

**CERTIFICATION OF
CONSOLIDATED FINANCIAL STATEMENTS
AND RELATED DISCLOSURE**

I, Stanton E. Ross, CEO and President of Infinity Energy Resources, Inc., hereby certify:

1. I have reviewed the attached annual consolidated financial statements and related disclosures of Infinity Energy Resources, Inc and Subsidiaries (the Company) for the year ended December 31, 2008; and December 31, 2009 and
2. In my capacity as CEO and President:
 - a. I have, or have caused to be, designed appropriate controls and procedures to ensure that material information regarding the Company is timely disclosed; and
 - b. I have evaluated the effectiveness of the controls and procedures and believe them to be effective; and
3. Based on my knowledge, the statements and the other disclosures in the report fairly present in material respects the consolidated financial condition, results of operations, and cash flows of the Company as of and for the year ended December 31, 2008 and December 31, 2009 in accordance with United States generally accepted accounting principles.

Date: June 28, 2010

Stanton E. Ross, CEO and President
Infinity Energy Resources, Inc.

INFINITY ENERGY RESOURCES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(Unaudited)

ASSETS	December 31, 2009	December 31, 2008
Current assets		
Cash and cash equivalents	\$ 210,931	\$ 308,074
Accounts receivable	2,497	5,817
Prepaid expenses and other	-	166,341
Total current assets	213,428	480,232
Oil and gas properties, using full cost accounting, net of accumulated depreciation, depletion, amortization and ceiling write-down		
Proved	-	-
Unproved	3,157,967	2,641,084
Other assets, net	181,011	212,238
Total assets	\$ 3,552,406	\$ 3,333,554
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Current portion of debt	\$ 10,010,494	\$ 9,910,494
Accounts payable	2,870,214	1,500,052
Accrued liabilities	5,588,116	3,385,291
Current portion of asset retirement obligations	432,027	432,027
Total current liabilities	18,900,851	15,227,864
Long-term liabilities		
Production taxes payable and other liabilities	463,132	228,163
Asset retirement obligations, less current portion	524,031	524,031
Subordinated note payable	1,275,000	-
Accrued interest	53,737	-
Derivative liabilities	291,679	291,679
Total liabilities	21,508,430	16,271,737
Commitments and contingencies (Note 5)		
Stockholders' equity (deficit)		
Preferred stock, par value \$.0001, authorized 10,000,000 shares, issued and outstanding 0 (12/31/09) and 0 (12/31/08) shares	-	-
Common stock, par value \$.0001, authorized 75,000,000 shares, issued and outstanding 18,419,375 (12/31/09) and 18,419,375 (12/31/08) shares	1,841	1,841
Additional paid-in capital	80,086,708	79,924,558
Accumulated deficit	(98,044,573)	(92,864,582)
Total stockholders' equity (deficit)	(17,956,024)	(12,938,183)
Total liabilities and stockholders' equity (deficit)	\$ 3,552,406	\$ 3,333,554

INFINITY ENERGY RESOURCES, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(Unaudited)

	For the Twelve Months Ended December 31,	
	2009	2008
Revenue		
Oil and gas sales	\$ 520,753	\$ 3,899,927
Operating expenses		
Oil and gas production expenses	64,354	2,927,236
Oil and gas production taxes	2,381	163,720
General and administrative expenses	3,598,547	3,607,049
Nicaragua expenses	248,473	-
Depreciation, depletion, amortization and accretion	-	794,775
Ceiling write-down of oil and gas properties	-	16,000,758
Total operating expenses	<u>3,913,755</u>	<u>23,493,538</u>
Operating loss	(3,393,002)	(19,593,611)
Other income (expense)		
Interest expense, net of capitalization	(1,839,629)	(1,441,198)
Change in derivative fair value	-	(206,999)
Other	52,640	25,416
Total other income (expense)	<u>(1,786,989)</u>	<u>(1,622,781)</u>
Net loss	<u>\$ (5,179,991)</u>	<u>\$ (21,216,392)</u>
Basic and diluted net loss per share		
Net loss	<u>\$ (.28)</u>	<u>\$ (1.15)</u>
Weighted average shares outstanding-basic and diluted	<u>18,419,375</u>	<u>18,419,375</u>

INFINITY ENERGY RESOURCES, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2009 and 2008
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Stockholders' Equity
	Shares	Amount				
Balance, December 31, 2007	17,871,157	\$ 1,776	\$ 79,371,077	\$(71,648,190)	\$ -	\$ 7,724,663
Issuance of common stock	550,000	65	203,500			203,565
Forfeiture of common stock	(1,782)	-	-	-	-	-
Stock-based compensation	-	-	349,981	-	-	349,981
Comprehensive loss						
Net loss	-	-	-	(21,216,392)	(21,216,392)	(21,216,392)
Reclassifications	-	-	-	-	-	-
Total comprehensive loss	-	-	-	-	<u>\$(21,216,392)</u>	-
Balance, December 31, 2008	18,419,375	1,841	79,924,558	(92,864,582)	\$ -	(12,938,183)
Issuance of common stock	-	-	-	-	-	-
Forfeiture of common stock	-	-	-	-	-	-
Stock-based compensation	-	-	162,150	-	-	162,150
Comprehensive loss						
Net loss	-	-	-	(5,179,991)	(5,179,991)	(5,179,991)
Reclassifications	-	-	-	-	-	-
Total comprehensive loss	-	-	-	<u>(5,179,991)</u>	<u>\$(5,179,991)</u>	-
Balance, December 31, 2009	<u>18,419,375</u>	<u>\$ 1,841</u>	<u>\$ 80,086,708</u>	<u>\$(98,044,573)</u>		<u>\$ (17,956,024)</u>

INFINITY ENERGY RESOURCES, INC. AND SUBSIDIARIES
Consolidated Statement of Cash Flows
(Unaudited)

