Conquest Petroleum Inc
Form S-1
October 09, 2009

As filed with the Securities and Exchange Commission on October 9, 2009.

Registration No. 333-_______

UNITED STATES
Securities and Exchange Commission
Washington, D.C. 20549

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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

Texas	1382	20-0650828
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

24900 Pitkin Road, Suite 308
Spring, Texas 77386
(281) 466-1530
(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

Robert D. Johnson
24900 Pitkin Road, Suite 308
Spring, Texas 77386
(281) 466-1530
(Name and address, including zip code, and telephone number,
including area code, of agent for service)

Copies to:
Bryce D. Linsenmayer
Amy Moss
Haynes and Boone, LLP
1221 McKinney Street, Suite 2100
Houston, Texas 77010
(713) 547-2007
(713) 236-5540 (fax)

Approximate date of commencement of proposed sale of securities to the public: As soon as practical after the effective date of this Registration Statement.

If any of the securities being registered on this form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company x

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Unit(2)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, par value $0.00001 per share	6,556,100	$0.10	$655,610	$36.58

(1) Represents shares offered by the selling stockholders. Includes (i) restricted shares owned by the selling stockholders and (ii) an indeterminable number of additional shares of common stock, pursuant to Rule 416 under the Securities Act of 1933, as amended, that may be issued to prevent dilution from stock splits, stock dividends or similar transactions that could affect the shares to be offered by selling stockholders.

(2) Pursuant to Rule 457(c) under the Securities Act of 1933, as amended, the registration fee has been calculated based on the average of the bid and asked price of the Registrant's Common Stock as reported by the OTC Bulletin Board on October 5, 2009.

The Registrant hereby amends this Registration Statement on such date as may be necessary to delay its effective date until Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Subject to completion, dated October 9, 2009

Preliminary Prospectus

6,556,100 Shares

Conquest Petroleum Incorporated

Common Stock

This prospectus relates to the resale of 6,556,100 shares of our common stock by the selling stockholders named within, including YA Global Master SPV Ltd., ("YA Global"). We may from time to time issue shares of our common stock to the selling stockholder at 93.5% of the market price at the time of such issuance determined in accordance with the terms of our Standby Equity Distribution Agreement, dated as of August 21, 2009, or SEDA, with YA Global. The selling stockholder may sell shares from time to time in regular brokerage transactions, in transactions directly with market makers or in privately negotiated transactions. We have agreed to pay all costs relating to the registration of the securities.

For additional information on the methods of sale that may be used by the selling stockholders, see the section entitled "Plan of Distribution" on page 54. We will not receive any of the proceeds from the sale of these shares. However, we will receive proceeds from YA Global from the initial sale to such stockholder of these shares.

We are currently listed on the OTC Bulletin Board under the trading symbol "CQPT." On October 5, 2009, the last reported sale price of the common stock on the OTC Bulletin Board was $0.10.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 5.

We may amend or supplement this prospectus from time to time by filing amendments or supplements as required. You should read this prospectus and any prospectus supplement carefully before you decide to invest. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of this document.

With the exception of YA Global Master SPV Ltd., which has informed us it is an "underwriter" within the meaning of the Securities Act of 1933, as amended or the Securities Act, to the best of our knowledge, no other underwriter or person has been engaged to facilitate the sale of shares of our stock in this offering. The Securities and Exchange Commission may take the view that, under certain circumstances, any broker-dealers or agents that participate with the selling stockholder in the distribution of the shares may be deemed to be "underwriters" within the meaning of the Securities Act. Commissions, discounts or concessions received by any such broker-dealer or agent may be deemed to be underwriting commissions under the Securities Act.

Neither the Securities and Exchange Commission, nor any state securities commission or other regulatory body, has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is October 9, 2009.

TABLE OF CONTENTS

You should rely only on the information contained in this prospectus. The selling stockholders have not, authorized any person to provide you with different information. This prospectus is not an offer to sell, nor is it an offer to buy, these securities in any jurisdiction where the offer or sale is not permitted. The information in this prospectus is complete and accurate only as of the date of this prospectus regardless of the time of delivery of this prospectus or any sale of our common stock. Our business, financial condition, prospects and other information may have changed since this date.

This prospectus includes industry data and forecasts that we obtained from internal company surveys, market research, consultant surveys, publicly available information and industry publications and surveys. Industry surveys, publications, consultant surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable.

The body of accounting principles generally accepted in the United States is commonly referred to as "GAAP." A non-GAAP financial measure is generally defined by the Securities and Exchange Commission, or SEC, as one that purports to measure historical or future financial performance, financial position or cash flows, but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measures. Any non-GAAP measures are described within

SUMMARY

This summary highlights selected information described in more detail later in this prospectus, but does not contain all of the information you should consider in making an investment decision. You should also read this entire prospectus, including the risks of investing in our common stock discussed in the section entitled “Risk Factors” and the financial statements and related notes appearing elsewhere in this prospectus before investing in our common stock. References in this prospectus to “Conquest,” the “company,” “us,” “our” or “we” are to Conquest Petroleum Incorporated and its subsidiar unless the context requires otherwise.

If you are not familiar with some of the industry terms used in this prospectus, please read our Glossary of Terms included as Appendix A to this prospectus.

We held our annual shareholders’ meeting on June 24, 2009. At the shareholders’ meeting, the shareholders approved the change of the company name to Conquest Petroleum Incorporated and a 1 for 10 reverse stock split. Unless otherwise noted, all share numbers have been adjusted for the reverse stock split.

CONQUEST PETROLEUM INCORPORATED

Our Company

Conquest Petroleum Incorporated (formerly known as Maxim TEP, Inc.) is headquartered in Spring, Texas, a suburb of Houston. We are an oil and natural gas exploration, development and production (E&P) company geographically focused on the onshore United States. Our operational focus is the acquisition, through the most cost effective means possible, of production or near production of oil and natural gas field assets. Targeted fields generally have existing producing wells. Selected fields also have the availability of additional development drilling sites. We seek to have an inventory of existing wells to exploit and a number of new drilling sites to maintain growth, while increasing reserves and cash flow. We have an active workover program to bring non-producing wells back into production while minimizing operational costs.

The following are key elements of the business strategy:

Phase One – Acquisition Phase

Phase One was to acquire low risk, mature fields with proven and probable reserves. We secured initial funding from several accredited investors and through debt financing, and acquired fields with existing wells and infill development drilling opportunities, and now currently own the rights to oil and natural gas leases in Kentucky and Louisiana.

In buying existing oil and natural gas fields, we set out to extensively study the fields, the formations in which oil and natural gas were found, the history of sales from the field and the history of all surrounding fields, and their production. From this information, a better assessment can be made as to the value of the target property.

Phase Two – Completion of Existing Wells Phase

In Phase Two, our strategy is exploitation of our fields by investing in low risk workover programs on existing wells, monetizing significant upside in workover wells on already proved assets, and developing proved developed non-producing wells into proved developed producing (PDPs) assets with no associated exploration risk. We have over 30 existing wells in the Delhi and Belton fields being brought back on production. This phase is highly dependent on our ability to secure funding from debt and equity sources.

Currently, we have active operations on our fields located in Louisiana and Kentucky. We have begun an active fourteen well workover program on our biggest asset, the Delhi Field in Louisiana. Of the fourteen, eight producing wells and six water injection wells, all in the Mengel Sand, will be completed We have 515 low rate productive natural gas wells in our Marion field in Louisiana that we received through the purchase of this field along with over 110 miles of a natural gas gathering pipeline. We have plans to repair leaks in the existing pipeline to more efficiently capture additional natural gas from the existing wells as well as other remedial programs such as the installing of hub compressors, installing packers to repair holes in casings, and swabbing existing wells. Lastly, we have initiated a 17 well workover program in our Belton Field in Kentucky. Due to limited funding, we have only partially completed the planned activities and foresee the plan to extend into late 2009, if funding is obtained.

Phase Three – Development Drilling on Proved Assets

In Phase Three, our strategy is to execute infill drilling of our oil and gas assets. We will develop proved undeveloped (PUDs) assets into proved developed producing (PDPs) assets with no associated exploration risk. We have identified over 300 infill prospects in the Marion field. We have identified four development oil opportunities in our Delhi field. And we have identified 24 probable gas opportunities in the New Albany Shale and six development oil opportunities in the McCloskey Sand in our Belton field.

All of the planned development drilling and enhancements assume that we are successful in securing our 2009 funding that will support a drilling and development budget. The actual number of wells drilled will vary depending upon various factors, including the availability and cost of drilling rigs, working interest partner issues, the ability to raise additional capital, the success of the drilling programs, weather delays and other factors. Our ability to drill the number of wells budgeted for 2009 and 2010 is dependent on funding.

Phase Four – Expansion Phase

In Phase Four, an effort will be made to expand our oil and natural gas reserves through the acquisition of fields, wells or working interest in oil and gas assets, with similar characteristics as those in Phase One. To minimize risk, properties with blanket type geological deposition will be sought.

Our new management consists of personnel who have successfully followed and executed this exact business plan in the past. By exploiting resources that are less risky than many E&P companies, we are better able to function with less general and administrative costs.

Going Concern

As presented in the unaudited consolidated financial statements herein, we have 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 we are in negotiations with certain creditors to obtain extensions and settlements of outstanding amounts. We are currently in default on certain of our debt obligations and have no future borrowings or funding sources available under our existing financing arrangements. We anticipate that significant additional capital expenditures will be necessary to develop our oil and natural gas properties, which consist primarily of proved reserves that are non-producing or undeveloped, before significant positive operating cash flows will be achieved.

Our 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, we are pursuing business partnering arrangements for the acquisition and development of our 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.

For additional information on this and other risk involved with our company see "Risk Factors" beginning on page 5.

August 2009 Standby Equity Distribution Agreement

On August 21, 2009, and amended on September 25, 2009, the Company and YA Global entered into a Standby Equity Distribution Agreement, or SEDA, pursuant to which, for a two-year period, we have the right to sell shares of our common stock to YA Global. On August 21, 2009, we issued 260,000 shares of our common stock to YA Global in lieu of payment of a $65,000 commitment fee. As part of the transaction, we also issued YA Global a warrant to buy 1,500,000 shares of our common stock at $7.50 per share. As of September 30, 2009, we had not sold any shares of common stock to YA Global under the SEDA.

