposes.

The Series G Preferred Stock bears a coupon of 8% per year, has an aggregate liquidation preference of \$40.5 million (excluding accumulated undeclared dividends), is convertible into common stock at

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\$0.90 per share and is senior to all of our capital stock. For the first four years after issuance, we may defer the payment of dividends on the Series G Preferred Stock and these deferred dividends will also be convertible into our common stock at \$0.90 per share. In addition, the Series G Preferred Stock is entitled to nominate and elect a majority of the members of our Board of Directors.

In connection with these recapitalization transactions, the terms of the Series A Preferred Stock were amended such that by March 15, 2005, all such stock would either convert into a newly created Series H Preferred Stock on a one for one basis or into common stock at a conversion price of \$0.35 per share. The Series H Preferred Stock is required to be paid a dividend of 40 shares of common stock per share of Series H Preferred Stock per year. At March 15, 2005, holders of 6,700 shares of Series A Preferred Stock converted to Series H Preferred Stock and holders of 3,250 shares of Series A Preferred Stock converted to an aggregate 4,642,859 shares of common stock. One Series H Preferred Stock holder converted its shares of Series H Preferred Stock into 285,715 shares of common stock. In April, 2005, an additional 1,250 shares converted into 1,785,714 of common stock. The outstanding Series H Preferred Stock has an aggregate liquidation preference of \$2.625 million. The Series H Preferred Stock is senior to all of our capital stock other than Series G Preferred Stock.

In addition, we amended the terms of our 9,000 shares of Series E Preferred Stock such that the coupon of 6% per year may be deferred for the next four years and these deferred dividends will be convertible into common stock at conversion price of \$0.90 per share. The original liquidation preference of the Series E Preferred Stock of \$500 per share remains convertible into common stock at \$2.00 per share. The Series E Preferred Stock has an aggregate liquidation preference of \$4.5 million (excluding accumulated undeclared dividends), and is senior to all of our common stock, of equal preference with our Series D Preferred Stock as to liquidation and junior to our Series G and Series H Preferred Stock.

On May 17, 2005, we executed a promissory note for the benefit of OCM GW Holdings, in the principal amount of \$1 million, payable on the earlier of July 17, 2005 or the day on which we are able to make draws under a credit facility under which greater than \$1 million may be borrowed. Interest on the unpaid principal accrued at 4.59% per annum. We repaid the note in full on July 19, 2005 from borrowings under our new \$100 million senior secured revolving credit facility.

On July 15, 2005, we entered into a \$100 million senior secured revolving credit facility with Wells Fargo Bank, National Association. Borrowings under the new credit facility are subject to a borrowing base limitation based on our current proved oil and gas reserves. The current borrowing base is set at \$20 million and will be subject to semi-annual redeterminations. The facility is secured by a lien on all our assets, and the assets of our subsidiaries, as well as a security interest in the stock of all our subsidiaries. The credit facility has a term of three years, and all principal amounts, together with all accrued and unpaid interest, will be due and payable in full on June 30, 2008. Proceeds from extensions of credit under the facility will be for acquisitions of oil and gas properties and for general corporate purposes. The facility also provides for the issuance of letters-of-credit up to a \$3 million sub-limit. We incurred \$323,662 in issuance costs associated with the credit facility which are being amortized over its life.

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Advances under the facility will be in the form of either base rate loans or Eurodollar loans. The interest rate on the base rate loans fluctuates based upon the higher of (1) the lender's "prime rate" and (2) the Federal Funds rate, plus a margin of 0.50%, plus a margin of between 0.0% and 0.5% depending on the percent of the borrowing base utilized at the time of the credit extension. The interest rate on the Eurodollar loans fluctuates based upon the rate at which Eurodollar deposits in the London Interbank market ("Libor") are quoted for the maturity selected, plus a margin of 1.25% to 2.00% depending on the percent of the borrowing base utilized at the time of the credit extension. Eurodollar loans of one, three and nine months may be selected by us. A commitment fee of 0.375% on the unused portion of the borrowing base will accrue, and be payable quarterly in arrears.

The credit agreement includes usual and customary affirmative covenants for credit facilities of this type and size, as well as customary negative covenants, including, among others, limitation on liens, hedging, mergers, asset sales or dispositions, payments of dividends, incurrence of additional indebtedness, certain leases and investments outside of the ordinary course of business. The credit agreement also requires us to maintain a ratio of current assets to current liabilities, except that any availability under the borrowing base will be considered as an addition to current assets, and any current assets or liabilities resulting from hedging agreements will be excluded, of at least 1.0 to 1.0, an interest coverage ratio of EBITDAX (earnings before interest, taxes, depreciation and amortization and exploration expense) to cash interest expense of 3.0 to 1.0 and a tangible net worth of at least \$45 million, subject to adjustment based on future results of operations and any sales of equity securities. EBITDAX and tangible net worth are calculated without consideration of unrealized gains and losses related to stock derivatives accounted for under variable accounting rules for commodity hedges. At December 31, 2005 we were in compliance with the aforementioned financial covenants.

Recent Developments

On March 22, 2006 we purchased a 100% working interest (75% net revenue interest) in leases on approximately 22,000 undeveloped acres in Culberson County Texas. The acreage, believed to contain producible reserves in the Barnett Shale and Atoka formations, is being acquired through our acquisition, by merger, of Core Natural Resources, Inc. ("Core"), a privately-held entity that was incorporated solely to hold the leases being acquired by us. Pursuant to the merger agreement, each issued and outstanding share of common stock of Core was converted into the right to receive (i) 5.39270725 shares of the common stock, par value \$.001 per share, of the Company (the "Stock Consideration") and (ii) cash in an amount determined by dividing \$706,123.25 by 600,000 (the "Cash Consideration," and, together with the Stock Consideration, the "Merger Consideration"). Pursuant to the merger agreement, we assumed \$2,045,258 of Core indebtedness that was paid off at the closing of the merger. The cash paid at closing was funded from cash on hand and temporary borrowings under our credit facility. As of the date of the merger agreement, 600,000 shares of Core Common Stock were issued and outstanding. We issued 3,235,624 shares of our common stock as the Stock Consideration. In a separate transaction, the Company will also issue an additional 462,231 shares of common stock of the Company to a Core stockholder as consideration for the assignment of a 2% overriding royalty interest owned by that stockholder in the oil and gas leases of Core (giving us a total 77% net revenue interest). All stock issued in conjunction with these transactions is restricted stock subject to resale limitations under Rule 144(a) of the Securities Act of 1933. Core stockholders were also granted certain limited piggyback registration rights.

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Our Business Strategy

We have pursued a business strategy of acquiring interests in crude oil and natural gas producing properties where production and reserves can be increased through exploitation activities. Such activities include workovers, development drilling, recompletions, replacement or addition of equipment and waterflood or other secondary recovery techniques. Key elements of our business strategy include:

Development and Exploitation of Existing Properties. Our strategy is to increase crude oil and natural gas production and reserves of our existing assets through relatively low-risk development activities, such as performing workovers, recompletions and horizontal drilling from existing wellbores, infield drilling and more efficiently using production facilities.

Continued Acquisition Program. We acquired properties in four crude oil and natural gas fields in Texas and Louisiana in the year 2001. We were capital constrained during the years 2002 through February 2005, and therefore made no acquisitions during that period. To the extent financial resources are available, we intend to continue to pursue the acquisition of interests in crude oil and natural gas properties (i) held by small, under-capitalized operators and (ii) being divested by larger independent and major oil and gas companies.

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Significant Operating Control. Currently, we are the operator of all but three of the wells in which we own working interests. This operating control enables us to better manage the nature, timing and costs of developing and servicing such wells, and the timing and marketing of the resulting production.

Ownership of Workover Rigs. We currently own two workover service rigs that we operate for our own account. By owning and operating this equipment, we are better able to control costs, quality of operations and availability of equipment and services.

Expanded Exploration and Exploitation Role. Historically, we have not drilled exploratory wells due to the cost and risk associated with drilling prospective locations. However, since the end of 1998, we have acquired producing properties that have included significant acreage for prospective oil and gas exploration. These include producing wells and acreage in Grimes, Hardin, Jim Wells, Madison, Palo Pinto, Refugio, Victoria, Wharton and Zavala, Counties, Texas; Adams, Arapaho, Elbert and Weld Counties, Colorado; Cameron Parish, Louisiana; and Jones County, Mississippi. These acquisitions have added existing natural gas and crude oil production to our asset base and, as importantly, have provided us with immediate geological databases for development drilling opportunities as well as the potential for generating exploratory opportunities on the acquired acreage. We have expanded our evaluation efforts in these fields and intend to increase our development of reserves through workovers of existing wells and by drilling additional wells. As we develop exploration opportunities on these properties or see high-quality prospects generated by others, as capital resources are available, we will complement our development activities with capital for exploratory or exploitation projects.

Our Employees.

At December 31, 2005, we had 30 full time employees, of whom 14 were field personnel. None of our employees are covered by collective bargaining agreements.

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Government Regulation

Federal and State Regulatory Requirements

We are a public company subject to the rules and regulations of the SEC. Recently enacted and proposed changes in the laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002 and rules adopted by the SEC, could result in increased costs to us as we evaluate the implications of these new rules and respond to their requirements. The new rules could make it more difficult for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees, or as executive officers. We are currently evaluating and monitoring developments with respect to new and proposed rules and cannot predict or estimate the amount of the additional costs we may incur or the timing of such costs.

Our operations are subject to numerous laws and regulations governing the operation and maintenance of our facilities and the discharge of materials into the environment or otherwise relating to environmental protection. These laws and regulations may require that we acquire permits before commencing drilling; restrict the substances that can be released into the environment in connection with drilling and production activities; limit or prohibit drilling activities on protected areas such as wetlands or wilderness areas; or require remedial measures to mitigate pollution from former operations. Under these laws and regulations, we could be liable for personal injury and clean-up costs and other environmental and property damages, as well as administrative, civil and criminal penalties. These laws and regulations have been changed frequently in the past. In general, these changes have imposed more stringent requirements that increase operating costs or require capital expenditures in order to remain in compliance. It is also possible that unanticipated developments could cause us to make environmental expenditures that are significantly different from those we currently expect. Existing laws and regulations could be changed, and any changes could have an adverse effect on our business.

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Environmental Regulations

The oil and gas business is subject to environmental hazards, such as oil spills, gas leaks and ruptures and discharges of petroleum products and hazardous substances, and historic disposal activities. These environmental hazards could expose us to material liabilities for property damages, personal injuries or other environmental harm, including costs of investigating and remediating contaminated properties. In addition, we also may be liable for environmental damages caused by the previous owners or operators of properties that we have purchased or are currently operating. A variety of stringent federal, state and local laws and regulations govern the environmental aspects of our business and impose strict requirements for, among other things, well drilling or workover, operation and abandonment, waste management; land reclamation; and controlling air, water and waste emissions.

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Any noncompliance with these laws and regulations could subject us to material administrative, civil or criminal penalties or other liabilities. Additionally, our compliance with these laws may, from time to time, result in increased costs to our operations or decreased production, and may affect our costs of acquisitions. Environmental laws may, in the future, cause a decrease in our production or an increase in the costs of production, development or exploration. Pollution and similar environmental risks generally are not fully insurable.

We have not incurred any material costs relating to our compliance with federal, state or local laws during the year ended December 31, 2005, or during the subsequent interim period.

Our Executive Officers.

See Item 10 of this report, which information is incorporated herein by reference.

ITEM 1. A Risk Factors

Our success depends heavily upon our ability to market our crude oil and natural gas production at favorable prices.

In recent decades, there have been both periods of worldwide overproduction and underproduction of crude oil and natural gas, and periods of increased and relaxed energy conservation efforts. Such conditions have resulted in excess supply of, and reduced demand for, crude oil on a worldwide basis and for natural gas on a domestic basis. At other times, there has been short supply of, and increased demand for, crude oil and, to a lesser extent, natural gas. These changes have resulted in dramatic price fluctuations.

We may borrow funds to finance capital expenditures and for other purposes which could possibly have important consequences to our shareholders, including the following:

- (i) Our indebtedness, acquisitions, working capital, capital expenditures or other purposes may be impaired;
- (ii) Funds available for our operations and general corporate purposes or for capital expenditures will be reduced as a result of the dedication of a portion of our consolidated cash flow from operations to the payment of the principal and interest on our indebtedness;
- (iii) We may be more highly leveraged than certain of our competitors, which may place us at a competitive disadvantage;
- (iv) The agreements governing our long-term indebtedness and bank loans may contain restrictive financial and operating covenants;
- (v) An event of default (not cured or waived) under financial and operating covenants contained in our debt instruments could occur and have a material adverse effect;
- (vi) Certain of the borrowings under our debt agreements could have floating rates of interest, which would cause us to be vulnerable to increases in interest rates; and

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- (vii) Our degree of leverage could make us more vulnerable to a downturn in general economic conditions.
- (viii) Our revolving credit facility contains a number of significant negative covenants that place limits on our activities and operations, including those relating to:
 - o creation of liens,
 - o hedging,
 - o mergers, acquisitions, asset sales or dispositions,
 - o payments of dividends,
 - o incurrence of additional indebtedness, and
 - o certain leases and investments outside of the ordinary course of business.

In addition, our revolving credit facility requires us to maintain compliance with specified financial ratios and satisfy certain financial condition tests. Our ability to comply with these ratios and financial condition tests may be affected by events beyond our control, and we cannot assure you that we will meet these ratios and financial condition tests. These financial ratio restrictions and financial condition tests could limit our ability to obtain future financings, make needed capital expenditures, withstand a future downturn in our business or the economy in general or otherwise conduct necessary or desirable corporate activities.

A breach of any of these covenants or our inability to comply with the required financial ratios or financial condition tests could result in a default under our revolving credit facility. A default, if not cured or waived, could result in all of our indebtedness becoming immediately due and payable. If that should occur, we may not be able to pay all such debt or to borrow sufficient funds to refinance it. Even if new financing were then available, it may not be on terms that are acceptable to us.

We have outstanding debt of \$1,036,282 on our credit facility and shareholders equity of \$52,805,262 at December 31, 2005. We may borrow up to an additional \$18,963,718 under our revolving credit facility to fund acquisitions or for general corporate purposes. Our debt obligations could increase substantially.

We have incurred net losses in the past and there can be no assurance that we will be profitable in the future.

We have incurred net losses in three of the last five fiscal years. We cannot assure you that our current level of operating results will continue or improve. Our activities could require additional debt or equity financing on our part. Since the terms and availability of this financing depend to a large degree upon general economic conditions and third parties over which we have no control, we can give no assurance that we will obtain the needed financing or that we will obtain such financing on attractive terms. In addition, our ability to obtain financing depends on a number of other factors, many of which are also beyond our control, such as interest rates and national and local business conditions. If the cost of obtaining needed financing is too high or the terms of such financing are otherwise unacceptable in relation to the opportunity we

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are presented with, we may decide to forego that opportunity. Additional indebtedness could increase our leverage and make us more vulnerable to economic downturns and may limit our ability to withstand competitive pressures. Additional equity financing could result in dilution to our shareholders. Our future operating results may fluctuate significantly depending upon a number of factors, including industry conditions, prices of crude oil and natural gas, rates of production, timing of capital expenditures and drilling success. These variables could have a material adverse effect on our business, financial condition, results of operations and the market price of our Common Stock.

Estimates of crude oil and natural gas reserves depend on many assumptions that may turn out to be inaccurate.

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Estimates of our proved reserves for crude oil and natural gas and the estimated future net revenues from the production of such reserves rely upon various assumptions, including assumptions as to crude oil and natural gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. The process of estimating crude oil and natural gas reserves is complex and 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 the estimates we obtain from reserve engineers. Any significant variance in these assumptions could materially affect the estimated quantities and present value of reserves we have set forth. In addition, our proved reserves may be subject to downward revision due to factors that are beyond our control, such as production history, results of future exploration and development, prevailing crude oil and natural gas prices and other factors.

Approximately 16% of our total estimated proved reserves at December 31, 2005 were proved undeveloped reserves, which are by their nature less certain.

Recovery of such reserves requires significant capital expenditures and successful drilling operations. The reserve data set forth in the reserve engineer reports assumes that substantial capital expenditures are required to develop such reserves. Although cost and reserve estimates attributable to our crude oil and natural gas reserves have been prepared in accordance with industry standards, we cannot be sure that the estimated costs are accurate, that development will occur as scheduled or that the results of such development will be as estimated.

You should not interpret the present value referred to in this annual report as the current market value of our estimated crude oil and natural gas reserves.

In accordance with Securities and Exchange Commission requirements, the estimated discounted future net cash flows from proved reserves are generally based on prices and costs as of the date of the estimate. Actual future prices and costs may be materially higher or lower.

The estimates of our proved reserves and the future net revenues from which the present value of our properties is derived were calculated based on the actual prices of our various properties on a property-by-property basis at December 31, 2005. The average sales prices of all properties were \$57.79 per barrel of oil and \$10.90 per thousand cubic feet (Mcf) of natural gas at that date.

Actual future net cash flows will also be affected by increases or

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decreases in consumption by crude oil and natural gas purchasers and changes in governmental regulations or taxation. The timing of both the production and the incurring of expenses in connection with the development and production of crude oil and natural gas properties affect the timing of actual future net cash flows from proved reserves. In addition, the 10% discount factor, which is required by the Securities and Exchange Commission to be used in calculating discounted future net cash flows for reporting purposes, is not necessarily the most appropriate discount factor. The effective interest rate at various times and the risks associated with our business or the oil and gas industry in general will affect the accuracy of the 10% discount factor.

Except to the extent that we acquire properties containing proved reserves or conduct successful development or exploitation activities, our proved reserves will decline as they are produced.

In general, the volume of production from crude oil and natural gas properties declines as reserves are depleted. Our future crude oil and natural gas production is highly dependent upon our success in finding or acquiring additional reserves.

The business of acquiring, enhancing or developing reserves requires considerable capital.

Our ability to make the necessary capital investment to maintain or expand our asset base of crude oil and natural gas reserves could be impaired to the extent that cash flow from operations is reduced and external sources of capital become limited or unavailable. In addition, we cannot be sure that our future acquisition and development activities will result in additional proved reserves or that we will be able to drill productive wells at acceptable costs.

Crude oil and natural gas drilling and production activities are subject to numerous risks, many of which are beyond our control. These risks include (i) the possibility that no commercially productive oil or gas reservoirs will be encountered; and, (ii) that operations may be curtailed, delayed or canceled due to title problems, weather conditions, governmental requirements, mechanical difficulties, or delays in the delivery of drilling rigs and other equipment that may limit our ability to develop, produce and market our reserves. We cannot assure you that new wells we drill will be productive or that we will recover all or any portion of our investment in such new wells.

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Drilling for crude oil and natural gas may not be profitable.

Any wells that we drill may be dry wells or wells that are not sufficiently productive to be profitable after drilling. Such wells will have a negative impact on our profitability. In addition, our properties may be susceptible to drainage from production by other operators on adjacent properties.

Our industry experiences numerous operating risks that could cause us to suffer substantial losses.

Such risks include fire, hurricanes, explosions, blowouts, pipe failure and environmental hazards, such as oil spills, natural gas leaks, ruptures or discharges of toxic gases. We could also suffer losses due to personnel injury or loss of life; severe damage to or destruction of property; or environmental damage that could result in clean-up responsibilities, regulatory investigation, penalties or suspension of our operations. In accordance with customary industry

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practice, we maintain insurance policies against some, but not all, of the risks described above. Our insurance policies may not adequately protect us against loss or liability. There is no guarantee that insurance policies that protect us against the many risks we face will continue to be available at justifiable premium levels.

As owners and operators of crude oil and natural gas properties, we may be liable under federal, state and local environmental regulations for activities involving water pollution, hazardous waste transport, storage, disposal or other activities.

Our past growth has been attributable to acquisitions of producing crude oil and natural gas properties with proved reserves. There are risks involved with such acquisitions.

