

Edgar Filing: Conquest Petroleum Inc - Form 10-Q/A

Conquest Petroleum Inc
Form 10-Q/A
November 16, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q/A
(Amendment No. 1)

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: June 30, 2009

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from: to

Commission File No.: 000-53093

Conquest Petroleum Incorporated
(Exact name of registrant as specified in its charter)

TEXAS
(State or other jurisdiction
of incorporation or organization)

20-0650828
(I.R.S. Employer Identification No.)

29400 Pitkin Road, Suite 308
Spring, Texas 77386
www.maximtep.com

(Address of principal executive offices)

Registrant's Telephone Number, Including Area Code: (281) 466-1530

Former Name and Address

Maxim TEP, Inc.
9400 Grogan's Mill Road, Suite 205
The Woodlands, TX 77380

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☐

Edgar Filing: Conquest Petroleum Inc - Form 10-Q/A

Non-accelerated filer o
(Do not check if a smaller reporting
company)

Smaller reporting company x

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

The number of shares of the registrant's common stock outstanding as of April 15, 2009: 130,159,869 shares.
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, par value \$0.00001 per share	OTCBB

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

The Company was not publicly trading at the end of the quarter ended June 30, 2008 and therefore no aggregate market value of the voting and non-voting common equity held by non-affiliates could be determined.

The number of shares of the registrant's common stock outstanding as of July 20, 2009: 168,414,561 shares.

CONQUEST PETROLEUM INCORPORATED

Form 10-Q
For the Quarterly Period Ended June 30, 2009
Table of Contents

	Page
<u>PART I—FINANCIAL INFORMATION</u>	
<u>Item 1.</u> Financial Statements (unaudited)	<u>3</u>
<u>Item 2.</u> Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>20</u>
<u>Item 4T.</u> Controls and Procedures	<u>23</u>
<u>PART II—OTHER INFORMATION</u>	
<u>Item 1.</u> Legal Proceedings	<u>24</u>
<u>Item 2.</u> Unregistered Sales of Equity Securities and Use of Proceeds	<u>25</u>
<u>Item 3.</u> Default Upon Senior Securities	<u>25</u>
<u>Item 4.</u> Submission of Matters to a Vote of Security Holders	<u>25</u>
<u>Item 5.</u> Other Information	<u>25</u>
<u>Item 6.</u> Exhibits	<u>26</u>
<u>SIGNATURES</u>	<u>27</u>

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements Unaudited

CONQUEST PETROLEUM INCORPORATED

Consolidated Balance Sheets
(unaudited)

	June 30, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ -	\$ 67,502
Accounts receivable	58,995	163,745
Other receivable	50,307	64,633
Prepaid expenses and other current assets	105,275	21,044
Total current assets	214,577	316,924
Oil and natural gas properties (successful efforts method of accounting):		
Proved	8,214,663	8,170,937
Unproved	1,070,371	1,125,919
	9,285,034	9,296,856
Less accumulated depletion, depreciation and amortization	(2,010,280)	(1,829,365)
Oil and natural gas properties, net	7,274,754	7,467,491
Property and equipment:		
Land	112,961	112,961
Buildings	215,445	215,445
Leasehold improvements	244,025	244,025
Office equipment and computers	82,340	82,337
Furniture and fixtures	22,939	211,581
Field service vehicles and equipment	738,898	729,743
Drilling equipment	140,101	174,082
Total property and equipment	1,556,709	1,770,174
Less accumulated depreciation	(436,453)	(474,744)
Property and equipment, net	1,120,256	1,295,430
Other assets	617,013	489,176
Restricted cash	29	250,170
Total assets	\$ 9,226,629	\$ 9,819,191

See accompanying notes to consolidated financial statements

CONQUEST PETROLEUM INCORPORATED

Consolidated Balance Sheets (Continued)
(unaudited)

	June 30, 2009	December 31, 2008
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$ 3,063,360	\$ 3,276,126
Interest payable	753,293	605,934
Accrued payroll and related taxes and benefits	1,751,626	1,691,711
Accrued liabilities	1,039,995	1,039,995
Production payment payable, current	6,912,370	3,607,570
Current maturity of notes payable, net of discount	850,675	689,518
Current maturities of convertible notes payable, related parties, net of discount	853,041	803,350
Total current liabilities	15,224,360	11,714,204
Production payment payable	-	2,834,520
Deferred revenue	60,000	65,000
Asset retirement obligation	1,907,801	1,840,641
Total liabilities	17,192,161	16,454,365
Stockholders' deficit:		
Preferred stock, \$0.00001 par value; 50,000,000 shares authorized; 5,454,545 and 5,454,545 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	55	55
Common stock, \$0.00001 par value; 250,000,000 shares authorized; 136,414,561 and 127,859,869 shares issued and 135,984,958 and 127,430,266 shares outstanding at June 30, 2009 and December 31, 2008, respectively	1,364	1,278
Stock payable	1,080,630	1,436,880
Additional paid-in capital	95,936,722	87,522,430
Accumulated deficit	(104,662,100)	(95,273,614)
Treasury stock, at cost (429,603 and 429,603 shares at June 30, 2009 and December 31, 2008, respectively)	(322,203)	(322,203)
Total stockholders' deficit	(7,965,532)	(6,635,174)
Total liabilities and stockholders' deficit	\$ 9,226,629	\$ 9,819,191

See accompanying notes to consolidated financial statements

CONQUEST PETROLEUM INCORPORATED

Consolidated Statements of Operations
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30	
	2009	2008	2009	2008
Revenues:				
Oil and natural gas revenues	\$ 187,663	\$ 546,255	\$ 374,889	\$ 947,060
License fees, royalties and related services	9,000	7,192	9,000	34,692
Total revenues	196,663	553,447	383,889	981,752
Cost and expenses:				
Production and lease operating expenses	116,939	190,554	394,639	438,414
Drilling operating expenses	-	-	-	3,741
Depletion, depreciation and amortization	118,973	456,869	258,825	917,861
Revenue sharing royalties	-	17,782	-	40,227
Accretion of asset retirement obligation	30,697	22,987	67,160	47,028
General and administrative expenses	6,328,578	4,674,891	8,634,257	9,041,349
Total cost and expenses	6,595,187	5,363,083	9,354,881	10,488,620
Loss from operations	(6,398,524)	(4,809,636)	(8,970,992)	(9,506,868)
Other income (expense):				
Interest expense, net	(406,951)	(196,049)	(686,840)	(1,780,557)
Gain on transfer of assets		78,282		78,282
Gain/Loss on sale of assets	266,346		266,346	
Other miscellaneous income (expense), net	(33,460)	-	3,000	163,528
Total other income (expense), net	(174,065)	(117,767)	(417,494)	(1,538,747)
Net loss before discontinued operations	(6,572,589)	(4,927,403)	(9,388,486)	(11,045,615)
Gain (loss) from discontinued operations	-	23,487,207	-	22,042,660
Net (loss) income	\$(6,572,589)	\$ 18,559,804	\$(9,388,486)	\$ 10,997,045
Loss per common share for continuing operations				
Basic and diluted	\$(0.05)	\$(0.05)	\$(0.07)	\$(0.11)
Net income per common share for discontinued operations				
Basic and diluted	\$-	\$ 0.23	\$-	\$ 0.22
Weighted average common shares outstanding:				
Basic and diluted	134,565,075	101,950,115	132,287,901	101,950,115