For each share of common stock purchased under the SEDA, YA Global will pay ninety-three point five percent (93.5%) of the lowest daily volume weighted average price during the five consecutive trading days after we provide notice to YA Global. Each such advance may be for an amount not to exceed the average daily trading volume of our common stock for the five consecutive trading days prior to the notice date. In addition, in no event shall the number of shares of common stock issuable to YA Global pursuant to an advance cause the aggregate number of shares of common stock beneficially owned by YA Global and its affiliates to exceed 4.99%.

Our right to deliver an advance notice and the obligations of YA Global hereunder with respect to an advance is subject to our satisfaction of a number of conditions, including that our common stock is trading, and we believe will continue for the foreseeable future to trade, on a principal market, that we have not received any notice threatening the continued listing of our common stock on the principal market and that a registration statement is effective.

In addition, without the written consent of YA Global, we may not, directly or indirectly, offer to sell, sell, contract to sell, grant any option to sell or otherwise dispose of any shares of common stock (other than the shares offered pursuant to the provisions of the agreement) or securities convertible into or exchangeable for common stock, warrants or any rights to purchase or acquire, common stock during the period beginning on the 5th trading day immediately prior to an advance notice date and ending on the 5th trading day immediately following the settlement date.

We may terminate the SEDA upon fifteen trading days of prior notice to YA Global, as long as there are no advances outstanding and we have paid to YA Global all amounts then due. A copy of the SEDA is attached hereto as an exhibit.

Corporate Information

Our principal executive offices are located at 24900 Pitkin Road, Suite 308, Spring, Texas 77386, and our telephone number is (281) 466-1530. Our website address is www.conquestpetroleum.com. Information on our website or any other website is not incorporated by reference into this prospectus and does not constitute a part of this prospectus.

The Offering

We have agreed to register 6,556,100 shares of our common stock owned by the selling stockholders named in this prospectus for resale pursuant to this prospectus. The named selling stockholders may offer shares of our common stock through public or private transactions.

Common stock offered by the selling stockholders	6,556,100 shares.
Use of proceeds	We will not receive any of the proceeds from the sale of shares by the selling stockholders. We will receive proceeds from any sale of shares of common stock to YA Global pursuant to the SEDA and proceeds received under the SEDA will be utilized for working capital and general corporate purposes.
Dividend policy	We have not declared or paid any cash dividends on our common stock, and we do not currently anticipate paying any cash dividends on our common stock in the foreseeable future. For more information, see “Dividend Policy” on page 17.
Market symbol	CQPT.
Risk factors	For a discussion of certain risks associated with an investment in our common stock, please see the section entitled “Risk Factors” beginning on page 5.

RISK FACTORS

You should carefully consider each of the risks described below, together with all of the other information contained in this report, before deciding to invest in our securities. If any of the following risks develop into actual events, our business, financial condition or results of operations could be materially adversely affected and you may lose all or part of your investment.

There is a substantial doubt about our ability to continue as a going concern. If we cannot continue to operate our business, you could lose your entire investment in our company.

We have operated at a loss each year since inception. Net operating losses for the fiscal years ended December 31, 2008 and 2007 were $6.03 million and $29.99 million, respectively and was $9.39 million and $11.01 million before discontinued operations for the six months ended June 30, 2009 and 2008, respectively In addition, we expect to incur substantial operating expenses in connection with our natural gas and oil exploration and development activities. As a result, we may continue to experience negative cash flow for at least the foreseeable future and cannot predict when, or even if, we might become profitable. We do not have sufficient cash on hand to fund our monthly budget for the next 12 months. As we cannot assure a lender that we will be able to successfully explore and develop our oil and gas properties, we will probably find it difficult to raise debt financing from traditional sources. We have traditionally raised our operating capital from the sale of equity and debt securities but there can be no assurance that we will continue to be able to do so.

Our ability to generate net income will be strongly affected by, among other factors, our ability to successfully drill undeveloped reserves as well as the market price of crude oil and natural gas. If we are unsuccessful in drilling productive wells or the market price of crude oil and natural gas declines, we may report additional losses in the future. Consequently, future losses may adversely affect our business, prospects, financial condition, results of operations and cash flows.

These circumstances raise substantial doubt about our ability to continue as a going concern, as described in note 1 to our consolidated financial statements for the six months ended June 30, 2009, which are included with this prospectus. Our consolidated financial statements do not reflect any adjustments that might result if we are unable to continue our business.

We may face challenges in accessing the capital markets for further liquidity.

The global financial and credit crisis has and may continue to impact our liquidity and financial condition. The continued credit crisis and related turmoil in the global financial system may have a material impact on our liquidity and our financial condition, and we may ultimately face major challenges if conditions in the financial markets do not improve. Our ability to access the capital markets or borrow money may be restricted at a time when we would like, or need, to raise capital, which could have an adverse impact on our flexibility to react to changing economic and business conditions and on our ability to fund our operations and capital expenditures in the future. Additionally, the current economic situation could lead to reduced demand for natural gas and oil, or further reductions in the prices of natural gas and oil, or both, which could have a negative impact on our financial position, results of operations and cash flows. While the ultimate outcome and impact of the current financial crisis cannot be predicted, it may have a material adverse effect on our future liquidity, results of operations and financial condition.

We have substantial capital requirements that, if not met, may hinder operations.

We have and expect to continue to have substantial capital needs as a result of our active exploration, development, and acquisition programs. We expect that additional external financing will be required in the future to fund our growth. We may not be able to obtain additional financing, and we have no financing under existing or new credit facilities and these may not be available in the future. Without additional capital resources, we may be forced to limit or defer our planned natural gas and oil exploration and development program and this will adversely affect the recoverability and ultimate value of our natural gas and oil properties, in turn negatively affecting our business, financial condition, and results of operations.

Natural gas and oil prices are highly volatile, and lower prices will negatively affect our financial results.

Our revenue, profitability, cash flow, oil and natural gas reserves value, future growth, and ability to borrow funds or obtain additional capital, as well as the carrying value of our properties, are substantially dependent on prevailing prices of natural gas and oil. Historically, the markets for natural gas and oil have been volatile, and those markets are likely to continue to be volatile in the future. It is impossible to predict future natural gas and oil price movements with certainty. Prices for natural gas and oil are subject to wide fluctuations in response to relatively minor changes in the supply of and demand for natural gas and oil, market uncertainty, and a variety of additional factors beyond our control. These factors include:

- the level of consumer product demand;
- the domestic and foreign supply of oil and natural gas;
- overall economic conditions;
- weather conditions;
- domestic and foreign governmental regulations and taxes;
- the price and availability of alternative fuels;
- political conditions in or affecting oil and natural gas producing regions;
- the level and price of foreign imports of oil and liquified natural gas; and
- the ability of the members of the Organization of Petroleum Exporting Countries and other state controlled oil companies to agree upon and maintain oil price and production controls.

Declines in natural gas and oil prices may materially adversely affect our financial condition, liquidity, and ability to finance planned capital expenditures and results of operations and may reduce the amount of oil and natural gas that we can produce economically.

Drilling for and producing oil and natural gas are high risk activities with many uncertainties that could adversely affect our business, financial condition or results of operations.

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

- delays imposed by or resulting from compliance with regulatory requirements;
- pressure or irregularities in geological formations;

- shortages of or delays in obtaining equipment and qualified personnel;
- equipment failures or accidents;
- adverse weather conditions;
- reductions in oil and natural gas prices; and
- oil and natural gas property title problems.

Reserve estimates depend on many assumptions that may turn out to be inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves.

The process of estimating oil and natural gas reserves is complex. It requires interpretations of available technical data and many assumptions, including assumptions relating to economic factors. Any significant inaccuracies in these interpretations or assumptions could materially affect the estimated quantities and present value of our reported reserves. In order to prepare our estimates, we must project production rates and the timing of development expenditures. We must also analyze available geological, geophysical, production and engineering data. The extent, quality and reliability of this data can vary. The process also requires that economic assumptions be made about matters such as oil and natural gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. Therefore, estimates of oil and natural gas reserves are inherently imprecise.

Actual future production, oil and natural gas prices received, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and natural gas reserves most likely will vary from our estimates. Any significant variance could materially affect the estimated quantities and present value of our reported reserves. In addition, we may adjust estimates of proved reserves to reflect production history, results of exploration and development, prevailing oil and natural gas prices and other factors, many of which are beyond our control.

Prospects that we decide to drill may not yield oil or natural gas in commercially viable quantities.

Our drilling prospects are in various stages of evaluation. There is no way to predict in advance of drilling and testing whether any particular drilling prospect will yield oil or natural gas in sufficient quantities to recover drilling and completion costs or to be economically viable. The use of seismic data and other technologies and the study of producing fields in the same area will not enable us to know conclusively prior to drilling whether oil or natural gas will be present or, if present, whether oil or natural gas will be present in commercial quantities. We cannot assure you that the analogies we draw from available data from other wells, more fully explored prospects or producing fields will be applicable to our drilling prospects.

The near-term focus of our development activities will be concentrated in three core asset areas, which exposes us to risks associated with prospect concentration. The relative concentration of our near-term activities in three core asset areas means that any impairments or material reductions in the expected size of the reserves attributable to our wells, any material harm to the producing reservoirs or associated surface facilities from which these wells produce or any significant governmental regulation with respect to any of these fields, including curtailment of production or interruption of transportation of production, could have a material adverse effect on our financial condition and results of operations.

Special geological characteristics of the New Albany Shale play will require us to use less-common drilling technologies in order to determine the economic viability of our development efforts. New Albany Shale reservoirs are complex, often containing unusual features that are not well understood by drillers and producers. Successful operations in this area require specialized technical staff with specific expertise in horizontal drilling, with respect to which we have limited experience.

The New Albany Shale play contain vertical fractures. Results of past drilling in the New Albany Shale have been mixed and are generally believed to be related to whether or not a particular well bore intersects a vertical fracture. While wells have been drilled into the New Albany Shale for years, most of those wells have been drilled vertically. Where vertical fractures have been encountered, production has been better. It is expected that horizontal drilling will allow us to encounter more fractures by drilling perpendicular to the fracture planes. While it is believed that the New Albany Shale is subject to some level of vertical fracturing throughout the Illinois Basin, certain areas will be more heavily fractured than others. If the areas in which we hold an interest are not subject to a sufficient level of vertical fracturing, then our plan for horizontal drilling might not yield commercially viable results.