The successful acquisition of properties requires an assessment of recoverable reserves, future crude oil and natural gas prices, operating costs, potential environmental and other liabilities, and other factors beyond our control. Such assessments are necessarily inexact and their accuracy uncertain. In connection with such an assessment, we perform a review of the subject properties that we believe to be generally consistent with industry practices. Such a review, however, will not reveal all existing or potential problems, nor will it permit us, as the buyer, to become sufficiently familiar with the properties to fully assess their capabilities or deficiencies. We may not inspect every well and, even when an inspection is undertaken, structural and environmental problems may not necessarily be observable.

When we acquire properties, in most cases, we are not entitled to contractual indemnification for pre-closing liabilities, including environmental liabilities.

We generally acquire interests in properties on an "as is" basis with limited remedies for breaches of representations and warranties, and in these situations we cannot assure you that we will identify all areas of existing or potential exposure. In those circumstances in which we have contractual indemnification rights for pre-closing liabilities, we cannot assure you that the seller will be able to fulfill its contractual obligations. In addition, the competition to acquire producing crude oil and natural gas properties is intense and many of our larger competitors have financial and other resources substantially greater than ours. We cannot assure you that we will be able to acquire producing crude oil and natural gas properties that have economically recoverable reserves for acceptable prices.

We may acquire royalty, overriding royalty or working interests in properties that are less than the controlling interest.

In such cases, it is likely that we will not operate, nor control the decisions affecting the operations, of such properties. We intend to limit such acquisitions to properties operated by competent parties with whom we have discussed their plans for operation of the properties.

We will need additional financing in the future to continue to fund our development and exploitation activities.

We have made and will continue to make substantial capital expenditures in our exploitation and development projects. We intend to finance these capital expenditures with cash flow from operations, existing financing arrangements or new financing. We cannot assure you that such additional financing will be

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available. If it is not available, our development and exploitation activities may have to be curtailed, which could adversely affect our business, financial condition and results of operations.

The marketing of our natural gas production depends, in part, upon the availability, proximity and capacity of natural gas gathering systems, pipelines and processing facilities.

We could be adversely affected by changes in existing arrangements with transporters of our natural gas since we do not own most of the gathering systems and pipelines through which our natural gas is delivered to purchasers. Our ability to produce and market our natural gas could also be adversely affected by federal, state and local regulation of production and transportation.

The crude oil and natural gas industry is highly competitive in all of its phases.

Competition is particularly intense with respect to the acquisition of desirable producing properties, the acquisition of crude oil and natural gas prospects suitable for enhanced production efforts, the obtaining of goods and services from industry providers, and the hiring of experienced personnel. Our competitors in crude oil and natural gas acquisition, development, and production include the major oil companies, in addition to numerous independent crude oil and natural gas companies, individual proprietors and drilling programs.

Many of these competitors possess and employ financial and personnel resources substantially in excess of those which are available to us and may, therefore, be able to pay more for desirable producing properties and prospects and to define, evaluate, bid for, and purchase a greater number of producing properties and prospects than our financial or personnel resources will permit. Our ability to generate reserves in the future will be dependent on our ability to select and acquire suitable producing properties and prospects while competing with these companies.

The domestic oil industry is extensively regulated at both the federal and state levels. Although we believe we are presently in compliance with all laws, rules and regulations, we cannot assure you that changes in such laws, rules or regulations, or the interpretation thereof, will not have a material adverse effect on our financial condition or the results of our operations.

Legislation affecting the oil and gas industry is under constant review for amendment or expansion, frequently increasing the regulatory burden on the industry. There are numerous federal and state agencies authorized to issue rules and regulations affecting the oil and gas industry. These rules and regulations are often difficult and costly to comply with and carry substantial penalties for noncompliance.

State statutes and regulations require permits for drilling operations, drilling bonds, and reports concerning operations. Most states also have statutes and regulations governing conservation matters, including the unitization or pooling of properties, and the establishment of maximum rates of production from wells. Some states have also enacted statutes prescribing price ceilings for natural gas sold within their states.

Our industry is also subject to numerous laws and regulations governing plugging and abandonment of wells, discharge of materials into the environment and other matters relating to environmental protection. The heavy regulatory burden on the oil and gas industry increases the costs of our doing business as an oil and gas company, consequently affecting our profitability.

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We have "blank check" preferred stock.

Our Certificate of Incorporation authorizes the Board of Directors to issue preferred stock without further shareholder action in one or more series and to designate the dividend rate, voting rights and other rights preferences and restrictions. The issuance of preferred stock could have an adverse impact on holders of Common Stock. Preferred stock is senior to Common Stock. Additionally, preferred stock could be issued with dividend rights senior to the rights of holders of Common Stock. Finally, preferred stock could be issued as part of a "poison pill", which could have the effect of deterring offers to acquire the Company. "See "Description of Securities"

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We are not paying dividends on our Common Stock.

Our board of directors presently intends to retain all of our earnings for the expansion of our business; therefore we do not anticipate distributing cash dividends on our Common Stock in the foreseeable future. Any decision of our board of directors to pay cash dividends will depend upon our earnings, financial position, cash requirements and other factors.

One investor controls us.

As a result of preferred stock offerings in February 2005, OCMGW Holdings ("OCMGW") acquired a controlling interest in us. OCMGW has or has the right to acquire 48,972,694 shares of our Common Stock pursuant to conversion of Series G Preferred Stock, including undeclared convertible dividends, and Series H Preferred Stock owned by it which represents approximately 60% of the currently outstanding Common Stock, assuming the conversion of preferred stock and undeclared dividends held by it. Pursuant to the terms of Series G Preferred Stock, the holders of the Series G Preferred Stock, voting as a class, have the right to elect a majority of our board of directors. OCMGW currently owns approximately 95% of the Series G Preferred Stock.

Additionally, OCMGW and all current directors and officers as a group represent approximately 55% of the outstanding voting power (assuming they convert all preferred stock other than the Series G Preferred Stock and Series H Preferred Stock, which vote on an as converted basis, and exercise all currently exercisable warrants and options held by them). For as long as OCMGW and the other directors and officers continue to own over a majority of the outstanding voting power, they will be able to control elections to the board of directors that common shareholders are entitled to vote on and other matters submitted to shareholders. The percentage ownership of OCMGW, directors and officers could be reduced by the issuance of Common Stock on conversion of preferred stock and the exercise of warrants, although it is impossible to say how many shares will be actually issued.

The holders of our Common Stock do not have cumulative voting rights, preemptive rights or rights to convert their Common Stock to other securities.

We are authorized to issue 200,000,000 shares of Common Stock, \$.001 par value per share. As of March 29, 2006 there were 33,041,332 shares of Common Stock issued and outstanding. Since the holders of our Common Stock do not have cumulative voting rights, the holder(s) of a majority of the shares of Common Stock, and Series G Preferred Stock and Series H Preferred Stock (on an as converted basis) present, in person or by proxy, will be able to elect all of the remaining members of our board of directors that the holders of the Series G Preferred Stock are not entitled to elect as a class. The holders of shares of our Common Stock do not have preemptive rights or rights to convert their Common

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Stock into other securities.

The number of shares of outstanding Common Stock could increase significantly as a result of the recent sale of Series G Preferred Stock sold to OCMGW and Affiliates.

If all of the Common Stock underlying our various convertible and derivative securities, including warrants and granted employee stock options, is issued by us, the number of our outstanding shares of Common Stock would increase to approximately 118.6 million shares. Currently, we are only authorized to issue 200,000,000 shares of our Common Stock, 33,041,332 shares of which are outstanding as of March 29, 2006. It is impossible to say how many shares, if any, we will issue and how many shares, in turn, will be resold. However, it is possible that our stock price could decline significantly as a result of an increased number of shares being offered into the market.

ITEM 2. Our Properties.

At December 31, 2005, we owned a total of 246 gross wells, of which 143 were producing, 84 were shut-in or temporarily abandoned and 19 were injection or saltwater wells. We owned an average 85% working interest in the 143 gross (122 net) producing wells. Gross wells are the total wells in which we own a working interest. Net wells are the sum of the fractional working interests we own in gross wells. Our part of the estimated proved reserves these properties contain was approximately 2.7 million barrels (MMBL) of oil and 24.7 billion cubic feet (Bcf) of natural gas at December 31, 2005. Substantially all of our properties are located onshore or shallow inland waters in Texas, Colorado and Louisiana.

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Proved Reserves.

The following table reflects our estimated proved reserves at December 31 for each of the preceding three years.

	2005	2004	2003
	-----	-----	-----
Crude Oil (MBbl)			
Developed	2,423	2,575	3,773
Undeveloped	285	388	1,265
Total	----- 2,708	----- 2,963	----- 5,038
	=====	=====	=====
Natural Gas (MMcf)			
Developed	19,658	20,966	24,642
Undeveloped	4,992	8,125	8,018
Total	----- 24,650	----- 29,091	----- 32,660
	=====	=====	=====
Total (MMcfe)	----- 40,898	----- 46,869	----- 62,888
	=====	=====	=====

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(a) Approximately 84% of our total proved reserves were classified as proved developed at December 31, 2005.

Standardized Measure of Discounted Future Net Cash Flows.

The following table sets forth as of December 31 for each of the preceding three years, the estimated future net cash flow from and standardized measure of discounted future net cash flows of our proved reserves, which were prepared in accordance with the rules and regulations of the SEC and the Financial Accounting Standard Board. Future net cash flow represents future gross cash flow from the production and sale of proved reserves, net of crude oil and natural gas production costs (including production taxes, ad valorem taxes and operating expenses) and future development costs. The calculations used to produce the figures in this table are based on current cost and price factors at December 31 for each year. We cannot assure you that the proved reserves will all be developed within the periods used in the calculations or those prices and costs will remain constant.

	2005	2004	
Future cash inflows	\$ 425,080,357	\$ 290,998,312	\$
Future production and development costs			
Production	101,677,305	80,880,330	
Development	27,467,896	24,141,982	
	295,935,156	185,976,000	
Future cash flows before income taxes	(91,664,228)	(49,871,272)	
	204,270,928	136,104,728	
Future net cash flows after income taxes	(85,873,789)	(52,602,351)	
10% annual discount for estimated timing of cash flows			
Standardized measure of discounted future net cash flows	\$ 118,397,139	\$ 83,502,377	\$

(1) The average sales prices utilized in the estimation of our proved reserves were \$57.79 per Bbl and \$10.90, \$40.41 per Bbl and \$5.89 per Mcf and \$29.51 per Bbl and \$5.82 per Mcf, at December 31, 2005, 2004 and 2003, respectively.

Significant Properties.

Summary information on our properties with proved reserves is set forth below as of December 31, 2005.

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	Productive Wells		Proved Reserves		
	Gross Productive Wells	Net Productive Wells	Crude Oil (MBbl)	Natural Gas (MMcf)	Total (MMcfe)
Texas	86	77.37	1,089	11,909	18,443
Colorado	34	23.25	284	5,117	6,818
Louisiana	21	20.88	1,316	7,624	15,520
Mississippi	1	0.37	19	-	114
Offshore	1	.25	-	-	-
Total	143	122.12	2,708	24,650	40,895

(1) The average sales prices used in the estimation of our proved reserves were \$57.79 per Bbl and \$10.90 per Mcf at December 31, 2005.

All information set forth herein relating to our proved reserves, estimated future net cash flows and present values is taken from reports prepared by Pressler Petroleum Consultants, independent petroleum engineers. The estimates of these engineers were based upon their review of production histories and other geological, economic, ownership and engineering data provided by and relating to us. No reports on our reserves have been filed with any federal agency. In accordance with the SEC's guidelines, our estimates of proved reserves and the future net revenues from which present values are derived are made using year end crude oil and natural gas sales prices held constant throughout the life of the properties (except to the extent a contract specifically provides otherwise). Operating costs, development costs and certain production-related taxes were deducted in arriving at estimated future net revenues, but such costs do not include debt service, general and administrative expenses and income taxes.

There are numerous uncertainties inherent in estimating crude oil and natural gas reserves and their values, including many factors beyond our control. The reserve data set forth in this report are based upon estimates. Reservoir engineering is a subjective process, which involves estimating the sizes of underground accumulations of crude oil and natural gas that cannot be measured in an exact manner. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation of that data, 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, exploitation and exploration activities, prevailing crude oil and natural gas prices, operating costs and other factors. Such 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. We cannot assure you that the estimates contained in this report are accurate predictions of our crude oil and natural gas reserves or their values. Estimates with respect to proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than upon actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will

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result in potentially substantial variations in the estimated reserves.

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Production, Revenue and Price History.

The following table sets forth information (associated with our proved reserves) regarding production volumes of crude oil and natural gas, revenues and expenses attributable to such production (all net to our interests) and certain price and cost information for the years ended December 31, 2005, 2004 and 2003.

	2005	2004	2003
	-----	-----	-----
Production			
Oil (Bbl)	177,833	173,865	221,335
Natural gas (Mcf)	1,482,250	1,033,433	1,190,624
	-----	-----	-----
Total (MCFE)	2,549,248	2,076,623	2,518,634
Revenue			
Oil production	\$ 7,044,429	\$ 5,498,598	\$ 5,362,657
Natural gas production	10,507,221	5,602,516	5,481,803
	-----	-----	-----
Total	\$17,551,650	\$11,101,114	\$10,844,460
Operating Expenses	\$ 5,585,297	\$ 4,879,754	\$ 5,527,841
Production Data			
Average sales price (1)			
Per barrel of oil	\$ 39.61	\$ 31.63	\$ 24.23
Per Mcf of natural gas	\$ 7.09	\$ 5.42	\$ 4.60
Per MCFE	\$ 6.89	\$ 5.35	\$ 4.31
Average expenses per MCFE			
Lease operating	\$ 2.19	\$ 2.35	\$ 2.19
Geological and Geophysical	\$.16		
Depreciation, depletion and Amortization	\$ 1.23	\$ 1.05	\$.88
General and administrative	\$ 1.48	\$.92	\$.90

(1) Average sales prices are shown net of the settled amounts of our oil and gas hedge contracts. Average sales prices per MCFE, before adjustments for the hedge contracts, were \$8.43, \$6.23 and \$4.90 in 2005, 2004 and 2003, respectively.

Productive Wells at December 31, 2005:

The following table shows the number of producing wells we own by location:

	Gross Oil Wells	Net Oil Wells	Gross Gas Wells	Net Gas Wells
	-----	-----	-----	-----
Texas	33	30.00	53	47.37
Colorado	18	11.90	16	11.36

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Louisiana	15	14.88	6	6.00
Mississippi	1	0.37	-	-
Offshore	0	0	1	0.25
	-----	-----	-----	-----
Total	67	57.15	76	64.98
	=====	=====	=====	=====

In addition, the Company has 84 inactive wells (70 net) and 19 salt water disposal wells (18 net).

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Developed Acreage at December 31, 2005.

The following table shows the developed acreage that we own, by location, which is acreage spaced or assigned to productive wells. Gross acres are the total acres in which we own a working interest. Net acres are the sum of the fractional working interests we own in gross acres.

	Gross Acres	Net Acres
	-----	-----
Texas	8,855	8,149
Colorado	3,000	2,100
Louisiana	1,440	1,440
	-----	-----
Total	13,295	11,689
	=====	=====

Undeveloped Acreage at December 31, 2005.

The following table shows the undeveloped acreage that we own, by location. Undeveloped acreage is acreage on which wells have not been drilled or completed to a point that would form the basis to determine whether the property is capable of production of commercial quantities of crude oil and natural gas.

	Gross Acres	Net Acres
	-----	-----
Texas	13,640	11,430
Colorado	14,300	10,700
Louisiana	160	160
	-----	-----
Total	28,100	22,290
	=====	=====

Drilling Results.

In 2005, we drilled 2 wells in Texas and participated for a 25% working interest in one offshore well. One was drilled in our Iola field in east Texas and it was completed as a gas well in March 2005 which had an initial net rate of 800 mcfepd and declined to 200 mcfepd by year-end. We participated in a 40% working interest in an exploration well in south Texas and it was unsuccessful. We participated for a 25% working interest in an offshore well at Mustang Island 749. Efforts were underway at year-end to flow back the Mustang Island 749 exploratory well, drilled earlier in the year, to finally determine if commercial quantities of gas were present. Because we believe that this well will ultimately be determined to be uneconomical, we recorded a \$3.2 million impairment of this well in the fourth quarter. In 2004, we drilled one natural gas well which is producing and we did not drill any wells in 2003.

Costs Incurred

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The following table shows the costs incurred in our oil and gas producing activities for the past three years:

	2005	2004	2003
Property Acquisitions			
Proved	\$ 142,867	\$ 6,742	\$ -
Unproved	1,244,975	17,347	110,119
Development Costs	6,171,241	6,117,899	2,024,663
	\$ 7,559,083	\$ 6,141,988	\$ 2,134,782

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Property Dispositions

The following table shows oil and gas property dispositions:

	2005	2004	2003
Oil and gas properties	\$ 31,337	\$ 5,425,040	\$ 31,979
Accumulated DD&A	-	(1,659,001)	(11,569)
Net oil and gas properties	\$ 31,337	\$ 3,766,039	\$ 20,410

As a result of these sales we recorded a loss of \$13,022, \$2,029,932 and \$ 20,409 in 2005, 2004 and 2003 respectively.

Marketing

We sell substantially all of our crude oil and natural gas production to purchasers pursuant to sales contracts that typically have a thirty-day primary term, although occasionally we enter into longer term contracts when it is advantageous to do so. The sales prices for crude oil and condensate are tied to industry standard posted prices plus negotiated premiums. The sales prices for natural gas are based upon published index prices, subject to negotiated price deductions.

ITEM 3. Legal Proceedings.

From time to time, we are involved in litigation relating to claims arising out of our operations or from disputes with vendors in the normal course of business. As of March 29, 2006, we were not engaged in any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on the Company.

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

We did not submit any matters to a vote of our security holders during the fourth quarter of the fiscal year ended December 31, 2005.

PART II

ITEM 5. Market for Our Common Stock and Related Stockholder Matters.

The high and low trading prices for the Common Stock for each quarter in 2005, 2004 and 2003 are set forth below. The trading prices represent prices

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between dealers, without retail mark-ups, mark-downs, or commissions, and may not necessarily represent actual transactions.

	High -----	Low -----
2005		
First Quarter	\$ 1.46	\$.75
Second Quarter	1.20	.85
Third Quarter	1.38	.88
Fourth Quarter	1.11	.85
2004		
First Quarter	\$.45	\$.32
Second Quarter	.56	.33
Third Quarter	.85	.45
Fourth Quarter	.94	.66
2003		
First Quarter	\$.45	\$.42
Second Quarter	.47	.35
Third Quarter	.47	.43
Fourth Quarter	.47	.32

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Common Stock.

We are authorized to issue up to 200,000,000 shares of Common Stock, par value \$.001 per share. As of March 29, 2006, there were 33,041,332 shares of Common Stock issued and outstanding and held by approximately 253 record holders. Our Common Stock is traded over-the-counter (OTC) under the symbol "CXPI.OB". Fidelity Transfer Company, 1800 South West Temple, Suite 301, Box 53, Salt Lake City, Utah 84115, (801) 484-7222 is the transfer agent for the Common Stock.

Holders of Common Stock are entitled, among other things, to one vote per share on each matter submitted to a vote of shareholders and, in the event of liquidation, to share ratably in the distribution of assets remaining after payment of liabilities (including preferential distribution and dividend rights of holders of preferred stock). Holders of Common Stock have no cumulative rights. The holders of a majority of the outstanding shares of the Common Stock and Series G and H (on an as converted basis) have the ability to elect all of the directors that the Series G does not elect. On February 28, 2005, the holders of the Series G Preferred Stock were granted the right to elect a majority of our Board of Directors.