See accompanying notes to consolidated financial statements

CONQUEST PETROLEUM INCORPORATED

Consolidated Statements of Stockholders' Deficit (unaudited)
For the Six Months Ended June 30, 2009

	Preferred Stock		Common Stock		Additional Paid-In	Stock Payable	Accumulated Deficit
	Shares	Amount	Shares	Amount	Capital		
Balance at December 31, 2008	5,454,545	\$ 55	127,859,869	\$ 1,278	\$ 87,522,430	\$ 1,436,880	\$(95,273,614)
Common stock issued for services, nonemployee			4,599,692	46	3,449,722		-
Common stock issued to employees for services	-	-	4,005,000	40	3,003,710	-	-
Common stock options granted to employees for services	-	-	-	-	66,605	-	-
Expenses and payables paid by shareholder					1,856,250	(356,250)	
Common stock warrants granted for services	-	-	-	-	38,005	-	-
Net loss	-	-	-	-	-	-	(9,388,486)
Balance at June 30, 2009	5,454,545	\$ 55	136,464,561	\$ 1,364	\$ 95,936,722	\$ 1,080,630	\$(104,662,100)

See accompanying notes to consolidated financial statements

CONQUEST PETROLEUM INCORPORATED

Consolidated Statements of Cash Flows (unaudited)

	Six Months Ended June 30,	
	2009	2008
Cash flows from operating activities:		
Net income (loss)	\$(9,388,486)	\$10,997,045
Net income from discontinued operations	-	22,042,660
Net loss from continuing operations	(9,388,486)	(11,045,615)
Adjustments to reconcile net loss from continuing operations to net cash provided by (used) in operating activities		
Depletion, depreciation and amortization	258,825	917,861
Accretion of asset retirement obligation	67,160	47,028
Gain on disposal of assets	(290,000)	(78,282)
Loss on sale of fixed assets	23,654	-
Expenses paid for by shareholders	1,500,000	-
Amortization of debt discount	80,848	487,530
Amortization of deferred financing costs	-	69,970
Bad debt expense	10,631	-
Common stock issued for services	6,453,518	7,759,370
Warrants issued for services	38,005	70,535
Options issued for services	66,605	307,885
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Notes receivable	-	(306,000)
Accounts receivable	122,771	(265,256)
Other receivable	(14,326)	(22,760)
Prepaid expenses and other current assets	(84,231)	12,709
Other assets	247,304	33,198
Accounts payable	(210,407)	307,366
Accrued expenses	301,716	659,729
Amortization of deferred revenue	(5,000)	(55,000)
Net cash provided by (used) in operating activities	(821,413)	(1,099,732)
Cash flows from investing activities:		
Proceeds from sale of intangible assets	125,000	-
Cash paid for purchase of properties	(11,703)	(260,410)
Proceeds from sale of fixed assets	134,776	-
Change in oil and gas properties accrual	-	(627,949)
Proceeds from sale of net revenue interests and sharing agreements	-	675,000
Net cash provided by (used in) investing activities	248,073	(213,359)
Cash flows from financing activities:		
Payment on production payment payable	(66,895)	-
Proceeds from issuance of notes payable	100,000	100,000
Proceeds from issuance of notes payable - related parties	30,000	300,000
Proceeds from borrowings on production payment payable	442,733	(2,331)
Proceeds from issuance of common stock	-	1,328,099

Edgar Filing: Conquest Petroleum Inc - Form 10-Q/A

Net cash provided by financing activities	505,838	1,725,768
Net cash used in discontinued operations	-	(420,428)
Decrease in cash and cash equivalents	(67,502)	(7,751)
Cash and cash equivalents - beginning of year	67,502	166,412
Cash and cash equivalents - end of year	\$-	\$158,661

CONQUEST PETROLEUM INCORPORATED

Consolidated Statements of Cash Flows (unaudited)

Supplementary cash flow information:

Cash paid for interest	\$153,240	\$248,097
Non-cash investing and financing activities:		
Notes payable and accrued interest exchanged for common stock, related party	\$-	\$(150,000)
Other liabilities exchanged for common stock, related party	\$-	\$150,000
Common stock exchanged for net revenue interest	\$-	\$675,000
Common stock issued upon conversion of debt & interest, related party	\$-	\$5,399,841
Common stock issued upon conversion of debt & interest	\$-	\$16,291,667
Notes payable and accrued interest exchanged for preferred stock, related party	\$-	\$1,250,000
Notes payable and accrued interest exchanged for preferred stock	\$-	\$1,750,000
Asset retirement obligation incurred	\$-	\$1,529
Common stock warrants granted in connection with NP, related party	\$-	\$15,778
Common stock warrants granted in connection with sale of net revenue interest	\$-	\$60,459
Common stock warrants granted to extend notes payable terms, related party	\$-	\$4,096
Common stock warrants granted to extend notes payable terms	\$-	\$5,734
Common stock warrants granted to extend put agreement terms	\$-	\$10,076
Beneficial conversion feature in connection with convertible debt, related party	\$-	\$15,778
Shares issued by shareholder to relieve stock payable	\$356,250	\$-

See accompanying notes to consolidated financial statements

CONQUEST PETROLEUM INCORPORATED

Notes to the Consolidated Financial Statements
(unaudited)
June 30, 2009

Note 1 – Financial Statement Presentation

Organization and nature of operations

CONQUEST PETROLEUM INCORPORATED, formerly Maxim TEP, Inc. was formed in 2004 as a Texas corporation to acquire, develop, produce and exploit oil and natural gas properties. The Company's major oil and natural gas properties are located in Louisiana, Kentucky, Arkansas, and New Mexico. The Company's executive offices are located in Spring (Houston), Texas. At the annual shareholder's meeting in June, 2009, the shareholders approved the change of Maxim TEP, Inc. to Conquest Petroleum. to more closely identify the Company as an independent oil and gas company. On August 5, 2009, after approval from the regulatory agencies, the name change to Conquest Petroleum became effective.

Going concern

As presented in the unaudited consolidated financial statements, the Company has incurred a net loss of \$9,388,486 during the six months ended June 30, 2009, and losses are expected to continue in the near term. Current liabilities exceeded current assets by \$15,009,783 and the accumulated deficit is \$104,662,100 at June 30, 2009. Amounts outstanding and payable to creditors are in arrears and the Company is in negotiations with certain creditors to obtain extensions and settlements of outstanding amounts. The Company is currently in default on certain of its debt obligations and the Company has no future borrowings or funding sources available under existing financing arrangements. Management anticipates that significant additional capital expenditures will be necessary to develop the Company's oil and natural gas properties, which consist primarily of proved reserves that are non-producing, before significant positive operating cash flows will be achieved.

Management's plans to alleviate these conditions include the renegotiation of certain trade payables, settlements of debt amounts with stock, deferral of certain scheduled payments, and sales of certain non-core properties, as considered necessary. In addition, management is pursuing business partnering arrangements for the acquisition and development of its properties as well as debt and equity funding through private placements. Without outside investment from the sale of equity securities, debt financing or partnering with other oil and natural gas companies, operating activities and overhead expenses will be reduced to a pace that available operating cash flows will support.

The accompanying unaudited consolidated financial statements are prepared as if the Company will continue as a going concern. The unaudited consolidated financial statements do not contain adjustments, including adjustments to recorded assets and liabilities, which might be necessary if the Company were unable to continue as a going concern.