	For the Twelve Months Ended December 31,	
	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Net loss	\$ (5,179,991)	\$ (21,207,410)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation, depletion and amortization	-	794,775
Reduction in value and loss upon sale of oil and gas properties and other assets	-	15,446,284
Non-cash stock-based compensation expense	162,150	349,981
Change in fair value of derivative liabilities	-	97,544
Change in operating assets and liabilities		
Decrease in accounts receivable	3,320	1,159,528
Decrease in prepaid expenses	166,341	612,203
Increase (decrease) in accounts payable and accrued liabilities	3,572,987	(5,569,984)
Increase (decrease) in other liabilities	<u>234,969</u>	<u>(197,269)</u>
Net cash used in operating activities	(1,040,224)	(8,514,348)
Cash flows from investing activities		
Capitalized development costs	(516,883)	-
Proceeds, sale of properties	-	19,089,808
Proceeds, sale of other assets	<u>31,227</u>	<u>877,611</u>
Net cash provided by (used in) investing activities	(485,656)	19,967,419
Cash flows from financing activities		
Proceeds, debt and subordinated note payable	1,428,737	-
Repayment of debt	-	(12,089,506)
Proceeds from issuance of common stock	<u>-</u>	<u>203,565</u>
Net cash provided by (used in) financing activities	<u>1,428,737</u>	<u>(11,885,941)</u>
Net decrease in cash and cash equivalents	(97,143)	(432,870)
Cash and cash equivalents		
Beginning	<u>308,074</u>	<u>740,944</u>
Ending	<u>\$ 210,931</u>	<u>\$ 308,074</u>

INFINITY ENERGY RESOURCES, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements December 31, 2009 and 2008

Note 1 — Nature of Operations, Basis of Presentation and Summary of Significant Accounting Policies

Nature of Operations

Infinity Energy Resources, Inc. and its subsidiaries (collectively, “Infinity” or the “Company”) are engaged in the acquisition, exploration, development and production of natural gas and crude oil in the United States and the acquisition and exploration of oil and gas properties offshore Nicaragua in the Caribbean Sea.

Basis of Presentation

The unaudited consolidated financial statements include the accounts of Infinity Energy Resources, Inc. and its wholly-owned subsidiaries, which include Infinity Oil and Gas of Texas, Inc. (“Infinity-Texas”), Infinity Oil & Gas of Wyoming, Inc. (“Infinity-Wyoming”). All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted in this Quarterly Report pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”). In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The accompanying unaudited consolidated financial statements should be read in conjunction with Infinity’s audited consolidated financial statements for the year ended December 31, 2007 and unaudited consolidated financial statements for December 31, 2008.

On January 7, 2008, Infinity-Wyoming completed the sale of essentially all of its producing oil and gas properties in Colorado and Wyoming, along with 80% of the working interest owned by the Company in undeveloped leaseholds in Routt County, Colorado and Sweetwater County, Wyoming to Forest Oil Corporation, a New York corporation (“Forest”). The transaction resulted in the sale of approximately 62% of the Company’s proved reserve quantities and 73% of the standardized measure of discounted future net cash flow. In addition, concurrent with the sale, on December 27, 2007, Infinity-Texas entered into a Farmout and Acquisition Agreement (the “Farmout Agreement”) for certain oil and gas leases owned by Infinity-Texas in Erath County, Texas. The Farmout Agreement provides that Forest will operate and earn a 75% interest in the spacing unit for each well in a 10-well drilling program. If Forest had completed the drilling program, Forest would have earned a 50% interest in the approximate 25,000 remaining undeveloped net acres and existing Erath County infrastructure owned by Infinity-Texas. Infinity-Texas retains 100% of its interest in all previously completed wells and 100 acres surrounding each such completed well. Forest did not complete the terms of the Farmout and Acquisition Agreement and did not earn any interest in the properties.

Liquidity; Going Concern

As reflected in the accompanying unaudited Consolidated Statements of Operations, the Company has had a history of losses. In addition, the Company has a significant working capital deficit and is currently experiencing substantial liquidity problems. As also discussed in Note 2, the Company is currently operating under the Fourth Forbearance Agreement with Amegy Bank, N. A. (“Amegy”) under the Revolving Credit Facility.

The Company entered into the Fourth Forbearance Agreement under the Revolving Credit Facility as a result of the Company’s failure to meet substantially all financial and certain other covenants during 2008. Under this Agreement, Amegy agreed to forebear from exercising any remedies under the Revolving Credit Facility, the revolving note and the related loan documents and to temporarily waive the covered events of default through January 31, 2010. The Company was required to repay the borrowing base deficiency by January 31, 2010 through the sale of assets, refinancing of the loan or some other means of raising capital. The company continues to operate under the Fourth Forbearance Agreement and management expects Amegy to continue under the agreement.

The Company has classified all \$10,010,494 outstanding under the Revolving Credit Facility at December 31, 2009 as current liabilities in the accompanying Consolidated Balance Sheets. Concurrent with the sale of assets on January 7, 2008, the Company repaid \$11,097,000 of principal outstanding under the Revolving Credit Facility, settled commodity derivative liabilities of \$2,258,000, settled general and administrative liabilities of approximately \$660,000 and established an escrow account in the amount of \$3,700,000 (none of which remained at December 31, 2008) to settle primarily exploration and operating liabilities of Infinity-Texas in the amount of \$4,838,000. The Company used the remaining escrow funds to negotiate with and seek concessions from its trade creditors in order to satisfy its remaining 2007 obligations.

Due to the uncertainties related to these matters, there exists substantial doubt about the Company’s ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of

INFINITY ENERGY RESOURCES, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements December 31, 2009 and 2008

asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

Management Estimates

The preparation of unaudited consolidated financial statements in conformity with generally accepted accounting principles in the United States 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 unaudited consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates with regard to the unaudited consolidated financial statements include the estimated carrying value of unproved properties, the estimate of proved oil and gas reserve volumes and the related present value of estimated future net cash flows and the ceiling test applied to capitalized oil and gas properties, the estimated cost and timing related to asset retirement obligations, the estimated fair value of derivative liabilities and stock based awards and the realization of deferred tax assets.

Oil and Gas Properties

The Company follows the full cost method of accounting for exploration and development activities. Accordingly, all costs incurred in the acquisition, exploration, and development of properties (including costs of surrendered and abandoned leaseholds, delay lease rentals, dry holes and seismic costs) and the fair value of estimated future costs of site restoration, dismantlement, and abandonment activities are capitalized. Overhead related to exploration and development activities is also capitalized. Costs associated with production and general corporate activities are expensed in the period incurred.