Holders of Common Stock have no preemptive or other rights to subscribe for shares. Holders of Common Stock are entitled to such dividends as may be declared by the Board out of funds legally available therefore. We have never paid cash dividends on the Common Stock and do not anticipate paying any cash dividends in the foreseeable future.

Preferred Stock.

Our board of directors is authorized, without further shareholder action, to issue preferred stock in one or more series and to designate the dividend rate, voting rights and other rights, preferences and restrictions of

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each such series. Our preferred stock is senior to our Common Stock regarding liquidation. The holders of the preferred stock do not have voting rights (except for the Series G and Series H Preferred Stock holders as discussed below) or preemptive rights, nor are they subject to the benefits of any retirement or sinking fund. We are authorized to issue up to 10,000,000 shares of preferred stock.

As of March 29, 2006, there was a total of 103,250 shares of preferred stock issued and outstanding in four series: Series D, E, G and H Preferred Stock.

The Series D Preferred Stock is not entitled to dividends, nor is it redeemable, however it is convertible to Common Stock at anytime based on \$8.00 per share of Common Stock. The 8,000 outstanding shares of Series D Preferred Stock are held by a former director and none has been converted. On a fully converted basis, the 8,000 shares of Series D Preferred Stock would convert to 500,000 shares of Common Stock.

The Series E Preferred Stock is entitled to receive dividends at the rate of 6% per share per annum, which may be deferred for the next four years and those deferred dividends will be convertible into Common Stock at the conversion price of \$.90 per share of Common Stock. The conversion price for the Series E Preferred Stock is based on \$2.00 per share of Common Stock. The Series E Preferred Stock is held by a former director and none of the 9,000 outstanding shares has been redeemed or converted. On a fully converted basis, the 9,000 shares of Series E Preferred Stock would convert to 2,250,000 shares of Common Stock. The Series E Preferred Stock has an aggregate liquidation preference of \$4.5 million, and is senior to all of our Common Stock and of equal preference with our Series D Preferred Stock and junior to our Series G Preferred Stock and Series H Preferred Stock.

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The 81,000 shares of our Series G Preferred Stock bears a coupon of 8% per year and has an aggregate liquidation preference of \$40.5 million. For the first four years after issuance, we may defer the payment of dividends on the Series G Preferred Stock and these deferred dividends will also be convertible into our Common Stock at \$0.90 per share. In addition, the Series G Preferred Stock is entitled to vote on an as-converted basis with the holders of our Common Stock and, as a class, is entitled to nominate and elect a majority of the members of our Board of Directors. The Series G Preferred Stock is senior to all of Crimson's outstanding capital stock in liquidation preference.

The Series H Preferred Stock is required to be paid a dividend of 40 shares of Common Stock per Series H Preferred Stock share per year. In addition, the Series H Preferred Stock is convertible into Common Stock at a conversion price of \$0.35 per share. The Series H Preferred Stock has an aggregate liquidation value of \$2.6 million and is senior to all of GulfWest's outstanding capital stock in liquidation preference other than its Series G Preferred Stock. There were 5,250 shares of Series H Preferred Stock outstanding at December 31, 2005.

Outstanding Options and Warrants.

At December 31, 2005, we had outstanding employee stock options, under our 1994 and 2004 Stock Option and Compensation Plans, to purchase 1,710,000 (1,375,000 vested) shares of Common Stock at prices ranging from \$.45 to \$1.81 per share and warrants to purchase 1,470,000 shares of Common Stock at prices ranging from \$.01 to \$.75 per share. In conjunction with the subsequent financing event on February 28, 2005, we established our 2005 Stock Incentive

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Plan and authorized the issuance of 27 million shares of Common Stock pursuant to awards under the plan, 22,400,000 (none vested) shares which were outstanding at December 31, 2005.

Recent Sales of Unregistered Securities.

As shown in the table that follows, during 2005 we sold preferred stock convertible to Common Stock not registered under the Securities Act of 1933, as amended, and exempt under Section 4(2) of the Act. No underwriters were used, and no underwriting discounts or commissions were paid in connection with the sales.

Date	Derivative	Holder(s)	Underlying Shares	Exercise/ Conversion Price	Consideration
03/22/05	Warrants	Accredited Investors	20,000	\$.01	\$ 200
03/30/05	Options	Employee	25,000	\$.45	\$11,250
04/04/05	Warrants	Accredited Investors	2,018,224	\$.01	N/A *
06/01/05	Common Stock	Accredited Investors	34,090	N/A	Compensation
08/25/05	Options	Accredited Investors	100,000	\$.45	\$45,000

*Received reduced number of shares in exchange for the exercise price.

ITEM 6. Selected Financial Data.

The following table sets forth selected historical financial data of our company as of December 31, 2005, 2004, 2003, 2002 and 2001, and for each of the periods then ended. See "Item 1. Business" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." The income statement data for the years ended December 31, 2005, 2004 and 2003 and the balance sheet data at December 31, 2005 and 2004 are derived from our audited financial statements contained elsewhere herein. The income statement data for the years ended December 31, 2002 and 2001 and the balance sheet data at December 31, 2003, 2002 and 2001 are derived from our Annual Report on Form 10-K for those periods. You should read this data in conjunction with our consolidated financial statements and the notes thereto included elsewhere herein.

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	Year Ended December 31,			
	2005	2004	2003	2002
Income Statement Data				

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Operating Revenues	\$17,682,808	\$11,207,673	\$11,010,723	\$10,839,797
Net income from operations	676,324	1,557,815	558,774	310,290
Net income (loss)	(3,543,239)	8,072,221	(3,024,426)	(4,502,313)
Dividends on preferred stock	(3,562,472)	(455,612)	(127,083)	(112,500)
Net income (loss) available to common shareholders	(7,105,711)	7,616,609	(3,151,509)	(4,614,813)
Net income (loss), per share of Common Stock, basic	\$ (.27)	\$.41	\$ (.17)	\$ (.25)
Weighted average number of shares of common stock outstanding	26,738,815	18,535,022	18,492,541	18,492,541

Balance Sheet Data

Current assets	\$ 5,825,078	\$ 3,808,878	\$ 1,742,689	\$ 2,353,046
Total assets	63,114,949	57,876,164	52,428,774	53,088,941
Current liabilities	6,855,735	37,249,217	44,619,652	43,998,566
Long-term obligations	2,414,365	1,950,304	1,393,607	137,808
Other liabilities	1,039,587	-	591,467	1,128,993
Stockholders' Equity	\$52,805,262	\$18,676,643	\$ 5,824,648	\$ 7,823,574

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview.

We are primarily engaged in the acquisition, development, exploitation and production of crude oil and natural gas, primarily in the onshore producing regions of the United States. Our focus is on increasing production from our existing properties through further exploitation, development and exploration, and on acquiring additional interests in undeveloped crude oil and natural gas properties. Our gross revenues are derived from the following sources:

1. Oil and gas sales that are proceeds from the sale of crude oil and natural gas production to midstream purchasers.
2. Operating overhead and other income that consists of administrative fees received for operating crude oil and natural gas properties for other working interest owners, and for marketing and transporting natural gas for those owners. This also includes earnings from other miscellaneous activities.

The following is a discussion of our consolidated results of operations, financial condition and capital resources. You should read this discussion in conjunction with our Consolidated Financial Statements and the Notes thereto contained elsewhere herein.

Results of Operations.

The factors which most significantly affect our results of operations are (1) the sales price of crude oil and natural gas, (2) the level of total sales volumes of crude oil and natural gas, (3) the cost and efficiency of operating our own properties, (4) depletion and depreciation of oil and gas property costs and related equipment (5) the level of and interest rates on borrowings, (6) the level and success of acquiring or finding new reserves, and the acquisition, finding and development costs incurred in adding these

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reserves, and (7) the adoption of changes in accounting rules.

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We consider depletion and depreciation of oil and gas properties and related support equipment to be critical accounting estimates, based upon estimates of total recoverable oil and gas reserves.

The estimates of oil and gas reserves utilized in the calculation of depletion and depreciation are estimated in accordance with guidelines established by the Society of Petroleum Engineers, the Securities and Exchange Commission and the Financial Accounting Standards Board, which require that reserve estimates be prepared under existing economic and operating conditions with no provision for price and cost escalations over prices and costs existing at year end, except by contractual arrangements.

We emphasize that reserve estimates are inherently imprecise. Accordingly, the estimates are expected to change as more current information becomes available. Our policy is to amortize capitalized oil and gas costs on the unit of production method, based upon these reserve estimates. It is reasonably possible that the estimates of future cash inflows, future gross revenues, the amount of oil and gas reserves, the remaining estimated lives of the oil and gas properties, or any combination of the above may be increased or reduced in the near term. If reduced, the carrying amount of capitalized oil and gas properties may be reduced materially in the near term.

Comparative results of operations for the periods indicated are discussed below.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Revenues

Oil and Gas Sales. Revenues from the sale of crude oil and natural gas, net of realized losses from the hedging instruments, increased 58% from \$11,101,000 in 2004 to \$17,552,000 in 2005. Losses realized on our hedges during 2005 were \$2,468,000 for oil and \$1,475,000 for gas compared to \$1,251,000 for oil and \$590,000 for gas in 2004. The increase in revenues was due to higher oil and gas sales volumes and higher crude oil and natural gas prices, as further described below.

In 2005, our sales volumes were 177,833 barrels of crude oil and 1,482,250 Mcf of natural gas, or 2,549,248 natural gas equivalents (mcf), compared to 173,865 barrels of crude oil and 1,033,433 Mcf of natural gas, or 2,076,623 Mcfe in 2004. On a daily basis we produced an average of 6,984 Mcfe in 2005 compared to a daily average of 5,689 Mcfe in 2004. Higher sales volumes were a direct result of the development program we began in late 2004 and continued in 2005. The developmental program included our drilling and completing 2 new gas wells in east Texas in early 2005, the completion of workover and facility projects at Grand Lake and Lacassine fields in southwest Louisiana, and the workover of wells in east and south Texas. Volume increases generated through our development program not only offset the loss of production from property sales in 2004, but also allowed us to achieve the 23% increase in production despite the shut-in of approximately 4,500 Mcfe/d from the effects of Hurricane Rita during parts of September and October, with production still approximately 12% below pre-hurricane levels due to delays in getting water disposal facilities back fully operational. We estimate, on average, that the average daily rate for 2005 was negatively impacted by 400 Mcfed.

Oil and Gas prices are reported net of the realized effect of our hedging agreements. Prices realized were \$39.61 per Bbl and \$7.09 per Mcf in

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2005 compared to \$31.63 per Bbl and \$5.42 per Mcf in 2004. Prices before the effects of the hedging agreements were \$53.49 per Bbl and \$8.08 per Mcf in 2005 compared to \$38.82 per Bbl and \$5.99 per Mcf in 2004.

Operating Overhead and Other Income. Revenues from these activities increased 22% from \$107,000 in 2004 to \$131,000 in 2005 due to higher transportation fees resulting from higher volume.

Costs and Expenses

Lease Operating Expenses. Overall, operating expenses increased 14% from \$4,880,000 in 2004 to \$5,585,000 in 2005. The increase was primarily due to higher production taxes as a result of increased sales volumes and commodity prices, and to a lesser extent, general price increases for goods and services industry wide.

On a per unit basis, expenses decreased from \$2.35 per Mcfe in 2004 to \$2.19 per Mcfe in 2005. This decrease in lifting cost was due to the higher sales volume, not offset by higher lifting costs.

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Depreciation, Depletion and Amortization (DD & A). DD & A increased 43% from \$2,185,000 in 2004 to \$3,131,000 in 2005, due to higher production volumes, and an increase in the DD & A rate per unit from \$1.05 per Mcfe in 2004 to \$1.23 per Mcfe in 2005. The increase in our DD & A rate in 2005 resulted from a capital expenditure plan consisting primarily of development projects that increased production and cash flow, but added no reserves.

General and Administrative (G & A) Expenses. G & A expenses increased 87% from \$2,019,000 in 2004 to \$3,773,000 in 2005 due to higher salaries resulting from additions to our management team to carry out our post recapitalization growth plan. On a per unit basis, expenses increased from \$.92 per Mcfe in 2004 to \$1.48 per Mcfe in 2005.

Interest Expense. Interest expense decreased 69% from \$4,154,000 in 2004 to \$1,303,000 in 2005, primarily due to the retirement of debt associated with our February 2005 recapitalization.

Geological and Geophysical Expense (G&G). G&G expense was \$395,000 in 2005 as we began to acquire seismic data as part of our strategy to develop an internal exploratory prospect generation capability. No G&G costs were incurred in 2004 as we focused our capital program on the development of its proved reserves.

Dry Holes, Abandonment Costs and Impaired Assets. Dry hole, abandonment and impairment expense was \$4,063,000 in 2005 compared to \$453,000 in 2004. Included in the 2005 expense were two exploratory dry holes, one of which was plugged and abandoned and one of which is still being evaluated. The Mustang Island 749 #1 well is technically still being evaluated, however, we do not believe that it will ultimately be determined to be economical, therefore included in this expense for 2005 was an impairment of \$3.2 million. The 2004 expense was comprised primarily of leasehold abandonment costs.

Debt Issuance Costs. Other financing costs were \$1,956,000 in 2005 compared with \$1,472,000 in 2004. Costs in 2005 included the writeoff of previously capitalized debt issuance costs associated with previous financings that were repaid with proceeds from the sale of the Series G Preferred Stock in February 2005. The expense in 2004 was comprised primarily of the amortization of capitalized costs associated with the financings repaid in February 2005.

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Unrealized (Gain)/Loss on Derivative Instruments. Unrealized gain or loss on derivative instruments is the change during the year in the mark-to-market exposure under our commodity price hedging instruments. This non-cash expense for 2005 was \$1,643,000 compared with an expense of \$1,506,000 for the 2004 year. This expense will vary period to period, and will be a function of the hedges in place, and the strike prices of those hedges, at each balance sheet date.

Income Tax Benefit. Income tax benefit for 2005 was \$792,000 compared to a benefit of \$3,204,000 for the year 2004.

Dividends on Preferred Stock. Dividends on preferred stock were \$3,562,000 in 2005 compared with \$456,000 in 2004. Dividends in 2005 included \$2,725,000 on the Series G Preferred Stock \$166,000 on the Series H Preferred Stock \$271,000 on the Series E and \$401,000 for the other series of preferred stock previously issued by the Company and/or its subsidiaries and retired as part of the February 28, 2005 recapitalization. Dividends on preferred stock for 2004 included \$195,000 on the Series E Preferred Stock and \$261,000 for the other series of preferred stock previously issued by the Company and/or its subsidiaries and retired as part of the February 28, 2005 recapitalization.

Comparative results of operations for the periods indicated are discussed below.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Revenues

Oil and Gas Sales. Our operating revenues from the sale of crude oil and natural gas increased by 2% from \$10,844,000 in 2003 to \$11,101,000 in 2004. Revenue increases due to higher oil and natural gas sales prices were substantially offset by a 17% decrease in sales volumes, 12% of which was due to normal oil and gas production declines and 5% due to property sales.

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Operating Overhead and Other Income. Revenues from these activities decreased 36% from \$166,000 in 2003 to \$107,000 in 2004, primarily due to (1) a one time \$58,000 contract settlement received in 2003, and (2) lower pipeline volumes resulting in less transportation revenue.

Costs and Expenses

Lease Operating Expenses. Lease operating expenses decreased 12% from \$5,528,000 in 2003 to \$4,880,000 in 2004, 5% was due to lower variable costs on lower production volumes and 7% due to property sales. On a per Mcfe basis, costs increased from \$2.19 in 2003 to \$2.35 per Mcfe in 2004 because of lower volume and higher vendor prices.

Depreciation, Depletion and Amortization (DD & A). DD & A decreased 2% from \$2,226,000 in 2003 to \$2,185,000 in 2004, due to lower production volumes. On a per Mcfe basis, the DD & A rate increased from \$.88 in 2003 to \$1.05 per Mcfe in 2004 due to higher than anticipated development costs.

Dry Holes, Abandoned Property and Impaired Assets. The cost of dry holes, abandoned property and impaired assets expense in 2004 was \$452,500 (abandoned- \$391,000; impaired- \$62,000), compared to \$359,000 (dry holes- \$70,000; abandoned \$289,000) in 2003. The abandoned property was due to a lack of capital to complete projects resulting in the loss of leases.

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General and Administrative (G & A) Expenses. G & A expenses decreased 11% from \$2,262,000 in 2003 to \$2,019,000 in 2004 due to expenses incurred in 2003 associated with financing efforts that were not culminated.

Interest Expense. Interest expense increased 24% from \$3,363,000 in 2003 to \$4,154,000 in 2004. In April 2004 we retired debt of approximately \$27.6 million carrying an interest rate of prime plus 3.5% and replaced it with debt of approximately \$18.0 million that carries an interest rate of prime plus 11.0%. Also, included in 2004 is non cash interest expense of approximately \$.4 million resulting from the discounting on a note payable issued in 2004.

Debt Issuance Costs. Other financing costs increased 47% from \$1,000,000 in 2003 to \$1,472,000 in 2004. In 2003, we recorded an expense of \$1,000,000 to account for the issuance of 2,000 shares of our preferred stock in conjunction with the financial agreement on the retired debt referred to above. The expense in 2004 represents the amortized portion of loan fees associated with the refinancing of debt referred to above.

Unrealized Gain (Loss) on Derivative Instruments. The estimated future fair value of derivative instruments at December 31, 2004 resulted in an estimated unrealized loss of \$1,506,000 in 2004 compared to an unrealized gain of \$538,000 in 2003. Estimated unrealized gain/loss on oil and gas price hedges in place on a particular balance sheet date is based on a "mark to market" calculation based on a market price forecast on the balance sheet date compared to the prices provided for in the derivative instruments.

Loss on Sale of Property and Equipment. We recorded a loss on sale of property and equipment of \$2,034,000 in 2004 as compared to \$20,000 in 2003. See Note 3 to the Financial Statements.

Forgiveness of Debt. In 2004 we had \$12,476,000 in debt forgiven as the result of debt refinancing in April, 2004.

Dividends on Preferred Stock. In 2004, a dividend on preferred stock due was \$456,000. In 2003 dividends on preferred stock due was \$127,000. The board of directors did not declare any dividends be paid.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Revenues

Oil and Gas Sales. Our operating revenues from the sale of crude oil and natural gas increased by 4% from \$10,447,000 in 2002 to \$10,844,000 in 2003. This increase was due to higher sales prices, offset by normal oil and gas production declines and resulting in lower production volumes. We were unable to offset those declines and maintain or increase production through development efforts because of limited development capital.

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Operating Overhead and Other Income. Revenues from these activities decreased 53% from \$354,000 in 2002 to \$166,000 in 2003, primarily due to (1) the loss of an oil and gas marketing contract and (2) lower pipeline volumes resulting in less transportation revenue.

Costs and Expenses

Lease Operating Expenses. Lease operating expenses increased 2% from \$5,430,000 in 2002 to \$5,528,000 in 2003 due to increased vendor prices.

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Depreciation, Depletion and Amortization (DD & A). DD & A decreased 17% from \$2,698,000 in 2002 to \$2,226,000 in 2003, due to lower production volumes. We also recorded in other income \$262,000 related to the cumulative effect of adopting SFAS 143 "Asset Retirement Obligations".

Dry Holes, Abandoned Property and Impaired Assets. The cost of abandoned property in 2003 was \$359,000 because the lack of capital to complete projects resulted in the loss of leases. This compared to combined costs of dry holes, abandoned property and impaired assets of \$617,000 in 2002.

General and Administrative (G and A) Expenses. G and A expenses increased 31% from \$1,728,000 in 2002 to \$2,262,000 in 2003 due to expenses associated with financing efforts that were not culminated.

Intrest Expense. Interest expense increased 6% from \$3,159,000 in 2002 to \$3,363,000 in 2003 due to penalty interest paid to our largest lender under a provision in the loan agreement.

Debt Issuance Costs. In 2003, we recorded an expense of \$1,000,000 to account for the failed issuance of 2,000 shares of our preferred stock to our largest lender under a financial agreement.

