

Conquest Petroleum Inc
Form 10-Q
August 15, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended: June 30, 2011

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

For the transition period from: to

Commission File No.: 000-53093

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

TEXAS
(State or other jurisdiction of
incorporation or organization)

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

13131 Champions Drive, Suite 205
Houston, Texas 77069
www.conquestpetroleum.com
(Address of principal executive offices)

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

Former Name and Address
Maxim TEP, Inc.
24900 Pitkin Road, Suite 308
Spring, Texas 77386

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

Yes ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting Company ☒

(Do not check if a smaller reporting Company)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

The number of shares of the registrant's common stock outstanding as of June 30, 2011 was 44,719,189 shares.

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

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

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

At June 30, 2011, the aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant was approximately \$2,683,151 based on the closing price of such stock on such date of \$0.06.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

Conquest Petroleum Incorporated
Consolidated Balance Sheets
(Unaudited)

	June 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,122	\$ 75,699
Accounts receivable	116,971	111,928
Certificate of deposit, restricted	251,781	287,876
Restricted Cash	100	400,000
Other receivables	36,557	22,940
Prepaid expenses and other current assets	15,660	47,946
Total current assets	423,191	946,389
Oil and natural gas properties (successful efforts method of accounting):		
Proved	3,907,957	3,903,407
Unproved	172,796	172,796
	4,080,753	4,076,203
Less accumulated depletion, depreciation and amortization	(3,279,859)	(3,236,504)
Oil and natural gas properties, net	800,894	839,699
Property and equipment:		
Land	112,961	112,961
Buildings	215,445	215,445
Property improvements	199,500	244,025
Office equipment and computers	34,039	34,039
Furniture and fixtures	22,937	22,937
Field service vehicles and equipment	342,923	342,923
Drilling equipment	93,096	93,096
Total property and equipment	1,020,901	1,065,426
Less accumulated depreciation	(412,154)	(417,411)
Property and equipment, net	608,747	648,015
Other assets	167,928	225,006
Total assets	\$2,000,760	\$ 2,659,109

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Conquest Petroleum Incorporated
Consolidated Balance Sheets (Continued)
(Unaudited)

	June 30, 2011	December 31, 2010
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$ 2,522,827	\$ 2,452,238
Interest payable	1,951,167	1,386,658
Accrued payroll and related taxes and benefits	1,759,073	1,338,161
Accrued liabilities	350,688	831,575
Derivative liability	1,835	6,797
Production payment payable, current	9,980,069	9,243,325
Notes payable	612,500	612,500
Notes payable, in default	625,000	625,000
Related party notes payable in default	8,815,469	7,370,333
Related party notes payable	2,275,959	2,822,775
Convertible notes payable to related parties in default, net of discount	700,000	700,000
Total current liabilities	29,594,587	27,389,362
Deferred revenue	40,000	45,000
Asset retirement obligation	1,605,930	1,519,600
Total liabilities	31,240,517	28,953,962
Stockholders' deficit:		
Preferred stock, \$0.00001 par value; 50,000,000 shares authorized; 545,454 and 545,454 shares issued and outstanding at June 30, 2011 and December 31, 2010 respectively	5	5
Common stock, \$0.00001 par value; 250,000,000 shares authorized; 44,720,028 and 44,715,528 shares issued and 44,719,189 and 44,714,689 shares outstanding at June 30, 2011 and December 31, 2010, respectively	450	450
Stock payable	2,332,615	2,332,525
Stock held in escrow	-	(447,287)
Additional paid-in capital	104,880,688	104,850,672
Accumulated deficit	(136,453,515)	(133,031,218)
Treasury stock, at cost (839 shares held at June 30, 2011 and December 31, 2010, respectively)	-	-
Total stockholders' deficit	(29,239,757)	(26,294,853)
Total liabilities and stockholders' deficit	\$ 2,000,760	\$ 2,659,109

See accompanying notes to consolidated financial statements

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Conquest Petroleum Incorporated
Consolidated Statements of Operations
(Unaudited)