Depletion of proved oil and gas properties is computed on the units-of-production method, with oil and gas being converted to a common unit of measure based on relative energy content, whereby capitalized costs, as adjusted for estimated future development costs and estimated asset retirement costs, are amortized over the total estimated proved reserve quantities. The costs of wells in progress and unevaluated properties, including directly related seismic costs and any related capitalized interest and capitalized internal costs, are not amortized. On a quarterly basis, such costs are evaluated for inclusion in the costs to be amortized resulting from the determination of proved reserves, impairments, or reductions in value. To the extent that the evaluation indicates these properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized. Abandonments of unproved properties are accounted for as an adjustment to capitalized costs related to proved oil and gas properties, with no losses recognized.

Proceeds from the sales of oil and gas properties are accounted for as adjustments to capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in income. Expenditures for maintenance and repairs are charged to oil and gas production expense in the period incurred.

Pursuant to full cost accounting rules, the Company must perform a "ceiling test" each quarter. The ceiling test provides that capitalized costs less related accumulated depletion and deferred income taxes for each cost center may not exceed the sum of (1) the present value of future net revenue from estimated production of proved oil and gas reserves using current costs and prices, including the effects of derivative instruments accounted for as cash flow hedges but excluding the future cash outflows associated with settling asset retirement obligations that have been accrued on the balance sheet, and a discount factor of 10%; plus (2) the cost of properties not being amortized, if any; plus (3) the lower of cost or estimated fair value of unproved properties included in the costs being amortized, if any; less (4) income tax effects related to differences in the book and tax basis of oil and gas properties. If capitalized costs exceed the ceiling, the excess must be charged to expense and may not be reversed in future periods.

At December 31, 2008, the Company recognized a ceiling write-down of \$16,000,758 to fully reduce the value of the domestic properties. Aggregate capitalized costs relating to the Company's oil and gas producing activities, and related accumulated depreciation, depletion, amortization and ceiling write-downs are as follows:

	December 31, 2009	December 31, 2008
	(in thousands)	
Proved oil and gas properties	\$ -	\$ 90,134
Unproved oil and gas properties	<u>3,158</u>	<u>11,667</u>
Total		101,801
Less accumulated depreciation, depletion, amortization and ceiling write-downs	<u>-</u>	<u>(99,160)</u>
Net capitalized costs	<u>\$ 3,158</u>	<u>\$ 2,641</u>

INFINITY ENERGY RESOURCES, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements December 31, 2009 and 2008

Derivative Instruments

The Company accounts for derivative instruments or hedging activities under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 133 requires the Company to record derivative instruments at their fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income (loss) and are recognized in the statement of operations when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges, if any, are recognized in earnings. Changes in the fair value of derivatives that do not qualify for hedge treatment are recognized in earnings.

The Company periodically hedges a portion of its oil and gas production through swap and collar agreements. The purpose of the hedges is to provide a measure of stability to the Company's cash flows in an environment of volatile oil and gas prices and to manage the exposure to commodity price risk. As of December 31, 2008 and 2009, the Company had no oil and natural gas derivative arrangements outstanding.

As a result of certain terms, conditions and features included in certain warrants issued by the Company, those warrants are required to be accounted for as derivatives at estimated fair value.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. This method requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between financial accounting bases and tax bases of assets and liabilities. The tax benefits of tax loss carryforwards and other deferred taxes are recorded as an asset to the extent that management assesses the utilization of such assets to be more likely than not. When the future utilization of some portion of the deferred tax asset is determined not to be more likely than not, a valuation allowance is provided to reduce the recorded deferred tax asset. As of December 31, 2009 and December 31, 2008, the Company had recorded a full valuation allowance for its net deferred tax asset.

Comprehensive Income (Loss)

The Company has elected to report comprehensive income (loss) in the consolidated statements of stockholders' equity. Comprehensive income (loss) is composed of net income (loss) and all changes to stockholders' equity, except those due to investments by stockholders, changes in additional paid-in-capital and distributions to stockholders.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents consist of cash on hand and demand deposits with financial institutions. At times, the Company maintains deposits in financial institutions in excess of federally insured limits. Management monitors the soundness of the financial institutions and believes the Company's risk is negligible. The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Prepaid Severance Taxes

At December 31, 2007, the Company had \$737,000 of prepaid severance taxes related to estimated production tax refunds from the State of Texas, \$675,000 of which was a current asset at December 31, 2007. The estimated refunds result from the September 2006 designation of the Barnett Shale in Erath County, Texas as a tight gas formation eligible for a reduced production tax rate. As a result of this designation, the Company reflects the payments of severance taxes for the eligible wells as a prepayment rather than as production tax expense.

Asset Retirement Obligations

The Company records estimated future asset retirement obligations pursuant to the provisions of SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred with a corresponding increase in the carrying amount of the related long-lived asset. Subsequent to initial measurement, the asset retirement liability is required to be accreted each period to present value. The Company's asset retirement obligations consist of costs related to the plugging of wells, the removal of facilities and equipment, and site restoration on oil and gas properties. Capitalized costs are depleted as a component of the full cost pool using the units of production method. The following table summarizes the activity for the Company's asset retirement obligations at December 31, 2009 and 2008:

INFINITY ENERGY RESOURCES, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements December 31, 2009 and 2008

	<u>2009</u>	<u>(in thousands)</u>	<u>2008</u>
Asset retirement obligations at beginning of period	\$ 956		\$ 1,510
Accretion expense	-		50
Liabilities incurred	-		-
Liabilities settled	-		-
Liabilities settled through sale of assets	-		(604)
Revisions of estimates	-		-
Asset retirement obligations at end of period	956		956
Less: current portion of asset retirement obligations	(432)		(432)
Asset retirement obligations, less current portion	\$ 524		\$ 524

Capitalized Interest

The Company capitalizes interest costs to oil and gas properties on expenditures made in connection with exploration and development projects that are not subject to current depletion. Interest is capitalized only for the period that activities are in progress to bring these projects to their intended use. Interest costs capitalized for the years ended December 31, 2009, and 2008, were \$0 and \$154,000, respectively.