Note 2 – Summary of Significant Accounting Policies

Principles of consolidation

The accompanying unaudited consolidated financial statements are presented in accordance with U.S. generally accepted accounting principles. The unaudited consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries after elimination of all significant intercompany transactions and balances. The financial statements reflect necessary adjustments, all of which were of a recurring nature and are in the opinion of management necessary for a fair presentation. Certain information and footnote disclosures normally included in

financial statements prepared in accordance with U.S. generally accepted accounting principles have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The Company believes that the disclosures presented are adequate to allow the information presented not to be misleading. The financial statements included herein should be read in conjunction with the audited financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2008.

CONQUEST PETROLEUM INCORPORATED and Subsidiaries

Notes to the Consolidated Financial Statements
(unaudited)
June 30, 2009

Note 2 – Summary of Significant Accounting Policies (Continued)

Major customers

The Company sold oil and natural gas production representing more than 10% of its oil and natural gas revenues as follows:

	Six months ended June 30,			
	2009		2008	
Interconn Resources, Inc. (1)	90	%	41	%
Lion Oil Trading & Transportation, Inc. (1)	10	%	21	%
Orchard Petroleum, Inc. (2)	-	%	35	%

(1) The Company does not have a formal purchase agreement with this customer, but sells production on a month-to-month basis at spot prices adjusted for field differentials.

(2) Orchard Petroleum, Inc. is the operator of the Company's wells in California and sells production on the Company's behalf to Kern Oil & Refining, Co. and Aera Energy, LLC.

Asset retirement obligation

SFAS No. 143, "Accounting for Asset Retirement Obligations," requires that the fair value of the liability for asset retirement costs be recognized in an entity's balance sheet, as both a liability and an increase in the carrying values of such assets, in the periods in which such liabilities can be reasonably estimated. The present value of the estimated future asset retirement obligation ("ARO"), as of the date of acquisition or the date at which a successful well is drilled, is capitalized as part of the costs of proved oil and natural gas properties and recorded as a liability. The asset retirement costs are depleted over the production life of the oil and natural gas property on a unit-of-production basis.

The ARO is recorded at fair value and accretion expense is recognized as the discounted liability is accreted to its expected settlement value. The fair value of the ARO liability is measured by using expected future cash outflows discounted at the Company's credit adjusted risk free interest rate.

Amounts incurred to settle plugging and abandonment obligations that are either less than or greater than amounts accrued are recorded as a gain or loss in current operations. Revisions to previous estimates, such as the estimated cost to plug a well or the estimated future economic life of a well, may require adjustments to the ARO and are capitalized as part of the costs of proved oil and natural gas property.

The following table is a reconciliation of the ARO liability for the six months ended June, 2009 and the year ended December 31, 2008:

June 30, December 31,

Edgar Filing: Conquest Petroleum Inc - Form 10-Q/A

	2009	2008
Asset retirement obligation at beginning of period	\$1,840,641	\$ 1,149,267
Liabilities incurred	-	1,530
Revisions to previous estimates	-	594,209
Dispositions	-	(33,375)
Accretion expense	67,160	129,010
Asset retirement obligation at end of period	\$1,907,801	\$ 1,840,641

CONQUEST PETROLEUM INCORPORATED and Subsidiaries

Notes to the Consolidated Financial Statements
(unaudited)
June 30, 2009

Note 2 – Summary of Significant Accounting Policies (Continued)

Stock based compensation

Beginning January 1, 2006, the Company adopted SFAS No. 123(R), “Accounting for Stock Based Compensation,” to account for its Incentive Compensation Plan (the “2005 Incentive Plan”). SFAS No. 123(R) requires all share-based payments to employees (which includes non-employee Board of Directors), including employee stock options, warrants and restricted stock, be measured at the fair value of the award and expensed over the requisite service period (generally the vesting period). The fair value of common stock options or warrants granted to employees is estimated at the date of grant using the Black-Scholes option pricing model by using the historical volatility of comparable public companies. The calculation also takes into account the common stock fair market value at the grant date, the exercise price, the expected life of the common stock option or warrant, the dividend yield and the risk-free interest rate.

Under the 2005 Incentive Plan, the Company from time to time may issue stock options, warrants and restricted stock to acquire goods or services from third parties. Restricted stock, options or warrants issued to other than employees or directors are recorded on the basis of their fair value, which is measured as of the date required by Emerging Issues Task Force (“EITF”) Issue 96-18, “Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.” In accordance with EITF 96-18, the options or warrants are valued using the Black-Scholes option pricing model on the basis of the market price of the underlying equity instrument on the “valuation date,” which for options and warrants related to contracts that have substantial disincentives to non-performance, is the date of the contract, and for all other contracts is the vesting date. Expense related to the options and warrants is recognized on a straight-line basis over the shorter of the period over which services are to be received or the vesting period.

The Company recognized stock-based compensation expense from annual stock granted to employees for the six months ended June 30, 2009 of \$3,003,750. The Company recognized stock-based compensation expense from stock granted to non-employees for the six months ended June 30, 2009 of \$3,449,768. The Company recognized stock-based compensation expense from warrants granted to non-employees for the three months ended June 30, 2009 of \$38,005. The Company recognized stock-based compensation expense from options granted to employees for the six months ended June 30, 2009 of \$66,605.

Earnings per share

Basic earnings per share is computed using the weighted average number of common shares outstanding. Diluted earnings per share reflects the potential dilutive effects of common stock equivalents such as options, warrants and convertible securities. Due to the Company incurring a net loss during the six months ended June 30, 2009 and 2008, basic and diluted loss per share are the same as all potentially dilutive common stock equivalents are anti-dilutive. Under SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity,” entities that have issued mandatorily redeemable shares of common stock or entered into forward contracts that require physical settlement by repurchase of a fixed number of the issuer’s equity shares of common stock in exchange for cash shall exclude the common shares that are to be redeemed or repurchased in calculating basic and diluted earnings per share. For the six months ended June 30, 2009 and 2008, the Company excluded 230,833 weighted average common shares outstanding for shares issued with put options from its earnings per common share

calculation.

Fair Value of Financial Instruments

We adopted the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurement at inception. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly, does not require any new fair value measurements. SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS No. 157 established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows.

Level 1. Observable inputs such as quoted prices in active markets;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The following table presents assets that are measured and recognized at fair value as of June 30, 2009 and the six months then ended on a non-recurring basis:

Description	Level 1	Level 2	Level 3	Total Gains (Losses)
Convertible Notes (net)	\$ -	\$ -	\$ 853,041	\$ -
Asset Retirement Obligation	\$ -	\$ -	\$ 1,907,801	\$ -
Oil and Gas Properties (net)	\$ -	\$ -	\$ 7,274,754	\$ -

CONQUEST PETROLEUM INCORPORATED and Subsidiaries

Notes to the Consolidated Financial Statements
(unaudited)
June 30, 2009

Note 3 – Debt

Notes payable consist of the following at June 30, 2009 and December 31, 2008:

	June 30, 2009	December 31, 2008
Notes payable	\$900,000	\$ 800,000
Notes payable, related party	180,000	-
Convertible notes payable, related party	700,000	850,000
	1,780,000	1,650,000
Less unamortized debt discount	(76,284)	(157,132)
	1,703,716	1,492,868
Less current maturities:		
Notes payable, net of discount	(850,675)	(689,518)
Convertible notes payable, related party, net of discount	(853,041)	(803,350)
Notes payable, net of current maturities and discount	\$-	\$ -

Notes payable

The Company has a note payable with an individual investor aggregating \$400,000 at June 30, 2009. This note payable matured on September 30, 2007 bearing interest at fixed rate of 18%. Interest will accrue from the note issue date and is due and payable either at maturity or quarterly or semi-annually until maturity. The Company is in default on notes payable of \$400,000 at June 30, 2009, and is in the process of renegotiating its terms. This note payable in default is accruing interest at an additional 10% (28% total) and additional late fees may apply. This note payable is unsecured. Texas usury laws prevents interest rates above 18% and as such, the Company has not accrued interest above the 18% limit.