Gas and water are produced together from the New Albany Shale. Water is often produced in significant quantities, especially early in the producing life of a well. We plan to dispose of this produced water by means of injecting it into other porous and permeable formations via disposal wells located adjacent to producing wells. If we are unable to find such porous and permeable reservoirs into which to inject this produced water or if we are

7

prohibited from injecting because of governmental regulation, then our cost to dispose of produced water could increase significantly, thereby affecting the economic viability of producing the New Albany Shale wells.

Seismic studies do not guarantee that hydrocarbons are present or if present will produce in economic quantities.

We rely on seismic studies to assist us with assessing prospective drilling opportunities on our properties, as well as on properties that we may acquire. Such seismic studies are merely an interpretive tool and do not necessarily guarantee that hydrocarbons are present or if present will produce in economic quantities.

A substantial percentage of our proved reserves consist of undeveloped reserves.

As of the end of our 2008 fiscal year, approximately 100% of the Delhi Field Properties' proved reserves, 99% of the Belton Field Properties' proved reserves and 78% of the Marion Field Properties' proved reserves were classified as proved undeveloped reserves. These reserves may not ultimately be developed or produced, or quantities developed and produced may be smaller than expected, which in turn may have a material adverse effect on our results of operations.

We depend on successful exploration, development and acquisitions to maintain revenue in the future.

In general, the volume of production from natural gas and oil properties declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. Except to the extent that we conduct successful exploration and development activities or acquire properties containing proved reserves, or both, our proved reserves will decline as reserves are produced. Our future natural gas and oil production is, therefore, highly dependent on our level of success in finding or acquiring additional reserves. Additionally, the business of exploring for, developing, or acquiring reserves is capital intensive. Recovery of our reserves, particularly undeveloped reserves, will require significant additional capital expenditures and successful drilling operations. To the extent cash flow from operations is reduced and external sources of capital become limited or unavailable, our ability to make the necessary capital investment to maintain or expand our asset base of natural gas and oil reserves would be impaired. In addition, we may be required to find partners for any future exploratory activity. To the extent that others in the industry do not have the financial resources or choose not to participate in our exploration activities, we will be adversely affected.

Our future acquisitions may yield revenues or production that vary significantly from our projections.

In acquiring producing properties we assess the recoverable reserves, future natural gas and oil prices, operating costs, potential liabilities and other factors relating to such properties. Our assessments are necessarily inexact and their accuracy is inherently uncertain. Our review of a subject property in connection with our acquisition assessment will not reveal all existing or potential problems or permit us to become sufficiently familiar with the property to assess fully its deficiencies and capabilities.

We may not inspect every well, and we may not be able to identify structural and environmental problems even when we do inspect a well. If problems are identified, the seller may be unwilling or unable to provide effective contractual protection against all or part of those problems. Any acquisition of property interests may not be economically successful, and unsuccessful acquisitions may have a material adverse effect on our financial condition and future results of operations.

We cannot assure you that:

- we will be able to identify desirable natural gas and oil prospects and acquire leasehold or other ownership interests in such prospects at a desirable price;

- any completed, currently planned, or future acquisitions of ownership interests in natural gas and oil prospects will include prospects that contain proved natural gas or oil reserves;

- we will have the ability to develop prospects which contain proven natural gas or oil reserves to the point of production;

- we will have the financial ability to consummate additional acquisitions of ownership interests in natural gas and oil prospects or to develop the prospects which we acquire to the point of production; or

- we will be able to consummate such additional acquisitions on terms favorable to us.

Our identified drilling locations are scheduled out over several years, making them susceptible to uncertainties that could materially alter the occurrence or timing of their drilling.

Our management has specifically identified and preliminarily scheduled drilling locations as an estimation of our future multi-year drilling activities on our existing acreage. These scheduled drilling locations represent a significant component of our growth strategy. Our ability to drill and develop these locations depends on a number of uncertainties, including oil and natural gas prices, the availability of capital, costs, drilling results, regulatory approvals and other factors. Because of these uncertainties, we do not know if the potential drilling locations we have identified will ever be drilled or if we will be able to produce oil or natural gas from these or any other potential drilling locations. As such, our actual drilling activities may materially differ from those presently identified, which could adversely affect our business.

We may experience difficulty in achieving and managing future growth.

Future growth may place strains on our resources and cause us to rely more on project partners and independent contractors, possibly negatively affecting our financial condition and results of operations. Our ability to grow will depend on a number of factors, including:

- our ability to obtain leases or options on properties for which we have 3-D seismic data;

- our ability to acquire additional 3-D seismic data;

- our ability to identify and acquire new exploratory prospects;

- our ability to develop existing prospects;

- our ability to continue to retain and attract skilled personnel;

- our ability to maintain or enter into new relationships with project partners and independent contractors;

- the results of our drilling program;

- hydrocarbon prices; and

- our access to capital.

We may not be successful in upgrading our technical, operations, and administrative resources or in increasing our ability to internally provide certain of the services currently provided by outside sources, and we may not be able to maintain or enter into new relationships with project partners and independent contractors. Our inability to achieve or manage growth may adversely affect our financial condition and results of operations.

We face strong competition from other natural gas and oil companies.

We encounter competition from other natural gas and oil companies in all areas of our operations, including the acquisition of exploratory prospects and proved properties. Our competitors include major integrated natural gas and oil companies and numerous independent natural gas and oil companies, individuals, and drilling and income programs. Many of our competitors are large, well-established companies that have been engaged in the natural gas and oil business much longer than we have and possess substantially larger operating staffs and greater capital resources than we do. These companies may be able to pay more for exploratory projects and productive natural gas and oil properties and may be able to define, evaluate, bid for, and purchase a greater number of properties and prospects than our financial or human resources permit. In addition, these companies may be able to expend greater resources on the existing and changing technologies that we believe are and will be increasingly important to attaining success in the industry. We may not be able to conduct our operations, evaluate, and select suitable properties and consummate transactions successfully in this highly competitive environment.

Our business may suffer if we lose our Chief Executive Officer.

Our success will be dependent on our ability to continue to employ and retain experienced skilled personnel. We depend to a large extent on the services of Robert D. Johnson, our Chief Executive Officer and Chairman. Mr. Johnson has experience and expertise in evaluating and analyzing producing oil and natural gas properties and drilling prospects, maximizing production from oil and natural gas properties and, marketing oil and natural gas production. The loss of Mr. Johnson could have a material adverse effect on our operations. Although we have an employment agreement with Mr. Johnson which provides for notice before he may resign and contains non-competition and non-solicitation provisions, we do not, and likely will not, maintain key-man life insurance with respect to him or any of our employees.

The unavailability or high cost of drilling rigs, equipment, supplies or personnel could affect adversely our ability to execute on a timely basis our exploration and development plans within budget, which could have a material adverse effect on our financial condition and results of operations.

Shortages or the high cost of drilling rigs, equipment, supplies or personnel could delay or affect adversely our exploration and development operations, which could have a material adverse effect on our financial condition and results of operations. Demand for drilling rigs, equipment, supplies and personnel currently is very high in the areas in which we operate. An increase in drilling activity in the areas in which we operate could further increase the cost and decrease the availability of necessary drilling rigs, equipment, supplies and personnel.

We cannot control activities on properties that we do not operate and are unable to ensure their proper operation and profitability.

We do not operate certain of the properties in which we have an interest. As a result, we have limited ability to exercise influence over, and control the risks associated with, the operations of these properties. The failure of an operator of our wells to adequately perform operations, an operator's breach of the applicable agreements or an operator's failure to act in ways that are in our best interests could reduce our production and revenues. The success and timing of our drilling and development activities on properties operated by others therefore depend upon a number of factors outside of our control, including the operator's:

- timing and amount of capital expenditures;
- expertise and financial resources;
- inclusion of other participants in drilling wells; and
- use of technology.

The marketability of our natural gas production depends on facilities that we typically do not own or control, which could result in a curtailment of production and revenues.

The marketability of our natural gas production depends in part upon the availability, proximity and capacity of natural gas gathering systems, pipelines and processing facilities. We generally deliver natural gas through gas gathering systems and gas pipelines that we do not own under interruptible or short-term transportation agreements.

Under the interruptible transportation agreements, the transportation of our gas may be interrupted due to capacity constraints on the applicable system, due to maintenance or repair of the system, or for other reasons as dictated by the particular agreements. Our ability to produce and market natural gas on a commercial basis could be harmed by any significant change in the cost or availability of such markets, systems or pipelines.

We may not be able to keep pace with technological developments in our industry.

The natural gas and oil industry is characterized by rapid and significant technological advancements and introduction of new products and services which utilize new technologies. As others use or develop new technologies, we may be placed at a competitive disadvantage or competitive pressures may force us to implement those new technologies at substantial costs. In addition, other natural gas and oil companies may have greater financial, technical, and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before we are able to. We may not be able to respond to these competitive pressures and implement new technologies on a timely basis or at an acceptable cost. If one or more of the technologies we use now or in the future were to become obsolete or if we are unable to use the most advanced commercially available technology, our business, financial condition, and results of operations could be materially adversely affected.

If oil and natural gas prices decrease, we may be required to take write-downs of the carrying values of our oil and natural gas properties, potentially triggering earlier-than-anticipated repayments of any outstanding debt obligations and negatively impacting the trading value of our securities.

Accounting rules require that we review periodically the carrying value of our oil and natural gas properties for possible impairment. Based on specific market factors and circumstances at the time of prospective impairment reviews, and the continuing evaluation of development plans, production data, economics and other factors, we may be required to write down the carrying value of our oil and natural gas properties. Because our properties serve as collateral for advances under our existing credit facility, a writedown in the carrying values of our properties could require us to repay debt earlier than would otherwise be required. A write-down would also constitute a non-cash charge to earnings. It is likely that the effect of such a write-down could also negatively impact the trading price of our securities.

We account for our oil and gas properties using the successful efforts method of accounting. Under this method, all development costs and acquisition costs of proved properties are capitalized and amortized on a units-of-production basis over the remaining life of proved developed reserves and proved reserves, respectively. Costs of drilling exploratory wells are initially capitalized, but charged to expenses if and when a well is determined to be unsuccessful. We evaluate impairment of our proved oil and gas properties whenever events or changes in circumstances indicate an asset's carrying amount may not be recoverable. The risk that we will be required to write down the carrying value of our oil and natural gas properties increases when oil and gas prices are low or volatile. In addition, write-downs would occur if we were to experience sufficient downward adjustments to our estimated proved reserves or the present value of estimated future net revenues.

We are subject to complex laws that can affect the cost, manner or feasibility of doing business.

