

ENERGY CO OF MINAS GERAIS
Form 6-K
July 07, 2006

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

**REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the month of July, 2006

Commission File Number 1-15224

Energy Company of Minas Gerais

(Translation of Registrant's Name Into English)

**Avenida Barbacena, 1200
30190-131 Belo Horizonte, Minas Gerais, Brazil**

(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

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COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG
Listed Company CNPJ 17.155.730/0001-64

Summary of Minutes of the 372nd meeting of the Board of Directors.

Date, time, place: January 25, 2006, 9 am, at the head office, Av. Barbacena 1200, 18th Floor, Belo Horizonte, Minas Gerais, Brazil.

Meeting Committee:

Chairman: Wilson Nélio Brumer

Secretary: Anamaria Pugedo Frade Barros.

Summary of events

I - The Board approved:

a) giving of a guarantee by **Cemig** for

the first issue of non-convertible debentures of **Cemig GT**, in which 62,500 debentures will be issued, made up of 31,250 of the first series and 31,250 of the second series, the first maturing November 1, 2009, the second maturing November 1, 2011, with par (nominal) value equivalent to the updated nominal value of the debentures of the first issue of Cemig;

and for

the first issue of non-convertible debentures of **Cemig D**, in which 23,042 debentures will be issued, with final maturity on the first business day of June 2014, with nominal value equivalent to the updated nominal value of the debentures of the third issue of Cemig, binding **Cemig**, as joint and principal payer of all the obligations arising from the deed of the first issue of debentures of **Cemig GT** and from the deed of the first issue of debentures of **Cemig D**, until their final settlement, with express waiver of the benefits provided by Articles 366, 827, 834, 835, 837, 838 and 839 of Law 10406/2002, and Articles 77 and 595 of Law 5869/1973, for the obligations assumed in the respective Issue Deeds.

The guarantee is provided by Cemig irrevocably and shall remain in force up to the complete compliance, by Cemig GT and Cemig D, of all the obligations specified in the respective Issue Deeds;

and

b) The Minutes of this meeting.

II - The Board of Directors authorized the Executive Board to carry out all the acts necessary for making effective the guarantee referred to in sub-item a of item I above, conducting negotiations and authorizing the signing of the necessary contracts for them to become valid, including the respective Issue Deeds, in such a way that the guarantee shall remain in effect, valid and efficacious until such time as all the obligations to be assumed by Cemig GT and Cemig D are not yet fulfilled.

III - Withdrawal from the agenda of the matter relating to the authorization for the opening of administrative tender proceedings and for the making of the purchases and hiring of the services necessary for the implementation of the institutional plan of action for compliance with the new Regulatory Rule (NR) No. 10 Safety in Electricity Facilities and Services.

IV- The third and last part of the development program seminar for the Board of Directors and the Executive Board, developed by the Dom Cabral Foundation, was held.

V- The following made comments on general matters and business of interest to the Company:

The Vice-Chairman;

Board members: Andréa Paula Fernandes Pansa, Carlos Augusto Leite Brandão, José Augusto Pimentel Pessôa and Antônio Renato do Nascimento.

Director: Flávio Decat de Moura.

Assistant: João Batista Zolini Carneiro.

The following were present:

Board members: Wilson Nélio Brumer, Djalma Bastos de Moraes, Andréa Paula Fernandes Pansa, Alexandre Heringer Lisboa, Carlos Augusto Leite Brandão, Francelino Pereira dos Santos, José Augusto Pimentel Pessôa, Maria Estela Kubitschek Lopes, Nilo Barroso Neto, Antônio Renato do Nascimento, Eduardo Lery Vieira, Francisco Sales Dias Horta, Fernando Lage de Melo, Franklin Moreira Gonçalves, Luiz Henrique de Castro Carvalho.

Directors: Celso Ferreira, Elmar de Oliveira Santana, Flávio Decat de Moura, Heleni de Mello Fonseca, José Maria de Macedo.

Assistant: João Batista Zolini Carneiro.

Secretary: Anamaria Pugedo Frade Barros.

Anamaria Pugedo Frade Barros

[LETTERHEAD]

COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG
Listed Company CNPJ 17.155.730/0001-64

Extracts from the Minutes of the 376th meeting of the Board of Directors.

Date, time, place: Begun February 23, 2006 at 12 noon, resumed February 23, 2006 at 9 am at the head office, Av. Barbacena 1200, 18th Floor, Belo Horizonte, Minas Gerais, Brazil.

Meeting committee:

Chairman: Wilson Nélio Brumer

Secretary: Anamaria Pugedo Frade Barros.

Summary of events:

I - The Board approved the Minutes of this meeting.

II- The Board authorized:

a) provision of a corporate **guarantee** by Cemig, valid to May 19, 2008, in relation to the Agency Contract for Payment and Assumption of Debt signed between **Empresa de Infovias S.A.** and **MBK Furukawa Sistemas S.A.**, with Cemig, AES Força Empreendimentos Ltda. and Unibanco as consenting parties;

b) signing of the First Amendment to the Financing Contracts to substitute the guarantees and obligations mentioned in sub-item a of item II, above, contained in the said Agency Contract for Payment and Assumption of Debt and other guarantee contracts, to rescind the private instrument of pledge of revenues, to exclude all mentions of the guarantees substituted in the Financing Contracts and to effect the substitution and assumption of liabilities of **AES Força Empreendimentos Ltda.** by **Cemig** in the ambit of the Financing Contracts, as a result of the disposal of the shares; and

c) participation of Cemig in the competitive tender for concession for public electricity transmission service, including construction, operation and maintenance of the transmission installations of the 1,200 kV **El Rodeo Chena transmission line** of the trunk transmission system of the Central Chilean grid, being held by the Chilean Grid Load Dispatch System (CDEC), a body controlled by the Mining Ministry of Chile, subject, among others, to the following conditions and procedures:

The participation will be jointly with Companhia Técnica de Engenharia Elétrica **Alusa**, with the following participation percentages: Cemig: 49%, Alusa: 51%.

If the consortium consisting of Cemig and Alusa is declared the winner of the bid in accordance with the tender announcement, a **special-purpose company** (SPC) shall be constituted in Chile to execute the project and operate the concession.