Unrealized Gain (Loss) on Derivative Instruments. The estimated future fair value of derivative instruments at December 31, 2003 resulted in an unrealized gain of \$538,000 in 2003 compared to an unrealized loss of \$1,597,000 in 2002.

Loss on Sale of Property and Equipment. We recorded a loss on sale of property and equipment of \$20,000 in 2003 as compared to \$57,000 in 2002. See Note 3 to the Financial Statements.

Dividends on Preferred Stock. In 2003, dividends due on preferred stock due was \$127,000, however the board of directors did not declare any dividends to be paid. In 2002, dividends on preferred stock due was \$112,000, and paid was \$112,000.

Contractual Obligations

Our obligations as of December 31, 2005, under contractual obligations with maturities exceeding one year, were as follows:

	Total	2006	2007	2008	2009	2010
Long-term debt obligations	\$ 1,184,115	\$ 80,883	\$ 31,600	\$ 1,058,150	\$ 10,449	\$ 3,
Operating lease obligations	169,300	135,323	33,977	-	-	
Asset retirement obligations	1,311,133	-	24,820	10,075	38,337	45,
	\$ 2,664,548	\$ 216,206	\$ 90,397	\$ 1,068,225	\$ 48,786	\$ 48,

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Financial Condition and Capital Resources.

At December 31, 2005, our current liabilities exceeded our current assets by \$1,030,657. We had loss available to common shareholders of \$7,105,711 compared to income available to common shareholders of \$7,616,609 at December 31, 2004. (See ITEM 7 Management Discussion and Analysis)

On February 28, 2005, we sold in a private placement, 81,000 shares of our Series G Preferred Stock to OCM GW Holdings, LLC ("OCMGW") for an aggregate offering price of \$40.5 million. GulfWest Oil and Gas Company ("GWOG"), a subsidiary of the Company, issued, in a private placement, 2,000 shares of our Series A Preferred Stock, having a liquidation preference of \$1.0 million, to OCMGW for \$1.5 million. Net proceeds of the offerings of approximately \$38.2 million after expenses were used for the repayment of substantially all of our outstanding debt and other past due liabilities and for general corporate purposes.

The Series G Preferred Stock bears a coupon of 8% per year, has an aggregate liquidation preference of \$40.5 million (excluding accumulated undeclared dividends), is convertible into common stock at \$0.90 per share and is senior to all of our capital stock. For the first four years after issuance, we may defer the payment of dividends on the Series G Preferred Stock and these deferred dividends will also be convertible into our common stock at \$0.90 per share. In addition, the Series G Preferred Stock is entitled to nominate and elect a majority of the members of our Board of Directors.

In connection with these recapitalization transactions, the terms of the Series A Preferred Stock were amended such that by March 15, 2005, all such stock would either convert into a newly created Series H Preferred Stock on a one for one basis or into common stock at a conversion price of \$0.35 per share. The Series H Preferred Stock is required to be paid a dividend of 40 shares of common stock per share of Series H Preferred Stock per year. The outstanding Series H Preferred Stock has an aggregate liquidation preference of \$2.625 million. The Series H Preferred Stock is senior to all of our capital stock other than Series G Preferred Stock.

In addition, we amended the terms of our 9,000 shares of Series E Preferred Stock such that the coupon of 6% per year may be deferred for the next four years and these deferred dividends will be convertible into common stock at conversion price of \$0.90 per share. The original liquidation preference of the Series E Preferred Stock of \$500 per share remains convertible into common stock at \$2.00 per share. The Series E Preferred Stock has an aggregate liquidation preference of \$4.5 million (excluding accumulated undeclared dividends), and is senior to all of our common stock, of equal preference with our Series D Preferred Stock as to liquidation and junior to our Series G and Series H Preferred Stock.

On May 17, 2005, we executed a promissory note for the benefit of OCM GW Holdings, in the principal amount of \$1 million, payable on the earlier of July 17, 2005 or the day on which we are able to make draws under a credit facility under which greater than \$1 million may be borrowed. Interest on the unpaid principal accrued at 4.59% per annum. We repaid the note in full on July 19, 2005 from borrowings under our new \$100 million senior secured revolving credit facility.

On July 15, 2005, we entered into a \$100 million senior secured revolving credit facility with Wells Fargo Bank, National Association. Borrowings under the new credit facility will be subject to a borrowing base limitation based on our current proved oil and gas reserves. The current borrowing base is set at \$20 million and will be subject to semi-annual redeterminations. The facility is secured by a lien on all our assets, and the

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assets of our subsidiaries, as well as a security interest in the stock of all our subsidiaries. The credit facility has a term of three years, and all principal amounts, together with all accrued and unpaid interest, will be due and payable in full on June 30, 2008. Proceeds from extensions of credit under the facility will be for acquisitions of oil and gas properties and for general corporate purposes. The facility also provides for the issuance of letters-of-credit up to a \$3 million sub-limit. We incurred \$323,662 in issuance costs associated with the credit facility which are being amortized over its life.

Advances under the facility will be in the form of either base rate loans or Eurodollar loans. The interest rate on the base rate loans fluctuates based upon the higher of (1) the lender's "prime rate" and (2) the Federal Funds rate, plus a margin of 0.50%, plus a margin of between 0.0% and 0.5% depending on the percent of the borrowing base utilized at the time of the credit extension. The interest rate on the Eurodollar loans fluctuates based upon the rate at which Eurodollar deposits in the London Interbank market ("Libor") are quoted for the maturity selected, plus a margin of 1.25% to 2.00% depending on the percent of the borrowing base utilized at the time of the credit extension. Eurodollar loans of one, three and nine months may be selected by us. A commitment fee of 0.375% on the unused portion of the borrowing base will accrue, and be payable quarterly in arrears.

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The credit agreement includes usual and customary affirmative covenants for credit facilities of this type and size, as well as customary negative covenants, including, among others, limitation on liens, hedging, mergers, asset sales or dispositions, payments of dividends, incurrence of additional indebtedness, certain leases and investments outside of the ordinary course of business. The credit agreement also requires us to maintain a ratio of current assets to current liabilities, except that any availability under the borrowing base will be considered as an addition to current assets, and any current assets or liabilities resulting from hedging agreements will be excluded, of at least 1.0 to 1.0, an interest coverage ratio of EBITDAX (earnings before interest, taxes, depreciation and amortization and exploration expense) to cash interest expense of 3.0 to 1.0 and a tangible net worth of at least \$45 million, subject to adjustment based on future results of operations and any sales of equity securities. EBITDAX and tangible net worth are calculated without consideration of unrealized gains and losses related to stock derivatives accounted for under variable accounting rules for commodity hedges. At December 31, 2005 we were in compliance with the aforementioned financial covenants.

We believe that we have sufficient liquidity through our cash from operations and borrowing capacity under our revolving credit facility to meet our short-term and long-term normal recurring operating needs, derivative obligations, debt service obligations, contingencies and anticipated capacity expenditures.

Inflation and Changes in Prices.

While the general level of inflation affects certain costs associated with the petroleum industry, factors unique to the industry result in independent price fluctuations. Such price changes have had, and will continue to have a material effect on our operations; however, we cannot predict these fluctuations.

The following table indicates the average crude oil and natural gas prices received over the last three years by quarter. Average prices per MCF equivalent, computed by converting oil production to natural gas equivalents at

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the rate of 6 Mcf per barrel, indicate the composite impact of changes in crude oil and natural gas prices.

	Average Prices(1)		
	Crude Oil And Liquids	Natural Gas	Per Equivalent MCF
	(per Bbl)	(per Mcf)	
2005			

First	\$ 35.84	\$ 5.91	\$ 5.94
Second	37.26	6.15	6.18
Third	38.58	7.46	7.03
Fourth	47.98	9.09	8.63
2004			

First	\$ 27.97	\$ 4.87	\$ 4.76
Second	30.41	5.34	5.20
Third	32.72	5.44	5.45
Fourth	35.32	5.97	5.93
2003			

First	\$ 24.53	\$ 5.36	\$ 4.68
Second	23.53	4.47	4.17
Third	23.85	4.32	4.14
Fourth	24.99	4.56	4.17

(1) Average sales price are shown net of the settled amounts of our oil and gas hedge contracts. ITEM 7A. Qualitative and Quantitative Disclosures About Market Risk.

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ITEM 7A. Qualitative and Quantitative Disclosures About Market Risk.

The following market rate disclosures should be read in conjunction with our financial statements and notes thereto beginning on Page F-1 of this Annual Report. All of our financial instruments are for purposes other than trading. We only enter into derivative financial instruments in conjunction with our oil and gas sales price hedging activities. Hypothetical changes in interest rates and prices chosen for the following stimulated sensitivity effects are considered to be reasonably possible near-term changes generally based on consideration of past fluctuations for each risk category. It is not possible to accurately predict future changes in interest rates and product prices. Accordingly, these hypothetical changes may not be an indicator of probable future fluctuations.

Interest Rate Risk

We are exposed to interest rate risk on debt with variable interest rates. At December 31, 2005, we carried variable rate debt of \$1,306,282. Assuming a one percentage point change at December 31, 2005 on our variable rate debt, the annual pretax net income or loss would change by \$13,063.

Commodity Price Risk

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In the past we have entered into, and may in the future enter into, certain derivative arrangements with respect to portions of our oil and natural gas production to reduce our sensitivity to volatile commodity prices. During 2005 and 2004, we entered into price swaps and put agreements with financial institutions. We believe that these derivative arrangements, although not free of risk, allow us to achieve a more predictable cash flow and to reduce exposure to price fluctuations. However, derivative arrangements limit the benefit to us of increases in the prices of crude oil and natural gas sales. Moreover, our derivative arrangements apply only to a portion of our production and provide only partial price protection against declines in price. Such arrangements may expose us to risk of financial loss in certain circumstances. We expect that the monthly volume of derivative arrangements will vary from time to time. We continuously reevaluate our price hedging program in light of increases in production, market conditions, commodity price forecasts, and capital spending and debt service requirements. The following derivatives were in place at December 31, 2005.

Crude Oil		Volume/ Month	Average Price/ Unit	Fair A (Lia
-----		-----	-----	-----
January 2006 thru March 2006	Collar	10,000 Bbls	Floor \$50.00-\$59.00 Ceiling	\$(1
April 2006 thru December 2006	Collar	9,000 Bbls	Floor \$50.00-\$59.00 Ceiling	\$(5
January 2007 thru December 2007	Collar	3,000 Bbls	Floor \$45.00-\$59.45 Ceiling	\$(3

Natural Gas		Volume/ Month	Average Price/ Unit	Fair A (Lia
-----		-----	-----	-----
January 2006 thru December 2006	Collar	70,000 MMBTU	Floor \$6.00-\$8.25 Ceiling	\$(1,4
January 2007 thru December 2007	Collar	20,000 MMBTU	Floor \$6.00-\$6.95 Ceiling	\$(6

We also had the following put options in place at December 31, 2005, for the months reflected.

Crude Oil	Monthly Volume	Price per Bbl
-----	-----	-----
January 2006 thru April 2006	7,000 Bbls	\$25.75 put
May 2006 thru October 2006	6,000 Bbls	\$25.75 put
November 2006 thru April 2007	5,000 Bbls	\$25.75 put

The value of these put options was minimal.

At the end of each reporting period we are required by SFAS 133 "Accounting for Derivative Instruments and Hedging Activities," to record on our balance sheet the marked to market valuation of our derivative instruments. We recorded a liability for derivative instruments at December 31, 2005 and 2004 of \$3,148,170 and \$1,680,800 respectively. As a result of these agreements, we recorded a non-cash charge to earnings, for unsettled contracts, of \$1,642,643 for the twelve month period ended December 31, 2005 and a charge of \$1,505,577

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for the twelve month period ended December 31, 2004 and a non-cash increase in earnings of \$537,526 for the twelve month period ended December 31, 2003. The estimated change in fair value of the derivatives is reported in Other Income and Expense as unrealized (gain) loss on derivative instruments.

For settled contracts, we realized losses, reflected as reductions in oil and gas revenues, of \$3,942,710, \$1,841,209 and \$1,496,303 for the twelve month periods ended December 31, 2005, 2004 and 2003 respectively.

ITEM 8. Financial Statements and Supplementary Data.

Information with respect to this Item 8 is contained in our financial statements beginning on Page F-1 of this Annual Report.

ITEM 9. Changes In and Disagreements With Accountants and Accounting and Financial Disclosure.

Not Applicable

ITEM 9A. Controls and Procedures

At the end of 2005, our President, Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 (b) under the Securities Exchange Act of 1934, as amended ("the Exchange Act"). Based upon this evaluation, they concluded that, subject to the limitations described below, the Company's disclosure controls and procedures offer reasonable assurance that the information required to be disclosed by the Company in the reports it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms adopted by the Securities and Exchange Commission.

During the period covered by this report, there has been no change in the Company's internal controls over financial reporting that materially affected, or is reasonably likely to materially affect, these controls.

Limitations on the Effectiveness of Controls. Our management, including the President, Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls and procedures will prevent all error and all fraud. A well conceived and operated control system is based in part upon certain assumptions about the likelihood of future events and can provide only reasonable, not absolute, assurance that the objectives of the control systems are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

ITEM 9B. Other Information

Not Applicable

PART III

ITEM 10. Directors and Executive Officers of the Registrant.

Information regarding directors and executive officers of the registrant is incorporated herein by reference to our Proxy Statement that is expected to be filed prior to April 30, 2006.

ITEM 11. Executive Compensation.

Information regarding executive compensation is incorporated herein by

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reference to our Proxy Statement that is expected to be filed prior to April 30, 2006.

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ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information regarding security ownership of certain beneficial owners and management and related stockholder matters is incorporated herein by reference to our Proxy Statement that is expected to be filed prior to April 30, 2006.

ITEM 13. Certain Relationships and Related Transactions.

Information regarding certain relationships and related transactions is incorporated herein by reference to our Proxy Statement that is expected to be filed prior to April 30, 2006.

ITEM 14. Principal Accountant Fees and Services.

Information regarding principal accountant fees and services is incorporated herein by reference to our Proxy Statement that is expected to be filed prior to April 30, 2006.

GLOSSARY OF INDUSTRY TERMS AND ABBREVIATIONS

The following are definitions of certain industry terms and abbreviations used in this report:

Bbl. Barrel.

Gross Acres or Gross Wells. The total acres or wells, as the case may be, in which a working interests is owned.

Horizontal Drilling. High angle directional drilling with lateral penetration of one or more productive reservoirs.

Mcf. One thousand cubic feet.

Mcfe. Natural gas equivalent. One barrel of oil is equivalent to six Mcf.

Net Acres or Net Wells. The sum of the fractional working interests owned in gross acres or gross wells.

Overriding Royalty Interest. The right to receive a share of the proceeds of production from a well, free of all costs and expenses, except transportation.

Present Value. The pre-tax present value, discounted at 10%, of future net cash flows from estimated proved reserves, calculated holding prices and costs constant at amounts in effect on the date of the report (unless such prices or costs are subject to change pursuant to contractual provisions) and otherwise in accordance with the Commission's rules for inclusion of oil and gas reserve information in financial statements filed with the Commission.

Proceeds of Production. Money received (usually monthly) from the sale of oil and gas produced from producing properties.

Producing Properties. Properties that contain one or more wells that produce oil

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and/or gas in paying quantities (i.e., a well for which proceeds from production exceed operating expenses).

Productive Well. A well that is producing oil or gas or that is capable of production.

Prospect. A lease or group of leases containing possible reserves, capable of producing crude oil, natural gas, or natural gas liquids in commercial quantities, either at the time of acquisition, or after vertical or horizontal drilling, completion of workovers, recompletions, or operational modifications.

Proved Reserves. Estimated quantities of crude oil, natural gas, and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic conditions; i.e., prices and costs as of the date the estimate is made. Reservoirs are considered proved if either actual production or a conclusive formation test supports economic production.

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The area of a reservoir considered proved includes:

- a. That portion delineated by drilling and defining by gas-oil or oil-water contacts, if any; and
- b. The immediately adjoining portions not yet drilled but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

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

Proved Reserves do not include:

- a. Oil that may become available from known reservoirs but is classified separately as "indicated additional reserves";
- b. Crude oil, natural gas, and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors;
- c. Crude oil, natural gas, and natural gas liquids that may occur in undrilled prospects; and
- d. Crude oil, natural gas, and natural gas liquids that may be recovered from oil sales and other sources.

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

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Proved Undeveloped Reserves. Reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other units that have not been drilled can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Under no circumstances should estimates for proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proven effective by actual tests in the area and in the same reservoir.

Recompletion. The completion for production of an existing wellbore in another formation from that in which the well has previously been completed.

Reservoir. A porous and permeable underground formation containing a natural accumulation of producible oil or gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

Royalty. The right to a share of production from a well, free of all costs and expenses, except transportation.

Royalty Interest. An interest in an oil and gas property entitling the owner to a share of oil and natural gas production free of costs of production.

Standardized Measure. The present value, discounted at 10%, of future net cash flows from estimated proved reserves, after income taxes, calculated holding prices and costs constant at amounts in effect on the date of the report (unless such prices or costs are subject to change pursuant to contractual provisions) and otherwise in accordance with the Commission's rules for inclusion of oil and gas reserve information in financial statements filed with the Commission.

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Waterflood. An engineered, planned effort to inject water into an existing oil reservoir with the intent of increasing oil reserve recovery and production rates.

Working Interest. The operating interest under a lease, the owner of which has the right to explore for and produce oil and gas covered by such lease. The full working interest bears 100 percent of the costs of exploration, development, production, and operation, and is entitled to the portion of gross revenue from the proceeds of production which remains after proceeds allocable to royalty and overriding royalty interests or other lease burdens have been deducted.

Workover. Rig work performed to restore an existing well to production or improve its production from the current existing reservoir.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as part of this Report:

(1) Financial Statements:

Consolidated Balance Sheets at December 31, 2005 and 2004.

Consolidated Statements of Operations for the years ended December 31, 2005, 2004 and 2003.

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2005, 2004 and 2003.

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Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003.

Notes to Consolidated Financial Statements, December 31, 2005, 2004 and 2003.

(2) Financial Statement Schedule:

Schedule II - Valuation and Qualifying Accounts

(3) Exhibits:

Number	Description
-----	-----
*2.1	Agreement and Plan of Merger, dated March 14, 2006, among Crimson Exploration, Inc., Exploration Operating, Inc., Core Natural Resources, Inc. and its stockholders.
3.1	Certificate of Incorporation of the Registrant. (Previously filed on our current report on Form 8-K filed July 5, 2005.)
3.2	Certificate of Designation, Preferences and Rights of Series D Preferred Stock. (Previously filed on our current report on Form 8-K filed July 5, 2005.)
3.3	Certificate of Designation, Preferences and Rights of Cumulative Convertible Preferred Stock, Series E. (Previously filed on our current report on Form 8-K filed July 5, 2005.)
3.4	Certificate of Designation, Preferences and Rights of Series G Convertible Preferred Stock. (Previously filed on our current report on Form 8-K filed July 5, 2005.)
3.5	Certificate of Designation, Preferences and Rights of Series H Convertible Preferred Stock. (Previously filed on our current report on Form 8-K filed July 5, 2005.)
3.6	Bylaws of the Registrant. (Previously filed on our current report on Form 8-K filed July 5, 2005.)
4.1	Letter Agreement by and among GulfWest Energy Inc., a Texas corporation, GulfWest Oil & Gas Company and the investors listed on the signature page thereof, dated April 22, 2004. (Previously filed with our Current Report on Form 8-K, dated April 29, 2004 and filed with the Commission on May 10, 2004.)
4.2	Warrant Agreement made by and between GulfWest Energy Inc., and Highbridge/Zwirn Special Opportunities FUND, L.P., and Drawbridge Special Opportunities Fund LP, Grantees, dated and effective April 29, 2004. (Previously filed with our Current Report on Form 8-K dated April 29, 2004 and filed with the Commission on May 10, 2004.)
4.3	Shareholders Rights Agreement between GulfWest Energy Inc. and OCM GW Holdings, LLC dated February 28, 2005. (Previously filed with our Form 13D, Reg. No. 005-54301, filed with the Commission on March 10, 2005.)
4.4	Omnibus and Release Agreement among GulfWest Energy Inc., OCM GW Holdings, LLC and those signatories set forth on the signature page thereto, dated as of February 28, 2005. (Previously filed with the Form 13D, Reg. No. 005-54301, filed with the Commission on March 10, 2005.)
4.5	Share Transfer Restriction Agreement between J. Virgil Waggoner and OCM GW Holdings, LLC, dated February 28, 2005.