The exploration, development, production and sale of oil and natural gas is subject to extensive federal, state, local and international regulation. We may be required to make large expenditures to comply with such governmental regulations. Matters subject to regulation include:

- natural disasters;
- permits for drilling operations;
- drilling and plugging bonds;
- reports concerning operations;
- the spacing and density of wells;

- unitization and pooling of properties;
- environmental maintenance and cleanup of drill sites and surface facilities; and
- protection of human health.

From time to time, regulatory agencies have also imposed price controls and limitations on production by restricting the rate of flow of natural gas and oil wells below actual production capacity in order to conserve supplies of natural gas and oil.

Under these laws, we could be liable for personal injuries, property damage and other damages. Failure to comply with these laws also may result in the suspension or termination of our operations and subject us to administrative, civil and criminal penalties. Moreover, these laws could change in ways that substantially increase our costs. Any such liabilities, penalties, suspensions, terminations or regulatory changes could materially adversely affect our financial condition and results of operations.

Our operations may cause us to incur substantial liabilities for failure to comply with environmental laws and regulations.

Our oil and natural gas operations are subject to stringent federal, state and local laws and regulations relating to the release or disposal of materials into the environment or otherwise relating to environmental protection. These laws and regulations may require the acquisition of a permit or other authorizations before drilling commences, restrict the types, quantities and concentration of substances that can be released into the environment in connection with drilling and production activities, require permitting or authorization for release of pollutants into the environment, limit or prohibit drilling activities on certain lands lying within wilderness, wetlands, areas inhabited by endangered or threatened species, and other protected areas, and impose substantial liabilities for pollution resulting from historical and current operations. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, incurrence of investigatory or remedial obligations or the imposition of injunctive relief. Changes in environmental laws and regulations occur frequently, and any changes that result in more stringent or costly waste handling, storage, transport, disposal or cleanup requirements could require us to make significant expenditures to maintain compliance, and may otherwise have a material adverse effect on our results of operations, competitive position or financial condition as well as on the industry in general. Under these environmental laws and regulations, we could be held strictly liable for the removal or remediation of previously released materials or property contamination regardless of whether we were responsible for the release or if our operations were standard in the industry at the time they were performed.

Market conditions or operational impediments may hinder our access to oil and natural gas markets or delay our production.

Market conditions or the unavailability of satisfactory oil and natural gas transportation arrangements may hinder our access to oil and natural gas markets or delay our production. The availability of a ready market for our oil and natural gas production depends on a number of factors, including the demand for and supply of oil and natural gas and the proximity of reserves to pipelines and terminal facilities. Our ability to market our production depends in substantial part on the availability and capacity of gathering systems, pipelines and processing facilities owned and operated by third parties. Our failure to obtain such services on acceptable terms could materially harm our business.

Our productive properties may be located in areas with limited or no access to pipelines, thereby necessitating delivery by other means, such as trucking, or requiring compression facilities. Such restrictions on our ability to sell our oil or natural gas have several adverse affects, including higher transportation costs, fewer potential purchasers (thereby potentially resulting in a lower selling price) or, in the event we were unable to market and sustain production from a particular lease for an extended time, possibly causing us to lose a lease due to lack of production.

The financial condition of our operators could negatively impact our ability to collect revenues from operations.

We do not operate all of the properties in which we have working interests. In the event that an operator of our properties experiences financial difficulties, this may negatively impact our ability to receive payments for our share of net production that we are entitled to under our contractual arrangements with such operator. While we seek to minimize such risk by structuring our contractual arrangements to provide for production payments to be made

12

directly to us by first purchasers of the hydrocarbons, there can be no assurances that we can do so in all situations covering our non-operated properties.

We may not have enough insurance to cover all of the risks that we face and operations of prospects in which we participate may not maintain or may fail to obtain adequate insurance.

In accordance with customary industry practices, we maintain insurance coverage against some, but not all, potential losses in order to protect against the risks we face. We do not carry business interruption insurance. We may elect not to carry insurance if our management believes that the cost of available insurance is excessive relative to the risks presented. In addition, we cannot insure fully against pollution and environmental risks. The occurrence of an event not fully covered by insurance could have a material adverse effect on our financial condition and results of operations. The impact of Hurricanes Katrina, Rita and Ike have resulted in escalating insurance costs and less favorable coverage terms.

Oil and natural gas operations are subject to particular hazards incident to the drilling and production of oil and natural gas, such as blowouts, cratering, explosions, uncontrollable flows of oil, natural gas or well fluids, fires and pollution and other environmental risks. These hazards can cause personal injury and loss of life, severe damage to and destruction of property and equipment, pollution or environmental damage and suspension of operation. We do not operate all of the properties in which we have an interest. In the projects in which we own a non-operating interest directly or own an equity interest in a limited partnership which in turn owns a non- operating interest, the operator for the prospect maintains insurance of various types to cover our operations with policy limits and retention liability customary in the industry. We believe the coverage and types of insurance are adequate. The occurrence of a significant adverse event that is not fully covered by insurance could result in the loss of our total investment in a particular prospect which could have a material adverse effect on our financial condition and results of operations.

Terrorist attacks aimed at our energy operations could adversely affect our business.

The continued threat of terrorism and the impact of military and other government action has led and may lead to further increased volatility in prices for oil and natural gas and could affect these commodity markets or the financial markets used by us. In addition, the U.S. government has issued warnings that energy assets may be a future target of terrorist organizations. These developments have subjected our oil and natural gas operations to increased risks. Any future terrorist attack on our facilities, those of our customers, the infrastructure we depend on for transportation of our products, and, in some cases, those of other energy companies, could have a material adverse effect on our business.

Any failure to meet our debt obligations could harm our business, financial condition, results of operations or cash flows.

We face significant interest expenses as a result of our outstanding notes and we are in default on some of these notes. Our ability to generate cash flows from operations and to make scheduled payments on our indebtedness, including the notes, will depend on our future financial performance. Our future performance will be affected by a range of economic, competitive, legislative, operating and other business factors, many of which we cannot control, such as general economic and financial conditions in our industry or the economy at large. A significant reduction in operating cash flows resulting from changes in economic conditions, increased competition, or other events could increase the need for additional or alternative sources of liquidity and could have a material adverse effect on our business, financial condition, results of operations and prospects and our ability to service our debt, including the notes, and other obligations.

If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying acquisitions and capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking equity capital. We cannot assure you that any of these alternative strategies could be effected on satisfactory terms, if at all, or that they would yield sufficient funds to make required payments of interest on and principal of our debt in the future, including payments on the notes, and any such alternative measures may be unsuccessful or may not permit us to meet scheduled debt service obligations, which could cause us to default on our obligations and impair our liquidity. Failure to make scheduled payments of interest and principal on our outstanding indebtedness would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness on acceptable terms.

We may issue additional shares of capital stock that could adversely affect holders of shares of our common stock and, as a result, holders of our notes convertible into shares of common stock.

Our board of directors is authorized to issue additional classes or series of shares of our capital stock without any action on the part of our stockholders, subject to the restrictive covenants of the indenture governing the notes. Our board of directors also has the power, without stockholder approval and subject to such restrictive covenants, to set the terms of any such classes or series of shares of our capital stock that may be issued, including voting rights, dividend rights, conversion features, preferences over shares of our existing class of common stock with respect to dividends or if we liquidate, dissolve or wind up our business and other terms. If we issue shares of our capital stock in the future that have preference over shares of our existing class of common stock with respect to the payment of dividends or upon our liquidation, dissolution or winding up, or if we issue shares of capital stock with voting rights that dilute the voting power of shares of our existing class of common stock, the rights of holders of shares of our common stock or the trading price of shares of our common stock and, as a result, the market value of the notes convertible into shares of common stock could be adversely affected.

There are substantial risks associated with the Standby Equity Distribution Agreement with YA Global Investments, L.P. which could contribute to the decline of our stock price and have a dilutive impact on our existing stockholders.

The sale of shares of our common stock pursuant to the SEDA will have a dilutive impact on our stockholders. YA Global may re-sell all of the shares we issue to them under the SEDA and such sales could cause the market price of our common stock to decline significantly with advances under the SEDA. To the extent of any such decline, any subsequent advances would require us to issue a greater number of shares of common stock to YA Global in exchange for each dollar of the advance. Under these circumstances, our existing stockholders would experience greater dilution. If we were to fully draw down the commitment amount under the SEDA, we would have to issue 13.27% of our currently outstanding shares. Although YA Global is precluded from short sales, the sale of our common stock under the SEDA could encourage short sales by third parties, which could contribute to the further decline of our stock price.

The market price of our common stock may be volatile.

As we are a publicly traded stock, the trading price of our common stock and the price at which we may sell common stock in the future are subject to large fluctuations in response to any of the following:

- limited trading volume in our common stock;
- quarterly variations in operating results;
- our involvement in litigation;
- general financial market conditions;
- the prices of natural gas and oil;
- announcements by us and our competitors;
- our liquidity;

- our ability to raise additional funds;
- changes in government regulations; and
- other events.

Moreover, our common stock does not have substantial trading volume. As a result, relatively small trades of our common stock may have a significant impact on the price of our common stock and, therefore, may contribute to the price volatility of our common stock.

Because of the possibility of limited trading volume of our common stock and the price volatility of our common stock, you may be unable to sell your shares of our common stock when you desire or at the price you desire. The inability to sell your shares of our common stock in a declining market because of such illiquidity or at a price you desire may substantially increase your risk of loss.

We have not previously paid dividends on the shares of our common stock and do not anticipate doing so in the foreseeable future.

We have not in the past paid any dividends on the shares of our common stock and do not anticipate that we will pay any dividends on our common stock in the foreseeable future. Any future decision to pay a dividend on our common stock and the amount of any dividend paid, if permitted, will be made at the discretion of our board of directors.

FORWARD-LOOKING STATEMENTS

Some of the information in this prospectus may contain forward looking statements. We have based these forward looking statements on our current expectations and projections about us and our industry. These forward looking statements include information about possible or assumed future results of our operations. All statements, other than statements of historical facts, included in this prospectus that address activities, events or developments that we expect or anticipate may occur in the future, including such things as future capital expenditures, business strategy, competitive strengths, goals, growth of our business and operations, plans and references to future successes may be considered forward looking statements. When we use words such as “anticipate,” “believe,” “estimate,” “intend,” “plan,” “project,” “forecast,” “may,” “should,” “expect,” “probably” or similar expressions, we are making forward looking statements. Our forward looking statements speak only as of the date made and we will not update forward looking statements unless the securities laws require us to do so.