If the consortium is declared winner, the final conditions of modeling of the project shall be presented to the Executive Board and to the Board of Directors as

soon as the award of the concession of the transmission line is made, for decision on the **stake** of **Cemig** in the undertaking.

Cemig may exercise the **right to withdraw** from the SPC, without any charge and with restitution of amounts already invested, if the final assessment of the project, which shall take into account all the final conditions, costs and parameters and the revenue offered, does not reach the expected minimum profitability.

III - The following made comments on general matters and business of interest to the Company:

The Vice-Chairman

Board members: Andréa Paula Fernandes Pansa, Carlos Augusto Leite Brandão, Haroldo Guimarães Brasil, José Augusto Pimentel Pessôa and Andréa Leandro Silva.

Directors: Celso Ferreira and Flávio Decat de Moura.

The following were present:

Board members: Wilson Nélio Brumer, Djalma Bastos de Moraes, Aécio Ferreira da Cunha, Andréa Paula Fernandes Pansa, Alexandre Heringer Lisboa, Antônio Adriano Silva, Carlos Augusto Leite Brandão, Francelino Pereira dos Santos, Haroldo Guimarães Brasil, José Augusto Pimentel Pessôa, Maria Estela Kubitschek Lopes, Nilo Barroso Neto, Andréa Leandro Silva, Guy Maria Villela Paschoal and Fernando Lage de Melo;

Directors: Celso Ferreira, Flávio Decat de Moura;

Secretary: Anamaria Pugedo Frade Barros.

Anamaria Pugedo Frade Barros

[LETTERHEAD]

COMPANHIA ENERGÉTICA DE MINAS GERAIS Cemig
Listed Company CNPJ 17.155.730/0001-64

Extract from Minutes of the 377th meeting of the Board of Directors.

Date, time, place: Begun March 7, 2006 at 9 am, resumed March 8, 2006 at 10 am at the head office, Av. Barbacena 1200, 18th floor, in Belo Horizonte, Minas Gerais, Brazil.

Meeting committee:

Chairman: Wilson Nélio Brumer

Secretary: Anamaria Pugedo Frade Barros.

Summary of events:

I - The Board approved:

a) the proposal of the Board member Alexandre Heringer Lisboa, that the members of the Board of Directors should authorize their Chairman to **call the Annual General Meeting** to be held on April 28, 2006, and if there is not the minimum obligatory quorum, the Chairman may proceed to second calling of the stockholders in the legal period; and

b) the Minutes of this meeting.

II - The Board approved and submitted to the consideration of the Annual General Meeting the Report of Management, the **financial statements** for the year of 2005 and the respective complementary documents.

III - The Board authorized:

a) signing of the First Amendment to the **Contract to Assume Debt** with Fundação Forluminas de Seguridade Social **Forluz**, with Companhia Energética de Minas Gerais **Cemig**, Cemig Distribuição S.A. **Cemig D** and Cemig Geração e Transmissão S.A. **Cemig GT**, for the purpose of absorbing the utilization of the technical surplus of Balances Plan (A) in relation to Forluz, the Companies having the following attributions:

full quittance of the Opening Contract for Migration from the BD Plan to the Mixed Plan (Plan A); and

partial amortization of the debtor balance of the Contract for Coverage of the Initial Deficit of Plan A.

As a result of the alteration of the debtor balance of these contracts, the monthly installments shall be recalculated, based on the amortization period in force up to October 30, 2017, in 142 installments. The Company shall calculate a mutual settlement of accounts, to correct any differences in the payment of the installments of the said contracts, between December 31, 2005 and the date of signature of the Amendment;

b) payment, on a date to be set by the Executive Board, of **complementary dividends** in the amount of R\$ 76,500, in such a way as to ensure that those stockholders whose names are on the Nominal Share Register on June 10, 2004, September 9, 2004, December 10, 2004 and

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January 10, 2005 shall equitably receive the obligatory minimum dividends, as approved by the Annual General Meeting of April 29, 2005;

c) entering into a Memorandum of Agreement between Companhia Energética de Minas Gerais, Andrade Gutierrez Concessões S.A., J.L.A. Participações S.A. and Pactual Latin America Power Fund Ltd., establishing the relationship between the parties in relation to the proposal of a binding bid for the acquisition of the stake of EDF International S.A. in the company **Light S.A.** and the signing of a **Stockholders Agreement**;

d) presentation to Citibank Global Markets Inc. of a **binding bid for the acquisition**, by Cemig, jointly with Andrade Gutierrez Concessões S.A., J.L.A. Participações S.A. and Pactual Latin America Power Fund Ltd., of up to 100% of the shares held by EDF International S.A. in the company **Light S.A.**, corresponding to 89.6% total capital of the company. The binding bid to be presented shall obey the Economic-financial Valuation Opinion carried out by the financial advisers Banco Itaú BBA S.A. and Bassini Playfair Wright (BPW). The valuation was prepared after the realization of detailed due diligence on the assets of Light by the advisers Hirashima & Associados Ltda. (accounting and fiscal), Arcadis Logos/Abdo & Associados (technical and commercial advisors), Motta, Fernandes Rocha Associados Advogados (legal advisors) and Towers Perrin (Actuarial). The value of the bid shall be correspondent to the stake of Cemig, that is to say, 25%. The participation of Cemig in the assets shall take place through the special purpose company denominated Rio Minas Energia Participações S.A. RME;

e) re-ratification of CRCA-070/2005, to authorize the constitution of a **special-purpose company** (SPC), to be named **Rio Minas Energia Participações S.A.**, which shall have as partners Companhia Energética de Minas Gerais, Andrade Gutierrez Concessões S.A., J.L.A. Participações S.A. and Pactual Latin America Power Fund Ltd., with participation of 25% each, in the registered capital;

f) entering into the **Stockholders Agreement** of **Rio Minas Energia Participações S.A.**, between Companhia Energética de Minas Gerais, Andrade Gutierrez Concessões S.A., J.L.A. Participações S.A. and Pactual Latin America Power Fund Ltd.; and

g) signing of the Agreement for Transfer of Generation Assets and Option to Acquire Shares, between Companhia Energética de Minas Gerais, Andrade Gutierrez Concessões S.A., J.L.A. Participações S.A. and Pactual Latin America Power Fund Ltd..