Intangible Assets

During the year ended December 31, 2007, the Company recorded amortization of deferred loan costs of \$924,000, using the effective interest method. The Company capitalizes amortization of loan costs to oil and gas properties on expenditures made in connection with exploration and development projects that are not subject to current depletion. Amortization of loan costs is capitalized only for the period that activities are in progress to bring these projects to their intended use. Total loan cost capitalized for the year ended December 31, 2009 was \$0.

Fair Value of Financial Instruments

The carrying values of the Company's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities represent the estimated fair value due to the short-term nature of the accounts.

The carrying value of the Company's debt under its Revolving Credit Facility represents its estimated fair value due to its short-term nature, its adjustable rate of interest and associated fees and expenses.

The estimated fair value of the Company's current derivative liabilities, all of which related to commodity swaps and collars at December 31, 2007, was estimated using year-end futures prices, volumes, delivery dates, and a present value factor commensurate with the derivative contract term as the Company's swap and collar contracts were not actively traded.

The estimated fair value of the Company's non-current derivative liabilities, all of which relate to warrants, is estimated using various models and assumptions related to the term of the instruments, estimated volatility of the price of the Company's common stock and interest rates, among other items (SFAS No. 157, *Fair Value Measurements* ("SFAS 157") fair value hierarchy level 2). As defined in SFAS 157, fair value is the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Company classifies fair value balances based upon observability of those inputs. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement), pricing inputs are other than quoted prices in active markets, but are either directly or indirectly observable and are valued using models or other valuation methodologies (level 2), and the lowest priority to unobservable inputs (level 3 measurement).

INFINITY ENERGY RESOURCES, INC. AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements December 31, 2009 and 2008

Earnings Per Share

Basic earnings per share is computed by dividing net earnings from continuing operations by the weighted average number of shares of common stock outstanding during each period, excluding treasury shares. Diluted earnings per share is computed by adjusting the average number of shares of common stock outstanding for the dilutive effect, if any, of common stock equivalents such as stock options, warrants and convertible debt.

Recent Accounting Pronouncements

In December 2007, the FASB issued Statement SFAS No. 141, *Business Combinations* ("SFAS 141R"), and SFAS No. 160, *Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51* ("SFAS 160"). SFAS 141R and SFAS 160 will significantly change the accounting for and reporting of business combination transactions and noncontrolling (minority) interests in consolidated financial statements. SFAS 141R retains the fundamental requirements in Statement 141, *Business Combinations*, while providing additional definitions, such as the definition of the acquirer in a purchase and improvements in the application of how the acquisition method is applied. SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests, and classified as a component of equity. These Statements become simultaneously effective January 1, 2009. Early adoption is not permitted. The Company is currently assessing the impact, if any, that the adoption of this pronouncement will have on the Company's operating results, financial position or cash flows.

Note 2 —Debt

Debt consists of the following:

	As of	
	December 31, 2009	December 31, 2008
	(in thousands)	
Revolving Credit Facility	\$ 10,010	\$ 9,910
Subordinated Note Payable	1,329	
Less current portion	(10,010)	(9,910)
Long-term debt	<u>\$ 1,329</u>	<u>\$ -</u>

Revolving Credit Facility

On January 10, 2007, the Company entered into a reserve-based revolving credit facility (the "Revolving Credit Facility") with Amegy. Under the related loan agreement (the "Loan Agreement") between Infinity, Infinity-Texas and Infinity-Wyoming (each wholly-owned subsidiaries of the Company and together, the "Guarantors") and Amegy, Infinity could borrow, repay and re-borrow on a revolving basis up to the aggregate sums permitted under the borrowing base, \$22,000,000 (reduced to \$10,500,000 effective as of August 10, 2007 and subsequently reduced to \$3,806,000 effective as of March 26, 2008) and subsequently reduced to \$2,900,000 on December 4, 2009. The Revolving Credit Facility had an initial term of two years. Amounts borrowed bear interest at prime plus 0.50% (5.5% at December 31, 2008 and 2009). Interest payments were due on a monthly basis, and principal payments may be required to meet a borrowing base deficiency or monthly borrowing commitment reductions. The borrowing base under the Revolving Credit Facility and the applicable interest rate was subject to adjustment at least once every three months. Amounts borrowed under the Revolving Credit Facility are collateralized by substantially all of the assets of Infinity and its subsidiaries and are guaranteed by Infinity's subsidiaries. The Revolving Credit Facility contains certain standard continuing covenants and agreements and requires the Company to maintain certain financial ratios and thresholds.

On August 31, 2007, the Company entered into a Forbearance Agreement, effective as of August 10, 2007, under the Loan Agreement among the Company, the Guarantors, and Amegy. The Forbearance Agreement related to the breach by the Company and Guarantors of: (i) the "Interest Coverage Ratio" set forth in Section 8(a) of the Loan Agreement; (ii) the "Funded Debt to EBITDA Ratio" set forth in Section 8(d) of the Loan Agreement and (iii) the requirement to deliver certain lien releases under Section 9 of the Loan Agreement. The Company entered into the Second Forbearance Agreement, under the Revolving Credit Facility as a result of the Company's failure to meet substantially all financial and certain other covenants during certain periods of 2007. The Company entered into the Third Forbearance Agreement, effective October 16, 2008 under the Revolving Credit Facility as a result of the Company's failure to meet substantially all financial and certain other covenants during certain periods of 2008. Under this agreement, the borrowing base remained at \$3,806,000, with a resulting borrowing base deficiency of \$6,104,000. The borrowing base shall not be subject to redetermination by Amegy during the Forbearance Period. Under this agreement, Amegy agreed to forebear from exercising any remedies under the Loan Agreement and related loan documents and to waive the Existing Defaults for the forbearance period commencing

INFINITY ENERGY RESOURCES, INC. AND SUBSIDIARIES

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as of June 1, 2008 and continuing through May 31, 2009"). In connection with the Third Forbearance Agreement, the term of the Loan Agreement and related note was extended until May 31, 2009.