Some of the key factors which could cause our future financial results and performance to vary from those expected include:

- the timing and extent of changes in the price of oil and gas;
- our future capital requirements and availability of financing on satisfactory terms;
- competition in the oil and gas industry;
- the condition of the capital markets generally, which will be affected by interest rates, foreign currency fluctuations and general economic conditions;
- the effects of weather on our operations;
- cost and other effects of legal proceedings, settlements, investigations and claims, including liabilities which may not be covered by indemnity or insurance; and
- governmental regulation.

The information contained in this prospectus, including the information set forth under the heading “Risk Factors,” identifies additional factors that could cause our results or performance to differ materially from those we express or imply in our forward looking statements. Although we believe that the assumptions underlying our forward looking statements are reasonable, any of these assumptions and, therefore, the forward looking statements based on these assumptions, could themselves prove to be inaccurate. In light of the significant uncertainties inherent in the forward looking statements which are included in this prospectus, our inclusion of this information is not a representation by us or any other person that our objectives and plans will be achieved.

USE OF PROCEEDS

We will not receive any proceeds from the sale of shares by the selling stockholders. All net proceeds from the sale of the common stock covered by this prospectus will go to the selling stockholders. However, we will receive proceeds from any sale of shares of common stock to YA Global pursuant to the SEDA

For each share of common stock purchased under the SEDA, YA Global will pay ninety-three point five percent (93.5%) of the lowest daily volume weighted average price during the five consecutive trading days after we provide advance notice to YA Global. Each such advance may be for an amount not to exceed the average daily trading volume of our common stock for the five consecutive trading days prior to the notice date.

We anticipate, and have represented to YA Global in the SEDA, that the proceeds received under the SEDA will be utilized only for working capital and general corporate purposes.

DIVIDEND POLICY

We have not declared or paid any cash dividends on our common stock, and we do not currently anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain all future earnings to fund the development and growth of our business. Any future determination relating to our dividend policy will be at the discretion of our board of directors and will depend on our results of operations, financial condition, capital requirements and other factors deemed relevant by our board.

SELECTED HISTORICAL FINANCIAL DATA

The following table shows selected historical financial data for the years ended December 31, 2007 and 2008 and for the six months ended June 30, 2008 and 2009. The financial data for each annual period has been derived from our audited financial statements included elsewhere in this prospectus. Our historical results are not necessarily indicative of results to be expected for any future period. You should read this financial data in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements, including the notes thereto, included elsewhere in this prospectus.

	Year ended December 31, 2008	Year ended December 31, 2007 (1)	Unaudited Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Revenues:				
Oil and natural gas revenues	$1,822,893	$ 1,852,365	$374,889	$947,060
Drilling services revenues	-	329,018	-	-
License fees, royalties and related services	163,458	257,500	9,000	34,692
Total revenues	1,986,351	2,438,883	383,889	981,752
Cost and expenses:				
Production and lease operating expenses	1,295,693	1,664,279	394,639	438,414
Drilling operating expenses	4,628	1,059,168	-	3,741
Costs attributable to license fees and related services	132,202	20,000	-	-
Exploration costs	-	458,650	-	-
Depletion, depreciation and amortization	1,993,100	1,555,939	258,825	917,861
Revenue sharing royalties	145,583	144,157	-	40,227
Impairment of investments	42,808	1,365,712	-	-
Impairment of oil and natural gas properties	5,291,298	250,000	-	-
Environmental remediation costs	457,551	-	-	-
Accretion of asset retirement obligation	129,010	81,127	67,160	47,028
General and administrative expenses	12,066,399	8,492,384	8,634,257	9,041,349
Total cost and expenses	21,558,272	15,091,416	9,354,881	10,488,620
Loss from operations	(19,571,921)	(12,652,532)	(8,970,992)	(9,506,868)
Other income (expense):				
Gain on settlement of debt	400,000	-	-	-
Impairment of LHD patent technology	(4,034,989)	-	-	
Interest expense, net	(2,222,429)	(4,254,448)	(686,480)	(1,780,557)
Gain on transfer of assets	-	-	-	78,282
Gain/Loss on sale of assets	602,879	-	266,346	-
Loss on settlement	(1,368,000)	-	-	-
Interest Income	45,417	-	-	-
Other miscellaneous income (expense), net	(703,601)	13,938	3,000	163,528

Total other income (expense), net	(7,280,723)	(4,240,510)	(417,494)	(1,538,747)
Net loss before discontinued operations	(26,852,644)	(16,893,042)	(9,388,486)	(11,045,615)
Gain (loss) from discontinued operations	20,823,141	(13,092,498)	-	22,042,660
Net loss	$(6,029,503)	$ (29,985,540)	$(9,388,486)	$10,997,045
Balance Sheet Data (at period end):				
Property, plant and equipment, net	8,762,921	15,462,892	8,588,000	15,947,973
Total assets	9,819,191	34,938,279	9,226,629	22,251,172
Long-term debt	$-	$ 54,375,538	$-	$6,774,172

See note to consolidated financial statements.

The following table sets forth certain information regarding our developed and undeveloped lease acreage as of July 31, 2009. "Developed Acreage" refers to acreage on which wells have been drilled or completed to a point that would permit production of oil and natural gas in commercial quantities. "Undeveloped Acreage" refers to acreage on which wells have not been drilled or completed to a point that would permit production of oil and natural gas in commercial quantities whether or not the acreage contains proved reserves.

	Average Working Interest	Developed Acreage		Undeveloped Acreage		Total Acreage	
		Gross	Net	Gross	Net	Gross	Net
Marion–LA	100%	10,300	10,300	11,200	11,200	21,500	21,500
Delhi–LA	95.77%	520	498	880	843	1,400	1,341
Belton– KY	100%	110	110	9,215	9,215	9,325	9,325
Total		10,930	10,908	21,295	21,258	32,225	32,166

OUR BUSINESS

Company Overview

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. Our major oil and natural gas properties are located in Louisiana, Kentucky, and Arkansas. Our operational focus is the acquisition, through the most cost effective means possible, of production or near production of oil and natural gas field assets. Targeted fields generally have existing wells that are often past primary energy recovery, but whose enhancement through secondary and possible tertiary recovery methods could revitalize them. Targeted fields also have the availability of additional drilling sites. We seek to have an inventory of existing wells to enhance and a number of new drilling sites to maintain growth, while increasing reserves and cash flow. We use conventional methods to bring non-producing wells back into production and to minimize operational costs.

Business Strategy

The following are key elements of our business strategy:

Phase One – Acquisition Phase

Phase One was to acquire low risk, mature fields with proven and probable reserves. We secured initial funding from several accredited investors and debt financing, and acquired fields with existing wells and infill development drilling opportunities, and now currently own the rights to oil and natural gas leases in Louisiana, Kentucky, and Arkansas.

In buying existing oil and natural gas fields, we set out to extensively study the fields, the formations in which oil and natural gas were found, the history of sales from the field and the history of all surrounding fields, and their production. From this information, a better assessment was made as to the value of the target property.

Phase Two – Completion of Existing Wells Phase

In Phase Two, our strategy is exploitation of our fields by investing in low risk workover programs on existing wells, monetizing significant upside in workover wells on already proved assets, and developing proved developed non-producing wells into proved developed producing (PDPs) assets with no associated exploration risk. We have over 30 existing wells in the Delhi and Belton fields being brought back on production. This phase is highly dependent on our ability to secure funding from debt and equity sources.

Currently, we have active operations on our fields located in Louisiana and Kentucky. We have begun an active fourteen well workover program on our biggest asset, the Delhi Field in Louisiana. Of the fourteen, eight producing wells and six water injection wells, all in the Mengel Sand, will be completed We have 515 low rate productive natural gas wells in our Marion field in Louisiana that we received through the purchase of this field along with over 110 miles of a natural gas gathering pipeline. We have plans to repair leaks in the existing pipeline to more efficiently capture additional natural gas from the existing wells as well as other remedial programs such as the installing of hub compressors, installing packers to repair holes in casings, and swabbing existing wells. Lastly, we have initiated a 17 well workover program in our Belton Field in Kentucky. Due to limited funding, we have only partially completed the planned activities and foresee the plan to extend into late 2009, if funding is obtained.

Phase Three – Development Drilling on Proved Assets

In Phase Three, our strategy is to execute infill drilling of our oil and gas assets. We will develop proved undeveloped (PUDs) assets into proved developed producing (PDPs) assets with no associated exploration risk. We have identified over 300 infill prospects in the Marion field. We have identified four development oil opportunities in our Delhi field. And we have identified 24 probable gas opportunities in the New Albany Shale and six development oil opportunities in the McCloskey Sand in our Belton field.

All of the planned development drilling and enhancements assume that we are successful in securing our 2009 funding that will support a drilling and development budget. The actual number of wells drilled will vary depending upon various factors, including the availability and cost of drilling rigs, working interest partner issues, the ability to raise additional capital, the success of the drilling programs, weather delays and other factors. Our ability to drill the number of wells budgeted for 2009 and 2010 is dependent on funding.

Phase Four – Expansion Phase

In Phase Four, an effort will be made to expand our oil and natural gas reserves through the acquisition of fields, wells or working interest in oil and gas assets, with similar characteristics as those in Phase One. To minimize risk, properties with blanket type geological deposition will be sought.

Our new Management consists of personnel who have successfully followed and executed this exact Business Plan in the past. By exploiting resources that are less risky than many E&P companies, we are better able to function with less general and administrative costs.

Recent Developments

On August 21, 2009, and amended on September 25, 2009, the Company and YA Global entered into a Standby Equity Distribution Agreement, or SEDA, pursuant to which, for a two-year period, we have the right to sell shares of our common stock to YA Global. On August 21, 2009, we issued 260,000 shares of our common stock to YA Global in lieu of payment of a $65,000 commitment fee. As part of the transaction, we also issued YA Global a warrant to buy 1,500,000 shares of our common stock at $7.50 per share. As of September 30, 2009, we had not sold any shares of common stock to YA Global under the SEDA.

For each share of common stock purchased under the SEDA, YA Global will pay ninety-three point five percent (93.5%) of the lowest daily volume weighted average price during the five consecutive trading days after we provide notice to YA Global. Each such advance may be for an amount not to exceed the average daily trading volume of our common stock for the five consecutive trading days prior to the notice date. In addition, in no event shall the number of shares of common stock issuable to YA Global pursuant to an advance cause the aggregate number of shares of common stock beneficially owned by YA Global and its affiliates to exceed 4.99%.