IV - The Council proposed to the Annual General Meeting that **the net profit** of the 2005 business year, in the amount of R\$ 2,003,399,000 should be **allocated** as follows:

1- R\$ 100,170,000, being 5% of the net profit, to the Legal Reserve, in accordance with subclause a of the sole sub-paragraph of Article 28 of the Bylaws.

2- R\$ 383,351,000 to the Retained Earnings Reserve, for application of fixed and working capital, according to the following decisions (amounts in Reais):

- R\$ 1,205,000.00 (one million, two hundred and five thousand Reais) as injection of capital into Usina Termelétrica de Barreiro S.A., authorized by CRCA-033/2005, with payment made on June 30, 2005 within the 2005 budget;

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- R\$ 21,885,720.00 (twenty one million, eight hundred and eighty five thousand, seven hundred and twenty Reais) for injection of capital into Transchile Charrua Transmisson S.A., in relation to the Charrua-Nueva Temuco Transmission Line Project in Chile, authorized by CRCA-042/2005, of which R\$4,185,720.00 (four million, one hundred and eighty five thousand, seven hundred and twenty Reais) realized on December 27, 2005 within the 2005 budget, and R\$17,700,000.00 (seventeen million, seven hundred thousand) already allocated for realization in the 2006 budget;

- R\$ 120,298.00 (one hundred and twenty thousand, two hundred and ninety eight Reais) for injection of capital into Cemig Trading S.A., authorized by CRCA-052/2005, realized on November 30, 2005 within the 2005 budget;

- R\$ 3,000,000.00 (three million Reais) for injection of capital into the company, to be constituted, Rio Minas Energia S.A., for coverage of costs associated with the economic-financial assessment of Light Serviços de Eletricidade S.A., authorized by CRCA-084/2005, with additional value included in the 2006 budget;

- R\$ 2,392,250.00 (two million, three hundred and ninety two thousand, two hundred and fifty Reais) for injection of capital into Companhia Transleste de Transmissão, for the Montes Claros-Irapé Transmission Line Project, authorized by CRCA-085/2005, with payment made on January 4, 2006, with additional value included in the 2006 budget;

- R\$ 354,748,000.00 (three hundred fifty four million, seven hundred and forty eight thousand Reais) for application in fixed and working capital, according to the 2006 budget authorized by CRCA-078/2005, being:

A) R\$85,653,000.00 (eighty five million, six hundred and fifty three thousand Reais) in injections of capital as follows:

a) R\$ 300,000.00 (three hundred thousand Reais) for injection of capital into Usina Termelétrica Barreiro S.A. and execution of the Barreiro Hydroelectric Plant Project;

b) R\$ 21,253,000.00 (twenty one million, two hundred and fifty three thousand Reais) for injection of capital into the Cemig Capim Branco Energia S.A. consortium, and execution of the Capim Branco I and Capim Branco II Hydro Plant Projects;

c) R\$400,000.00 (four hundred thousand Reais) for injection of capital into Companhia Transudeste de Transmissão and execution of the Itutinga-Juiz de Fora Transmission Line Project;

d) R\$19,700,000.00 (nineteen million and seven hundred thousand Reais) for injection of capital into Companhia de Transmissão Centro-Oeste de Minas and execution of the Furnas-Pimenta Transmission Line Project;

e) R\$ 800,000.00 (eight hundred thousand Reais) for injection of capital into Companhia Transirapé de Transmissão and execution of the Irapé-Araçuaí Transmission Line Project;

f) R\$ 7,400,000.00 (seven million, four hundred thousand Reais) for injection of capital into Cemig PCH S.A. and execution of the Pai Joaquim Small Hydro Plant Project;

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- g) R\$ 10,800,000.00 (ten million, eight hundred thousand Reais) for injection of capital into Empresa de Infovias S.A.;
- h) R\$ 25,000,000.00 (twenty five million Reais) for injection of capital into Companhia de Gás de Minas Gerais;
- B) R\$ 1,305,000.00 (one million, three hundred and five thousand Reais) for investments in feasibility studies for acquisition of companies and general equipment and services;
- C) R\$ 267,790,000.00 (two hundred and sixty seven million, seven hundred and ninety thousand Reais) for application in current funds involving expenses, taxes and service of debt.
- 3- R\$ 1,096,949,000 to be allocated as obligatory dividend, to the company's stockholders in accordance with sub-clause b of the sole sub-paragraph of Article 28 of the Bylaws and the application legislation, being:
- 3.1- R\$ 635,000,000 in the form of Interest on Equity, by the following decisions:
- R\$ 283,000,000 payable to the stockholders inscribed in the Nominal Share Registry on July 10, 2005, as per CRCA-035/2005;
 - R\$ 195,000,000, payable to stockholders in the Nominal Share Registry on November 8, 2005, as per CRCA-059/2005;
 - R\$ 157,000,000, payable to stockholders in the Nominal Share Registry on January 2, 2006, in accordance with CRCA-081/2005;
- 3.2- R\$ 461,949,000 in the form of complementary dividends.
- 4- R\$ 422,929,000 to be held in Stockholders' equity in the Reserve under the Bylaws specified in sub-clause c of the sole sub-paragraph of Clause 28 and Clause 30 of the Bylaws. The payments of dividends and Interest on Equity should be made in two installments by June 30, 2006 and December 30, 2006. The payments of the said installments may be brought forward, in accordance with availability of cash and by decision of the Executive Board. Appendix 1 of PRCA-014/2006 provides a summary of the cash budget of Cemig for the business year 2006, approved by the Board of Directors, characterizing the injection of funds and disbursements for compliance with the allocations of the profit of the year and Appendix 2 of the same PRCA summarizes the calculation of the dividends proposed by management, in accordance with the Bylaws.

V - The following made comments on general matters and business of interest to the Company:

The Vice-Chairman

Board members: Andréa Paula Fernandes Pansa, Antônio Luiz Barros de Salles, Carlos Augusto Leite Brandão, Haroldo Guimarães Brasil and José Augusto Pimentel Pessôa.

Directors: Flávio Decat de Moura and Heleni de Mello Fonseca.

Superintendents: Ricardo Luiz Diniz Gomes, Luiz Fernando Rolla;

Representatives of: Towers Perrin; Motta, Fernandes Rocha Associados Law Office; Hirashima & Associados Ltda.