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- (Previously filed with the Form 13D, Reg. No. 005-54301, filed with the Commission on March 10, 2005.)
- 4.6 Irrevocable Proxy executed by J. Virgil Waggoner dated February 28, 2005. (Previously filed with the Form 13D, Reg. No. 005-54301, filed with the Commission on March 10, 2005.)
- 4.7 Exchange Agreement between GulfWest Energy Inc. and GulfWest Oil & Gas Company, dated February 28, 2005. (Previously filed with our Annual Report on Form 10-K for the year ended December 31, 2004, File No. 001-12108, filed with the Commission on March 31, 2005.)
- 4.8 Letter Agreement among OCM GW Holdings, LLC, OCM Principal Opportunities Fund III, L.P., OCM Principal Opportunities Fund III GP, LLC, Oaktree Capital Management, LLC, GulfWest Energy Inc., GulfWest Oil & Gas Company and J. Virgil Waggoner dated February 28, 2005 (Previously filed with our Annual Report on Form 10-K for the year ended December 31, 2004, File No. 001-12108, filed with the Commission on March 31, 2005.)
- 4.9 Subscription Agreement among OCM GW Holdings, LLC, Allan D. Keel and those individuals listed on the signature page thereto, dated February 28, 2005. (Previously filed with the Form 13D, Reg. No. 005-54301, filed with the Commission on March 10, 2005.)
- 4.10 First Amendment to Warrant Agreement among GulfWest Energy Inc., D.B. Zwirn Special Opportunities Fund, L.P. and Drawbridge Special Opportunities Fund, dated February 28, 2005. (Previously filed with our Annual Report on Form 10-K for the year ended December 31, 2004, File No. 001-12108, filed with the Commission on March 31, 2005.)
- *4.11 Registration Rights Agreement, dated March 20, 2006, among Crimson Exploration Inc. and the stockholders of Core Natural Resources, Inc.
- 10.1 Employment Agreement between Allan D. Keel and GulfWest Energy, Inc., dated February 28, 2005. (Previously filed with our Annual Report on Form 10-K for the year ended December 31, 2004, File No. 001-12108, filed with the Commission on March 31, 2005.)
- 10.2 Employment Agreement between E. Joseph Grady and GulfWest Energy, Inc., dated February 28, 2005. (Previously filed with our Annual Report on Form 10-K for the year ended December 31, 2004, File No. 001-12108, filed with the Commission on March 31, 2005.)
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- 10.3 GulfWest Oil Company 1994 Stock Option and Compensation Plan, amended and restated as of April 1, 2001 and approved by the shareholders on May 18, 2001. (Previously filed with our Proxy Statement on Form DEF 14A, filed with the Commission on April 16, 2001.)
- 10.4 GulfWest Energy Inc. 2004 Stock Option Incentive Plan. (Previously filed with our Annual Report on Form 10-K for the year ended December 31, 2004, File No. 001-12108, filed with the Commission on March 31, 2005.)
- 10.5 GulfWest Energy Inc. 2005 Stock Option Incentive Plan. (Previously filed with our Annual Report on Form 10-K for the year ended December 31, 2004, File No. 001-12108, filed with the Commission on March 31, 2005.)
- 10.6 Form of GulfWest Energy Inc. 2005 Stock Incentive Plan Stock Option Agreement. (Previously filed with our Annual Report

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- on Form 10-K for the year ended December 31, 2004, File No. 001-12108, filed with the Commission on March 31, 2005.)
- 10.7 Form of Warrant Agreement. (Previously filed with our Annual Report on Form 10-K for the year ended December 31, 2004, File No. 001-12108, filed with the Commission on March 31, 2005.)
- 10.8 Form of Indemnification Agreement for directors and officers. (Previously filed with our Form 8-K, Reg. No. 001-12108, filed with the Commission on July 21, 2005.)
- 10.9 Letter Agreement among D.B. Zwirn Special Opportunities Fund, LP, GulfWest Oil & Gas, and Drawbridge Special Opportunities Fund, LP, dated January 7, 2005. (Previously filed with our Annual Report on Form 10-K for the year ended December 31, 2004, File No. 001-12108, filed with the Commission on March 31, 2005.)
- 10.10 Series G Subscription Agreement between GulfWest Energy Inc. and OCM GW Holdings, LLC dated February 28, 2005. (Previously filed with the Form 13D, Reg. No. 005-54301, filed with the Commission on March 10, 2005.)
- 10.11 Series A Subscription Agreement between GulfWest Oil & Gas Company and OCW GW Holdings, LLC dated February 28, 2005. (Previously filed with the Form 13D, Reg. No. 005-54301, filed with the Commission on March 10, 2005.)
- 10.12 Letter Agreement between W.L. Addison Investment, L.L.C., GulfWest Energy Inc., and Setex Oil and Gas Company dated February 24, 2005 extending Option Agreement for the Purchase of Oil and Gas Leases dated March 5, 2004. (Previously filed with our Annual Report on Form 10-K for the year ended December 31, 2004, File No. 001-12108, filed with the Commission on March 31, 2005.)
- 10.13 Letter Agreement between W.L. Addison Investment, L.L.C., GulfWest Energy Inc., and Setex Oil and Gas Company dated July 15, 2004 extending Option Agreement for the Purchase of Oil and Gas Leases dated March 5, 2004. (Previously filed with our Annual Report on Form 10-K for the year ended December 31, 2004, File No. 001-12108, filed with the Commission on March 31, 2005.)
- 10.14 Oil and Gas Property Acquisition, Exploration and Development Agreement with Summit Investment Group-Texas, L.L.C. effective December 1, 2001. (Previously filed with our Registration Statement on Form S-1, Reg. No. 333-116048, filed with the Commission on June 1, 2004.)
- 10.15 Credit Facility between GulfWest Energy Inc. and Highbridge/Zwirn Special Opportunities FUND, L.P., and Drawbridge Special Opportunities Fund LP, Grantees, dated and effective April 29, 2004. (Previously filed with our Registration Statement on Form S-1, Reg. No. 333-116048, filed with the Commission on June 1, 2004.)
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- 10.16 Employment Agreement between Tracy Price and GulfWest Energy Inc., dated April 1, 2005. (Previously filed with our Post Effective Amendment No. 1 to our Registration Statement on Form S-1, Reg. No. 333-116048, filed with the Commission on April 6, 2005.)
- 10.17 Employment Agreement between Tommy Atkins and GulfWest Energy Inc., dated April 1, 2005. (Previously filed with our Post Effective Amendment No. 1 to our Registration Statement on Form S-1, Reg. No. 333-116048, filed with the Commission

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- on April 6, 2005.)
- 10.18 Employment Agreement between Jay S. Mengle and GulfWest Energy Inc., dated April 1, 2005. (Previously filed with our Post Effective Amendment No. 1 to our Registration Statement on Form S-1, Reg. No. 333-116048, filed with the Commission on April 6, 2005.)
- 10.19 Employment Agreement between Thomas R. Kaetzer and GulfWest Energy Inc., dated April 1, 2005. (Previously filed with our Post Effective Amendment No. 1 to our Registration Statement on Form S-1, Reg. No. 333-116048, filed with the Commission on April 6, 2005.)
- 10.20 Summary terms of June 2005 Director Compensation Plan.
- 10.21 Credit Agreement, dated July 15, 2005, among Crimson Exploration Inc., Wells Fargo, N.A., as agent and a lender, and each lender from time to time a party thereto. (Previously filed with our Form 8-K, Reg. No. 001-12108, filed with the Commission on July 21, 2005.)
- 10.22 Form of director restricted stock grant. (Previously filed with our Form 8-K, Reg. No. 001-12108, filed with the Commission on July 21, 2005.)
- 10.23 Limited Waiver of Shareholders Rights Agreement, dated July 14, 2005, by OCM GW Holdings, LLC. (Previously filed with our Post Effective Amendment No. 2 to our Registration Statement on Form S-1, Reg. No. 333-116048, filed with the Commission on July 26, 2005.)
- *10.24 First Amendment to Credit Agreement, dated as of March 6, 2006, among Crimson Exploration, Inc., Crimson Exploration Operating, Inc., LTW Pipeline Co., and Wells Fargo Bank, National Association.
- 22.1 Subsidiaries of the Registrant (included on [page 2] of this Annual Report.
- *23.1 Consent of Grant Thornton LLP
- 25 Power of Attorney (included on signature page of this Annual Report).
- *31.1 Certification of Chief Executive Officer pursuant to Exchange Rule 13a-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002; filed herewith.
- *31.2 Certification of Chief Financial Officer pursuant to Exchange Rule 13a-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002; filed herewith.
- *32.1 Certification of Chief Executive Officer pursuant to 18.U.S.C Section 1350 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002; filed herewith.
- 32.2 Certification of Chief Financial Officer pursuant to 18.U.S.C Section 1350 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002; filed herewith.

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S I G N A T U R E S

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

Crimson Exploration Inc.

Date: March 31, 2006

By \s\ Allan D. Keel

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Allan D. Keel, President

POWER OF ATTORNEY

Know all men by these presents, that each person whose signature appears below constitutes and appoints Allan D. Keel as his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place, and stead, in any and all capacities to sign any and all amendments or supplements to this Annual Report on Form 10-K, and to file the same, and with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons, on behalf of the registrant, and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Allan D. Keel ----- Allan D. Keel	President, Chief Executive Officer and Director	March 29, 2006
/s/ E. Joseph Grady ----- E. Joseph Grady	Senior Vice President and Chief Financial Officer	March 29, 2006
/s/ Richard L. Creel ----- Richard L. Creel	Vice President Finance and Chief Accounting Officer	March 29, 2006
/s/ Skardon F. Baker ----- Skardon F. Baker	Director	March 29, 2006
/s/B. James Ford ----- B. James Ford	Director	March 29, 2006
/s/ Lon Mc Cain ----- Lon Mc Cain	Director	March 29, 2006
/s/ Lee B. Backsen ----- Lee B. Backsen	Director	March 29, 2006

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FINANCIAL STATEMENT SCHEDULE

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All other Financial Statement Schedules have been omitted because they are either inapplicable or the information required is included in the financial statements or the notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Crimson Exploration Inc.

We have audited the accompanying consolidated balance sheets of Crimson Exploration Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Crimson Exploration Inc. and subsidiaries as of December 31, 2005 and 2004, and the

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results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/GRANT THORNTON LLP

Houston, Texas
March 24, 2006

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and
Board of Directors
Crimson Exploration Inc.

We have audited the accompanying consolidated statements of operations, stockholders' equity and cash flows of Crimson Exploration Inc. for the year ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of operations of Crimson Exploration Inc. and its cash flows for the year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 1 to the financial statements effective January 1, 2003, the Company changed its accounting method for asset retirement obligations.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
March 19, 2004

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CRIMSON EXPLORATION INC. AND SUBSIDIARIES

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CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2005 AND 2004

ASSETS

	2005	2004
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	\$ 474,393	\$ 411,377
Accounts receivable - net of allowance for doubtful accounts of \$30,674 in 2005 and \$-0-in 2004	3,498,488	1,674,448
Prepaid expenses	249,424	128,717
Deferred tax asset, net	1,602,773	1,594,336
	-----	-----
Total current assets	5,825,078	3,808,878
	-----	-----
PROPERTY AND EQUIPMENT		
Oil and gas properties, using the successful efforts method of accounting	65,598,691	58,557,072
Other property and equipment	1,560,464	1,437,206
Less accumulated depreciation, depletion and amortization	(12,936,096)	(9,870,962)
	-----	-----
Net oil and gas properties and other property and equipment	54,223,059	50,123,316
	-----	-----
OTHER ASSETS		
Deposits	49,502	9,804
Investments	225,689	274,362
Debt issuance cost, net	274,214	1,756,316
Deferred tax asset, net	2,517,407	1,728,215
Derivative instruments	-	175,273
	-----	-----
Total other assets	3,066,812	3,943,970
	-----	-----
TOTAL ASSETS	\$ 63,114,949	\$ 57,876,164
	=====	=====

The Notes to Consolidated Financial Statements are an integral part of these statements.

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CRIMSON EXPLORATION INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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DECEMBER 31, 2005 AND 2004

LIABILITIES AND STOCKHOLDERS' EQUITY

	2005	2004
	-----	-----
CURRENT LIABILITES		
Notes payable	\$ 40,300	\$ 4,916,568
Notes payable - related parties	-	2,140,000
Current portion of long-term debt	80,883	22,686,254
Current portion of long-term debt - related parties	-	112,192
Accounts payable - trade	4,107,441	4,654,561
Accrued expenses	487,453	940,587
Income taxes payable	31,075	118,255
Derivative instruments	2,108,583	1,680,800
	-----	-----
Total current liabilities	6,855,735	37,249,217
	-----	-----
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	1,103,232	805,450
Asset retirement obligation	1,311,133	1,144,854
	-----	-----
Total noncurrent liabilities	2,414,365	1,950,304
	-----	-----
OTHER LIABILITES		
Derivative instruments	1,039,587	-
	-----	-----
Total liabilities	10,309,687	39,199,521
	-----	-----
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock	1,033	253
Common stock	28,991	19,394
Additional paid-in capital	72,851,626	34,062,502
Retained deficit	(20,076,388)	(15,405,506)
	-----	-----
Total stockholders' equity	52,805,262	18,676,643
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 63,114,949	\$ 57,876,164
	=====	=====

The Notes to Consolidated Financial Statements are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

	2005	2004	2003
OPERATING REVENUES			
Oil and gas sales	\$ 17,551,650	\$ 11,101,114	\$ 10,844,460
Operating overhead and other income	131,158	106,559	166,263
Total operating revenues	17,682,808	11,207,673	11,010,723
OPERATING EXPENSES			
Lease operating expenses	5,585,297	4,879,754	5,527,841
Geological and geophysical	395,327	-	-
Depreciation, depletion and amortization	3,130,647	2,184,815	2,226,123
Dry holes, abandoned property and impaired assets	4,062,592	452,516	358,737
Asset retirement obligations	59,850	114,027	76,823
General and administrative	3,772,771	2,018,746	2,262,425
Total operating expenses	17,006,484	9,649,858	10,451,949
INCOME FROM OPERATIONS	676,324	1,557,815	558,774
OTHER INCOME AND EXPENSE			
Interest expense	(1,302,894)	(4,153,578)	(3,363,330)
Debt issuance costs	(1,955,501)	(1,472,318)	(1,000,000)
Loss from equity in investments	(71,679)	-	-
Loss on sale of assets	(38,501)	(2,034,079)	(19,848)
Unrealized gain (loss) on derivative instruments	(1,642,643)	(1,505,527)	537,526
Forgiveness of debt	-	12,475,612	-
Total other income and (expense)	(5,011,218)	3,310,110	(3,845,652)
INCOME (LOSS) BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES	(4,334,894)	4,867,925	(3,286,878)
INCOME TAX BENEFIT	791,655	3,204,296	-
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES	(3,543,239)	8,072,221	(3,286,878)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES, NET OF INCOME TAXES	-	-	262,452
NET INCOME (LOSS)	(3,543,239)	8,072,221	(3,024,426)
DIVIDENDS ON PREFERRED STOCK (PAID 2005-\$1,127,643; 2004-\$0-; 2003-\$0)	(3,562,472)	(455,612)	(127,083)
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	\$ (7,105,711)	\$ 7,616,609	\$ (3,151,509)
NET INCOME (LOSS) PER SHARE, BASIC BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES	\$ (.27)	\$.41	\$ (.18)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES	-	-	.01

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NET INCOME (LOSS) PER SHARE BASIC	\$ (.27)	\$.41	\$ (.17)
NET INCOME (LOSS) PER SHARE, DILUTED BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES	\$ (.27)	\$.26	\$ (.18)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES	-	-	.01
NET INCOME (LOSS) PER SHARE, DILUTED	\$ (.27)	\$.26	\$ (.17)

The Notes to Consolidated Financial Statements are an integral part of these statements.

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CRIMSON EXPLORATION INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

	Number of Shares	
	Preferred Stock	Common Stock
BALANCE, December 31, 2002	17,000	18,492,541
Issuance of warrants for additional financing	-	-
Issuance of preferred stock related to current financing	2,000	-
Net loss	-	-
BALANCE, December 31, 2003	19,000	18,492,541
Issuance of warrants for additional financing	-	-
Issuance of preferred stock related to current refinancing	8,000	-
Conversion of preferred stock to Common Stock.	(1,710)	901,428
Net income	-	-
BALANCE, December 31, 2004	25,290	19,393,969
Common stock issued for services and fees	-	63,190
Preferred stock issued		
Series A	2,000	-
Series G	81,000	-
Preferred stock conversions		
Series A to common stock	(3,250)	4,642,859
Series F to common stock	(340)	170,000
Series H to common stock	(1,450)	2,071,429
Common stock dividends paid		
Series A preferred	-	356,250
Series H preferred	-	129,723
Options and warrants exercised	-	2,163,223
Current year loss	-	-
Dividends paid on preferred stock	-	-

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BALANCE, December 31, 2005

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103,250	28,990,643
=====	=====

The Notes to Consolidated Financial Statements are an integral part of these statements.

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CRIMSON EXPLORATION INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Deficit
\$ 170	\$ 18,493	\$ 28,258,212	\$ (20,453,301)
-	-	25,500	-
20	-	999,980	-
-	-	-	(3,024,426)
-----	-----	-----	-----
190	\$ 18,493	\$ 29,283,692	\$ (23,477,727)
=====	=====	=====	=====
-	-	916,029	-
80	-	3,863,665	-
(17)	901	(884)	-
-	-	-	8,072,221
-----	-----	-----	-----
\$ 253	\$ 19,394	\$ 34,062,502	\$ (15,405,506)
=====	=====	=====	=====
-	63	53,216	-
20	-	1,499,980	-
810	-	36,686,311	-
(33)	4,643	(4,610)	-
(3)	170	(167)	-
(14)	2,071	(2,057)	-
-	357	330,957	(331,314)
-	130	114,858	(114,988)
-	2,163	110,636	-
-	-	-	(3,543,239)
-	-	-	(681,341)
-----	-----	-----	-----
\$ 1,033	\$ 28,991	\$ 72,851,626	\$ (20,076,388)
=====	=====	=====	=====

The Notes to Consolidated Financial Statements are an integral part of these statements.