Our right to deliver an advance notice and the obligations of YA Global hereunder with respect to an advance is subject to our satisfaction of a number of conditions, including that our common stock is trading, and we believe will continue for the foreseeable future to trade, on a principal market, that we have not received any notice threatening the continued listing of our common stock on the principal market and that a registration statement is effective.

In addition, without the written consent of YA Global, we may not, directly or indirectly, offer to sell, sell, contract to sell, grant any option to sell or otherwise dispose of any shares of common stock (other than the shares offered pursuant to the provisions of the agreement) or securities convertible into or exchangeable for common stock, warrants or any rights to purchase or acquire, common stock during the period beginning on the 5th trading day immediately prior to an advance notice date and ending on the 5th trading day immediately following the settlement date.

We may terminate the SEDA upon fifteen trading days of prior notice to YA Global, as long as there are no advances outstanding and we have paid to YA Global all amounts then due. A copy of the SEDA is attached hereto as an exhibit.

Also in 2009, we entered into an agreement with Potomac Capital, LLC whereby Potomac will render advisory services in assisting in obtaining market makers for our public stock, assistance in securing credible public and investor relations entities, private and public equity investment, debt investment and funding for the oil and gas reserves we own. In addition, Potomac will provide an investor who will provide funding for the monetization of our oil and gas reserves. The investor will provide us with a loan, the interest on which is paid out of production from our properties. We issued Potomac 500,000 shares of our common stock as a fee for its services.

We also have engaged Captima Limited to act as a finder to initiate contacts between us and potential investors. We will pay Captima a finder's fee of 1% to 5% of the transaction value for each transaction they bring us, depending on the type of transaction.

RESTRUCTURING - Employees

During 2008, we underwent a thorough restructuring in all aspects of our business from employees, consultants, office services, and field services. In January of 2008, we had 35 full-time employees and 8 recurring consultants. As of July 31, 2009, we had a total of 10 full-time employees and three recurring field consultants. There are five full-time employees at our corporate headquarters in Spring, Texas and five in field services.

PROPERTIES

We have acquired the following leases and mineral rights to recover oil and natural gas within the United States:

The Delhi Field - Richland Parish, Louisiana

In December 2006, we acquired mineral right leases on 1,400 acres in the Delhi Field, in north-east Louisiana. Our lease encompasses a portion of approximately 13,636 acres comprising the Delhi Holt Bryant Unit and Mengel Unit. This field has produced since 1946. As of recent, oil production in this field has utilized secondary recovery in which water is injected into the reservoir formation to displace residual oil and increase reservoir pressure. The water from injection wells physically sweeps the displaced oil to adjacent production wells. Our 2009 development program involves bringing into production 8 existing wells in the Mengel Sand as well as 4 infill drilling possibilities of proved but undeveloped opportunities. In 2008, 4 existing wellbores were converted to water injection wells which will enhance the efficiency of the waterflood and increase production while allowing a higher percentage of residual oil to be produced. We have a 95.8% Working Interest and 82.7% Net Revenue Interest in this field (encumbered by a 15% ORRI to a funding source).

The Marion Field - Union Parish, Louisiana

In December 2005, we obtained shallow mineral rights (down to 3,200 feet) on approximately 21,500 acres in Union Parrish, Louisiana, which is a natural gas field currently producing approximately 700-750 MCF a day from approximately 500 wells from the Arkadelfia Gas Zones. The wells are currently producing on 40 acre spacing. We, and third party engineers, believe that there is great infill development drilling potential after drilling 4 wells with virgin pressure on 20 acre spacing in 2007. The field can be optimized at 10 acre spacing, creating 800 development opportuities. We forecast a 300 well program for the next 2 and a half years. The Marion field is part of the larger Monroe Gas Field which was the largest gas field in the United States in the early-to-mid 1900's. It should be noted that in 2005, state records indicated that the Monroe Gas Field produced over 7.0 Tcf. It is located in Northeast Louisiana, in Union Parish, which has 8,558 wells. The oil producing Cotton Valley and Smackover formations are also present within the leasehold. In addition, in December 2005, we leased deep mineral rights (down to 9,500 feet) on approximately 8,000 acres of the 21,500 acres that will allow us to explore this deeper zone. We believe that a remedial program to fix the infrastructure from pipeline leakages to hub compressors can result in a significant increase in production. We have a 100% Working Interest and 71% Net Revenue Interest in this field.

Belton Field - Muhlenberg County, Kentucky

In April 2004, we purchased the mineral rights on approximately 3,008 acres in Muhlenberg County, an oil and gas field in the Illinois Basin, in west-central Kentucky. In 2006 and 2007, we leased the mineral rights to an additional 6,317 acres. Oil was discovered in this basin about 150 years ago. When we acquired the rights on the original 3,008 acres, the above-the-ground pumping and storage units had fallen into disrepair and the field was idle. The field was originally discovered in 1939 and developed to produce oil from shallow zones. The first well was completed in the McClosky Limestone. Coal was discovered on the property and much of that coal was "mined-out" during strip mining operations. All mining operations ceased decades ago and the mines were reclaimed and are now pastures. Natural gas was discovered in the northwest corner of the field in the 1980's and continued to produce natural gas until recently. There are four known producing horizons on the property. These include (1) the New Albany Gas Shale; (2) the upper-Mississippian-period's Jackson Sandstone that has significant gas indicated in two wells drilled on the northeast border of the property (the upper McCloskey zone); (3) the lower-Mississippian-period's St. Genevieve Limestone (the oil-bearing McClosky zone) and (4) a deep Silurian oil-bearing zone. We are in the process of bringing into production 17 existing upper McCloskey wells. Our 2009 and 2010 drilling program includes the drilling of 24 New Alabany Shale wells and six Lower McCloskey wells and will endeavor to farm out the deep Silurian zones. We have a 100% working Interest and approximately 76.5% Net Revenue Interest in this field on the 3008 acres.

We divested the following fields in 2008 and 2009 in an effort to enhance our balance sheet, relieve debt, and exit non strategic geographical core areas:

- A 50% Working Interest and 42% Net Revenue Interest in the South Belridge Field, Kern County, California
- A 75% Working Interest and 57.25% Net Revenue Interest in the Days Creek Field, Miller County, Arkansas
- A 24% Working Interest and 16.5% Net Revenue Interest in the Stephens Field at Smackove, Ouachita County, Arkansas
- A 100% Working Interest and a 75% Net Revenue Interest in the Hospah, Lone Pine Field in McKinley County, New Mexico

The following table sets forth certain information regarding our developed and undeveloped lease acreage as of July 31, 2009. "Developed Acreage" refers to acreage on which wells have been drilled or completed to a point that would permit production of oil and natural gas in commercial quantities. "Undeveloped Acreage" refers to acreage on which wells have not been drilled or completed to a point that would permit production of oil and natural gas in commercial quantities whether or not the acreage contains proved reserves.

	Average Working Interest	Developed Acreage Gross	Developed Acreage Net	Undeveloped Acreage Gross	Undeveloped Acreage Net	Total Acreage Gross	Total Acreage Net
Marion–LA	100%	10,300	10,300	11,200	11,200	21,500	21,500
Delhi–LA	95.77%	520	498	880	843	1,400	1,341
Belton– KY	100%	110	110	9,215	9,215	9,325	9,325
Total		10,930	10,908	21,295	21,538	32,225	32,166

Oil and Natural Gas Reserves

The reserves as of December 31, 2008 were derived from reserve estimates prepared by an independent reserve engineer, Mark Newendorp for the Delhi Field and the Marion Field. The PV-10 value was derived using constant prices as of the calculation date, discounted at 10% per annum on a pretax basis, and is not intended to represent the current market value of the estimated oil and natural gas reserves owned by us.

The company did not have an independent reserve engineer evaluate the Belton Field as of December 31, 2008, therefore no reserves are shown for this property or costs capitalized on the balance sheet as of December 31, 2008.

The following table sets forth our estimated net proved oil and natural gas reserves and the PV10 value of such reserves as of December 31, 2008.

	Proved Reserves Developed	All Reserves Total
Oil and condensate (Bbls)	1,073.12	1,073.12
Natural gas (MMcf)	5,340.00	5,340.00
Total proved reserves (BOE)	6,413.12	6,413.12
PV10 Value (MM)(1)	$ 23,478.00	$ 23,478.00

(1) The PV10 value as of December 31, 2008 is pre-tax and was determined by using the December 31, 2008 sales prices, which weighted averaged $42.68 per Bbl of oil, $6.71 per Mcf of natural gas. Management believes that the presentation of PV-10 value may be considered a non-GAAP financial measure. Therefore we have included a reconciliation of the measure to the most directly comparable GAAP financial measure (standardized measure of discounted future net cash flows in Notes below). Management believes that the presentation of PV10 value provides useful information to investors because it is widely used by professional analysts and sophisticated investors in evaluating oil and natural gas companies. Because many factors that are unique to each individual company may impact the amount of future income taxes to be paid, the use of the pre-tax measure provides greater comparability when evaluating companies. It is relevant and useful to investors for evaluating the relative monetary significance of our oil and natural gas properties. Further, investors may utilize the measure as a basis for comparison of the relative size and value of our reserves to other companies.

Management also uses this pre-tax measure when assessing the potential return on investment related to its oil and natural gas properties and in evaluating acquisition candidates. The PV10 value is not a measure of financial or operating performance under GAAP, nor is it intended to represent the current market value of the estimated oil and natural gas reserves owned by us. The PV10 value should not be considered in isolation or as a substitute for the standardized measure of discounted future net cash flows as defined under GAAP.

Productive Wells

Productive wells are producing wells or wells capable of production. This does not include water source wells, water injection wells or water disposal wells. Productive wells do not include any wells in the process of being drilled and completed that are not yet capable of production, but does include old productive wells that are currently shut-in, because they are still capable of production. The following table sets forth the number of productive oil and natural gas wells in which we owned an interest as of July 31, 2009.

	Total	
	Gross	Net
Oil	38	34.1
Natural gas	515	515
Total	553	549.1

Delivery Commitments

We are not obligated to provide a fixed and determinable quantity of oil or natural gas in the near future under existing contracts or agreements. Furthermore, during the last three years we had no significant delivery commitments.