	Three Months Ending June 30		Six Months Ending June 30	
	2011	2010	2011	2010
Revenues:				
Oil and natural gas revenues	\$298,902	313,816	\$586,269	\$640,697
License fees, royalties and related services	2,500	10,000	5,000	10,000
Total revenues	301,402	323,816	591,269	650,697
Cost and expenses:				
Production and lease operating expenses	221,002	419,888	602,899	862,508
Depletion, depreciation and amortization	40,616	103,880	82,623	195,193
Accretion of asset retirement obligation	80,955	13,183	89,112	53,172
Loss on well plug and abandonment	1,217	-	1,217	-
Impairment of Intangible Assets	6,978	-	6,978	-
General and administrative expenses	301,087	5,429,509	684,188	5,749,979
Total cost and expenses	651,855	5,966,460	1,467,017	6,860,852
Loss from operations	(350,453)	(5,642,644)	(875,748)	(6,210,155)
Other income (Expense):				
Change in value of derivative liability gain(loss)	38,587	(16,679)	4,962	67,561
Interest expense, net	(1,211,588)	(2,474,606)	(2,381,470)	(4,275,264)
Gain/(Loss) on sale of assets	-	1,348	-	(48,242)
Loss on settlements	248,031	-	248,031	-
Interest Income	2,524	1,466	3,832	1,512
Other miscellaneous income (expense), net	(2)	(6,168)	25,383	(9,221)
Penalties on GEF default	(447,287)	-	(447,287)	-
Total other income (expense), net	(1,369,735)	(2,494,639)	(2,546,549)	(4,263,654)
Net loss	\$(1,720,188)	(8,137,283)	\$(3,422,297)	\$(10,473,809)
Net loss per common share:				
Basic and diluted	\$(0.04)	(0.18)	\$(0.08)	\$(0.25)
Weighted average common shares outstanding:				
Basic and diluted	44,719,189	44,314,856	44,718,079	41,962,067

See accompanying notes to consolidated financial statement

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Conquest Petroleum Incorporated
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ending	
	June 30, 2011	June 30, 2010
Cash flows from continuing operating activities:		
Net loss for continuing operations	\$(3,422,297)	\$(10,473,809)
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities:		
Depreciation & Depletion expense	82,623	195,193
Accretion expense	89,112	53,172
Loss on sale of assets	-	48,242
Change in fair value of derivative liabilities	(4,962)	(67,561)
Loss on write off of investment in technology	6,978	-
Gain on abatement of taxes	(248,031)	-
Amortization of debt discount	953,184	3,144,596
Bad debt expense	50,000	10,000
Bad debt recovery	(16,000)	-
Warrants issued for note extension	29,731	-
Loss on plugging of well	1,217	-
Expense escrow shares due to default on related party note	447,287	-
Amortization of deferred financing costs	-	10,855
Amortization of deferred revenue	(5,000)	(10,000)
Common stock issued for services	375	337
Common stock owed due to anti-dilution clause in note payable	-	11,019
Common stock transferred due to default on note payable	-	4,500,000
Common stock owed due to default on note payable	-	461,734
Changes in operating assets and liabilities:		
Accounts receivable	(11,199)	(77,993)
Restricted cash	-	(188,100)
Prepaid expenses and other current assets	24,825	55,741
Other current assets	436,095	-
Accounts payable	70,590	838,597
Accrued expenses	752,565	-
ARO	(4,000)	-
Accrued interest	428,279	-
Net Cash Used For Operating Activities	(338,628)	(1,487,977)
Cash flows from investing activities:		
Proceeds from sale of fixed assets	-	10,805
Principal payments received for note receivable	16,000	-
Cash paid for purchase of fixed assets	(4,550)	(25,486)
Net cash provided by/(used) in investing	11,450	(14,681)
Cash flows from financing activities:		
Borrowings on production liability	308,465	-
Proceeds - issuance of notes payable	-	1,500,000

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Principal payments on notes payable - related parties	-	(25,000)
Principal payments on notes payable	(54,864)	(30,806)
Net cash provided by financing activities	253,601	1,444,194
Change is cash during period	(73,577)	(58,464)
Cash at beginning of year	75,699	89,813
Cash at end of period	2,122	31,349
Supplementary cash flow information:		
Cash paid for interest	-	17,673
Non-cash investing and financing activities:		
Shares issued by shareholder to relieve stock payable	-	30,000
Anti-dilution shares issued related to note payable anti-dilution clause	-	26,051
Default shares issued to escrow related to note payable	-	420,000

See notes to consolidated financial statements.