Effective as of December 4, 2009 the Company entered into a Fourth Forbearance Agreement under the Loan Agreement. This agreement relates to the breach by the Company and Guarantors of (i) substantially all financial covenants set forth in Section 8 of the Loan Agreement and (ii) certain covenants set forth in Section 7 of the Loan Agreement (the "Existing Defaults"). Under this agreement, the borrowing base was reduced to \$2,900,000 with a resulting borrowing base deficiency of \$8,003,468. The borrowing base shall not be subject to redetermination by Amegy during the Forbearance Period (as defined below). The borrowing base deficiency must be cured by the end of the Forbearance Period through the sale of assets, refinancing of the loan, or some other means of raising capital. Under this Agreement, Amegy agrees to forebear from exercising any remedies under the Loan Agreement and related loan documents and to waive the Existing Defaults for the forbearance period commencing as of June 1, 2008 and continuing through January 31, 2010, unless otherwise extended or earlier terminated by Amegy due to a further default under the Agreement. In connection with the Forth Forbearance Agreement, the term of the Loan Agreement and related note was extended until January 31, 2010 and management expects Amegy to continue to extend the agreement.

During the Forbearance Period, the interest rate will continue at the stated rate plus the applicable margin, which is prime plus 0.50% (5.5% at December 31, 2008 and 2009) as set forth under the revolving note, and certain operating and financial limitations remain in place. Certain officers of the Company were required to exercise stock options for 550,000 shares, with the \$209,000 of proceeds allowed to be used by the Company for general and administrative expenses without restriction. These options were exercised on October 21, 2008. In addition, Amegy agrees, upon the request of the Company, to issue one or more letters of credit in an amount not to exceed \$850,000 as security for the Company's obligations with respect to the Nicaragua Concessions (as defined below).

Effective March 5, 2009, the Company entered into two contracts relating to the Company's concessions in the Tyra and Perlas Blocks, offshore Nicaragua, (the "Nicaragua Concessions") as awarded by the Republic of Nicaragua in 2003. In addition, the Company has entered into a subordinated loan in an aggregate amount of \$1,328,737 which shall be held in escrow and released as the Company needs funds for the Nicaragua Concession. Amegy will allow the subordinated loans to be secured by the assets of the Company, subject to Amegy's security interest.

In addition, Amegy allowed the Company to use a one percent revenue sharing interest with respect to the Nicaragua Concession in order to secure the subordinated loan. The Fourth Forbearance Agreement allowed the Company to award up to an additional 4% revenue sharing agreement service of outside consultants, officers and directors.

The Company intends to proceed with the sale and marketing of all remaining assets of Infinity-Wyoming and the assets of Infinity-Texas and will apply the net sales proceeds to payment of the revolving note.

The Company also agreed to pay Amegy a forbearance/waiver fee of 1.0% of the average daily outstanding principal balance of the revolving note until January 31, 2010. If, on or before January 31, 2009, the outstanding principal balance on the revolving note has been paid in full and all other obligations with the bank are current, Amegy agrees to waive one-half of the Forbearance Fees above. If any cash equity contributions to the Company are used to pay monthly interest due under the agreement, Amegy agrees to credit the Company 300% of the amount of the equity contributions.

Should the Company fail to comply with the terms of the Fourth Forbearance Agreement, Amegy would be entitled to impose a default interest rate (prime plus 6.5%) or to declare an event of default, at which point the entire unpaid principal balance of the loan, together with all accrued and unpaid interest and other amounts then owing to Amegy would become immediately due and payable. Amegy or other creditors may take action to enforce their rights with respect to outstanding obligations, and Infinity may be forced to liquidate. Because substantially all of the Company's assets are collateral under the Revolving Credit Facility, if Amegy declares an event of default, it would be entitled to foreclose on and take possession of the Company's assets.

Infinity has accrued interest and forbearance and additional fees due in connection with the Forbearance Agreements of \$3,795,377 and \$2,167,513 as of December 31, 2009 and 2008, respectively.

Senior Secured Notes Facility

The Company had a senior secured notes facility (the "Senior Secured Notes Facility") with a group of lenders (collectively, the "Buyers"), under which the Company sold, and the Buyers purchased, on four separate occasions, an aggregate of \$53 million principal amount of senior secured notes (the "Notes") and five-year warrants to purchase an aggregate 5,829,726 shares of the Company's common stock at an exercise price of \$5.00 per share (the "Warrants"). The Notes were repaid in December 2006. All such warrants were outstanding at December 31, 2008 and 2009. The warrants expire as follows:

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January 13, 2010	3,247,157
September 7, 2010	996,883
December 9, 2010	676,248
March 17, 2011	909,437

Note 3 — Stock Options

Effective January 1, 2006, the Company adopted SFAS No. 123(R), *Share-Based Payment*, which requires companies to recognize compensation expense for share-based payments based on the estimated fair value of the awards. SFAS No. 123(R) also requires tax benefits relating to the deductibility of increases in the value of equity instruments issued under share-based compensation arrangements that are not included in costs applicable to sales (“excess tax benefits”) to be presented as financing cash inflows in the statement of cash flows. The Company adopted SFAS No. 123(R) using the modified prospective transition method. Under this method, compensation cost recognized is based on the grant-date fair value for all share-based payments granted or modified subsequent to December 31, 2005, estimated in accordance with the provisions of SFAS No. 123(R).

Options Under Employee Option Plans

In May 2006, the Company’s stockholders approved the 2006 Equity Incentive Plan (the “2006 Plan”), under which both incentive and non-statutory stock options may be granted to employees, officers, non-employee directors and consultants. An aggregate of 470,000 shares of the Company’s common stock are reserved for issuance under the 2006 Plan. Options granted under the 2006 Plan allow for the purchase of common stock at prices not less than the fair market value of such stock at the date of grant, become exercisable immediately or as directed by the Company’s Board of Directors and generally expire ten years after the date of grant. The Company also has other equity incentive plans with terms similar to the 2006 Plan. As of December 31, 2008, 188,463 shares were available for future grants under all plans.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model, which requires the input of subjective assumptions, including the expected term of the option award, expected stock price volatility and expected dividends. These estimates involve inherent uncertainties and the application of management judgment. For purposes of estimating the expected term of options granted, the Company aggregates option recipients into groups that have similar option exercise behavioral traits. Expected volatilities used in the valuation model are based on the expected volatility that would be used by an independent market participant in the valuation of certain of the Company’s warrants. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The Company’s forfeiture rate assumption used in determining its stock-based compensation expense is estimated based on historical data and have varied during the years ended December, 2009 and 2008. The actual forfeiture rate could differ from these estimates. The following table summarizes the inputs used in the calculation of fair value of options granted during the years ended December, 2009 and 2008:

	Years Ended December 31,	
	2009	2008
Expected term (in years)	5.0	5.5
Expected stock price volatility	138%	140%
Expected dividends	-	-
Risk-free rate	1.29%	3.34%

The following table summarizes stock option activity as of and for the year ended December 31, 2009:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price Per Share</u>	<u>Aggregate Intrinsic Value (in thousands)</u>	<u>Weighted Average Remaining Contractual Term</u>
Outstanding at January 1, 2009	1,415,000	\$ 3.68		
Granted	622,700			
Forfeited or expired	<u>(380,000)</u>			
Outstanding at December 31, 2009	<u>1,657,700</u>		\$ _____	<u>8.3 years</u>
Exercisable at December 31, 2009	_____		\$ _____	<u>8.3 years</u>

The weighted-average grant-date fair value of options granted during the years ending December 31, 2009 and 2008 was \$_____ and \$0.35, respectively. During the years ended December 31, 2009 and 2008, the Company recognized compensation expense of \$162,150 and \$344,535, respectively. The Company did not recognize a tax benefit related to the stock-based

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compensation recognized during the year ended December 31, 2009 and 2008, as the Company has a fully reserved deferred tax asset. There was no unrecognized compensation cost as of December 31, 2009 related to unvested stock and stock options.

The Company received cash proceeds during the fourth quarter of \$203,500 from the exercise of stock options by the officers as required by Amegy Forbearance Agreement.

Note 4 — Derivative Instruments

Commodity Derivatives

As of December 31, 2009 and 2008, the Company had no oil and natural gas derivative arrangements outstanding.

As of December 31, 2007, the Company had net commodity derivative liabilities of \$2,144,000, which are included in accrued liabilities in the accompanying Consolidated Balance Sheets. Effective with the three months ended December 31, 2006, the Company determined it no longer qualified to utilize hedge accounting for its oil and natural gas derivative arrangements. As such, all changes in the derivative's fair value are recognized currently in earnings.

Other Derivatives

As discussed in Note 2 above, during 2005 and 2006, the Company issued Notes and Warrants. Under the provisions of SFAS No. 133 and EITF 00-19 the Company bifurcated the conversion option associated with the Notes and accounted for it and the Warrants as derivatives. During the years ended December 31, 2009 and 2008, the Company recognized other expense of \$0 and \$206,999, respectively, related to the change in the fair value of the Warrants.

Note 5 — Commitments and Contingencies

Delivery Commitments

Effective September 2001, Infinity-Wyoming entered into a gas gathering and transportation contract with a third-party gatherer and processor in which the third-party gatherer and processor built gas gathering laterals and installed compression facilities to deliver gas produced from the Pipeline Field to the Overland Trail Transmission pipeline. During the year ended December 31, 2007, Infinity-Wyoming expensed \$623,000 to settle this disputed volume commitment deficiency.

In June 2005, the Company entered into a long-term gas gathering contract for natural gas production from the Company's properties in Erath County, Texas, under which the Company pays a gathering fee of \$0.35 per Mcf gathered. The contract contains minimum delivery volume commitments through December 31, 2011 associated with firm transportation rights. As of December 31, 2009 and 2008, the Company had accrued approximately \$_____ and \$194,000, respectively, as quarterly delivery commitment shortfalls under the contract.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with the Unaudited Consolidated Financial Statements and Notes presented elsewhere in this annual report. Infinity follows the full-cost method of accounting for exploration and production activities. See "Nature of Operations" and "Basis of Presentation," included in Note 1 to the Unaudited Consolidated Financial Statements.

Infinity and its operating subsidiaries, Infinity-Texas and Infinity-Wyoming, was engaged in identifying and acquiring oil and gas acreage, exploring and developing acquired acreage and oil and gas production, with a focus on the acquisition, exploration and development of and production from its properties in the Fort Worth Basin of north central Texas and Greater Green River, Sand Wash and Piceance Basins of southwest Wyoming and northwest Colorado. We are currently marketing our remaining domestic assets as production has been shut down since late October, 2009.

Infinity has been awarded a 1.4 million acre concession offshore Nicaragua in the Caribbean Sea, which it intends to explore over the next few years. Infinity has raised \$1.275 million to study the Nicaragua Concession. The seismic data was acquired in 2009 and the Company has a data room available to potential partners.

FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. The use of any statements containing the words "anticipate," "intend," "believe," "estimate," "project," "expect," "plan," "should" or similar expressions are intended to identify such statement. Forward-looking statements include, among other items:

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- Infinity's business strategy and anticipated trends in Infinity's business and its future results of operations;
- Infinity's ability to continue as a going concern;
- Infinity's ability to comply with the terms of the Fourth Forbearance Agreement with Amegy;
- Infinity's ability to repay the significant borrowing base deficiency under the Revolving Credit Facility;
- the requirement and efforts to sell assets of Infinity-Wyoming and Infinity-Texas
- the impact of limitations relating to future general and administrative costs on future operations;
- the impact of cash flows on future operations;
- expected cash flow from operations in 2010;
- our need for external financing in 2010 and beyond;
- our plans with respect to the exploration and development of our offshore Nicaragua concessions;
- our ability to meet the central government work program for our Nicaragua contract and concessions;
- Infinity's ability to obtain subordinated debt financing and the use of proceeds if so obtained;
- our planned capital expenditures in 2010; and
- commencement and progress of exploration, drilling and completion activities.