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The following were present:

Board members: Wilson Nélio Brumer, Djalma Bastos de Moraes, Aécio Ferreira da Cunha, Andréa Paula Fernandes Pansa, Antônio Luiz Barros de Salles, Alexandre Heringer Lisboa, Carlos Augusto Leite Brandão, Francelino Pereira dos Santos, Haroldo Guimarães Brasil, José Augusto Pimentel Pessôa, Maria Estela Kubitschek Lopes, Francisco Sales Dias Horta, Guy Maria Villela Paschoal, Fernando Lage de Melo, Luiz Henrique de Castro Carvalho;

Audit Board members: Aristóteles Luiz Menezes Vasconcellos Drummond, Luiz Guaritá Neto, Luiz Otávio Nunes West, Itamaury Teles de Oliveira, Thales de Souza Ramos Filho

Directors: Flávio Decat de Moura, Heleni de Mello Fonseca;

Assistant: João Batista Zolini Carneiro;

Superintendents: Ricardo Luiz Diniz Gomes, Luiz Fernando Rolla

Representatives of: Deloitte Touche Tohmatsu Gilberto Grandolpho; Towers Perrin; Motta, Fernandes Rocha Associados Law Office; Hirashima & Associados Ltda.

Secretary: Anamaria Pugedo Frade Barros.

Anamaria Pugedo Frade Barros

[LETTERHEAD]

COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG
Listed Company CNPJ 17.155.730/0001-64

Extract from Minutes of the 379th meeting of the Board of Directors.

Date, time, place: March 28, 2006 at 10:00 a.m. in the head office, Av. Barbacena, 1200, 18th Floor, Belo Horizonte, Minas Gerais, Brazil.

Meeting committee:

Chairman: Djalma Bastos de Morais

Secretary: Anamaria Pugedo Frade Barros.

Summary of events:

I- The Board approved the Minutes of this meeting.

II- The Board granted annual paid leave to the Chief Distribution and Sales Officer in the periods April 3-12, July 10-21 and November 7-14, 2006; and to the Chief Planning, Projects and Construction Director in the periods May 2-12 and September 11-29, 2006.

III- The Board re-ratified CRCA-005/2006, changing the period of annual paid leave for the Chief Generation and Transmission Officer from March 27-31, 2006 to April 17-21, 2006, the other decisions of that CRCA remaining unchanged.

IV- The Chairman informed the meeting that the Company's technical staff was making adjustments to the indicative and non-binding proposal for acquisition of a thermal generation plant, for which reason the subject would be discussed at another time.

III - The following made comments on general matters and business of interest to the Company:

The Vice-Chairman

Board members: Andréa Paula Fernandes Pansa, Antônio Luiz Barros de Salles, Carlos Augusto Leite Brandão, Haroldo Guimarães Brasil and José Augusto Pimentel Pessôa.

Superintendent: Manoel Bernardino Soares.

Analyst: Álvaro Nelson Assis Araújo.

The following were present:

Board members: Djalma Bastos de Morais, Aécio Ferreira da Cunha, Andréa Paula Fernandes Pansa, Antônio Luiz Barros de Salles, Alexandre Heringer Lisboa, Carlos Augusto Leite Brandão, Francelino Pereira dos Santos, Haroldo Guimarães Brasil, José Augusto Pimentel Pessôa, Maria Estela Kubitschek Lopes, Nilo Barroso Neto, Guy Maria Villela Paschoal, Fernando Lage de Melo, Francisco Sales Dias Horta, Luiz Henrique de Castro Carvalho.

Directors: Flávio Decat de Moura.

Superintendent: Manoel Bernardino Soares.

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Analyst: Álvaro Nelson Assis.

Secretary: Anamaria Pugedo Frade Barros.

Anamaria Pugedo Frade Barros

[LETTERHEAD]

COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG

Listed Company CNPJ 17.155.730/0001-64

Meeting of the Board of Directors

At its meeting held at 10 a.m. on June 20, 2006, the Board of Directors decided to approve the Time of Service Extra Payment Indemnity Consent Program.

[LETTERHEAD]

COMPANHIA ENERGÉTICA DE MINAS GERAIS CEMIG

Listed Company CNPJ 17.155.730/0001-64

Meeting of the Board of Directors

At its meeting held on June 29, 2006, the Board of Directors of Cemig Companhia Energética de Minas Gerais decided as follows:

1. To re-ratify CRCA-012/2006, to change the date for calculation of the stockholding base to be used for calculation of the complementary dividends of June 10, 2004, September 9, 2004, December 10, 2004 and January 10, 2005, to July 11, 2006 and authorizing payment on August 10, 2006.

2. &# -

Operating expenses:

General and administrative

6,324

-

7,717

-

9,258

Amortization

38

-

38

-

38

Professional fees

111,597

-

18

	111,597
	-
	111,597
Total operating expenses	117,959
	-
	119,352
	-
	120,893

Other expenses:

Interest expense - related party

(351)

-

(351)

-

(351)

Total other expenses

(351)

-

(351)

-

(351)

Loss before provision for income taxes

(118,310)

-

(119,703)

-

(121,244)

Provision for income taxes

-

-

(4,229)

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Net loss

\$ (118,310)

\$ -

\$ (119,703)

\$ -

\$ (125,473)

Weighted average number of common shares

20,214,237

14,000,000

16,025,635

14,000,000

outstanding - basic

Net loss per share - basic

\$ (0.01)

\$ -

\$ (0.01)

\$ -

See Accompanying Notes to Consolidated Financial Statements.