During 2008, the Company borrowed an additional \$400,000 from four individuals at an interest rate of 15% with a one year maturity on each.

During 2008, the Company borrowed an additional \$100,000 from an individual at an interest rate of 15%. This note is a demand note payable at any time.

During the first quarter of 2009, the Company borrowed an additional \$100,000 due and payable on March 1, 2010 from an individual at an interest rate of 15%. Simple interest accrues from the note issue date and is due and payable monthly.

During the first quarter of 2009, The Company borrowed an additional \$25,000 due and payable on January 20, 2010 from a related party at an interest rate of 8%. Simple interest accrues from the note issue date and is due and payable

either at maturity or quarterly or semi-annually until maturity.

During the second quarter of 2009, the Company borrowed an additional \$5,000 due and payable on April 16, 2010 from a related party at an interest rate of 8%. Simple interest accrues from the note issue date and is due and payable either at maturity or quarterly or semi-annually until maturity.

CONQUEST PETROLEUM INCORPORATED and Subsidiaries

Notes to the Consolidated Financial Statements
(unaudited)
June 30, 2009

Note 3 – Debt (Continued)

Convertible notes payable

During 2005, the Company executed a convertible note payable with a related party investor aggregating \$700,000. This note payable matured March 29, 2007, bearing interest at a fixed rate of 9%. Simple interest will accrue from the note date and is due and payable quarterly until maturity. Should the 9% convertible note go into default, interest will accrue at a rate of 18%. The note is unsecured. This note payable is convertible into shares of the Company's common stock at an exchange rate of \$0.75 per share, or into 933,333 shares of common stock. At June 30, 2009 and December 31, 2008, the Company had \$700,000 outstanding of convertible notes payable to this investor. The maturity date on this note was extended to mature on September 30, 2007 and then extended again to March 30, 2008, whereby the Company issued the note holder warrants to purchase 466,666 shares of the Company's common stock at an exercise price of \$0.75 per share for a period of five years and then issued warrants to purchase another 466,666 shares of the Company's common stock at an exercise price of \$0.75 per share for a period of three years, as fees for the extensions. The fair value of the warrants is being amortized to interest expense using the effective interest method over the extension periods. The extension also revised the notes payable to bear interest at 12% from October 1, 2007 through March 30, 2008 and 18% in the event of default. The Company is currently in default on this note payable and is in negotiations with the note holder.

Production Payment with BlueRock Energy Capital, LTD

Effective May 1, 2008, the Company finalized its negotiations with BlueRock Energy Capital, LTD ("BlueRock") to restructure its monthly production payment facility on its Marion Field. The new agreement calls for a reduction of the interest rate from its current 18% to 8% and to give back to the Company up to \$25,000 of its production payment per month so that the field would be cash flow positive. The Company's obligations under these new terms would be to seek refinancing of the production payment payable or the outright purchase of the production payable by no later than the anniversary of the execution of the new agreement. Should the Company not meet this obligation, BlueRock has the option of taking back the field in full payment of the production payment payable or reverting back to the previous terms under the existing agreement. As of June 30, 2009, the Company determined this production payment facility was due within the next twelve months and hence classified as current liability. This agreement has since been extended for 6 months until October 30, 2009.

Effective May 1, 2009, the Company notified BlueRock that the Company was in default under the Conveyance and the Production Agreement. A third amendment was finalized and the 8% interest rate was increased back to 18%.

Beneficial conversion features

From time to time, the Company may issue convertible notes that have detached warrants and may contain an imbedded beneficial conversion feature. A beneficial conversion feature exists on the date a convertible note is issued when the fair value of the underlying common stock to which the note is convertible into is in excess of the remaining unallocated proceeds of the note after first considering the allocation of a portion of the note proceeds to the fair value of the warrants, if related warrants have been granted. In accordance with EITF 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments," the intrinsic value of the beneficial conversion feature is recorded as a debt discount with a corresponding amount to additional paid in capital. The debt discount is amortized to interest expense

over the life of the note using the effective interest method.

13

CONQUEST PETROLEUM INCORPORATED and Subsidiaries

Notes to the Consolidated Financial Statements
(unaudited)
June 30, 2009

Note 3 – Debt (Continued)

Interest expense, net

Interest expense consists of the following for the three and six months ended June 30:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Interest expense related to debt	\$ 366,527	\$ 191,882	\$ 605,992	\$ 1,223,057
Amortization of deferred financing costs	-	4,167	-	69,970
Amortization of debt discount	40,424	-	80,848	487,530
	\$ 406,951	\$ 196,049	\$ 686,840	\$ 1,780,557

Note 4 – Discontinued Operations

Maxim TEP, PLC, South Belridge and Orchard Petroleum

During April 2008, the Company sold its South Belridge Field in a three party transaction that involved Mercuria Partners, a majority shareholder in Orchard Petroleum, and Maxim TEP, PLC as an all inclusive deal to eliminate all debt, joint interest rights and obligations amongst all three parties, for a cash consideration of \$35,781,654 and the issuance of 21,700,000 shares of common stock of the Company issued to Maxim TEP, PLC. With this cash and stock consideration, the Company retired \$37,408,772 in current notes payable and approximately \$6,068,427 in interest payable. South Belridge Field had a carrying cost of \$4,366,422 at the date of closing. At the closing of this transaction, the Company had no further interest, rights or obligations in the South Belridge Field and satisfied in full all debt, interests and other obligations owed to Maxim TEP, PLC and its parent, the Greater European Fund, as well as any interest, rights or obligations under the Joint Venture agreement with Orchard Petroleum. The financial results of the Company's South Belridge operations are reported as discontinued operations for all periods presented.

Days Creek Field

During November 2006, the Company entered into three convertible notes payable totaling \$2,000,000 each (\$6,000,000 in total) bearing interest at a rate of 10%, which matured on October 31, 2007, secured by the leases in the Days Creek Field. These notes payable were originally convertible into shares of the Company's common stock at an exchange rate of \$1.50 per share, or into approximately 4,000,000 shares of common stock. These notes are collateralized by the Company's oil and natural gas properties in Days Creek. During 2007, the maturity dates on these notes were extended to mature on February 1, 2008, whereby the Company agreed to pay an additional \$300,000 to the note holders as a fee for the extension. In February 2008, these notes were extended again to mature on April 30, 2008, for an additional extension fee of \$300,000 and the exchange rate of \$1.50 per share was amended to \$0.75 per

share, resulting in the \$6,000,000 in convertible notes being convertible into 8,000,000 shares of common stock. In May of 2008, the Company exchanged a 75% working interest in its Days Creek Field in consideration for the \$6,000,000 convertible note that it owed to the three note holders effective May 1, 2008, keeping a net 10% working interest in the field. The financial results of the Company's Days Creek Field are reported as discontinued operations for all periods presented.