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Conquest Petroleum Incorporated
Notes to the Consolidated Financial Statements (unaudited)

Note 1 – Financial Statement Presentation

Organization and nature of operations

CONQUEST PETROLEUM INCORPORATED, formerly Maxim TEP, Inc. was formed in 2004 as a Texas corporation to acquire, develop, produce and exploit oil and natural gas properties. The Company's major oil and natural gas properties are located in Louisiana, and Kentucky. The Company's executive offices are located in Houston, Texas. At the annual shareholder's meeting in June, 2009, the shareholders approved the change of Maxim TEP, Inc. to Conquest Petroleum Incorporated to more closely identify the Company as independent oil and gas company and approved a 10-for-1 reverse stock split. On August 5, 2009, after approval from the regulatory agencies, the name change to Conquest Petroleum Incorporated and the 10-for-1 reverse stock split became effective. In connection with the 10-for-1 reverse stock split and name change, the new trading symbol has been changed from (OTCBB: MTIM) to (OTCBB: CQPT).

Going concern

As presented in the unaudited consolidated financial statements, the Company has incurred a net loss of \$3,422,297 during the six months ended June 30, 2011, and losses are expected to continue in the near term. Current liabilities exceeded current assets by \$29,171,396 and the accumulated deficit is \$136,453,515 at June 30, 2011. Amounts outstanding and payable to creditors are in arrears and the Company is in negotiations with certain creditors to obtain extensions and settlements of outstanding amounts. The Company is currently in default on most of its debt obligations and the Company has no future borrowings or funding sources available under existing financing arrangements. Management anticipates that significant additional capital expenditures will be necessary to develop the Company's oil and natural gas properties, which consist primarily of proved reserves that are non-producing, before significant positive operating cash flows will be achieved.

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

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

Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to accounting principles generally accepted in the United States of America and the rules and regulations of the Securities and Exchange Commission and should be read in conjunction with the audited financial statements and notes thereto contained on Form 10-K for the year ended December 31, 2010 filed with the SEC on April 15, 2011. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to

the financial statements which substantially duplicate the disclosure contained in the audited financial statements for the year ending December 31, 2010 have been omitted.

Note 2 – Summary of Significant Accounting Policies

Principles of consolidation

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

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Property and equipment

Property and equipment are recorded at cost less accumulated depreciation. Cost of repairs and maintenance are expensed as they are incurred. Major repairs that extend the useful life of equipment are capitalized and depreciated over the remaining estimated useful life. When property and equipment are sold or otherwise disposed, the related costs and accumulated depreciation are removed from the respective accounts and the gains or losses realized on the disposition are reflected in operations. The Company uses the straight-line method in computing depreciation for financial reporting purposes.

Derivative Instruments

We have evaluated Topic Number 815 in determining whether the Company has a derivative related to warrants outstanding as of June 30, 2011. The literature applies to the Company for certain freestanding warrants that contain exercise price adjustment features known as down round provisions. Based on the guidance we have concluded these instruments are required to be accounted for as a derivative liability effective upon issuance of the warrants in 2009.

We have recorded the fair value of the warrants as a derivative liability in our balance sheet at fair value with changes in the value of the derivative reflected in the consolidated statements of operations as a gain or loss on derivative liability. This derivative instrument is not designated as a hedging instrument.

The derivative has been valued upon issuance and on the balance sheet date using the Black-Scholes model. This valuation is outlined in more detail in the following note "Fair Value of Financial Instruments".

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, other assets, fixed assets, derivative liability, deferred revenue, accounts payable, accrued liabilities and short-term debt. The estimated fair value of cash, accounts receivable, other assets, accounts payable, deferred revenue and accrued liabilities approximated their carrying amounts due to the short-term nature of these instruments. The carrying value of short-term debt also approximates fair value since their terms are similar to those in the lending market for comparable loans with comparable risks. None of these instruments are held for trading purposes.

The Company utilizes various types of financing to fund its business needs, including debt with warrants attached and other instruments indexed to its stock. The Company reviews its warrants and conversion features of securities issued as to whether they are freestanding or contain an embedded derivative and if so, whether they are classified as a liability at each reporting period until the amount is settled and reclassified into equity with changes in fair value recognized in current earnings. At June 30, 2011, the Company has 2,057,048 warrants outstanding to purchase common stock, the fair values of which are classified as a liability.

Inputs used in the valuation to derive fair value are classified based on a fair value hierarchy which distinguishes between assumptions based on market data (observable inputs) and an entity's own assumptions (unobservable inputs).