CITADEL EXPLORATION, INC.
(FORMERLY SUBPRIME ADVANTAGE, INC.)
(A DEVELOPMENT STAGE COMPANY)
CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)

	For the six months ended June 30,		(Inception) November 6, 2006 to June 30, 2011
	2011	2010	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$ (119,703)	\$ -	\$ (125,473)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization	38	-	38
Changes in operating assets and liabilities:			
Increase in accounts payable	28,627	-	29,427
Increase in accrued interest payable - related party	351	-	351
Net cash used in operating activities	(90,687)	-	(95,657)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase oil and gas properties	(66,780)	-	(148,103)
Website	(1,375)	-	(1,375)
Net cash used in investing activities	(68,155)	-	(149,478)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from sale of common stock, net of offering costs	77,761	-	164,054
Proceeds from notes payable - related party	81,200	-	81,200
Net cash provided by financing activities	158,961	-	245,254
NET CHANGE IN CASH	119	-	119
CASH AT BEGINNING OF YEAR	-	-	-
CASH AT END OF YEAR	\$ 119	\$ -	\$ 119
SUPPLEMENTAL INFORMATION:			
Interest paid	\$ -	\$ -	\$ -
Income taxes paid	\$ -	\$ -	\$ -

See Accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The condensed interim financial statements included herein, presented in accordance with United States generally accepted accounting principles and stated in US dollars, have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, consisting of normal recurring adjustments, which in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these condensed interim financial statements be read in conjunction with the financial statements of the Company for the year ended December 31, 2010 and notes thereto included in the Company's 10-K annual report and all amendments. The Company follows the same accounting policies in the preparation of interim reports.

Results of operations for the interim period are not indicative of annual results.

Principles of Consolidation

For the year ended December 31, 2010, the consolidated financial statements include the accounts of Citadel Exploration, LLC. For the six months ended June 30, 2011, the consolidated financial statements include the accounts of Citadel Exploration, Inc. and Citadel Exploration, LLC. All significant intercompany balances and transactions have been eliminated. Citadel Exploration, Inc. and Citadel Exploration, LLC will herein be collectively referred to as the Company.

Nature of operations

Currently, the Company is focused on the acquisition and development of oil and gas resources in California. The Company has not yet found oil and gas resources in commercially exploitable quantities and is engaged in exploring land in an effort to discover them. The Company has been in the exploration stage since its formation and has not realized any revenues from its planned principal operations.

Use of estimates

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock-based compensation

The Company records stock based compensation in accordance with the guidance in ASC Topic 718 which requires the Company to recognize expense related to the fair value of its employee stock option awards. This eliminates accounting for share-based compensation transactions using the intrinsic value and requires instead that such transactions be accounted for using a fair-value-based method. The Company recognizes the cost of all share-based awards on a graded vesting basis over the vesting period of the award.

Earnings per share

The Company follows ASC Topic 260 to account for the earnings per share. Basic earnings per common share (EPS) calculations are determined by dividing net income by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per common share calculations are determined by dividing net income by the weighted average number of common shares and dilutive common share equivalents outstanding. During periods when common stock equivalents, if any, are anti-dilutive they are not considered in the computation.

Oil and gas properties

The Company uses the full cost method of accounting for its oil and natural gas properties. Under this method, all acquisition, exploration, development and estimated abandonment costs incurred for the purpose of acquiring and finding oil and natural gas are capitalized within cost centers. At December 31, 2010 and 2009, the Company had one cost center California. Unevaluated property costs are excluded from the amortization base until determination of the existence of proved reserves on the respective property or until the requirement for impairment. Unevaluated properties are reviewed at the end of each quarter to determine whether portions of the costs should be reclassified to the full cost pool and thereby subject to amortization. Sales of oil and natural gas properties are accounted for as adjustments to the net full cost pool with no gain or loss recognized, unless the adjustment would significantly alter the relationship between capitalized costs and proved reserves.

Capitalized costs of oil and natural gas properties evaluated as having, or not having, proved reserves are amortized in the aggregate by country using the unit-of-production method based upon estimated proved oil and natural gas reserves. For amortization purposes, relative volumes of oil and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil. Amortizable costs include estimates of future development costs of proved undeveloped reserves. The costs of properties not yet evaluated are not amortized until evaluation of the property. Such evaluations for a well and associated lease rights are made when it is determined whether or not the well has proved oil and natural gas reserves. Other unevaluated

properties are evaluated for impairment as of the end of each calendar quarter based upon various factors at the time, including drilling plans, drilling activity, management's estimated fair values of lease rights by project, and remaining lives of leases.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capitalized costs of oil and natural gas properties (net of related deferred income taxes) may not exceed a ceiling amount equal to the present value, discounted at 10% per annum, of the estimated future net cash flows from proved oil and natural gas reserves plus the cost of unevaluated properties (adjusted for related income tax effects). Should capitalized costs exceed this ceiling amount, the excess is charged to earnings as an impairment expense, net of its related reduction of the deferred income tax provision. The present value of estimated future net cash flows is computed by applying the twelve-month historical averages of prices of oil and natural gas to estimated future production of proved oil and natural gas reserves as of period-end, less estimated future expenditures (at period-end rates) to be incurred in developing and producing the proved reserves and assuming continuation of economic conditions existing at period-end. The present value of future net cash flows of proved reserves excludes future cash outflows associated with settling asset retirement obligations that have been accrued on the balance sheet.

Revenue recognition

The Company recognizes oil and natural gas revenues from our interests in producing wells when production is delivered to, and title has transferred to, the purchaser and to the extent the selling price is reasonably determinable. Gas-balancing arrangements are accounted for using the sales method.

Recent pronouncements

The Company has evaluated the recent accounting pronouncements through ASU 2011-07 and believes that none of them will have a material effect on the company's financial statements.

NOTE 2 GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the recoverability of assets and the satisfaction of liabilities in the normal course of business. As noted above, the Company is in the development stage and, accordingly, has not yet generated revenues from operations. Since its inception, the Company has been engaged substantially in financing activities and developing its business plan and incurring start up costs and expenses. As a result, the Company incurred accumulated net losses from Inception (November 6, 2006) through the period ended June 30, 2011 of (\$125,473). In addition, the Company's development activities since inception have been financially sustained through debt and equity financing.

The ability of the Company to continue as a going concern is dependent upon its ability to raise additional capital from the sale of common stock and, ultimately, the achievement of significant operating revenues. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might result from this uncertainty.

NOTE 3 OIL AND GAS PROPERTIES

The costs capitalized in oil and gas properties as of June 30, 2011 and December 31, 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Oil and gas property lease	\$ 51,653	\$ 41,323
Exploration	86,120	40,000
	\$ 137,773	\$ 81,323

On January 31, 2009, the Company entered into an oil, gas and mineral lease with an unrelated third party. The Company has the right to develop and operate the leased premises for an initial term of three years and the lease will continue as long as the Company continues actual drilling operations and continued development. The initial minimum lease payment of \$20,661 was made upon execution of the lease and the two remaining minimum lease payments of \$20,661 were due on January 31, 2010 and 2011. Additionally, the Company is obligated to pay royalties to the unrelated third party. On oil and gas from all wells on the leased premises, the royalty is a total of 20% of the market value. The royalty payments are due on or before the last day of each month for the preceding month's activity. If the royalty payment is not made timely, the Company will owe a 10% per annum interest on the royalties due.