Stephens Field

During the last quarter of 2008, the Company sold its interest in the Stephens Field. The financial results of the Company's Stephens Field are reported as discontinued operations for all periods presented.

CONQUEST PETROLEUM INCORPORATED and Subsidiaries

Notes to the Consolidated Financial Statements
(unaudited)
June 30, 2009

Note 4 – Discontinued Operations (continued)

	Three Months Ended June		Six Months Ended June	
	2009	2008	2009	2008
Operating revenues	\$-	\$286,344	\$-	\$942,201
Operating costs and expenses	-	180,685	-	586,795
Other income (expenses), net	-	545,771	-	(1,148,523)
Income (loss) from discontinued operations, net of taxes	-	651,430	-	(793,117)
Gain on disposal of discontinued operations, net of taxes	-	22,835,777	-	22,835,777
Net income	\$-	\$23,487,207	\$-	\$22,042,660
Basic and diluted income per share from discontinued operations	-	0.23		0.22
Total	-	0.23		0.22
Weighted average number of common shares outstanding				
Basic and diluted	134,565,075	101,950,115	132,287,901	101,950,115

Note 5 – Stockholders' Equity

Preferred stock

On June 30, 2008, the Board of Directors resolved to cancel the Company's previous class of preferred stock and issue up to 50,000,000 shares of a new class of preferred stock, of which 10,000,000 has been designated as a Series A Preferred Stock, \$.00001 par value per share. This series has liquidation preference above common stock. The holders of Series A Preferred Stock shall be entitled to receive dividends if and when declared by the Board of Directors. Each share of Series A Preferred Stock shall have voting rights identical to a share of common stock (i.e. one vote per share) and shall be permitted to vote on all matters on which holders of common stock are entitled to vote. So long as any shares of Series A Preferred Stock remain outstanding, the Company shall not without first obtaining the approval of the holders of seventy-five percent (75%) of the then-outstanding shares of Series A Preferred Stock: (i) alter or change the rights, preferences or privileges of the shares of Series A Preferred Stock so as

to adversely affect such shares; (ii) increase or decrease the total number of authorized shares of Series A Preferred Stock; (iii) issue any Senior Securities; or (iv) take any action that alters or amends this Series.

During the second quarter of 2008, the Company issued 5,454,545 shares of Series A Preferred Stock in exchange for \$3,000,000 of corporate notes payable. At June 30, 2009, there were 5,454,545 shares of Series A Preferred Stock issued and outstanding.

CONQUEST PETROLEUM INCORPORATED and Subsidiaries

Notes to the Consolidated Financial Statements
(unaudited)
June 30, 2009

Note 5 – Stockholders' Equity (continued)

Common stock

The Company has 250,000,000 authorized shares of \$0.00001 par value common stock. From time to time, common stock may be issued for goods and services, the fair value of which has been determined based on recent cash transactions where common stock has been sold to investors or the fair value of the underlying transactions, whichever is more determinable.

During the six months ended June 30, 2009, the Company issued 4,005,000 shares of common stock with a fair value of \$0.75 per share or \$3,003,750 to employees of the Company for services.

During the three months ended June 30, 2009, the Company issued 4,599,692 shares of common stock with a fair value of \$0.75 per share or \$3,449,768 to third parties for services.

During the six months ended June 30, 2009, 2,457,000 shares of common stock with a fair value of \$0.75 per share or \$1,856,250 were transferred by shareholders for the benefit of the Company. These transferred shares of common stock were recorded as \$1,125,000 for consulting services, \$356,250 as a relief of stock payable and \$375,000 reduction of an outstanding accounts payable during the six months ended June 30, 2009.

Warrants

During the six months ended June, 2009, warrants to acquire 75,000 shares of the Company's common stock with an exercise price of \$0.75 per share were granted for services. These warrants expire five years from the date of grant. The fair value of the warrants was determined using the Black-Scholes option pricing model and totaled \$38,005.

The following is a summary of the warrant activity for the six months ended June 30, and the year ended December 31,

	2009		2008	
	Number of	Weighted	Number of	Weighted
	Shares	Average	Shares	Average
		Exercise Price		Exercise Price
Outstanding, beginning of period	15,297,489	\$ 0.75	14,089,946	\$ 0.75
Granted	75,000	0.75	1,207,543	0.75
Exercised	—	—	—	0.75
Expired or cancelled	(200,000)	—	—	0.75
Outstanding, end of period	15,172,489	\$ 0.75	15,297,489	\$ 0.75

Edgar Filing: Conquest Petroleum Inc - Form 10-Q/A

The fair value of common stock warrants granted is estimated at the date of grant using the Black-Scholes option pricing model by using the historical volatility of comparable public companies. The calculation also takes into account the common stock fair market value at the grant date, the exercise price, the expected life of the common stock warrant, the dividend yield and the risk-free interest rate. Following are the assumptions used during the quarter ended June 30 and the year ended December 31:

	2009	2008
Risk free rate	1.67%	1.79%-2.23%
Expected life	5 years	5-10 years
Volatility	86%	67%
Dividend yield	0%	0%

CONQUEST PETROLEUM INCORPORATED and Subsidiaries

Notes to the Consolidated Financial Statements
(unaudited)
June 30, 2009

Note 5 – Stockholders' Equity (Continued)

Stock options

During the six months ended June 30, 2009, the Company granted options to purchase 175,000 shares of the Company's common stock at an exercise price of \$0.75 per share to employees for services provided. These options expire 5 years from the date of grant. All the options granted to employees in 2009 vested immediately on the grant date. The estimated fair value of these stock options was determined on the grant date using the Black-Scholes option pricing model and totaled \$66,605.

The following is a summary of the option activity for the six months ended June 30, and the year ended December 31,

	2009		2008	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Non-vested, beginning of period	-	\$ 0.75	-	\$ 0.75
Granted	175,000	0.75	3,674,156	0.75
Vested	(175,000)	-	(3,674,156)	0.75
Non-vested, end of period	-	\$ 0.75	-	\$ 0.75

The fair value of common stock options granted is estimated at the date of grant using the Black-Scholes option pricing model by using the historical volatility of comparable public companies. The calculation also takes into account the common stock fair market value at the grant date, the exercise price, the expected life of the common stock warrant, the dividend yield and the risk-free interest rate. Following are the assumptions used during the quarter ended June 30 and the year ended December 31,

	2009	2008
Risk free rate	1.14%	2.45%-2.90%
Expected life	2.5 years	5-10 years
Volatility	85%	67%
Dividend yield	0%	0%

CONQUEST PETROLEUM INCORPORATED and Subsidiaries

Notes to the Consolidated Financial Statements
(unaudited)
June 30, 2009

Note 6 – Commitments and Contingencies

Litigation

The Company is subject to litigation and claims that have arisen in the ordinary course of business, the majority of which have resulted from its thorough restructuring efforts. Many of these claims have been resolved. Management believes individually such litigation and claims will not have a material adverse impact on our financial position or our results of operations but these matters are subject to inherent uncertainties and management's view may change in the future. If an unfavorable final outcome were to occur, there exists the possibility of a material impact on our financial position and the results of operations for the period in which the effect becomes reasonably estimable.

The following describes legal action being pursued against the Company outside the ordinary course of business.