The hierarchy consists of three levels:

- Level one – Quoted market prices in active markets for identical assets or liabilities;
- Level two - Inputs other than level one inputs that are either directly or indirectly observable; and
- Level three – Unobservable inputs developed using estimates and assumptions, which are developed by the reporting entity and reflect those assumptions that a market participant would use.

Determining which category an asset or liability falls within the hierarchy requires significant judgment. The company evaluates its hierarchy disclosures each quarter. The Company's only asset or liability measured at fair value on a recurring basis is its derivative liability associated with the warrants to purchase common stock (discussed above). The Company classifies the fair value of the derivative liability under level three. The fair value of the derivative liability was calculated using the Black-Scholes model. Under the Black-Scholes model using an expected life of 1.1 years, volatility of 158.97% and a risk-free interest rate of 0.19%, the Company determined the fair value of the derivative liability to be \$1,835 as of June 30, 2011.

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The following shows the changes in the derivative liability measured on a recurring basis for the six months ended June 30, 2011:

Derivative liability at December 31, 2010	\$ 6,797
Gain on derivative on balance sheet, valuation date	(4,962)
Derivative liability at June 30, 2011	\$ 1,835

There were no instruments valued at fair value on a non-recurring basis as of June 30, 2011 or December 31, 2010.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements and Standards

In January 2010, the FASB issued FASB ASU No. 2010-06, "Improving Disclosures about Fair Value Measurements," which is now codified under FASB ASC Topic 820, "Fair Value Measurements and Disclosures." This ASU will require additional disclosures regarding transfers in and out of Levels 1 and 2 of the fair value hierarchy, as well as a reconciliation of activity in Level 3 on a gross basis (rather than as one net number). The ASU also provides clarification on disclosures about the level of disaggregation for each class of assets and liabilities and on disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. FASB ASU No. 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for the disclosures requiring a reconciliation of activity in Level 3. Those disclosures will be effective for interim and annual periods beginning after December 15, 2010. The adoption of the portion of this ASU effective after December 15, 2009, as well as the portion of the ASU effective after December 15, 2010, did not have an impact on our consolidated financial position, results of operations or cash flows.

In December 2010, the FASB issued FASB ASU No. 2010-28, "When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts," which is now codified under FASB ASC Topic 350, "Intangibles — Goodwill and Other." This ASU provides amendments to Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not a goodwill impairment exists. When determining whether it is more likely than not impairment exists, an entity should consider whether there are any adverse qualitative factors, such as a significant deterioration in market conditions, indicating an impairment may exist. FASB ASU No. 2010-28 is effective for fiscal years (and interim periods within those years) beginning after December 15, 2010. Early adoption is not permitted. Upon adoption of the amendments, an entity with reporting units having carrying amounts which are zero or negative is required to assess whether it is more likely than not the reporting units' goodwill is impaired. If the entity determines impairment exists, the entity must perform Step 2 of the goodwill impairment test for that reporting unit or units. Step 2 involves allocating the fair value of the reporting unit to each asset and liability, with the excess being implied goodwill. An impairment loss results if the amount of recorded goodwill exceeds the implied goodwill. Any resulting goodwill impairment should be recorded as a cumulative-effect adjustment to beginning retained earnings in the period of adoption. This ASU is not expected to have any material impact to our future financial statements.

In December 2010, the FASB issued FASB ASU No. 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations," which is now codified under FASB ASC Topic 805, "Business Combinations." A public entity is required to disclose pro forma data for business combinations occurring during the current reporting period. This ASU provides amendments to clarify the acquisition date to be used when reporting the pro forma financial information when comparative financial statements are presented and improves the usefulness of the pro forma

revenue and earnings disclosures. If a public company presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) which occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The supplemental pro forma disclosures required are also expanded to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. FASB ASU No. 2010-29 is effective on a prospective basis for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010, with early adoption permitted. The adoption of this ASU will not have a material effect on our consolidated financial position, results of operations or cash flows.

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Beneficial conversion features

From time to time, the Company may issue convertible notes that have detached warrants and may contain an imbedded beneficial conversion feature. A beneficial conversion feature exists on the date a convertible note is issued when the fair value of the underlying common stock to which the note is convertible into is in excess of the remaining unallocated proceeds of the note after first considering the allocation of a portion of the note proceeds to the fair value of the warrants, if related warrants have been granted. The intrinsic value of the beneficial conversion feature is recorded as a debt discount with a corresponding amount to additional paid in capital. The debt discount is amortized to interest expense over the life of the note using the effective interest method.