NOTE 4 NOTES PAYABLE RELATED PARTY

Notes payable consists of the following at:

	June 30, 2011	December 31, 2010
Note payable to an entity owned and controlled by an officer, director and shareholder, unsecured, 4% interest, due upon demand	\$ 60,000	\$ -
Note payable to an entity owned and controlled by an officer, director and shareholder, unsecured, 4% interest, due upon demand	8,450	-

Note payable to an entity owned and controlled by an officer, director and shareholder, unsecured, 4% interest, due upon demand	12,750	-
	\$	
	81,200	\$ -

Interest expense for the six months ended June 30, 2011 and 2010 was \$351 and \$0, respectively. Interest expense for the three months ended June 30, 2011 and 2010 was \$351 and \$0, respectively.

NOTE 5 STOCKHOLDERS EQUITY

The Company is authorized to issue 100,000,000 shares of its \$0.001 par value common stock.

On March 2, 2011, the Company effected a 12-to-1 forward stock split of its \$0.001 par value common stock with a record date of March 22, 2011.

NOTE 5 STOCKHOLDERS EQUITY (CONTINUED)

All shares and per share amounts have been retroactively restated to reflect the split discussed above.

On May 6, 2011, the Company issued 14,000,000 shares to an individual in exchange for a 100% interest in Citadel Exploration, LLC. As part of the Membership Purchase Agreement the former officers and directors agreed to cancel 7,696,000 shares of common stock. On May 3, 2011, the transaction was closed and 100% interest in Citadel Exploration, LLC was acquired by the Company. For accounting purposes, the acquisition of Citadel Exploration, LLC by the Company has been recorded as a reverse acquisition of a public company and recapitalization of Citadel Exploration, LLC based on the factors demonstrating that Citadel Exploration, LLC represents the accounting acquirer. The historic financial statements of Citadel Exploration, LLC and related entities, while historically presented as an LLC equity structure, have been retroactively presented as a corporation for comparability purposes. The Company changed its business direction and is now an oil and gas company.

On May 20, 2011, the Company sold 62,500 shares of common stock for cash of \$50,000. As of June 30, 2011, the Company issued 20,000 shares of common stock. The remaining 42,500 shares have not been issued and has been recorded to stock payable.

During the six months ended June 30, 2011, there have been no other issuances of common stock.

NOTE 6 WARRANTS AND OPTIONS

As of June 30, 2011, there were no warrants or options outstanding to acquire any additional shares of common stock.

NOTE 7 MATERIAL AGREEMENTS

On May 3, 2011, the Registrant, completed a Membership Purchase Agreement and Plan of Reorganization originally dated February 28, 2011, (the Original Agreement) with Citadel Explorations, LLC, a California Limited Liability Company (Citadel LLC) acquiring 100% of Citadel, LLC 's outstanding membership interest in exchange for 14,000,000 shares of common stock, concurrent with the Closing. Additionally, the Original Agreement sets forth

conditions that the Company shall have obtained a cancellation of 7,696,000 shares of common stock. The Original Agreement with Citadel, LLC, provides the Company with the ownership of 100% of Citadel, LLC, which is involved in the oil and gas operating business.

Additionally, the officers and board of directors of the Company will resign and appoint Armen Nahabedian, to serve as Chief Executive Officer, President, Secretary, Treasurer, and a Director of the Registrant. Mr. Nahabedian shall serve as a Director of the Registrant until the next annual meeting of stockholders, or until successors have been elected.

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

This Quarterly Report on Form 10-Q contains forward-looking statements and involves risks and uncertainties that could materially affect expected results of operations, liquidity, cash flows, and business prospects. These statements include, among other things, statements regarding:

- o
our ability to diversify our operations;
- o
exploration risks such as drilling unsuccessful wells;
- o
our ability to attract key personnel;
- o
our ability to operate profitably;
- o
our ability to efficiently and effectively finance our operations, and/or purchase orders;
- o
inability to achieve future sales levels or other operating results;
- o
inability to raise additional financing for working capital;
- o
inability to efficiently manage our operations;
- o
the inability of management to effectively implement our strategies and business plans;

o

the unavailability of funds for capital expenditures and/or general working capital;

o

the fact that our accounting policies and methods are fundamental to how we report our financial condition and results of operations, and they may require management to make estimates about matters that are inherently uncertain;

o

deterioration in general or regional economic conditions;

o

changes in U.S. GAAP or in the legal, regulatory and legislative environments in the markets in which we operate;

o

adverse state or federal legislation or regulation that increases the costs of compliance, or adverse findings by a regulator with respect to existing operations;

as well as other statements regarding our future operations, financial condition and prospects, and business strategies. These forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Quarterly Report on Form 10-Q, and in particular, the risks discussed under the heading *Risk Factors* in Part II, Item 1A and those discussed in other documents we file with the Securities and Exchange Commission. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

References in the following discussion and throughout this quarterly report to we , our , us , Citadel , the Company , and similar terms refer to Citadel Exploration, Inc. unless otherwise expressly stated or the context otherwise requires.

OVERVIEW AND OUTLOOK

Background

Citadel Exploration, Inc., formerly Subprime Advantage, Inc., is a development stage company incorporated in the State of Nevada in December of 2009. On February 28, 2011, we entered into an agreement for the acquisition of 100% of the membership interest of Citadel Exploration, LLC (CEL), a California limited liability company.

On March 2, 2011, we changed our name from Subprime Advantage, Inc. to Citadel Explorations, Inc. in anticipation of the completion of the acquisition of 100% of all of the outstanding membership interest of CEL. The acquisition of 100% of the outstanding membership interest of CEL was completed on May 3, 2011. As a result of the completion of the acquisition, we are an oil and gas exploration company with operations in the Salinas Basin of California.

Recent Addition to Management

On August 9, 2011, we appointed Mr. Armen Nahabedian as Chief Executive Officer, President and a Director of the Company. Prior to the appointment of Mr. Nahabedian, we accepted the resignation of Mr. Michael J. Finch as Chief Executive Officer and President but remained as a Director of the Company.