- In the suit, Raymond Thomas, et al. vs Ashley Investment Company, et al., on June 26, 2009, the Judge for the 5th District Court, Louisiana approved the Judgment Dismissing Maxim and other Defendants and the Judgment Approving Maxim and other Defendants' Settlement Agreement of Delhi Field Claims. Maxim will be responsible for the remaining remediation costs to restore the surface leases to standards set by the Louisiana Department of Natural Resources. The Company will also be responsible for the payment of certain remediation, legal, and expert witness expenses incurred in the past and paid by a 3rd party. The Company has accrued a liability for this remediation of \$750,000 as of December 31, 2008. There was no change to the liability for the six months ended June 30, 2009.
- In the Suit with Vanguard Energy Services for \$340,000 for use of their drilling rigs in the 2006 and 2007. This \$340,000 is an Accounts Payable and the Company is in the process of negotiating in conjunction with a suit filed against a sister company, Recompletion Financial Corporation.
- Recompletion Financial Corporation – This is a sister company of Vanguard with the same legal representation. Recompletion was hired as a marketing and financial company to raise funds and the company paid over a million dollars in 2005 with no work done. In addition, there is a breach of contract as they used and employed our proprietary technology barring them from certain geographical locations including China. They have been sued for breach of contract and misappropriating the company's property for \$2,000,000.
- In the suit LFU Fort Pierce, Inc d/b/a Labor Finders, our subsidiary Tiger Bend Drilling was sued for \$284,988. This has been expensed in 2007 and is reflected in our accounts payables at June 30, 2009 and December 31, 2008.
- In the suit with Anthony Austin, Mr. Austin was let go in January 2008 after working 3 months and has filed a claim for \$1,000,000. Mr. Austin's attorney has since withdrawn from the case and on April 14, 2009 the court granted a motion for directed verdict in Maxim's favor.

CONQUEST PETROLEUM INCORPORATED and Subsidiaries

Notes to the Consolidated Financial Statements
(unaudited)
June 30, 2009

Note 6 – Commitments and Contingencies (continued)

- In the suit with Don Shein, Mr. Shein is claiming back salary, severance expenses and commissions that do not coincide with our accounting and his employment contract. He also lent the company \$100,000. We have come to an agreement whereby Mr. Shein will extend his \$100,000 loan and the company has facilitated the issuance of 375,000 shares of the company's common stock by a third party shareholder. The issuance of shares by the third party shareholder on the Company's behalf relieved \$356,250 from stock payable as of June 30, 2009.
- The former CEO, Marvin Watson is claiming expenses, past salary and severance in regards to his employment. The company sees no merit in his claim and will defend itself vigorously.
- The law firm Maloney Martin & Mitchell is seeking payment for services rendered with regards to the GEF/ South Belridge settlement. At this point the amount and probability of payment is not determinable.
- In the suit with Pannell Kerr Forster of Texas PC (AKA PKF Texas) is seeking payment for services rendered. We have retained an expert witness in this field to opine on what the Company was charged and the ethics associated with PKF's performance. At this point the amount and probability of payment is not determinable.

Note 7 – Reporting by Business Segments

The Company had three operating segments: oil and natural gas exploration and production, drilling services and lateral drilling services. These segments were managed separately because of their distinctly different products, operating environments and capital expenditure requirements. The oil and natural gas production unit explores for, develops, produces and markets crude oil and natural gas, with all areas of operation in the United States. The drilling services unit provided drilling services for the Company's subsidiaries and their working interest partners and to third parties. The lateral drilling services unit provided lateral drilling services for third parties, sub-licensed the Company's LHD Technology, and sold related LHD Technology equipment. Segment performance is evaluated based on operating income (loss), which represents results of operations before considering general corporate expenses, interest and debt expenses, other income (expense) and income taxes. The drilling company sold its drilling rigs and now only leases a rig and sub-contracts a crew for short periods of time when drilling wells for its own account and will no longer provide any drilling services to third parties. As of 2009, the drilling services and lateral drilling services are not reported as separate business segments.

Note 8 – Subsequent Events

On August 5, 2009, the Company changed its name to Conquest Petroleum Incorporated.

On August 10, 2009, the Company had a ten-for-one reverse stock split.

The Company received \$1,500,000 restricted funding from an external source ("the Lender") to bring the Delhi field wells back into production and to satisfy certain obligations regarding the settlement of the Delhi lawsuit. The terms of the restricted funding were the issuance of a \$1,500,000 note payable at an interest rate of 15% due and payable on June 30, 2010 (principal and interest), and the issuance of 2,000,000 shares of restricted common stock (the "Closing Shares") valued at \$0.75 per share as an inducement to loan the funds. If the principal and interest are not re-paid at the end of the one year period, the Lender will gain legal right and title to 30,000,000 penalty shares of restricted

common stock valued at \$.75 per share ("Penalty Shares"). The Penalty Shares are being held by the Lender and will become the property of the Lender in the event of default. Also, the Company executed a term assignment of an overriding royalty interest in the Delhi Field equal to fifteen percent of eight-eighths (15% of 8/8ths) of all revenue attributable to Hydrocarbons produced and saved from or attributable or allocable to the Delhi Field net of severance taxes for a period of 30 months ending on December 31, 2011. Further, if a total of \$4,500,000 (to include the principal and interest repayment) is not paid at the end of the 30 month period, the Company will make a cash payment to cover the deficiency.

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

The following is management's discussion and analysis of certain significant factors that have affected certain aspects of the Company's financial position and results of operations during the periods included in the accompanying unaudited consolidated financial statements. You should read this in conjunction with the discussion under "Financial Information" and the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 and the unaudited consolidated financial statements included elsewhere herein.

Forward Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements concerning our beliefs, plans, objectives, goals, expectations, anticipations, estimates, intentions, operations, future results and prospects, including statements that include the words "may," "could," "should," "would," "believe," "expect," "will," "shall," "anticipate," "estimate," "intend" or similar expressions. These forward-looking statements are based upon current expectations and are subject to risk, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected, projected, intended, committed or believed. We provide the following cautionary statement identifying important factors (some of which are beyond our control) which could cause the actual results or events to differ materially from those set forth in or implied by the forward-looking statements and related assumptions.

General Overview

We are an independent oil and natural gas company engaged in the production, acquisition and exploitation of oil and natural gas properties geographically focused on the onshore United States. The Company's operational focus is the acquisition, through the most cost effective means possible, of production or near production of oil and natural gas field assets. Our areas of operation include Louisiana, Arkansas and Kentucky.

Going Concern

As presented in the unaudited consolidated financial statements, the Company has incurred a net loss of \$9,388,486 during the six months ended June 30, 2009, and losses are expected to continue in the near term. Current liabilities exceeded current assets by \$15,009,783 and the accumulated deficit is \$104,662,100 at June 30, 2009. Amounts outstanding and payable to creditors are in arrears and the Company is in negotiations with certain creditors to obtain extensions and settlements of outstanding amounts. The Company is currently in default on certain of its debt obligations and the Company has no future borrowings or funding sources available under existing financing arrangements. Management anticipates that significant additional capital expenditures will be necessary to develop the Company's oil and natural gas properties, which consist primarily of proved reserves that are non-producing, before significant positive operating cash flows will be achieved.

Management's plans to alleviate these conditions include the renegotiation of certain trade payables, settlements of debt amounts with stock, deferral of certain scheduled payments, and sales of certain non-core properties, as considered necessary. In addition, management is pursuing business partnering arrangements for the acquisition and development of its properties as well as debt and equity funding through private placements. Without outside investment from the sale of equity securities, debt financing or partnering with other oil and natural gas companies, operating activities and overhead expenses will be reduced to a pace that available operating cash flows will support.