Forward-looking statements inherently involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to the following and the risks described in "Risk Factors" for the year ended December 31, 2009:

- covenants and debt service obligations may adversely affect our cash flow and our ability to raise capital;
- our inability to maintain compliance with the terms of the Fourth Forbearance Agreement or to obtain forbearance or waivers in the event that an event of default occurs;
- failure to achieve success under the Farmout Agreement;
- fluctuations in oil and natural gas prices and production;
- inaccurate estimations of required capital expenditures;
- uncertainties inherent in estimating quantities of oil and gas reserves and projecting future rates of production and timing of development activities;
- operating hazards could result in substantial losses against which we not be adequately insured;
- availability of drilling rigs and other support equipment;
- the connection of Infinity's wells to third party pipeline systems;
- the abandonment of wells and the costs associated therewith;
- the availability of financing on acceptable terms;
- the impact of governmental regulation;
- the timing of engineering and environmental impact studies and permitting;
- title to assets and related liens and encumbrances;
- receipt of sufficient rights-of-way grants and permits to operate our business,
- an increase in the cost of oil and gas drilling, completion and production and of materials, fuel and labor costs;
- the availability, conditions and timing of required government approvals and third party financing;
- a decline in demand for Infinity's oil and gas production; and
- changes in general economic conditions.

2008 Operational Report

On January 7, 2008, Infinity-Wyoming completed the sale of essentially all of its producing oil and gas properties in Colorado and Wyoming, along with 80% of the working interest owned by the Company in undeveloped leaseholds in Routt County, Colorado and Sweetwater County, Wyoming. Substantially all of Infinity-Wyoming's remaining undeveloped leaseholds will require additional geological and geophysical analysis prior to identifying and drilling prospective prospects. Infinity-Wyoming capital expenditures will be nominal.

In addition, concurrent with the Infinity-Wyoming sale, Infinity-Texas entered into a Farmout Agreement with Forest relating to certain oil and gas leaseholds owned by it in Erath County, Texas. Forest drilled two wells and evaluated the results of those wells and did not proceed with the Farmout. Infinity-Texas plans to focus on maintaining its production in the Fort Worth Basin of central Texas until the property can be sold. Infinity-Texas capital expenditures will be nominal.

Currently there is no production at our domestic wells and we expect future domestic production to be nominal.

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The Company's ability to complete these activities is dependent on a number of factors including, but not limited to:

- The availability of the capital resources required to fund the activities;
- The availability of third party contractors for completion services; and
- The approval by regulatory agencies of applications for permits to conduct exploration activities in a timely manner.

2009 Operational Report

On March 5, 2009 Infinity signed the contracts relating to our Nicaraguan concessions. Infinity is conducting an environmental study and the development of geological information from reprocessing and additional evaluation of existing 2-D seismic data that was acquired over the concession blocks offshore Nicaragua. Infinity also intends to seek offers from other industry operators for interests in the acreage in exchange for cash and a carried interest in exploration and development operations. The funds raised through the subordinated note transaction described below were used to fund these expenses. No assurance can be given that these funds will be sufficient to cover the development cost until a partner is found.

Effective December 4, 2009 the Company entered into a Fourth Forbearance Agreement under the Loan Agreement. This agreement relates to the breach by the Company and Guarantors of (i) substantially all financial covenants set forth in Section 8 of the Loan Agreement and (ii) certain covenants set forth in Section 7 of the Loan Agreement (the "Existing Defaults"). Under this agreement, the borrowing base was reduced to \$2,900,000 with a resulting borrowing base deficiency of \$8,003,468. The borrowing base shall not be subject to redetermination by Amegy during the Forbearance Period. The borrowing base deficiency must be cured by the end of the Forbearance Period through the sale of assets, refinancing of the loan, or some other means of raising capital. Under this agreement, Amegy agrees to forebear from exercising any remedies under the Loan Agreement and related loan documents and to waive the Existing Defaults for the forbearance period commencing as of June 1, 2008 and continuing through January 31, 2010, unless otherwise extended or earlier terminated by Amegy due to a further default under the Agreement. In connection with the Forth Forbearance Agreement, the term of the Loan Agreement and related note was extended until January 31, 2010.

During the Forbearance Period, the interest rate will continue at the stated rate plus the applicable margin, which is prime plus 0.50% (5.5% at December 31, 2009) as set forth under the revolving note, and certain operating and financial limitations remain in place. Certain officers of the Company were required to exercise stock options for 550,000 shares, with the \$209,000 of proceeds allowed to be used by the Company for general and administrative expenses without restriction. These options were exercised on October 21, 2008. In addition, Amegy agrees, upon the request of the Company, to issue one or more letters of credit in an amount not to exceed \$850,000 as security for the Company's obligations with respect to the Nicaragua Concessions (as defined below).

Effective March 5, 2009, the Company entered into two contracts relating to the Company's concessions in the Tyra and Perlas Blocks, offshore Nicaragua, (the "Nicaragua Concessions") as awarded by the Republic of Nicaragua in 2003. Effective March 23, 2009 the Company entered into a subordinated, secured loan in an aggregate principal amount of \$1,275,000 with Off-Shore Finance, LLC ("Off-Shore"). The loan proceeds are being held in escrow and released as the Company needs funds for the Nicaragua Concession. The Company agreed to pay 6% interest on the aggregate amount. The term of the loan is three years, due March 31, 2012. Amegy permitted the subordinated loans to be secured by the assets of the Company, subject to Amegy's security interest.

In connection with the Off-Shore credit facility, the Company issued Off-Shore a one percent revenue sharing interest with respect to the Nicaragua Concession. Amegy consented to the issuance of such interest. In addition, the Fourth Forbearance Agreement consented to the Company's issuance of up to an additional 4% revenue sharing interest to outside consultants, officers and directors in order for the Company to retain and compensate consultants, officers and directors when the Company did not have the cash to do so. Both Amegy and Off-Shore consented to the additional 4% revenue sharing interest.

To this end, on June 6, 2009 the board of directors approved the revenue sharing agreements to compensate them for their services rendered and to be rendered:

- 1% to Jeff Roberts as consulting geologist;
- 1% to Thompson & Knight Global Energy Services, LLC/Renato Bertani; and
- 1% to the officers and directors as a group (Stanton E. Ross, Daniel F. Hutchins and Leroy C. Richie) in addition to accrued but unpaid salaries and fees.

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On April 1, 2009 the board of directors approved the following stock options at the exercise price of \$0.26 per share:

- Stanton Ross, CEO 249,200 shares
- Leroy Richie, Director 155,750 shares
- Daniel Hutchins, CFO 155,750 shares

On June 22, 2009 the board of directors approved 62,000 stock options at the exercise price of \$0.78 per share to nonemployee personnel working on a contingent deferred fee who work directly on the Nicaragua Concession.