Mr. Nahabedian is a fourth generation oil and gas explorer in the state of California. In 1999, Mr. Nahabedian joined the United States Marine Corp as an infantryman and reached the rank of Corporal (E-4) before serving in operation Iraqi Freedom and receiving an honorable discharge in 2003. Mr. Nahabedian immediately thereafter went to work in the oil fields of the South San Joaquin Valley for his family's oil company, The Nahabedian Exploration Group. After early success in his exploration efforts Mr. Nahabedian became a regional supervisor and managed the drilling operations for some of the deepest exploratory wells drilled in the state of California from 2004 through 2007. In 2007, Mr. Nahabedian then joined The Nahabedian Exploration Group as a partner and supervised land acquisition efforts (over 750,000 acres leased or optioned) and prospect generation. Mr. Nahabedian continued to act as an operational supervisor and in 2009, he became involved in business development and finance. Acting as the company's primary fund raiser Mr. Nahabedian educated himself on public financing and securities and with the assistance of an experienced legal team formed Citadel Exploration Inc in 2011.

Our Operations

As a result of completing the acquisition of the Shallow Indian Oil Development Project, located in the Bitterwater sub-basin of the Salinas Basin in California, consisting of 688.71 acres of leased property through the acquisition of 100% of the outstanding membership interest of CEL on May 3, 2011, our focus has been redirected to the oil and gas operations of CEL. We are now an oil and gas exploration, development and production company. Our principal strategy is to focus on the acquisition of oil and natural gas mineral leases that have existing production and cash flow. Once acquired, we strive to implement an accelerated development program utilizing capital resources, a regional operating focus, an experienced management and technical team, and enhanced recovery technologies to attempt to increase production and increase returns for our stockholders. Our oil and natural gas acquisition and development activities are currently focused in the Salinas Basin of California.

Going Concern

The financial statements included in this filing have been prepared in conformity with generally accepted accounting principles that contemplate the continuance of the Company as a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. However, the Company is in the development stage and, accordingly, has not generated revenues from operations. As shown on the accompanying financial statements, the Company has incurred a net loss of \$125,473 for the period from inception (November 6, 2006) to June 30, 2011. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

The future of the Company is dependent upon its ability to obtain financing and upon future profitable operations from the development of its oil and gas business opportunities.

RESULTS OF OPERATIONS

For accounting purposes, the acquisition of Citadel Exploration, LLC by the Company has been recorded as a reverse acquisition of a public company and recapitalization of Citadel Exploration, LLC based on the factors demonstrating that Citadel Exploration, LLC represents the accounting acquirer. The historic financial statements of Citadel Exploration, LLC and related entities, while historically presented as an LLC equity structure, have been retroactively presented as a corporation for comparability purposes.

Since our inception on November 6, 2006 through June 30, 2011, we have not generated any revenues.

Operating expenses totaled \$117,959 during the three months ended June 30, 2011 and \$119,352 during the six months ended June 30, 2011 as compared to \$0 in the prior year. Operating expenses primarily consisted of general and administrative fees and professional fees in the six and three months ended June 30, 2011.

General and administrative fees increased \$6,324 from the three months ended June 30, 2010 to the three months ended June 30, 2011. This increase was primarily as a result of having a license/permit expense in the period ended in 2011 and not in the same period a year ago.

General and administrative fees increased \$7,717 from the six months ended June 30, 2010 to the six months ended June 30, 2011. This increase was primarily as a result of having a license/permit expense in the period ended in 2011 and not in the same period a year ago.

Professional fees increased \$111,597 from the three and six months ended June 30, 2010 to the three and six months ended June 30, 2011. The increase was primarily due to an increase in legal fees.

Liquidity and Capital Resources

As of June 30, 2011, we did not have any cash or cash equivalents. The following table provides detailed information about our net cash flow for all financial statement periods presented in this Quarterly Report. To date, we have financed our operations through the issuance of stock and borrowings.

The following table sets forth a summary of our cash flows for the six months ended June 30, 2011 and 2010:

	Six Months Ended		June
30,	2011		2010
Net cash used in operating activities	\$(90,687)		-
Net cash used in investing activities	(68,155)		-
Net cash provided by financing activities	158,961		-
Net increase in Cash	119		-
Cash, beginning of year	-		-
Cash, end of year	\$119		-

As of June 30, 2011, we continue to use traditional and/or debt financing to provide the capital we need to run the business.

On April 8, 2011, our wholly-owned subsidiary, Citadel Exploration, LLC, executed a \$50,000 line of credit with The Nahabedian Group (TNG), a related third party. During the quarter ended June 30, 2011, we received \$12,750 from TNG. The note is due on upon demand and bears interest at a rate of 4% per year.

On May 11, 2011, our wholly-owned subsidiary, Citadel Exploration, LLC, executed a \$50,000 line of credit with Gold or Glory, Inc. (Gold or Glory), a related third party. During the quarter ended June 30, 2011, we received \$8,450 from Gold or Glory. The note is due on upon demand and bears interest at a rate of 4% per year.

On May 31, 2011, our wholly-owned subsidiary, Citadel Exploration, LLC, executed a \$100,000 line of credit with Black Hawk Oil Company, LLC (Black Hawk), a related third party. During the quarter ended June 30, 2011, we received \$60,000 from Black Hawk. The note is due on upon demand and bears interest at a rate of 4% per year.

During the three and six months ended June 30, 2011 and June 30, 2010, we had interest expense of \$351 and \$0, respectively.

In May 2011, we received \$50,000 as a result of the private placement of 62,500 shares of our common stock at \$0.80 per share, pursuant to an exemption under the provisions of Regulation D-506 promulgated under the Securities Act of 1933.

Without cash flow from operations we will require additional cash resources, including the sale of equity or debt securities, to meet our planned capital expenditures and working capital requirements for the next 12 months. We will require additional cash resources due to changed business conditions, implementation of our strategy to successfully develop our Shallow Indian Oil Development Project, or acquisitions we may decide to pursue. If our own financial resources and then current cash-flows from operations are insufficient to satisfy our capital requirements, we may seek to sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity securities will result in dilution to our stockholders. The incurrence of indebtedness will result in increased debt service obligations and could require us to agree to operating and financial covenants that could restrict our operations or modify our plans to grow the business. Financing may not be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, will limit our ability to expand our business operations and could harm our overall business prospects.