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CRIMSON EXPLORATION INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ (3,543,239)	\$ 8,072,221	\$ (3,024,000)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, depletion and amortization	3,130,647	2,184,815	2,226,000
Dry holes, abandoned property, impaired assets	3,698,633	452,516	358,000
Asset retirement obligations	59,850	46,478	76,000
Stock compensation expense	44,164	-	25,000
Debt issuance cost	1,829,046	1,379,818	
Discount on note payable	502,120	413,910	
Forgiveness of debt	-	(12,475,612)	
Other financing costs	-	-	1,000,000
Deferred tax benefit	(797,629)	(3,322,551)	
Income tax payable	(87,180)	118,255	
Notes payable issued for interest expense	-	61,046	
Loss on sale of assets	38,501	2,034,079	19,000
Loss from equity in investments	71,679	-	
Unrealized (gain) loss on derivative instruments	1,642,643	1,505,527	(537,000)
Cumulative effect of accounting change	-	-	(262,000)
Provision for bad debts	30,674	-	29,000
(Increase) decrease in accounts receivable - trade, net	(1,997,038)	(267,271)	232,000
(Increase) decrease in prepaid expenses	(120,707)	30,552	144,000
Increase (decrease) in accounts payable and accrued expenses	(958,069)	279,859	1,235,000
Net cash provided by operating activities	3,544,095	513,642	1,524,000
CASH FLOWS FROM INVESTING ACTIVITIES:			
Deposits returned	(39,698)	10,338	
Proceeds from sale of property and equipment	101,905	1,250,675	38,000
Capital expenditures	(10,797,961)	(6,141,988)	(1,067,000)
Net cash used in investing activities	(10,735,754)	(4,880,975)	(1,029,000)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sale of preferred stock, net	38,187,121	3,363,745	
Proceeds from common stock options exercised	56,450	-	
Payments on debt	(34,258,132)	(18,144,776)	(1,672,000)
Proceeds from debt issuance	4,274,241	21,304,258	973,000
Debt issuance cost	(323,664)	(2,228,135)	
Dividends paid	(681,341)	-	
Net cash provided by (used in) financing activities	7,254,675	4,295,092	(699,000)

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INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	63,016	(72,241)	(204,000)
CASH AND CASH EQUIVALENTS, Beginning of year	411,377	483,618	687,000
CASH AND CASH EQUIVALENTS, End of year	\$ 474,393	\$ 411,377	\$ 483,618
CASH PAID FOR INTEREST	\$ 2,000,218	\$ 3,718,940	\$ 3,216,000
CASH PAID FOR INCOME TAXES	\$ 93,154	\$ -	\$ -

The Notes to Consolidated Financial Statements are an integral part of these statements.

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CRIMSON EXPLORATION INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies consistently applied by management in the preparation of the accompanying consolidated financial statements.

Organization

On June 29, 2005, our predecessor, GulfWest Energy Inc., a Texas corporation ("GulfWest"), merged with and into Crimson Exploration Inc., a Delaware corporation ("Crimson"), for the purpose of changing our state of incorporation from Texas to Delaware (the "Reincorporation"). The Reincorporation was accomplished pursuant to an Agreement and Plan of Merger, dated June 28, 2005, which was approved by GulfWest's shareholders at the 2005 Annual Shareholders' Meeting held June 1, 2005.

On January 5, 2006 we formed Crimson Exploration Operating, Inc., a Delaware corporation, as our wholly owned subsidiary through which all oil and gas operations will be conducted. Effective March 2, 2006, we merged all our subsidiaries, with the exception of LTW Pipeline Co., into this newly formed corporation. LTW Pipeline Co. remains an inactive subsidiary of Crimson Exploration Inc.

Cash and Cash Equivalents

We consider all highly liquid investment instruments purchased with remaining maturities of three months or less to be cash equivalents for purposes of the consolidated statements of cash flows and other statements. We maintain cash on deposit in non-interest bearing accounts, which, at times, exceed federally insured limits. We have not experienced any losses on such accounts and believe we are not exposed to any significant credit risk on cash and equivalents.

Non-cash Investing and Financing Activities

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During the twelve month period ended December 31, 2005, we settled \$446,302 in dividends by issuing 485,973 shares of common stock and we issued 29,100 shares of common stock to satisfy a \$23,280 fee for a loan extension prior to the sale of the Series G Preferred Stock. In addition we recorded \$29,999 in director fee expense associated with the issuance of 34,090 shares of restricted common stock to directors under the new Director Compensation Plan. Also accrued compensation of \$56,350 was converted to additional paid in capital when 87,500 options, accounted for under variable option accounting rules, were exercised. During 2005, we also invested \$23,006 in an oil and gas partnership by contributing our cost basis in undrilled oil and gas leases and acquired \$142,323 in oil and gas properties in exchange of an account receivable. In addition, we financed new field trucks for \$45,724.

During the twelve month period ended December 31, 2004, in settlement of a contract we issued a note payable for \$600,000 in replacement of an account payable for \$538,954 and the recognition of an additional \$61,046 of interest expense. Also, as a result of refinancing debt in which we recorded a \$12,475,612 forgiveness of debt, we issued Common Stock warrants valued at \$916,029 which was recorded as a discount to the face value of the new note issued; we issued \$500,000 of preferred stock of a wholly owned subsidiary as a commission to our financial advisor, and we recorded a \$360,000 payable for a loan termination fee. The termination fee was subsequently increased by \$48,000 as a result of increasing the principal amount of the new note. We also financed field trucks for \$78,036. In addition, we invested \$274,362 in a partnership by contributing our cost basis of \$76,732 in a natural gas pipeline and \$197,630 in undeveloped oil and gas leases to the partnership.

Use of Estimates in the Preparation of Financial Statements

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported

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Note 1. Organization and Summary of Significant Accounting Policies- continued

amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Oil and Gas Properties

We use the successful efforts method of accounting for oil and gas producing activities. Costs to acquire mineral interests in oil and gas properties, to drill and equip exploratory wells that find proved reserves, and to drill and equip development wells are capitalized. Costs to drill exploratory wells that do not find proved reserves, delay rentals and geological and geophysical costs are expensed (except those costs used to determine a drillsite location).

As we acquire significant oil and gas properties, any unproved property that is considered individually significant is periodically

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assessed for impairment of value, and a loss is recognized at the time of impairment by providing an impairment allowance. Capitalized costs of producing oil and gas properties and support equipment, after considering estimated dismantlement and abandonment costs and estimated salvage values, are depreciated and depleted by the unit-of-production method.

On the sale of an entire interest in an unproved property, gain or loss on the sale is recognized, taking into consideration the amount of any recorded impairment if the property has been assessed individually. If a partial interest in an unproved property is sold, the amount received is treated as a reduction of the cost of the interest retained. On the sale of an entire or partial interest in a proved property, gain or loss is recognized, based upon the fair values of the interests sold and retained.

Other Property and Equipment

The following tables set forth certain information with respect to our other property and equipment. Other property and equipment is recorded at cost and we provide for depreciation and amortization using the straight-line method over the following estimated useful lives of the respective assets:

Assets	Years
Automobiles	3-5
Office equipment	7
Computer software	7
Gathering system	10
Well servicing equipment	10

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Note 1. Organization and Summary of Significant Accounting Policies- continued

Other Property and Equipment - continued

Capitalized costs relating to other properties and equipment:

	2005	2004
Automobiles	\$ 367,882	\$ 285,384
Office equipment	196,189	148,173
Computer software	129,150	-
Gathering system	271,651	271,651
Well servicing equipment	595,592	731,998
	1,560,464	1,437,206
Less accumulated depreciation	(966,449)	(872,364)
Net capitalized cost	\$ 594,015	\$ 564,842

Impairments

We have adopted SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". Accordingly, impairments, measured

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using fair market value, are recognized whenever events or changes in circumstances indicate that the carrying amount of long-lived assets (other than unproved oil and gas properties discussed above) may not be recoverable and the future undiscounted cash flows attributable to the asset are less than its carrying value.

Revenue Recognition

The Company follows the "sales" (takes or cash) method of accounting for oil and gas revenues. Under this method, we recognize revenues on production as it is taken and delivered to its purchasers. The volumes sold may be more or less than the volumes we are entitled to base our ownership interest in the property. These differences result in a condition known in the industry as a production imbalance. Our crude oil and natural gas imbalances are not significant.

Trade Accounts Receivable

We grant credit to creditworthy independent and major oil and gas companies for the sale of crude oil and natural gas. In addition, we grant credit to joint owners of oil and gas properties, which we operate through our subsidiaries. Such amounts are secured by the underlying ownership interests in the properties.

Trade accounts receivable are reported in the consolidated balance sheets at the outstanding principal adjusted for any chargeoffs. An allocation for doubtful accounts is recognized by management based upon a review of specific customer balances, historical losses and general economic conditions.

Fair Value of Financial Instruments

At December 31, 2005 and 2004, our financial instruments consist of accounts receivable, notes payable and long-term debt. Interest rates currently available to us for notes payable and long-term debt with similar terms and remaining maturities are used to estimate fair value of such financial instruments. Accordingly, since interest rates on substantially all of our debt are variable, market based rates, the carrying amounts are a reasonable estimate of fair value.

Debt Issuance Costs

Debt issuance costs incurred are capitalized and subsequently amortized over the term of the related debt on a straight-line basis.

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Earnings (Loss) Per Share

Note 1. Organization and Summary of Significant Accounting Policies- continued

We have adopted Statement of Financial Accounting Standards (SFAS) No. 128 "Earnings Per Share", which requires that both basic earnings (loss) per share and diluted earnings (loss) per share be presented on the face of the statement of operations. Basic earnings (loss) per share are based on the weighted-average number of outstanding common shares. Diluted earnings (loss) per-share are based on the weighted-average number of outstanding common shares and the effect of all potentially diluted common shares.

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Stock Based Compensation

Stock-based compensation arrangements are accounted for using the intrinsic value method as prescribed in Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB Opinion 25") and related interpretations. Accordingly, compensation cost for options granted to employees is measured as the excess, if any, of the fair value of shares at the date of grant over the exercise price an employee must pay to acquire the shares. No compensation cost has been recognized in the accompanying consolidated financial statements related to stock option awards.

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004) "Share-Based Payment" ("SFAS No. 123R"), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation" and supersedes APB Opinion 25. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on the fair values beginning with the first interim period in fiscal year 2006, with early adoption encouraged. The pro forma disclosures previously permitted under SFAS No. 123 no longer will be an alternative to financial statement recognition.

The Company adopted SFAS No. 123R on January 1, 2006 using the modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123R for all share-based payments granted after January 1, 2006 and (b) on the requirements of SFAS No. 123 for all awards granted to employees prior to January 1, 2006 that remain unvested on January 1, 2006. The Company is estimating that the cost relating to stock options granted through 2005 will be \$2,335,219 for the year ended December 31, 2006 and \$11,676,097 over the remaining life; however, due to the uncertainty of the level of share-based payments to be granted in the future, these amounts are estimates and subject to change.

During 2005, 2004 and 2003, we issued options and warrants totaling: 22,400,000 in 2005; (non exercisable) 1,610,000 shares in 2004 (exercisable-1,085,000); 35,000 in 2003 (all exercisable), respectively, to employees and directors as compensation. If we had used the fair value method required by SFAS 123, our net income (loss) and per share information would approximate the following amounts:

	2005		2004		2003	
	As Reported	ProForma	As Reported	ProForma	As Reported	Pro
SFAS 123						
compensation cost	\$ -	\$ 2,008,123	\$ -	\$ 425,500	\$ -	\$
APB 25						
compensation cost	\$ -	\$ -	\$ 129,260	\$ (129,260)	\$ -	\$
Net income (loss)	\$(7,105,711)	\$(9,113,834)	\$7,616,609	\$7,320,369	\$(3,151,509)	\$(3,1
Income (loss) per						
common share-basic	\$ (.27)	\$ (.34)	\$.39	\$.39	\$ (.17)	\$
Income (loss) per						
common share-diluted	\$ (.27)	\$ (.34)	\$.26	\$.25	\$ (.17)	\$

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Note 1. Organization and Summary of Significant Accounting Policies- continued

Stock Based Compensation - continued

We anticipate making additional stock based employee compensation awards in the future.

We use the Black-Sholes option-pricing model to estimate the fair value of the options and warrants (to employee and non-employees) on the grant date. Significant assumptions include (1) risk free interest rate 2005-3.0%, 2004- 3.0%; 2003 - 3.0%; (2) weighted average expected life 2005-6.0, 2004- 3.0; 2003 - 3.4; (3) expected price volatility of 2005- 92.75%, 2004- 94.32%; 2003 - 147.43% and (4) no expected dividends.

Asset Retirement Obligations

Beginning in 2003, Statement of Financial Accounting Standards No. 143, "Asset Retirement Obligations" ("SFAS 143") requires us to recognize an estimated liability for the plugging and abandonment of our oil and gas wells and associated pipelines and equipment. Consistent with industry practice, historically we had assumed the cost of plugging and abandonment would be offset by salvage value received. This statement requires us to record a liability in the period in which our asset retirement obligation ("ARO") is incurred. Upon initial recognition of the liability, we must capitalize an additional asset cost equal to the amount of the liability. In addition to any obligation that arises after the effective date of SFAS 143, upon initial adoption we recognized (1) a liability for existing ARO's, (2) capitalized cost related to the liability, and (3) accumulated depreciation, depletion and amortization on that capitalized cost adjusting for the salvage value of related equipment.

The estimated liability is based on historical experience in plugging and abandoning wells, estimated remaining lives of those wells based on reserves estimates and federal and state regulatory requirements. The liability is discounted using an assumed credit-adjusted risk-free rate. Revisions to the liability could occur due to changes in estimates of plugging and abandonment costs, changes in the risk-free rate or remaining lives of the wells, or if federal or state regulators enact new plugging and abandonment requirements. At the time of abandonment, we are required to recognize a gain or loss on abandonment to the extent that actual costs do not equal the estimated costs.

The adoption of SFAS 143 resulted in a January 1, 2003 cumulative effect adjustment to record a \$1,058,445 increase in the carrying value of proved properties, a \$484,390 decrease in accumulated depreciation, depletion and amortization, a \$1,280,383 increase in noncurrent liabilities, and a \$262,452 gain, net of tax.

Recent Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes

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and Error Corrections: a replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS No. 154 requires voluntary changes in accounting principles to be applied retrospectively, unless it is impracticable to determine either the period specific effects or the cumulative effects of the change. SFAS No. 154's retrospective application requirement replaces APB 20's requirement to recognize most voluntary changes in accounting principle by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. If retrospective application for all prior periods is impracticable, the method used to report the change and the reason the retrospective application is impracticable are to be disclosed.

Under SFAS No. 154, retrospective application will be the transition method in the unusual event that a newly issued accounting pronouncement does not provide specific transition guidance. It is expected that most pronouncements will specify transition methods other than the retrospective method. SFAS No. 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005, and the adoption of this statement is expected to have no impact on the Company's financial position or results of operations.

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Note 1. Organization and Summary of Significant Accounting Policies- continued

In February of 2006, the FASB issued SFAS No. 155 "Accounting for Certain Hybrid Financial Instruments." SFAS No. 155 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. At adoption, any difference between the total carrying amount of the individual components of the existing bifurcated hybrid financial instrument and the fair value of the combined hybrid financial instrument should be recognized as cumulative-effect adjustment to beginning retained earnings. Adoption of this statement is expected to have no impact on the Company's financial position or results of operations.

Note 2. Recapitalization

On April 27, 2004, we completed an \$18,000,000 financing package with new energy lenders. We used \$15,700,000 in net proceeds from the financing to retire existing debt of \$27,584,145, resulting in forgiveness of debt of \$12,475,612, the elimination of a hedging

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liability and the return to the Company of Series F Preferred Stock with an aggregate liquidation preference of \$1,000,000 (this preferred stock, at the request of the Company, was transferred by the previous lender to a financial advisor to the Company and to two affiliated companies). The taxable gain resulting from these transactions was completely offset by available net operating loss carryforwards for income tax purposes. The term of the note was eighteen months and it bore interest at the prime rate plus 11%. The rate increased by .75% per month beginning in month ten. We paid the new lenders \$1,180,000 in cash fees and also issued them warrants to purchase 2,035,621 shares of our common stock at an exercise price of \$.01 per share, expiring in five years (exercised in April, 2005). The warrants were subject to anti-dilution provisions. In connection with the February 2005 transactions described below, the anti-dilution provisions were amended such that additional issuances of stock (other than issuances to all holders) would not trigger an adjustment to the number of shares issuable upon exercise of the warrants.

On January 7, 2005, we amended our April 2004 credit agreement to extend the target date for repayment to February 28, 2005. We exercised this option on January 26, 2005 and issued 29,100 shares of our common stock in connection with this amendment.

On February 28, 2005, we sold in a private placement, 81,000 shares of our Series G Preferred Stock to OCM GW Holdings, LLC ("OCMGW") for an aggregate offering price of \$40.5 million. GulfWest Oil and Gas Company ("GWOG"), a subsidiary of the Company, issued, in a private placement, 2,000 shares of our Series A Preferred Stock, having a liquidation preference of \$1.0 million, to OCMGW for \$1.5 million. Net proceeds of the offerings of approximately \$38.2 million after expenses were used for the repayment of substantially all of our outstanding debt and other past due liabilities and for general corporate purposes.

The Series G Preferred Stock bears a coupon of 8% per year, has an aggregate liquidation preference of \$40.5 million (excluding accumulated undeclared dividends), is convertible into common stock at \$0.90 per share and is senior to all of our capital stock. For the first four years after issuance, we may defer the payment of dividends on the Series G Preferred Stock and these deferred dividends will also be convertible into our common stock at \$0.90 per share. In addition, the Series G Preferred Stock is entitled to nominate and elect a majority of the members of our Board of Directors.

In connection with these recapitalization transactions, the terms of the Series A Preferred Stock were amended such that by March 15, 2005, all such stock would either convert into a newly created Series H Preferred Stock on a one for one basis or into common stock at a conversion price of \$0.35 per share.

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Note 2. Recapitalization-continued

The Series H Preferred Stock is required to be paid a dividend of 40 shares of common stock per share of Series H Preferred Stock per year. At March 15, 2005, holders of 6,700 shares of Series A Preferred Stock converted to Series H Preferred Stock and holders of 3,250 shares of Series A Preferred Stock converted to an aggregate 4,642,859 shares of common stock. One Series H Preferred Stock holder converted its

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shares of Series H Preferred Stock into 285,715 shares of common stock. In April, 2005, an additional 1,250 shares converted into 1,785,714 of common stock. The outstanding Series H Preferred Stock has an aggregate liquidation preference of \$2.625 million. The Series H Preferred Stock is senior to all of our capital stock other than Series G Preferred Stock (See Note 6).

In addition, we amended the terms of our 9,000 shares of Series E Preferred Stock such that the coupon of 6% per year may be deferred for the next four years and these deferred dividends will be convertible into common stock at conversion price of \$0.90 per share. The original liquidation preference of the Series E Preferred Stock of \$500 per share remains convertible into common stock at \$2.00 per share. The Series E Preferred Stock has an aggregate liquidation preference of \$4.5 million (excluding accumulated undeclared dividends), and is senior to all of our common stock, of equal preference with our Series D Preferred Stock as to liquidation and junior to our Series G and Series H Preferred Stock.

On May 17, 2005, we executed a promissory note for the benefit of OCM GW Holdings, in the principal amount of \$1 million, payable on the earlier of July 17, 2005 or the day on which we are able to make draws under a credit facility under which greater than \$1 million may be borrowed. Interest on the unpaid principal accrued at 4.59% per annum. We repaid the note in full on July 19, 2005 from borrowings under our new \$100 million senior secured revolving credit facility.

On July 15, 2005, we entered into a \$100 million senior secured revolving credit facility with Wells Fargo Bank, National Association. Borrowings under the new credit facility will be subject to a borrowing base limitation based on our current proved oil and gas reserves. The current borrowing base is set at \$20 million and will be subject to semi-annual redeterminations. The facility is secured by a lien on all our assets, and the assets of our subsidiaries, as well as a security interest in the stock of all our subsidiaries. The credit facility has a term of three years, and all principal amounts, together with all accrued and unpaid interest, will be due and payable in full on June 30, 2008. Proceeds from extensions of credit under the facility will be for acquisitions of oil and gas properties and for general corporate purposes. The facility also provides for the issuance of letters-of-credit up to a \$3 million sub-limit. We incurred \$323,662 in issuance costs associated with the credit facility which are being amortized over its life.