Overview of Exploration and Production Activity

Infinity does not expect the exploration and development of its Fort Worth Basin (Erath County, Texas) acreage and its Rocky Mountain prospects due in part to limited financial resources, and its requirement to repay the remaining deficiency under the Revolving Credit Facility. In addition to cash flows from operating activities, if any, Infinity will require external financing during the remainder of 2010 and beyond to fund any exploration activities and its working capital deficit. Infinity may be unable to obtain such financing on acceptable terms if at all.

Sale of Assets

On March 5, 2009 the Company entered into two contracts relating to the Company's concessions in the Tyra and Perlas Blocks, offshore Nicaragua.

On March 23, 2009, Infinity issued a subordinated secured promissory note in the principal amount of \$1,275,000 to Off-Shore. Infinity has used the net proceeds for the development of the Nicaragua Concession.

The following table provides statistical information for the year ended December 31, 2009 and 2008:

	For the Year Ended December 31,	
	2009	2008
Production:		
Natural gas (MMcf)	58.6	449.5
Crude oil (thousands of barrels)	-	.3
Total (MMcfe)	58.6	449.8
Financial Data (thousands of dollars):		
Total revenue	\$ 520.7	\$ 3,900
Production expenses	64.3	2,927
Production taxes	2.3	164
Financial Data per Unit (\$ per Mcfe):		
Total revenue	\$ 8.87	\$ 8.67
Production expenses	1.10	6.51
Production taxes	.04	0.36

At December 31, 2008, the full cost ceiling did not exceed the full cost ceiling limitation due to uncertain future production in the domestic properties. The Company recognized a ceiling write down of approximately \$16 million. Production in 2009 has been limited due to lack of working capital, change out of leased compressors, a fire in April, 2008 and April 2009 at the salt water disposal tank in Erath County, Texas and restoration requirements required by the Texas Railroad Commission to bring the property back into compliance. Total production for 2009 at the date of this report has been 58 MMcf of natural gas and net revenue year to date of \$118,933. Erath County is currently not producing and is waiting for a final inspection of the salt water tank. The Company's lack of working capital for the domestic properties has put the leases in Texas at risk.

Off-Balance Sheet Arrangement

The Company has no off-balance sheet arrangements.

Outlook for 2009

On March 5, 2009 Infinity signed the contracts relating to our Nicaraguan concessions. Infinity is conducting an environmental study and the development of geological information from reprocessing and additional evaluation of existing

INFINITY ENERGY RESOURCES, INC. AND SUBSIDIARIES

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2-D seismic data that was acquired over the concession blocks offshore Nicaragua. Infinity also intends to seek offers from other industry operators for interests in the acreage in exchange for cash and a carried interest in exploration and development operations. The funds raised in the sale of subordinated notes as are primarily being used to fund these expenses. No assurance can be given that these funds will be sufficient to cover the development cost until a partner is found.

As a result of the significant declines in the market price for crude oil and natural gas beginning during the third quarter of 2008, Infinity would not expect to generate cash flow from operating activities during 2009 after payment of current operating expenses and interest payments under our Revolving Credit Facility.

If cash flow from operating activities is not at levels anticipated, Infinity may seek the forward sale of oil and gas production, partnerships or strategic alliances for the development of its undeveloped acreage, the public or private offering of common or preferred equity or subordinated debt, asset sales, or other joint interest or joint venture opportunities to fund any cash shortfalls. There can be no assurance that the Company would be able to consummate any such sale, partnership, alliance, offering or venture at all or on terms acceptable to the Company.

Critical Accounting Policies and Estimates

Infinity's Annual Report on Form 10-K for the year ended December 31, 2007, described the accounting policies that management deemed to be critical to the reporting of our financial position and results of operations because either (i) the accounting estimate requires the Company to make assumptions about matters that are highly uncertain at the time the accounting estimate is made, and different estimates could have reasonably been used for the accounting estimate in the current period, or (ii) in management's judgment changes in the accounting estimate that are reasonably likely to occur from period to period would have a material impact on the presentation of the Company's financial condition or results of operations. The most significant judgments and estimates used in the preparation of our consolidated financial statements are:

- Reserve estimates,
- Unproved properties,
- Fair value of derivatives,
- Asset retirement obligations,
- Valuation of tax asset, and
- Oil and gas properties, depreciation and full cost ceiling test.

Recent Accounting Pronouncements

In December 2007, the FASB issued Statement SFAS No. 141, *Business Combinations* ("SFAS 141R"), and SFAS No. 160, *Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51* ("SFAS 160"). SFAS 141R and SFAS 160 will significantly change the accounting for and reporting of business combination transactions and noncontrolling (minority) interests in consolidated financial statements. SFAS 141R retains the fundamental requirements in Statement 141, *Business Combinations*, while providing additional definitions, such as the definition of the acquirer in a purchase and improvements in the application of how the acquisition method is applied. SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests, and classified as a component of equity. These Statements become simultaneously effective January 1, 2009. Early adoption is not permitted. The Company is currently assessing the impact, if any, that the adoption of this pronouncement will have on the Company's operating results, financial position or cash flows.

In March 2008, the FASB issued Statement No. 161, *Disclosure about Derivative Instruments and Hedging Activities – an amendment to FASB Statement No. 133* ("SFAS 161"). The adoption of SFAS 161 is not expected to have an impact on the Company's consolidated financial statements, other than additional disclosures. SFAS 161 expands interim and annual disclosures about derivative and hedging activities that are intended to better convey the purpose of derivative use and the risks managed. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Commodity Risk

Infinity's major market risk exposure is in the pricing applicable to its oil and gas production. Realized pricing is primarily driven by the prevailing price for crude oil and natural gas spot prices applicable to Infinity's crude oil and natural gas production. Historically, prices received for gas production have been volatile and unpredictable. Pricing volatility is expected to continue.

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Interest Rate Risk

Infinity's exposure to changes in interest rates results from our \$9.9 million in floating rate debt at September 30, 2008. The result of a 10% fluctuation in the prime rate would impact our interest expense, before capitalization, by less than \$0.1 million per year.