Our ability to obtain additional capital through additional equity and/or debt financing, and Joint Venture or Working Interest partnerships will also be important to our expansion plans. In the event we experience any significant problems assimilating acquired assets into our operations or cannot obtain the necessary capital to pursue our strategic plan, we may have to reduce the growth of our operations. This may materially impact our ability to increase revenue and continue our growth.

Off-Balance Sheet Arrangements

As of the date of this Current Report, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Operation Plan

Our plan is to focus on the acquisition and drilling of prospective oil and natural gas mineral leases. Once we have tested a prospect as productive, subject to availability of capital, we will implement a development program with a regional operating focus in order to increase production and increase returns for our stockholders. Exploration, acquisition and development activities are currently focused in California. Depending on availability of capital, and other constraints, our goal is to increase stockholder value by finding and developing oil and natural gas reserves at costs that provide an attractive rate of return on our investments.

We expect to achieve these results by:

Investing capital in exploration and development drilling and in secondary and tertiary recovery of oil as well as natural gas;

Using the latest technologies available to the oil and natural gas industry in our operations;

Finding additional oil and natural gas reserves on the properties we acquire.

In addition to raising additional capital we plan to take on Joint Venture (JV) or Working Interest (WI) partners who may contribute to the capital costs of drilling and completion and then share in revenues derived from production. This economic strategy may allow us to utilize our own financial assets toward the growth of our leased acreage holdings, pursue the acquisition of strategic oil and gas producing properties or companies and generally expand our existing operations.

Because of our limited operating history we have yet to generate any revenues from the sale of oil or natural gas. Our activities have been limited to raising capital, negotiating WI agreements, becoming a publicly traded company and preliminary analysis of reserves and production capabilities from our exploratory test wells.

Our future financial results will depend primarily on: (i) the ability to continue to source and screen potential projects; (ii) the ability to discover commercial quantities of natural gas and oil; (iii) the market price for oil and natural gas; and (iv) the ability to fully implement our exploration and development program, which is dependent on the availability of capital resources. There can be no assurance that we will be successful in any of these respects, that the prices of oil and gas prevailing at the time of production will be at a level allowing for profitable production, or that we will be able to obtain additional funding to increase our currently limited capital resources.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

This item is not applicable as we are currently considered a smaller reporting company.

Item 4T. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer, Armen Nahabedian, and our Principal Financial Officer, Christopher Whitcomb evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Report. Based on that evaluation and assessment, Mr. Armen Nahabedian and Mr. Christopher Whitcomb concluded that our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

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

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II OTHER INFORMATION

Item 1.

Legal Proceedings.

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are not presently a party to any material litigation, nor to the knowledge of management is any litigation threatened against us, which may materially affect us.

Item 1A. Risk Factors

Our significant business risks are described in Item 1A. to Part II of Form 10-Q for the quarter ended March 31, 2011 and Item 1A. to Part I of Form 10-K for the year ended December 31, 2010 to which reference is made herein.

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

Stock Issuances

On May 6, 2011, we issued 14,000,000 shares of our restricted common stock to the managing member of Citadel Exploration, LLC in exchange for 100% of the membership interest of Citadel Exploration, LLC.

On May 20, 2011, we sold 62,500 shares of our restricted common stock to an accredited investor for a total purchase price of \$50,000 all which was paid in cash. Of the 62,500 shares, 20,000 shares have been issued and 42,500 shares are in the process of being issued.

We believe that the issuance and sale of the above shares was exempt from the registration and prospectus delivery requirements of the Securities Act of 1933 by virtue of Section 4(2) and Regulation D Rule 506. The shares were sold

directly by us and did not involve a public offering or general solicitation. The recipients of the shares were afforded an opportunity for effective access to files and records of the Company that contained the relevant information needed to make their investment decision, including the financial statements and 34 Act reports. We reasonably believed that the recipients, immediately prior to the sale of the shares, were accredited investors and had such knowledge and experience in our financial and business matters that they were capable of evaluating the merits and risks of their investment. The recipients had the opportunity to speak with our management on several occasions prior to their investment decision. There were no commissions paid on the issuance and sale of the shares.

Issuer Purchases of Equity Securities

We did not repurchase any of our equity securities from the time of our inception on November 6, 2006 through the period ended June 30, 2011.

Item 3. Defaults Upon Senior Securities.

None.

Item 5. Other Information.

On August 9, 2011, we appointed Mr. Armen Nahabedian as Chief Executive Officer, President and a Director of the Company. Prior to the appointment of Mr. Nahabedian, we accepted the resignation of Mr. Michael J. Finch as Chief Executive Officer and President but remained as a Director of the Company.

Mr. Nahabedian is a fourth generation oil and gas explorer in the state of California. In 1999, Mr. Nahabedian joined the United States Marine Corp as an infantryman and reached the rank of Corporal (E-4) before serving in operation Iraqi Freedom and receiving an honorable discharge in 2003. Mr. Nahabedian immediately thereafter went to work in the oil fields of the South San Joaquin Valley for his family's oil company, The Nahabedian Exploration Group. After early success in his exploration efforts Mr. Nahabedian became a regional supervisor and managed the drilling operations for some of the deepest exploratory wells drilled in the state of California from 2004 through 2007. In 2007 Mr. Nahabedian then joined The Nahabedian Exploration Group as a partner and supervised land acquisition efforts (over 750,000 acres leased or optioned) and prospect generation. Mr. Nahabedian continued to act as an operational supervisor and in 2009 he became involved in business development and finance.

Item 6. Exhibits.

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certifications of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certifications of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema

101.CAL* XBRL Taxonomy Extension Calculation Linkbase

101.DEF* XBRL Taxonomy Extension Definition Linkbase

101.LAB* XBRL Taxonomy Extension Label Linkbase

101.PRE* XBRL Taxonomy Extension Presentation Linkbase

*

XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CITADEL EXPLORATION, INC.

Date: September 19, 2011

By:

/S/ Armen Nahabedian

Armen Nahabedian
Chief Executive Officer
(Principal Executive Officer and duly authorized signatory)