Advances under the facility will be in the form of either base rate loans or Eurodollar loans. The interest rate on the base rate loans fluctuates based upon the higher of (1) the lender's "prime rate" and (2) the Federal Funds rate, plus a margin of 0.50%, plus a margin of between 0.0% and 0.5% depending on the percent of the borrowing base utilized at the time of the credit extension. The interest rate on the Eurodollar loans fluctuates based upon the rate at which Eurodollar deposits in the London Interbank market ("Libor") are quoted for the maturity selected, plus a margin of 1.25% to 2.00% depending on the percent of the borrowing base utilized at the time of the credit extension. Eurodollar loans of one, three and nine months may be selected by us. A commitment fee of 0.375% on the unused portion of the borrowing base will accrue, and be payable quarterly in arrears.

The credit agreement includes usual and customary affirmative covenants for credit facilities of this type and size, as well as customary negative covenants, including, among others, limitation on liens, hedging, mergers, asset sales or dispositions, payments of

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dividends, incurrence of additional indebtedness, certain leases and investments outside of the ordinary course of business. The credit agreement also requires us to maintain a ratio of current assets to current liabilities, except that any availability under the borrowing base will be considered as an addition to current assets, and any current assets or liabilities resulting from hedging agreements will be excluded, of at least 1.0 to 1.0, an interest coverage ratio of EBITDAX (earnings before interest, taxes, depreciation and amortization and exploration expense) to cash interest expense of 3.0 to 1.0 and a tangible net worth of at least \$45 million, subject to adjustment based on future results of operations and any sales of equity securities. EBITDAX and tangible net worth are calculated without consideration of unrealized gains and losses related to stock derivatives accounted for under variable accounting rules for commodity hedges. At December 31, 2005 we were in compliance with the aforementioned financial covenants.

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Note 3. Asset Retirement Obligations

A reconciliation of our asset retirement obligation liability is as follows:

	2005	2004
	-----	-----
Balance Beginning of Year	\$ 1,144,854	\$ 1,357,206
Accretion expense	77,634	72,247
Liabilities incurred	65,852	
Liability settled	-	(25,769)
Liability reduced from assets sold	-	(331,173)
Revisions	22,793	72,343
	-----	-----
Balance End of Year	\$ 1,311,133	\$ 1,144,854
	=====	=====

Note 4. Accrued Expenses

Accrued expenses consisted of the following:

	December 31, 2005	December 31, 2004
	-----	-----
Accrued compensation	\$ 340,450	\$ 129,260
Interest	72,003	769,327
Professional fees	75,000	42,000
	-----	-----
	\$ 487,453	\$ 940,587
	=====	=====

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Note 5. Notes Payable and Long-Term Debt

Notes payable are as follows:

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	2005

Non-interest bearing note payable to an unrelated party; payable out of 50% of the net transportation revenues from a certain natural gas pipeline that is not yet in service; no due date.	\$ 40,300
Promissory note payable to a former director at 8%; due May, 2001; unsecured. Retired March, 2005	
Promissory note payable to an unrelated party at 10%; payable on demand; unsecured. Retired March, 2005	
Promissory note payable to an unrelated party; payable on demand; interest at 8%; interest increased to 12% on January 1, 2003; secured by certain oil and gas properties. Retired March, 2005.	
Note payable to a bank; due July, 2004; secured by guaranty of a director; interest at prime rate (prime rate 5.25% at December 31, 2004 with a floor of 4.75% and a ceiling of 8.0%. Retired February, 2005	
Promissory note payable to unrelated party; interest at 6%; due June, 2003. Retired January, 2005.	
Promissory note payable to one of our directors; interest at 8%; due on demand; unsecured. Retired March, 2005.	
Promissory note payable to one of our directors; interest at prime rate (prime rate 5.25% at December 31, 2004); due May, 2003; secured by Common Stock of DutchWest Oil Company, our wholly owned subsidiary. Retired March, 2005	
Promissory note payable to an unrelated party at 8%; due June 2003; secured by 4% in the last draft of the Common Stock of DutchWest Oil Company, our wholly owned subsidiary. Retired March, 2005.	
Promissory note payable to an unrelated party at 8%; due May 2003; secured by 8% of the Common Stock of DutchWest Oil Company, our wholly owned subsidiary. Retired March, 2005.	
Note payable to an entity owned by two directors of the company, due September 2004; interest at prime plus 2% (prime rate 5.25% at December 31, 2004). Secured by oil and gas leases. Retired March, 2005.	
Line of credit (up to \$3,500,000) to a bank; due June 2004; secured by the guaranty of a director; interest at prime rate (prime rate 5.25% at December 31, 2004) with a floor of 4.75% and a ceiling of 8.0% Retired February, 2005.	

	\$ 40,300
	=====

The weighted average interest rate for notes payable at December 31, 2005 and 2004 was 0.00%, due to zero notes payable, and 5.79%, respectively.

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Note 5. Notes Payable and Long-Term Debt-continued

Long-term debt is as follows:

	2005
Line of credit (up to \$3,000,000) to a bank; due July, 2005; secured by the guaranty of a director; interest greater prime rates less .25% or 5.25% (prime note 5.25% at December 31, 2004); retired February 2005.	
Subordinated promissory notes to various individuals at 9.5% interest per annum; amounts include \$50,000 due to related parties; past due. Retired \$100,000 March, 2005.	50,000
Notes payable to finance vehicles, payable in aggregate monthly installments of approximately \$4,000, including interest of 0.9% to 13% at December 31, 2005 per annum; secured by the related equipment; due various dates through 2010.	97,833
Promissory note to a director; interest at 8.5%; due December 31, 2003. Retired March, 2005.	
Note payable to lender; interest at prime plus 11% (prime rate 5.25% at December 31, 2004) interest only; due October, 2006; secured by related oil and gas properties. Retired February, 2005.	
Note payable to a bank with monthly principal payments of \$36,000; interest at prime plus 1% (prime rate 5.25% at December 31, 2004 with a minimum prime rate of 5.5%; final payment due November, 2003; secured by related oil and gas properties; extended to July, 2007. Retired February, 2005	
Note payable to unrelated party to finance saltwater disposal well with monthly installments of \$4,540, including interest at 10% per annum; final payment due January, 2005; secured by related well. Retired March, 2005.	
Line of credit (up to \$20,000,000) to a bank due June 2008; secured by oil and gas properties; interest at the higher of prime or Federal Fund rate plus a margin of .50%. Rate at December 31, 2005 was 7.25%	1,036,282
	1,184,115
Less current portion	(80,883)
Total long-term debt	\$ 1,103,232

Estimated annual maturities for long-term debt are as follows:

2006	\$	80,883
2007		31,600
2008		1,058,150
2009		10,449
2010		3,033

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\$ 1,184,115
 =====

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Note 6. Stockholders' Equity

Common Stock

	2005 -----
Par value \$.001; 200,000,000 shares authorized; 28,990,643 and 19,393,969 shares issued and outstanding as of December 31, 2005 and 2004, respectively	\$ 28,991 =====

Preferred Stock

Series D, par value \$.01; 12,000 shares authorized; 8,000 shares issued and outstanding at December 31, 2005 and 2004. The Series D preferred stock does not pay dividends and is not redeemable. The liquidation value is \$500 per share. After three years from the date of issue, and thereafter, the shares are convertible to Common Stock based upon a value of \$500 per Series D share divided by \$8 per share of Common Stock. 80

Series E, par value \$.01; 9,000 shares authorized; 9,000 shares issued and outstanding at December 31, 2005 and 2004. The Series E pays dividends, as declared, at a rate of 2.5% per annum increasing to 6% per annum July 1, 2004, has a liquidation value of \$500 per share, may be redeemed at our option and, as amended, is convertible to Common Stock based upon a value of \$500 per Series E share divided by \$2 per share of Common Stock. 90

Series G, par value \$.01; 81,000 shares authorized; 81,000 and 0 shares issued and outstanding at December 31, 2005 and December 31, 2004 respectively. The Series G preferred stock pays dividends, as declared, at a rate of \$ 8% annually, has a liquidation value of \$500 per share, may be redeemed at our option and is convertible to Common Stock based upon a value of \$500 per Series F share divided by \$.90 per share of Common Stock. We may defer dividends for the first four years and they are also convertible into our common stock at \$.90 per share 810

Series H, par value \$.01; 6,500 shares authorized; 5,250 shares issued and outstanding at December 31, 2005. The Series H preferred stock pays dividends, as declared, at a rate of 40 common shares per preferred share per annum, has a liquidation value of \$500 per share, may be redeemed at our option and is exchangeable for Common Stock based upon a value of \$500 per Series H share divided by \$.35 per share of Common Stock. 53

Series F, par value \$.01; 2,000 shares authorized; 340 issued and outstanding at December 31, 2004 The Series F preferred stock pays dividends, as declared, at a rate of \$2.5% per share annum, has a liquidation value of \$500 per share, may be redeemed at our option and

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is convertible to Common Stock based upon a value of \$500 per Series F share divided by \$1 per share of Common Stock

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Note 6. Stockholders' Equity-continued

2005

Series A, par value \$.01; 10,000 shares authorized; 7,950 shares issued and outstanding at December 31, 2004. The Series A preferred stock pays dividends, as declared, at a rate of 9 % per annum, has a liquidation value of \$500 per share, may be redeemed at our option and is exchangeable for Common Stock based upon a value of \$500 per Series A share divided by \$.35 per share of Common Stock.

 =====
 \$ 1,033
 =====

All classes of preferred shareholders have liquidation preference over common shareholders of \$500 per preferred share, plus accrued dividends. Accumulated, unpaid and undeclared dividends at December 31, 2005 were \$3,002,994 (Series E \$227,096; Series G \$2,725,151; Series H \$50,747).

Stock Options

We maintained a 1994 Stock Option and Compensation Plan (the "1994 Plan"), which terminated on February 11, 2004. There are options to purchase 310,000 shares of Common Stock still outstanding and exercisable under the 1994 Plan. Effective July 15, 2004, we implemented our 2004 Stock Option and Compensation Plan (the "2004 Plan"). There are options to purchase 1,400,000 shares of Common Stock outstanding under the 2004 Plan. Effective February 28, 2005 we implemented our 2005 Stock Incentive Plan ("2005 Plan") and there were options to purchase 22,400,00 shares of Common Stock outstanding under the 2005 Plan. Following is a schedule by year of the activity related to stock options, including weighted-average ("WTD AVG") exercise prices of options in each category.

	2005		2004		2003	
	Wtd Avg Prices	Number	Wtd Avg Prices	Number	Wtd Avg Prices	Number
Balance, January 1	\$.60	1,949,000	\$.90	1,102,000	\$.90	1,067,000
Options issued	\$ 1.42	22,400,000	\$.48	1,610,000	\$.75	35,000
Options expired	\$ (.82)	(239,000)	\$ (.80)	(763,000)	\$ -	

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Balance, December 31	\$ 1.36	24,110,000	\$.60	1,949,000	\$.90	1,102,000
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Options to purchase 1,375,000 shares of Common Stock were exercisable at December 31, 2005, at exercise prices ranging from \$.45 to \$1.81. Following is a schedule by year and by exercise price of the expiration of our stock options issued as of December 31, 2005:

	2006	2007	2008	2009	Thereafter	Total
\$.45			825,000	240,000	235,000	1,300,000
\$.75		35,000	250,000			285,000
\$.83	65,000					65,000
\$.97					3,600,000	3,600,000
\$1.16					2,066,333	2,066,333
\$1.25					5,400,000	5,400,000
\$1.70					11,333,667	11,333,667
\$1.81			60,000			60,000
	65,000	35,000	1,135,000	240,000	22,635,000	24,110,000

Stock Warrants

We have issued a significant number of stock warrants for a variety of reasons, including compensation to employees, additional inducements to purchase our common or preferred stock, inducements related to the issuance

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Note 6. Stockholders' Equity - continued

of debt and for payment of goods and services. Following is a schedule by year of the activity related to stock warrants, including weighted-average exercise prices of warrants in each category:

	2005		2004		2003	
	Wtd Avg Prices	Number	Wtd Avg Prices	Number	Wtd Avg Prices	Number
Balance, January 1	\$.38	4,000,621	\$.76	1,965,000	\$ 1.24	2,180,000
Warrants issued	\$.01	50,000	\$.01	2,035,621	\$.75	150,000
Warrants exercised or expired	\$ (.17)	(2,580,621)	-	-	\$ 3.61	(360,000)
Balance, December 31	\$.74	1,470,000	\$.38	4,000,621	\$.76	1,965,000

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Following is a schedule by year and by exercise price of the expiration of our stock warrants issued as of December 31, 2005:

	2006	2007	2008	Total
\$.01		-	30,000	30,000
.75	1,440,000	-	-	1,440,000
.875	-	-	-	-
	1,440,000	-	30,000	1,470,000

Note 7. Income (Loss) Per Common Share

The following is a reconciliation of the numerators and denominators used in computing income (loss) per share:

	2005	2004	
Net income (loss)	\$ (3,543,239)	\$ 8,072,221	\$ (
Preferred stock dividends	(3,562,472)	(455,612)	
Income (loss) available to common shareholders	\$ (7,105,711)	\$ 7,616,609	\$ (
Weighted-average number of shares of Common Stock - basic (denominator)	26,738,815	18,535,022	1
Income (loss) per share - basic	\$ (.27)	\$.41	\$
Weighted - average number of shares of Common Stock - diluted (denominator)	26,738,815	31,618,275	1
Income (loss) per share - diluted	\$ (.27)	\$.26	\$

The numerator for basic earning per share is income (loss) available to common shareholders. The numerator for diluted earnings per share is net income in 2004 and net loss available to common shareholders in 2005 and 2003, due to antidilution.

Potential dilutive securities (vested stock options, vested stock warrants and convertible preferred stock) in 2005 and 2003 have not been considered since we reported a net loss and, accordingly, their effects would be antidilutive. The potentially dilutive shares would have been 56,061,975 shares and 3,750,000 shares in 2005 and 2003 respectively.

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Note 8. Related Party Transactions

As described in "Our Company - Financial Recapitalization" OCM GW

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Holdings purchased 81,000 shares of Series G Preferred Stock and 2,000 shares of Series A Preferred Stock for \$42 million. Skardon F. Baker, a director, is an employee of and B. James Ford, also a director is a managing director of Oaktree Capital Management, LLC, the ultimate parent of OCM GW Holdings.

On May 17, 2005, we executed a promissory note for the benefit of OCM GW Holdings, in the principal amount of \$1 million, payable on the earlier of July 17, 2005 or the day on which we are able to make draws under a credit facility under which greater than \$1 million may be borrowed. Interest on the unpaid principal accrued at 4.59% per annum. We repaid the note in full on July 19, 2005 from borrowings under our new \$100 million senior secured revolving credit facility.

In connection with our April 2004 financing, J. Virgil Waggoner, a director, and Star-Tex Trading Co., an entity managed by John Loehr, an officer at the time and currently a director, purchased 3,000 shares and 200 shares, respectively, of Series A Preferred Stock at a price of \$500 per share. Both Mr. Waggoner and Star-Tex, in connection with the February 2005 offering, elected to exchange those shares for an equal number of shares of Series H Preferred Stock.

On October 23, 1995, we sold \$25,000 each of 9% promissory notes in a private offering to two trusts, the trustee of whom is John E. Loehr, an officer at the time of the transaction and currently a director. The balance of the notes plus accrued interest thereon at February 28, 2005 was \$87,855. The note was paid off in connection with the February 2005 offering.

In June, 1999, we issued a promissory note with interest at 8.5% to Mr. Marshall A. Smith III, an officer and director at the time, in the amount of \$124,083 for accrued compensation. At February 28, 2005, the note had a balance and accrued and unpaid interest of \$99,360 and was being paid in monthly installments of approximately \$1,500 per month. The note was paid off in connection with the February 2005 offering.

On November 6, 2002, Mr. J. Virgil Waggoner, a director, provided us a loan in the initial amount of \$1,200,000, which was subsequently increased to a total of \$1,500,000, which was outstanding at February 28, 2005. We issued Mr. Waggoner a promissory note with interest at the prime rate (prime rate 4.0% at May 26, 2004), secured by common stock of our wholly-owned subsidiary, DutchWest Oil Company. Mr. Waggoner also received warrants to purchase 625,000 shares of our common stock at an exercise price of \$.75 per share. The note with accrued interest was paid off in connection with the February 2005 offering, for a total payment amount of \$1,727,655.

On April 26, 2001, we obtained a line of credit of up to \$2,500,000 from a bank for which two directors, Mr. J. Virgil Waggoner and Mr. Marshall A. Smith, were guarantors. On April 3, 2002, the balance of the line of credit was retired and a new line of credit of up to \$3,000,000 was obtained from the bank for which Mr. Waggoner and Mr. Smith were guarantors. The line of credit was paid off in connection with the February 2005 offering.

On March 5, 2004, we entered into an Option Agreement for the Purchase of Oil and Gas Leases (the "Addison Agreement") with W. L. Addison Investments L.L.C., a private company owned by Mr. J. Virgil Waggoner and Mr. John E. Loehr, two of our directors ("Addison"). Under the Addison Agreement, Addison agreed to pay Summit, on our behalf, the non-recouped and outstanding advanced funds amounting to \$1,200,000, thereby retiring the Summit Agreement except for certain surviving obligations with respect to areas of mutual interest and lease bank agreements. Under the Summit Agreement, Summit loaned the company \$600,000 for the workover of selected wells and Summit funded \$600,000 for leasing in the Iola field of east Texas. In return Summit earned a 8.5% working interest in the workover wells and retained a 25% working interest in the Iola leases and drilling program. For consideration of such payment, Addison acquired certain

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oil and gas leases and wellbores from Summit but agreed to grant us a 180-day redemption option (which was extended by mutual consent) to purchase the same for \$1,200,000, plus interest at the prime rate plus 2%. We tendered Addison a promissory note in the amount of \$600,000, with interest at the prime rate plus 2%, to substitute for an account payable to Summit, pursuant to the Summit Agreement, in the same amount. The note would be considered paid in full if we exercised the redemption option and paid the \$1,200,000, plus interest. Summit retained the right to participate up to a 25% working interest in the drilling of any wells on the leases acquired by Addison. In the event we exercised the redemption option, Addison could have, at its sole option, retained up to a 25% working interest in the leases.

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Note 8. Related Party Transactions-continued

The Addison Agreement was extended on July 15, 2004. We exercised the redemption option and Addison received \$1,275,353 at the closing of the February 2005 offering and waived its rights under the agreement to a working interest under the leases.

As part of the April 2004 refinancing, the former lender agreed to return all 2,000 shares of our Series F Preferred Stock held by it. Rather than receive the shares as treasury shares (which would have meant cancellation of the series) at our request the former lender transferred 400 of the shares to ST Advisory Corp., an entity owned by John Loehr, our former CEO and a current director, 400 of the shares to a financial advisor to the Company, and 200 of the shares to Thomas R. Kaetzer, our President and Director at that time and 1,000 shares to Intermarket Management LLC, an entity partially owned by M. Scott Manolis, one of our directors at that time. These transfers were to compensate the financial advisor and Mr. Loehr, Kaetzer and Manolis for service to the Company. On September 29, 2004, the financial advisor with 400 shares transferred 140 shares to three non-management transferees.

Approximately \$675,203 of the proceeds from the February 2005 offering were used to pay accrued and unpaid dividends on the preferred stock. J. Virgil Waggoner received \$469,603 as a result. On December 22, 2004, ST Advisory Corp, Intermarket Management LLC and Mr. Kaetzer converted their Series F preferred shares into common stock. At the closing of the February 2005 offering they were paid their proportionate share of accrued dividends due on the 2000 shares, which totaled \$17,167.

As part of the closing of the February 2005 offering, the investor and the Company agreed to pay certain legal, accounting and other due diligence costs and, also certain closing fees which totaled approximately \$3.75 million. Of this amount certain related parties received the following fees: OCM GW \$1,000,000; Intermarket Management LLC \$500,000; Mr. Allan D. Keel \$300,000 (which was used to invest in the subject offering).