Trademarks and Other Intellectual Property

We purchased exclusive North American rights for a non-conventional lateral drilling technology invented by Carl Landers, a Director of ours from inception. The patents comprising this lateral drilling technology are: US Patent Number 5,413,184 Method and Apparatus for Horizontal Well Drilling , issued May 9, 1995; US Patent Number 5,853,056 Method and Apparatus for Horizontal Well Drilling , issued December 12, 1998; and US Patent Number 6,125,949 Method and Apparatus for Horizontal Well Drilling , issued October 3, 2000. We sold all rights to these properties to a third party in 2009.

Distribution Methods

Each of our fields that produce oil distributes all of the oil that it produces through one purchaser for each field. We do not have a written agreement with some of these oil purchasers. These oil purchasers pick up oil from our tanks and pay us according to market prices at the time the oil is picked up at our tanks. There is significant demand for oil and there are several companies in our operating areas that purchase oil from small oil producers.

Each of our fields that produce natural gas distributes all of the natural gas that it produces through one purchaser for each field. We have distribution agreements with these natural gas purchasers that provide us a tap into a distribution line of a natural gas distribution company and to be paid for our natural gas at either a market price at the beginning of the month or market price at the time of delivery, less any transportation cost charged by the natural gas distribution company. These charges can range widely from 2 percent to 20 percent or more of the market value of the natural gas depending on the availability of competition and other factors.

Competitive Business Conditions

We encounter competition from other oil and natural gas companies in all areas of our operations. Because of record high prices for oil and natural gas, there are many companies competing for the leasehold rights to good oil and natural gas prospects. And, because so many companies are again exploring for oil and natural gas, there is often a shortage of equipment available to do drilling and workover projects. Many of our competitors are large, well-established companies that have been engaged in the oil and natural gas business for much longer than we have and possess substantially larger operating staffs and greater capital resources than we do. We may not be able to conduct our operations, evaluate and select properties and consummate transactions successfully in this highly competitive environment.

The oil and natural gas industry is characterized by rapid and significant technological advancements and introductions of new products and services using new technologies. If one or more of the technologies we use now or in the future were to become obsolete or if we are unable to use the most advanced commercially available technology, our business, financial condition and results of operations could be materially adversely affected.

Source and Availability of Raw Materials

We have no significant raw materials. However, we make use of numerous oil field service companies in the drilling and workover of wells. We currently operate in areas where there are numerous oil field service and drilling companies that are available to us.

Dependence on One or a Few Customers

There is a ready market for the sale of crude oil and natural gas. Each of our fields currently sells all of its oil production to one purchaser for each field and all of its natural gas production to one purchaser for each field. However, because alternate purchasers of oil and natural gas are readily available at similar prices, we believe that the loss of any of our purchasers would not have a material adverse effect on our financial results.

We sold oil and natural gas production representing more than 10% of our oil and natural gas revenues as follows:

	Year Ended December 31,	
	2008	2007
Interconn Resources, Inc. (1)	62%	39%
Lion Oil Trading & Transportation, Inc. (1)	24%	18%
Plains Marketing, LP (1)	-	11%
Orchard Petroleum, Inc. (2)	14%	32%

(1) We do not have a formal purchase agreement with this customer, but sell our production on a month-to-month basis at spot prices adjusted for field differentials.

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

Government Regulations

Our facilities in the United States are subject to federal, state and local environmental laws and regulations. Compliance with these provisions has not had, and we do not expect such compliance to have, any material adverse effect upon our capital expenditures, net earnings or competitive position.

Regulation of transportation of oil

Sales of crude oil, condensate, natural gas and natural gas liquids are not currently regulated and are made at negotiated prices. Nevertheless, Congress could reenact price controls in the future.

Our sales of crude oil are affected by the availability, terms and cost of transportation. The transportation of oil in common carrier pipelines is also subject to rate regulation. The Federal Energy Regulatory Commission , or FERC, regulates interstate oil pipeline transportation rates under the Interstate Commerce Act. In general, interstate oil pipeline rates must be cost-based, although settlement rates agreed to by all shippers are permitted and market-based rates may be permitted in certain circumstances. Effective January 1, 1995, the FERC implemented regulations establishing an indexing system (based on inflation) for transportation rates for oil that allowed for an increase or decrease in the cost of transporting oil to the purchaser. A review of these regulations by the FERC in 2000 was successfully challenged on appeal by an association of oil pipelines. On remand, the FERC in February 2003 increased the index slightly, effective July 2001. Intrastate oil pipeline transportation rates are subject to regulation by state regulatory commissions. The basis for intrastate oil pipeline regulation, and the degree of regulatory oversight and scrutiny given to intrastate oil pipeline rates, varies from state to state. Insofar as effective interstate and intrastate rates are equally applicable to all comparable shippers, we believe that the regulation of oil transportation rates will not affect our operations in any way that is of material difference from those of our competitors.

Further, interstate and intrastate common carrier oil pipelines must provide service on a non-discriminatory basis. Under this open access standard, common carriers must offer service to all similarly situated shippers

---

requesting service on the same terms and under the same rates. When oil pipelines operate at full capacity, access is governed by pro-rationing provisions set forth in the pipelines' published tariffs. Accordingly, we believe that access to oil pipeline transportation services generally will be available to us to the same extent as to our competitors.

Regulation of transportation and sale of natural gas

Historically, the transportation and sale for resale of natural gas in interstate commerce have been regulated pursuant to the Natural Gas Act of 1938, the Natural Gas Policy Act of 1978 and regulations issued under those Acts by the FERC. In the past, the federal government has regulated the prices at which natural gas could be sold. While sales by producers of natural gas can currently be made at uncontrolled market prices, Congress could reenact price controls in the future. Deregulation of wellhead natural gas sales began with the enactment of the Natural Gas Policy Act. In 1989, Congress enacted the Natural Gas Wellhead Decontrol Act. The Decontrol Act removed all Natural Gas Act and Natural Gas Policy Act price and non-price controls affecting wellhead sales of natural gas effective January 1, 1993.

The FERC regulates interstate natural gas transportation rates and service conditions, which affects the marketing of natural gas that we produce, as well as the revenues we receive for sales of our natural gas. Since 1985, the FERC has endeavored to make natural gas transportation more accessible to natural gas buyers and sellers on an open and non-discriminatory basis. The FERC has stated that open access policies are necessary to improve the competitive structure of the interstate natural gas pipeline industry and to create a regulatory framework that will put natural gas sellers into more direct contractual relations with natural gas buyers by, among other things, unbundling the sale of natural gas from the sale of transportation and storage services. Beginning in 1992, the FERC issued Order No. 636 and a series of related orders to implement its open access policies. As a result of the Order No. 636 program, the marketing and pricing of natural gas have been significantly altered. The interstate pipelines' traditional role as wholesalers of natural gas has been eliminated and replaced by a structure under which pipelines provide transportation and storage service on an open access basis to others who buy and sell natural gas. Although the FERC's orders do not directly regulate natural gas producers, they are intended to foster increased competition within all phases of the natural gas industry.

In 2000, the FERC issued Order No. 637 and subsequent orders, which imposed a number of additional reforms designed to enhance competition in natural gas markets. Among other things, Order No. 637 effected changes in FERC regulations relating to scheduling procedures, capacity segmentation, penalties, rights of first refusal and information reporting. Most pipelines' tariff filings to implement the requirements of Order No. 637 have been accepted by the FERC and placed into effect.

Gathering service, which occurs upstream of jurisdictional transmission services, is regulated by the states on shore and in state waters. Although its policy is still in flux, FERC has reclassified certain jurisdictional transmission facilities as non-jurisdictional gathering facilities, which may increase our costs of getting gas to point of sale locations.

Intrastate natural gas transportation is also subject to regulation by state regulatory agencies. The basis for intrastate regulation of natural gas transportation and the degree of regulatory oversight and scrutiny given to intrastate natural gas pipeline rates and services varies from state to state. Insofar as such regulation within a particular state will generally affect all intrastate natural gas shippers within the state on a comparable basis, we believe that the regulation of similarly situated intrastate natural gas transportation in any states in which we operate and ship natural gas on an intrastate basis will not affect our operations in any way that is of material difference from those of our competitors. Like the regulation of interstate transportation rates, the regulation of intrastate transportation rates affects the marketing of natural gas that we produce, as well as the revenues we receive for sales of our natural gas.

Regulation of production

The production of oil and natural gas is subject to regulation under a wide range of local, state and federal statutes, rules, orders and regulations. Federal, state and local statutes and regulations require permits for drilling operations, drilling bonds and reports concerning operations. Such regulations govern conservation matters, including provisions for the unitization or pooling of oil and natural gas properties, the establishment of maximum allowable rates of production from oil and natural gas wells, the regulation of well spacing, and plugging and abandonment of wells. The effect of these regulations is to limit the amount of oil and natural gas that we can produce from our wells and to limit the number of wells or the locations at which we can drill, although we can apply for exceptions to such regulations or to have reductions in well spacing. Moreover, each state generally imposes a production or severance tax with respect to the production and sale of oil, natural gas and natural gas liquids within its jurisdiction.

The failure to comply with these rules and regulations can result in substantial penalties. Our competitors in the oil and natural gas industry are subject to the same regulatory requirements and restrictions that affect our operations.

Environmental, health and safety regulation

Our operations are subject to stringent and complex federal, state, local and provincial laws and regulations governing environmental protection, health and safety, including the discharge of materials into the environment. These laws and regulations may, among other things:

- require the acquisition of various permits before drilling commences;
- restrict the types, quantities and concentration of various substances that can be released into the environment in connection with oil and natural gas drilling, production and transportation activities;
- limit or prohibit drilling activities on certain lands lying within wilderness, wetlands and other protected areas; and
- require remedial measures to mitigate pollution from former and ongoing operations, such as requirements to close pits and plug abandoned wells.

These laws and regulations may also restrict the rate of oil and natural gas production below the rate that would otherwise be possible. The regulatory burden on the oil and gas industry increases the cost of doing business in the industry and consequently affects profitability. Additionally, Congress and federal and state agencies frequently revise environmental, health and safety laws and regulations, and any changes that result in more stringent and costly waste handling, disposal and cleanup requirements for the oil and gas industry could have a significant impact on our operating costs.

The following is a summary of the material existing environmental, health and safety laws and regulations to which our business operations are subject.