The accompanying unaudited consolidated financial statements are prepared as if the Company will continue as a going concern. The unaudited consolidated financial statements do not contain adjustments, including adjustments to recorded assets and liabilities, which might be necessary if the Company were unable to continue as a going concern.

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

Three Months Ended June 30 2009 Compared to the Three Months Ended June 30, 2008

Oil and Natural Gas Revenues. Oil and natural gas revenues for the three months ended June 30, 2009 and 2008 were \$187,663 and \$546,255, respectively, a decrease of 65.65%. This decrease was attributed to oil and gas prices being higher in 2008.

License Fees, Royalties & Related Services. License fees, royalties and related services for the three months ended June 30, 2009 and 2008 were \$9,000 and \$7,192, respectively, an increase of \$1,808. These fees were associated with the granting of sectional and regional licensing of the Company's proprietary lateral drilling technology. The Company believes that licensing revenues will decrease in the near future as the Company is not currently actively marketing sublicenses of its technology in favor of concentrating on internal field development, but believe that with ongoing in-house usage of the technology, there will be future opportunities to market the technology based on results documented by the Company.

Production and Lease Operating Expenses. Production and lease operating expenses for the three months ended June 30, 2009 and 2008 were \$116,939 and \$190,554, respectively, a decrease of 38.63%. This decrease was attributable to reductions in staff and decrease in well workover activity.

Revenue Sharing Royalties. Revenue sharing royalties for the three months ended June 30, 2009 and 2008 were nil and \$17,782 respectively, a decrease of \$17,782. This decrease was due to no interest sold in the quarter ended June 30, 2009.

Depletion, Depreciation and Amortization. Depletion, depreciation, and amortization for the three months ended June 30, 2009 and 2008 were \$118,973 and \$456,869, respectively, a decrease of \$337,896. The decrease was due to the decrease in depletion and depreciation of the reserve basis in the Marion and Belton Field.

General and Administrative Expenses. General and administrative expenses for the three months ended June 30, 2009 and 2008 were \$6,328,578 and \$4,674,891, respectively. This net increase of \$1,653,687 reflects non-cash expenses for compensation and third party services. The Company issued common stock valued at \$1,125,000 and \$3,465,759, respectively as compensation and consulting expenses during the three months ended June 30, 2009.

Interest Expense, net. Interest expense, net for the three months ended June, 2009 and 2008 was \$406,951 and \$196,049, respectively. Interest expense related to debt decreased significantly as a result of the conversion of notes payable during the last quarter of 2008. In addition, the BlueRock interest increased from 8% to 18% resulting in an additional interest expense of \$100,000.

Net Loss. The Company incurred a loss from operations for the three months ended June, 2009 and 2008 of \$6,572,589 and \$4,927,403 respectively, specifically due to reasons discussed above.

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

Six Months Ended June 30 2009 Compared to the Six Months Ended June 30, 2008

Oil and Natural Gas Revenues. Oil and natural gas revenues for the six months ended June 30, 2009 and 2008 were \$374,889 and \$947,060, respectively, a decrease of 60.42%. This decrease was attributed to oil and gas prices being higher in 2008.

License Fees, Royalties & Related Services. License fees, royalties and related services for the six months ended June 30, 2009 and 2008 were \$9,000 and \$34,962, respectively, an increase of \$25,692. These fees were associated with the granting of sectional and regional licensing of the Company's proprietary lateral drilling technology. The Company believes that licensing revenues will decrease in the near future as the Company is not currently actively marketing sublicenses of its technology in favor of concentrating on internal field development, but believe that with ongoing in-house usage of the technology, there will be future opportunities to market the technology based on results documented by the Company.

Production and Lease Operating Expenses. Production and lease operating expenses for the six months ended June 30, 2009 and 2008 were \$394,639 and \$438,414, respectively, a decrease of 9.99%. This decrease was attributable to reductions in staff and decrease in well workover activity.

Revenue Sharing Royalties. Revenue sharing royalties for the six months ended June 30, 2009 and 2008 were nil and \$40,227 respectively, a decrease of \$40,227. This decrease was due to no interest sold in the quarter ended June 30, 2009.

Depletion, Depreciation and Amortization. Depletion, depreciation, and amortization for the six months ended June 30, 2009 and 2008 were \$258,825 and \$917,861, respectively, a decrease of \$659,036. The decrease was due to the decrease in depletion and depreciation of the reserve basis in the Marion and Belton Field.

General and Administrative Expenses. General and administrative expenses for the six months ended June 30, 2009 and 2008 were \$8,634,257 and \$9,041,349, respectively. This net decrease of \$407,092 is due to the continued efforts by management to curtail expenses during the six ended June 30, 2009. Included in the expenses for the six months ended June 30, 2009 are non-cash expenses of \$2,775,000 and \$4,404,002, respectively for compensation and third party services.

Interest Expense, net. Interest expense, net for the six months ended June, 2009 and 2008 was \$686,840 and \$1,780,557, respectively. Interest expense related to debt decreased significantly as a result of the conversion of notes payable during the last quarter of 2008.

Net Loss. The Company incurred a loss from operations for the six months ended June, 2009 and 2008 of \$9,388,486 and \$11,045,615 respectively, specifically due to reasons discussed above.

Liquidity and Capital Resources

At June 30, 2009, the Company had a working capital deficit of \$15,009,783 as compared to a working capital deficit of \$11,397,281 at December 31, 2008. Current liabilities increased to \$15,224,360 at June 30, 2009 from \$11,714,204 at December 31, 2008.

Net cash used in operating activities totaled \$821,413 for the six months ended June 30, 2009. Net cash used by operating activities totaled \$1,099,732 for the six months ended June 30, 2008. Net cash used in operating activities for the 2009 period consists primarily of the net loss of \$9,388,486 and the increase in receivables of \$122,771 added to the net increase in accounts payable and accrued liabilities of \$36,898, and by several non-cash charges including common stock issued for services valued at \$6,453,518 and depletion, depreciation and amortization of \$258,825. The reduction in cash used in operating activities in the 2009 period was primarily due to the limited availability of funds.

Net cash provided by investing activities totaled \$248,073 for the six months ended June 30, 2009. Net cash used in investing activities totaled \$213,359 for the six months ended June 30, 2008. Net cash provided by investing activities for the 2009 period consists primarily of proceeds from the sale of properties.

Net cash provided by financing activities totaled \$505,838 and \$1,725,768 for the six months ended June 30, 2009 and 2008, respectively. Net cash provided by financing activities for the 2009 period consists of proceeds from new borrowings of \$130,000 and funds provided by BlueRock for the Marion Field expenses.

While the Company is actively seeking additional funding sources, no future borrowing or funding sources are available under existing financing arrangements.

Item 4T. Controls and Procedures. An evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report on Form 10-Q. Disclosure controls and procedures are procedures designed with the objective of ensuring that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, such as this Form 10-Q, is recorded, processed, summarized and reported, within the time period specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and is communicated to our management, including our Chief Executive Officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based on that evaluation, our management concluded that, as of June 30, 2009 our disclosure controls and procedures were not effective.