In January 2005, Allan D. Keel, our current president and chief executive officer, and another individual lent an aggregate of \$200,000 to the Company, which was repaid in full out of the proceeds of the February 2005 offering. Approximately \$120,000 of that loan was attributable to Mr. Keel. In addition, Mr. Keel received warrants to purchase 30,000 shares of Common Stock at \$0.01 share in connection with this transaction.

Note 9. Income Taxes

Income tax (benefit) for 2005 and 2004 consist of the following (we had no income tax provision in 2003):

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	2005	2004
Current tax	\$ 5,974	\$ 118,255
Deferred tax benefit	(797,629)	(3,322,551)
Income tax benefit	\$ (791,655)	\$ (3,204,296)

The following table summarizes changes in our deferred tax asset obtained by applying a tax rate of 38% to the income (loss) before income taxes for the year ended December 31, 2005 and 2004 and 34% for the years ended December 31, 2003.

	2005	2004	2003
Tax (benefit) calculated at statutory rate	\$ (1,647,259)	\$ 1,849,812	\$ (1,028,305)
Increase (reductions) in taxes due to:			
Income tax credits	(5,974)	(118,255)	
Effect on non-deductible expenses	223,918	170,530	362,910
Change in valuation allowance	582,809	(4,693,201)	934,422
Other	48,877	(531,437)	(269,027)
Income tax benefit	\$ (797,629)	\$ (3,322,551)	\$ -

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Note 9. Income Taxes-continued

As of December 31, 2005 we had net operating loss carryforwards of approximately \$12,500,000, which are available to reduce future taxable income and the related income tax liability. We expect we will not be able to utilize carryforwards of approximately \$9,100,000 due to the limitations of Internal Revenue Code Section 382. The net operating loss carryforward expires at various dates through 2023.

The components of the net deferred federal income tax assets (liabilities) recognized in our consolidated balance sheets are as follows:

	December 31, 2005	December 31, 2004
Deferred tax assets		
Net operating loss carryforwards	\$ 4,249,890	\$ 4,873,859
Income tax credits	124,229	118,255
Oil and gas properties	1,461,983	198,596
Derivative instruments	1,196,304	572,100
Asset retirement obligations accretion	68,433	56,647
Deferred compensation	87,400	-
Accounts receivable allowance	11,656	-

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Net deferred tax assets before valuation allowance	7,199,895	5,819,457
Valuation Allowance	(3,079,715)	(2,496,906)
Net deferred tax assets	\$ 4,120,180	\$ 3,322,551

At December 31, 2003 we had recorded a valuation allowance for the entire balance of our deferred tax asset, due the uncertainty of our ability to ever realize that benefit. Due to a change in circumstances described below, we made an adjustment to the valuation allowance in 2004 resulting from a change in judgment about the realizability of the net operating loss carryforwards in future years. On February 28, 2005 we sold \$ 42,000,000 in newly issued preferred stock, resulting in proceeds of approximately \$38,000,000, net of offering expenses (See Note 2). With these proceeds we retired substantially all of our notes payable, paid substantial amounts of accounts payable and accrued expenses and retained approximately \$2,000,000 for working capital. After these transactions we had approximately \$190,000 in notes payable remaining. Of the retired notes, \$20,094,000 bore interest at the prime rate plus 11%. As a result of these transactions we believe we will generate enough future taxable income to fully realize all of our available net operating loss carryforwards other than those limited by Internal Revenue Code Section 382.

Note 10. Oil and Gas Hedging Activities

In the past we have entered into, and may in the future enter into, certain derivative arrangements with respect to portions of our oil and natural gas production to reduce our sensitivity to volatile commodity prices. During 2005 and 2004, we entered into price swaps and put agreements with financial institutions. We believe that these derivative arrangements, although not free of risk, allow us to achieve a more predictable cash flow and to reduce exposure to price fluctuations. However, derivative arrangements limit the benefit to us of increases in the prices of crude oil and natural gas sales. Moreover, our derivative arrangements apply only to a portion of our production and provide only partial price protection against declines in price. Such arrangements may expose us to risk of financial loss in certain circumstances. We expect that the monthly volume of derivative arrangements will vary from time to time. We continuously reevaluate our price hedging program in light of increases in production, market conditions, commodity price forecasts, capital spending and debt service requirements. The following derivatives were in place at December 31, 2005.

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Note 10. Oil and Gas Hedging Activities-continued

Crude Oil		Volume/ Month	Average Price/ Unit	Fair V
-----		-----	-----	Lia
January 2006 thru March 2006	Collar	10,000 Bbls	Floor \$50.00-\$59.00 Ceiling	\$
April 2006 thru December 2006	Collar	9,000 Bbls	Floor \$50.00-\$59.00 Ceiling	
January 2007 thru December 2007	Collar	3,000 Bbls	Floor \$45.00-\$59.45 Ceiling	

				\$

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Natural Gas		Volume/ Month	Average Price/ Unit	Fair V
January 2006 thru December 2006	Collar	70,000 MMBTU	Floor \$6.00-\$8.25 Ceiling	(Lia
January 2007 thru December 2007	Collar	20,000 MMBTU	Floor \$6.00-\$6.95 Ceiling	\$
Total fair value				\$
Current portion				\$
Noncurrent portion				\$

The settlement date for the December 2006 oil contract is January 2007. Accordingly, it is recorded as noncurrent. The estimate fair value of this contract is a liability of \$68,985.

We also had the following put options in place at December 31, 2005, for the months reflected.

Crude Oil	Monthly Volume	Price per Bbl
January 2006 thru April 2006	7,000 Bbls	\$25.75 put
May 2006 thru October 2006	6,000 Bbls	\$25.75 put
November 2006 thru April 2007	5,000 Bbls	\$25.75 put

The value of these put options was minimal.

At the end of each reporting period we are required by SFAS 133 "Accounting for Derivative Instruments and Hedging Activities," to record on our balance sheet the marked to market valuation of our derivative instruments. We recorded a net liability for derivative instruments at December 31, 2005 and 2004 of \$3,148,170 and \$1,505,527 respectively. As a result of these agreements, we recorded a non-cash charge to earnings, for unsettled contracts, of \$1,642,643 for the twelve month period ended December 31, 2005 and a charge of \$1,505,577 for the twelve month period ended December 31, 2004 and a non-cash increase in earnings of \$537,526 for the twelve month period ended December 31, 2003. The estimated change in fair value of the derivatives is reported in Other Income and Expense as unrealized (gain) loss on derivative instruments.

For settled contracts, we realized losses, reflected as reductions in oil and gas revenues, of \$3,942,710, \$1,841,209 and \$1,496,303 for the twelve month periods ended December 31, 2005, 2004 and 2003, respectively.

Note 11. Commitments and Contengencies

Lease Obligations

We lease office space at one location under a sixty-four (64) month lease, which commenced December 1, 2001 and was amended May 30, 2002, after expansion. The lease expires March 2007 and the annual commitments under the lease are: 2006 - \$135,323 and 2007 - \$33,977. Total rent expense for the years ended December 31, 2005, 2004 and 2003, were approximately \$153,000, \$142,500 and \$134,500 respectively.

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Note 11. Commitments and Contengencies-continued

Litigation

From time to time, we are involved in litigation arising out of our operations or from disputes with vendors in the normal course of business. As of March 26, 2006, we are not currently engaged in any legal proceedings that are expected, individually or in the aggregate, to have a material effect on our consolidated financial statements.

Employment Agreement

Effective February 28, 2005, we entered into employment agreements with our President/Chief Executive Officer and Senior Vice President /Chief Financial Officer. Each agreement has a term of three years with automatic yearly extensions unless we or the officer elects not to extend the agreement. These agreements provide for a base salary of \$240,000 per year and \$220,000 respectively, and a first year bonus of \$120,000 and \$110,000 respectively for the year ending December 31, 2005, payable on or before February 26, 2006. If the contracts are terminated by us without cause or by the employee for good reason, and the employee has been in compliance with employee contract terms, the employee may receive a cash payment equal to the greater of two times current year base salary plus prior year bonus, or \$600,000, and health insurance benefits for two years in the future.

Effective April 1, 2005, we entered into employment agreements with our four other Senior Vice Presidents. Each agreement has a term of two years with automatic yearly extensions unless we or the officer elects not to extend the agreement. These agreements provide for a base salary ranging from \$180,000 to \$185,000, and have no termination clauses.

Note 12. Oil and Gas Properties (Unaudited)

The following tables set forth certain information with respect to our oil and gas producing activities for the periods presented: Capitalized Costs Relating to Oil and Gas Producing Activities:

	2005	2004
	-----	-----
Unproved oil and gas properties	\$ 1,326,341	\$ 81,366
Proved oil and gas properties	59,614,594	54,947,396
Support equipment and facilities	4,657,756	3,528,310
	-----	-----
	65,598,691	58,557,072
Less accumulated depreciation, depletion and amortization	(11,969,647)	(8,998,598)
	-----	-----
Net capitalized costs	\$ 53,629,044	\$ 49,558,474
	=====	=====

Results of Operations for Oil and Gas Producing Activities:

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	2005	2004	2003
Oil and gas sales	\$ 17,551,650	\$ 11,101,114	\$ 10,844,000
Production costs	(5,585,297)	(4,879,754)	(5,527,000)
Geological and geophysical	(395,327)	-	-
Depreciation, depletion and amortization	(2,971,050)	(1,954,256)	(1,527,000)
Dry holes, abandoned property and impaired assets	(4,062,592)	(452,516)	(358,000)
Asset retirement obligation	(59,850)	(114,027)	(76,000)
Income tax expense	-	-	-
Results of operations for oil and gas producing activities - income	<u>\$ 4,477,534</u>	<u>\$ 3,700,561</u>	<u>\$ 3,353,000</u>

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Note 12. Oil and Gas Properties (Unaudited)-continued

The following table sets forth the composition of dry holes, abandoned property and impaired assets:

	2005	2004	2003
Dry holes	\$ 361,803	\$ 390,522	\$ 70,342
Abandoned property	10,552	61,994	288,395
Impaired assets	3,690,237	452,516	358,737
	<u>\$ 4,062,592</u>	<u>\$ 452,516</u>	<u>\$ 358,737</u>

Costs Incurred in Oil and Gas Producing Activities:

	2005	2004	2003
Property Acquisitions			
Proved	\$ 142,867	\$ 6,742	\$ -
Unproved	1,244,975	17,347	110,119
Development Costs	6,171,241	6,117,899	2,024,663
	<u>\$ 7,559,083</u>	<u>\$ 6,141,988</u>	<u>\$ 2,134,782</u>

The following table shows oil and gas property dispositions:

	2005	2004	2003
Oil and gas properties	\$ 31,337	\$ 5,425,040	\$ 31,979
Accumulated DD&A	-	(1,659,001)	(11,569)
Net oil and gas properties	<u>\$ 31,337</u>	<u>\$ 3,766,039</u>	<u>\$ 20,410</u>

As a result of these sales we recorded a loss of \$13,022, \$2,029,932 and \$ 20,409 in 2005, 2004 and 2003 respectively.

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Oil and Gas Reserves Information

The estimates of proved oil and gas reserves utilized in the preparation of the financial statements are estimated in accordance with guidelines established by the Securities and Exchange Commission and the Financial Accounting Standards Board, which require that reserve estimates be prepared under existing economic and operating conditions with no provision for price and cost escalations over prices and costs existing at year end except by contractual arrangements.

We emphasize that reserve estimates are inherently imprecise. Accordingly, the estimates are expected to change as more current information becomes available. Our policy is to amortize capitalized oil and gas costs on the unit of production method, based upon these reserve estimates. It is reasonably possible that, because of changes in market conditions or the inherent imprecision of these reserve estimates, that the estimates of future cash inflows, future gross revenues, the amount of oil and gas reserves, the remaining estimated lives of the oil and gas properties, or any combination of the above may be increased or reduced in the near term. If reduced, the carrying amount of capitalized oil and gas properties may be reduced materially in the near term.

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Note 12. Oil and Gas Properties (Unaudited)-continued

The following unaudited table sets forth proved oil and gas reserves, all within the United States, at December 31, 2005, 2004, and 2003, together with the changes therein.

	Crude Oil (BBls)	Natural Gas (Mcf)
	-----	-----
QUANTITIES OF PROVED RESERVES:		
Balance December 31, 2002	5,521,906	34,158,823
Revisions	(262,608)	(308,080)
Extensions, discoveries and additions	-	-
Purchase	-	-
Sales	-	-
Production	(221,335)	(1,190,624)
	-----	-----
Balance December 31, 2003	5,037,963	32,660,119
Revisions	(426,932)	(2,857,240)
Extensions, discoveries and additions	-	2,823,427
Purchase	-	-
Sales	(1,474,115)	(2,502,596)
Production	(173,865)	(1,033,433)
	-----	-----
Balance December 31, 2004	2,963,051	29,090,277
Revisions	(78,648)	(3,025,395)
Extensions, discoveries and additions	-	-
Purchase	953	67,631
Sales	-	-
Production	(177,833)	(1,482,250)
	-----	-----
Balance December 31, 2005	2,707,523	24,650,263

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PROVED DEVELOPED RESERVES:

December 31, 2003	3,772,926	24,642,407
December 31, 2004	2,575,403	20,965,574
December 31, 2005	2,423,196	19,658,165

Standardized measure of discounted future net cash flows relating to proved reserves:

	2005	2004	2003
Future cash inflows	\$ 425,080,357	\$ 290,998,312	\$ 336,795,385
Future production and development costs			
Production	101,677,305	80,880,330	109,468,727
Development	27,467,896	24,141,982	21,460,459
Future cash flows before income taxes	295,935,156	185,976,000	205,866,199
Future income taxes	(91,664,228)	(49,871,272)	(46,885,360)
Future net cash flows after income taxes	204,270,928	136,104,728	158,980,839
10% annual discount for estimated timing of cash flows	(85,873,789)	(52,602,351)	(70,653,419)
Standardized measure of discounted future net cash flows	\$ 118,397,139	\$ 83,502,377	\$ 88,327,420

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Note 12. Oil and Gas Properties (Unaudited)-continued

The following reconciles the change in the standardized measure of discounted future net cash flows:

	2005	2004	2003
Beginning of year	\$ 83,502,377	\$ 88,327,420	\$ 77,623,835
Changes from:			
Purchases of proved reserves	230,291	-	-

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Sales of producing properties	-	(13,756,990)	-
Extensions, discoveries and improved recovery, less related costs	-	10,280,787	-
Sales of oil and gas produced, net of production costs	(11,966,353)	(6,221,360)	(5,316,619)
Revision of quantity estimates	(16,437,404)	(12,614,337)	(3,751,921)
Accretion of discount	11,415,713	11,439,568	9,889,881
Change in income taxes	(22,544,291)	(4,552,701)	(4,793,281)
Changes in estimated future development costs	(6,461,166)	(8,040,393)	2,003,801
Development costs incurred that reduced future development costs	6,171,241	6,117,899	2,024,663
Change in sales and transfer prices, net of production costs	88,819,225	8,245,446	16,470,113
Changes in production rates (timing) and other	(14,332,494)	4,277,038	(5,823,052)
End of year	\$ 118,397,139	\$ 83,502,377	\$ 88,327,420

The calculations used to produce the figures in this table are based on current cost and price factors at December 31 for each year. The average sales prices utilized in the estimation of our proved reserves were \$57.79 per Bbl and \$10.90 per Mcf, \$40.41 per Bbl and \$5.89 per Mcf and \$29.51 per Bbl and \$5.82 per Mcf, at December 31, 2005, 2004 and 2003, respectively.

Note 13. Subsequent Events (Unaudited)

On March 22, 2006 we purchased a 100% working interest (75% net revenue interest) in leases on approximately 22,000 undeveloped acres in Culberson County Texas. The acreage, believed to contain producible reserves in the Barnett Shale and Atoka formations, is being acquired through our acquisition, by merger, of Core Natural Resources, Inc. ("Core"), a privately-held entity that was incorporated solely to hold the leases being acquired by us. Pursuant to the merger agreement, each issued and outstanding share of common stock of Core was converted into the right to receive (i) 5.39270725 shares of the common stock, par value \$.001 per share, of the Company (the "Stock Consideration") and (ii) cash in an amount determined by dividing \$706,123.25 by 600,000 (the "Cash Consideration," and, together with the Stock Consideration, the "Merger Consideration"). Pursuant to the merger agreement, we assumed \$2,045,258 of Core indebtedness that was paid off at the closing of the merger. The cash paid at closing was funded from cash on hand and temporary borrowings under our credit facility. As of the date of the merger agreement, 600,000 shares of Core Common Stock were issued and outstanding. We issued 3,235,624 shares of our common stock as the Stock Consideration. In a separate transaction, the Company will also issue an additional 462,231 shares of common stock of the Company to a Core stockholder as consideration for the assignment of a 2% overriding royalty interest owned by that stockholder in the oil and gas leases of Core (giving us a total 77% net revenue interest). All stock issued in conjunction with these transactions is restricted stock subject to resale limitations under Rule 144(a) of the Securities Act of 1933. Core stockholders were also granted certain limited piggyback registration rights.

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Note 14. Quarterly Results (Unaudited)

Summary data relating to the results of operations for each quarter for the years ended December 31, 2005 and 2004 follows:

	Three Months Ended			
	March 31	June 30	September 30	December 31
2005				
Net sales	\$ 3,664,333	\$ 4,393,040	\$ 4,736,297	\$ 4,889,138
Gross profit	968,147	849,565	1,381,323	(2,522,711)
Net income (loss) available to common shareholders	(3,547,445)	(79,362)	(2,188,922)	(1,289,982)
Income (loss) per common share - Basic and Diluted	\$ (.17)	\$.00	\$ (.08)	\$ (.04)
2004				
Net sales	\$ 2,538,729	\$ 2,535,266	\$ 2,802,946	\$ 3,330,732
Gross profit	363,693	(6,060)	542,172	658,010
Net income (loss) available to common shareholders	(303,003)	9,323,281	(4,905,958)	3,502,289
Income (loss) per common share - Basic Diluted	\$ (.02)	\$.50	\$ (.27)	\$.19
	\$ (.02)	\$.29	\$ (.27)	\$.10

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Crimson Exploration Inc.

We have audited in accordance with the standards of the Public Accounting Oversight Board (United States) the consolidated financial statements of Crimson Exploration Inc. and subsidiaries referred to in our report dated March 24, 2006, which is included in this Form 10-K. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedule II is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information for the years ended December 31, 2004 and 2005 included in Schedule II has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ GRANT THORNTON LLP

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Houston, Texas
 March 24, 2006

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REPORT OF INDEPENDENT REGISTERED
 PUBLIC ACCOUNTING FIRM ON THE
 FINANCIAL STATEMENT SCHEDULE

To the Stockholders and
 Board of Directors
 Crimson Exploration Inc.

Our report on the consolidated financial statements of Crimson Exploration Inc. for the year ended December 31, 2003 is included on page F-2. In connection with our audit of such consolidated financial statements, we have also audited the related financial statement schedule for the year ended December 31, 2003 on page F-33.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

[GRAPHIC OMITTED] [GRAPHIC OMITTED]

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
 March 19, 2004

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CRIMSON EXPLORATION INC. AND SUBSIDIARIES
 SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
 FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	PROVISIONS/ ADDITIONS	RECOVERIES/ DEDUCTIONS	BALANCE AT END OF PERIOD
For the year ended December 31, 2003				
Valuation allowance for deferred tax assets	\$ 6,255,685	\$ 934,422		\$ 7,190,107
For the year ended				

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December 31, 2004				
Valuation allowance for				
deferred tax assets	\$ 7,190,107		\$ (4,693,201)	\$ 2,
	=====	=====	=====	=====
For the year ended				
December 31, 2005				
Accounts receivable	\$	\$ 30,674	\$	\$
	=====	=====	=====	=====
Valuation allowance for				
deferred tax assets	\$ 2,496,906	\$ 582,809	\$	\$ 3,
	=====	=====	=====	=====

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