Waste handling. The Resource Conservation and Recovery Act, or “RCRA”, and comparable state statutes, regulate the generation, transportation, treatment, storage, disposal and cleanup of hazardous and non-hazardous wastes. Under the auspices of the federal Environmental Protection Agency, or “EPA”, the individual states administer some or all of the provisions of RCRA, sometimes in conjunction with their own, more stringent requirements. Drilling fluids, produced waters and most of the other wastes associated with the exploration, development and production of crude oil or natural gas are currently regulated under RCRA’s non-hazardous waste provisions. However, it is possible that certain oil and natural gas exploration and production wastes now classified as non-hazardous could be classified as hazardous wastes in the future. Any such change could result in an increase in our costs to manage and dispose of wastes, which could have a material adverse effect on our results of operations and financial position.

Comprehensive Environmental Response, Compensation and Liability Act. The Comprehensive Environmental Response, Compensation and Liability Act, or “CERCLA”, also known as the Superfund law, imposes joint and several liability, without regard to fault or legality of conduct, in connection with the release of a hazardous substance into the environment. Persons potentially liable under CERCLA include the current or former owner or operator of the site where the release occurred and anyone who disposed or arranged for the disposal of a hazardous substance to the site where the release occurred. Under CERCLA, such persons may be subject to joint and several liabilities for the costs of cleaning up the hazardous substances that have been released into the environment, damages to natural resources and the costs of certain health studies. In addition, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment.

We own and lease, and may in the future operate, numerous properties that have been used for oil and natural gas exploitation and production for many years. Hazardous substances may have been released on, at or under the properties owned, leased or operated by us, or on, at or under other locations, including off-site locations, where such substances have been taken for disposal. In addition, some of our properties have been or are operated by third parties or by previous owners or operators whose handling, treatment and disposal of hazardous substances were not under our control. These properties and the substances disposed or released on, at or under them may be subject to CERCLA, RCRA and analogous state laws. In certain circumstances, we could be responsible for the removal of previously disposed substances and wastes, remediate contaminated property or perform remedial plugging or pit closure operations to prevent future contamination. In addition, federal and state trustees can also seek substantial compensation for damages to natural resources resulting from spills or releases.

Water discharges . The Federal Water Pollution Control Act, or the “Clean Water Act”, and analogous state laws, impose restrictions and strict controls with respect to the discharge of pollutants, including oil and other substances generated by our operations, into waters of the United States or state waters. Under these laws, the discharge of pollutants into regulated waters is prohibited except in accordance with the terms of a permit issued by EPA or an analogous state agency. Federal and state regulatory agencies can impose administrative, civil and criminal penalties for non-compliance with discharge permits or other requirements of the Clean Water Act and analogous state laws and regulations.

The Safe Drinking Water Act, or “SDWA”, and analogous state laws impose requirements relating to underground injection activities. Under these laws, the EPA and state environmental agencies have adopted regulations relating to permitting, testing, monitoring, record keeping and reporting of injection well activities, as well as prohibitions against the migration of injected fluids into underground sources of drinking water.

Air emissions . The Federal Clean Air Act and comparable state laws regulate emissions of various air pollutants through air emissions permitting programs and the imposition of other requirements. In addition, EPA and certain states have developed and continue to develop stringent regulations governing emissions of toxic air pollutants at specified sources. Federal and state regulatory agencies can impose administrative, civil and criminal penalties for non-compliance with air permits or other requirements of the Federal Clean Air Act and analogous state laws and regulations.

The Kyoto Protocol to the United Nations Framework Convention on Climate Change became effective in February 2005. Under the Protocol, participating nations are required to implement programs to reduce emissions of certain gases, generally referred to as greenhouse gases that are suspected of contributing to global warming. The United States is not currently a participant in the Protocol, and Congress has not acted upon recent proposed legislation directed at reducing greenhouse gas emissions. However, there has been support in various regions of the country for legislation that requires reductions in greenhouse gas emissions, and some states have already adopted legislation addressing greenhouse gas emissions from various sources, primarily power plants. The oil and natural gas industry is a direct source of certain greenhouse gas emissions, namely carbon dioxide and methane, and future restrictions on such emissions could impact our future operations.

National Environmental Policy Act. Oil and natural gas exploration and production activities on federal lands are subject to the National Environmental Policy Act, or “NEPA”. NEPA requires federal agencies, including the Department of Interior, to evaluate major agency actions that have the potential to significantly impact the environment. In the course of such evaluations, an agency will prepare an Environmental Assessment that assesses the potential direct, indirect and cumulative impacts of a proposed project and, if necessary, will prepare a more detailed Environmental Impact Statement that may be made available for public review and comment. All exploration and production activities on federal lands require governmental permits that are subject to the requirements of NEPA. This process has the potential to delay the development of oil and natural gas projects on federal lands.

Health safety and disclosure regulation . We are subject to the requirements of the federal Occupational Safety and Health Act, or "OSHA" and comparable state statutes. The OSHA hazard communication standard, the

Emergency Planning and Community Right to Know Act and similar state statutes require that we organize and/or disclose information about hazardous materials stored, used or produced in our operations.

We expect to incur capital and other expenditures related to environmental compliance. Although we believe that our compliance with existing requirements will not have a material adverse impact on our financial condition and results of operations, we cannot assure you that the passage of more stringent laws or regulations in the future will not have a negative impact on our financial position or results of operation.

Legal Proceedings

We are subject to litigation and claims that have arisen in the ordinary course of business, the majority of which have resulted from our 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 us 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. We will be responsible for the remaining remediation costs to restore the surface leases to standards set by the Louisiana Department of Natural Resources. We 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. We have paid $683,000 and will owe a remaining approximate $200,000 for the remaining past due debt and remediation obligations.

- 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 they have obtained a partial judgment. We are in the process of negotiating payment 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 we paid them 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 our property for $2,000,000.

- In the suit with 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 our 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 us $100,000. We have come to an agreement whereby Mr. Shein will extend his $100,000 loan and we have facilitated the issuance of 375,000 shares of our common stock by a third party shareholder. . The issuance of shares by the third party shareholder on our 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. We see no merit in his claim and we will defend ourselves 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 ("PKF Texas"), PKF Texas is seeking payment for services rendered. We have retained an expert witness in this field to opine on the what we were charged and the ethics associated with PKF's performance. At this point the amount and probability of payment is not determinable.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is intended to assist you in understanding our business and results of operations together with our present financial condition. This section should be read in conjunction with our consolidated financial statements and the accompanying notes included elsewhere in this prospectus. Statements in our discussion may be forward-looking statements. These forward-looking statements involve risks and uncertainties. We caution that a number of factors could cause future production, revenues and expenses to differ materially from our expectations.

The following is management's discussion and analysis of certain significant factors that have affected certain aspects of our financial position and results of operations during the periods included in the accompanying audited consolidated financial statements. You should read this in conjunction with the discussion under "Financial Information" and the audited consolidated financial statements years ended December 31, 2008 and 2007 and the unaudited consolidated financial statements included elsewhere herein.

Going Concern

As presented in the unaudited consolidated financial statements herein, we have 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 we are in negotiations with certain creditors to obtain extensions and settlements of outstanding amounts. We are currently in default on certain of our debt obligations and have no future borrowings or funding sources available under our existing financing arrangements. We anticipate that significant additional capital expenditures will be necessary to develop our oil and natural gas properties, which consist primarily of proved reserves that are non-producing or developed, before significant positive operating cash flows will be achieved.

Our 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, we are pursuing business partnering arrangements for the acquisition and development of our 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 we 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 we were unable to continue as a going concern.

Results of Operations

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 $34,692, respectively, a decrease of $25,692. These fees were associated with the granting of sectional and regional licensing of our proprietary lateral drilling technology. The technology has since been sold to a third party.

32

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. We 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.

Twelve Months Ended December 31, 2008 Compared to the Twelve Months Ended December 31, 2007

Oil and Natural Gas Revenues: Oil and natural gas revenues for the twelve months ended December 31, 2008 and 2007 were $1,822,893 and $1,852,365, respectively. A decrease of $29,472 was attributed to the disposition of the Holt Bryant formation in the Delhi Field in May 2007 and the shutting in of the remaining wells in the Delhi Field during the 2008 period while we develop a new water flood program for the field. The Delhi Field had revenues for the 2008 and 2007 periods of nil and $360,860, respectively. We brought production back on line for three wells in the Delhi Field during the first quarter of 2009. The decrease was offset by an increase in revenue of $370,315 in the Marion Field to $1,739,874 for the twelve months ended December 31, 2008 compared to the same time period in 2007 of $1,373,094 due to natural gas price increases and marginal increased production. Revenue during 2008 was further increased by $177,849 from wells drilled and put in production in the Stephens Field during 2008 as well as $56,361 from wells put into production in the Belton Field in 2008.

Drilling Revenue: Drilling revenue during the twelve months ended December 31, 2008 was nil and we do not expect revenue in the future as we elected to no longer provide drilling services to outside third parties. Drilling revenue for the twelve months ended December 31, 2007 was $329,018. Our Tiger Bend Drilling, LLC subsidiary drilled two wells in the Stephens Field, of which we hold a 24% working interest. The $329,018 in drilling revenue corresponds to the billings to the other working interest partners for drilling services. 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.

License Fees, Royalties & Related Service Revenue: License fees, royalties and related services for the twelve months ended December 31, 2008 and 2007 were $163,458 and $257,500, respectively. This decrease was due to the sale of lateral drilling technology equipment for $228,000 in the 2007 period and no corresponding sales in the 2008 period. The remaining fees were associated with the granting of sectional and regional licensing of our proprietary lateral drilling technology. We do not anticipate further revenue from this business segment. The technology has since been sold to a third party.

Production and Lease Operating Expenses: Production and lease operating expenses for the twelve months ended December 31, 2008 and 2007 were $1,295,693 and $1,664,279, respectively. This decrease was attributed to the first quarter 2008 including several initial well workovers of $713,330 and the repair and maintenance of the existing infrastructure of $273,125 on acquisitions of the Days Creek, Delhi and Marion Fields. Operations labor costs also decreased in the Marion, Days Creek and Delhi Fields due to staff reductions in those fields.

Drilling Operating Expenses: Drilling operating expenses for the twelve months ended December 31, 2008 and 2007 were $4,628 and $1,059,168, respectively. During the 2007 period our drilling subsidiary Tiger Bend Drilling, LLC began incurring preparation costs which were expensed as it prepared to begin drilling wells for us in Arkansas in second and third quarters of 2007. During the 2008 period our drilling subsidiary incurred minimal operating costs as it wrapped up from completing the drilling of twelve wells for us in Arkansas during 2007. The drilling company sold its drilling rigs in 2006 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 not provide any drilling services to third par