Management's assessment of the effectiveness of the registrant's internal control over financial reporting is as of the quarter ended June 30, 2009. Based on that evaluation, our management concluded that our control over financial reporting and related disclosure controls and procedures were not effective because our accounting processes lack appropriate segregation of responsibilities and accounting technical expertise necessary for an effective system of internal control. We believe that our lack of technical expertise constitutes a material weakness in our internal control. In addition to this material weakness, Management's assessment showed that the following material weaknesses from the audited year ended December 31, 2008 had not been corrected and still existed as of June 30, 2009.

1. As of June 30, 2009, we did not maintain effective controls over the control environment. Specifically we have not developed and effectively communicated to our employees its accounting policies and procedures. This has resulted in inconsistent practices. Further, the Board of Directors does not currently have any independent members and no director qualifies as an audit committee financial expert as defined in Item 407(d)(5)(ii) of Regulation S-B. Since these entity level programs have a pervasive effect across the organization, management has determined that these circumstances constitute a material weakness.

2. As of June 30, 2009, we did not maintain effective controls over financial statement disclosure. Specifically, controls were not designed and in place to ensure that all disclosures required were originally addressed in our financial statements. Accordingly, management has determined that this control deficiency constitutes a material weakness.

3. This lack of internal controls over financial reporting resulted in numerous adjusting journal entries proposed by our independent auditor during their review of the period ended June 30, 2009.

Management is currently evaluating remediation plans for the above control deficiencies. In our evaluation, Management analyzed the costs and benefits of several different options to improve our internal controls over financial reporting. The following options for improving the controls were analyzed as the proposed remediation plan (i) hiring a qualified CFO with both GAAP and SEC reporting experience, (ii) forming an internal audit department, (iii) subscribing to GAAP and SEC reporting databases, (iv) additional staffing to provide segregation of duties and a review infrastructure for financial reporting, and (v) developing an information technology department to provide security over our information and to help facilitate electronic filing. In the evaluation, Management estimated implementation of the proposed remediation plan within 1 to 2 years. It was concluded from our evaluation that the costs to implement the plan were greater than the benefits to be received, and Management therefore passed on implementation until operations of the Company have improved. Due to the current operating condition of the company, and the current and future outlook of the economic climate, we do not foresee the ability to adequately implement the remediation plan within the foreseeable future.

Change in Internal Control over Financial Reporting

There were changes in our internal control over financial reporting identified in connection with the evaluation performed that occurred during the fiscal quarter covered by this report that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting. The Company has taking the necessary steps to outsource the accounting function to a reputable third party accounting and financial consulting Company that has the staff, technology, and resources to support our needs as a reporting Company with management's supervision and control. The Company has also implemented necessary internal controls to monitor and review all work performed by contracted accounting personnel in the preparation of financial statements, footnotes and financial data needed to produce its necessary SEC filings on a timely basis.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

The Company is subject to litigation and claims that have arisen in the ordinary course of business, the majority of which have resulted from its thorough restructuring efforts. Many of these claims have been resolved. Management believes individually such litigation and claims will not have a material adverse impact on our financial position or our results of operations but these matters are subject to inherent uncertainties and management's view may change in the future. If an unfavorable final outcome were to occur, there exists the possibility of a material impact on our financial position and the results of operations for the period in which the effect becomes reasonably estimable.

The following describes legal action being pursued against the Company outside the ordinary course of business.

- In the suit, Raymond Thomas, et al. vs Ashley Investment Company, et al., on June 26, 2009, the Judge for the 5th District Court, Louisiana approved the Judgment Dismissing Maxim and other Defendants and the Judgment Approving Maxim and other Defendants' Settlement Agreement of Delhi Field Claims. Maxim will be responsible for the remaining remediation costs to restore the surface leases to standards set by the Louisiana Department of Natural Resources. The Company will also be responsible for the payment of certain remediation, legal, and expert witness expenses incurred in the past and paid by a 3rd party. The Company has accrued a liability for this remediation of \$750,000 as of December 31, 2008. There was no change to the liability for the six months ended June 30, 2009.
- In the Suit with Vanguard Energy Services for \$340,000 for use of their drilling rigs in the 2006 and 2007. This \$340,000 is an Accounts Payable and the Company is in the process of negotiating in conjunction with a suit filed against a sister company, Recompletion Financial Corporation.
- Recompletion Financial Corporation – This is a sister company of Vanguard with the same legal representation. Recompletion was hired as a marketing and financial company to raise funds and the company paid over a million dollars in 2005 with no work done. In addition, there is a breach of contract as they used and employed our proprietary technology barring them from certain geographical locations including China. They have been sued for breach of contract and misappropriating the company's property for \$2,000,000.
- In the suit LFU Fort Pierce, Inc d/b/a Labor Finders, our subsidiary Tiger Bend Drilling was sued for \$284,988. This has been expensed in 2007 and is reflected in our accounts payables at March 31, 2009 and December 31, 2008.
- In the suit with Anthony Austin, Mr. Austin was let go in January 2008 after working 3 months and has filed a claim for \$1,000,000. Mr. Austin's attorney has since withdrawn from the case and on April 14, 2009 the court granted a motion for directed verdict in Maxim's favor.
- In the suit with Don Shein, Mr. Shein is claiming back salary, severance expenses and commissions that do not coincide with our accounting and his employment contract. He also lent the company \$100,000. We have come to an agreement whereby Mr. Shein will extend his \$100,000 loan and the company has facilitated the issuance of 375,000 shares of the company's common stock by a third party shareholder. . The issuance of shares by the third party shareholder on the Company's behalf relieved \$281,250 from stock payable as of June 30, 2009.
- The former CEO, Marvin Watson is claiming expenses, past salary and severance in regards to his employment. The company sees no merit in his claim and will defend itself vigorously.
- The law firm Maloney Martin & Mitchell is seeking payment for services rendered with regards to the GEF/ South Belridge settlement. At this point the amount and probability of payment is not determinable.

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

Common stock

During the six months ended June 30, 2009, the Company issued 4,005,000 shares of common stock with a fair value of \$0.75 per share or \$3,003,750 to employees of the Company for services.

During the six months ended June 30, 2009, the Company issued 4,599,692 shares of common stock with a fair value of \$0.75 per share or \$3,449,768 to third parties for services.

During the six months ended, 2,457,000 shares of common stock with a fair value of \$0.75 per share or \$1,856,250 were transferred by shareholders for the benefit of the Company.

During the six months ended \$356,250 was relieved from stock payable by the transfer of shares by shareholders for the benefit of the Company

Warrants

During the six months ended June 30, 2009, the Company granted 75,000 warrants to purchase the Company's common stock with an exercise price of \$0.75 per share for services provided. These warrants expire in five years from the date of grant. The estimated fair value of the warrants was determined using the Black-Scholes option pricing model and totaled \$38,005.

Stock options

During the six months ended June 30, 2009, the Company granted options to purchase 175,000 shares of the Company's common stock at an exercise price of \$0.75 per share to six employees for services provided. These options expire five years from the date of grant. All options granted to employees in 2009 vested immediately on the grant. The estimated fair value of these stock options was determined on the grant date using the Black-Scholes option pricing model and totaled \$66,605.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit 31.1- Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2- Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1- Certification 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.

Exhibit 32.2- Certification 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.

SIGNATURES

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.

CONQUEST PETROLEUM INCORPORATED
(Registrant)

Date: November 16, 2009

By:

/s/ Robert D. Johnson
Robert D. Johnson
Chief Executive Officer