Major Customers

The Company sold oil and natural gas production that composed material concentrations of its oil and natural gas revenues as follows:

	Six Months Ending			
	June 30, 2011		June 30, 2010	
Interconn Resources, Inc.(1)	83	%	76	%
Plains (1)	17	%	22	%

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

Accounts receivable concentrations by purchaser are as follows:

	December 31,			
	June 30, 2011		2010	
Interconn Resources, Inc.(1)	44	%	74	%
Plains (1)	56	%	26	%

Accounting estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods reported. Actual results could differ from these estimates.

Significant estimates include volumes of oil and natural gas reserves used in calculating depletion of proved oil and natural gas properties, future net revenues and abandonment obligations, impairment of proved and unproved properties, future income taxes and related assets and liabilities, the fair value of various common stock, warrants and option transactions, and contingencies. Oil and natural gas reserve estimates, which are the basis for unit-of-production depletion and the calculation of impairment, have numerous inherent uncertainties. The accuracy of any reserve estimate is a function of the quality of available data, the engineering and geological interpretation and judgment. Results of drilling, testing and production subsequent to the date of the estimate may justify revision of such estimate. Accordingly, reserve estimates are often different from the quantities of oil and natural gas that are ultimately recovered. In addition, reserve estimates are vulnerable to changes in wellhead prices of crude oil and natural gas. Such prices have been volatile in the past and can be expected to be volatile in the future.

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These significant estimates are based on current assumptions that may be materially affected by changes to future economic conditions such as the market prices received for sales of volumes of oil and natural gas, interest rates, the fair value of the Company's common stock and corresponding volatility, and the Company's ability to generate future taxable income. Future changes to these assumptions may affect these significant estimates materially in the near term.

Oil and natural gas properties

The Company accounts for its oil and natural gas properties using the successful efforts method of accounting. Under this method, all costs associated with property acquisitions, successful exploratory wells, development wells, and asset retirement obligation assets are capitalized. Additionally, interest is capitalized while wells are being drilled and the underlying property is in development. Costs of exploratory wells are capitalized pending determination of whether each well has resulted in the discovery of proved reserves. Oil and natural gas mineral leasehold costs are capitalized as incurred. Items charged to expense generally include geological and geophysical costs, costs of unsuccessful exploratory wells, and oil and natural gas production costs. Capitalized costs of proved properties including associated salvage are depleted on a well-by-well or field-by-field (common reservoir) basis using the units-of-production method based upon proved producing oil and natural gas reserves. The depletion rate is the current period production as a percentage of the total proved producing reserves. The depletion rate is applied to the net book value of property costs to calculate the depletion expense. Proved reserves materially impact depletion expense. If the proved reserves decline, then the depletion rate (the rate at which we record depletion expense) increases, reducing net income. Dispositions of oil and natural gas properties are accounted for as adjustments to capitalized costs with a gain or loss recognized upon sale. A gain (loss) is recognized to the extent the sales price exceeds or is less than original cost or the carrying value, net of impairment. Oil and natural gas properties are also subject to impairment testing at the end of each fiscal year, or whenever impairment indicators are prevalent. Unproved property costs are excluded from depletable costs until the related properties are developed. See impairment discussed in "Long-lived assets and intangible assets" below.

We depreciate other property and equipment using the straight-line method based on estimated useful lives ranging from five to ten years.

Long-lived assets and intangible assets

The Company accounts for intangible assets in accordance with the applicable FASB standard. Intangible assets that have defined lives are subject to amortization over the useful life of the assets. Intangible assets held having no contractual factors or other factors limiting the useful life of the asset are not subject to amortization but are reviewed at least annually for impairment or when indicators suggest that impairment may be needed. Intangible assets that are being amortized are subject to impairment review when there is an indication that an asset has been impaired.

For unproved property costs, management reviews these investments for impairment on a property-by-property basis if a triggering event should occur that may suggest that impairment may be required.

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying amount of the asset, including any intangible assets associated with that asset, exceeds its estimated future undiscounted net cash flows, the Company will recognize an impairment loss equal to the difference between its carrying amount and its estimated fair value. The fair value used to calculate the impairment for producing oil and natural gas field that produces from a common reservoir is first determined by comparing the undiscounted future net cash flows associated with total proved properties to the carrying value of the underlying evaluated property. If the cost of the underlying evaluated property is in excess of the undiscounted future net cash flows, the future net cash flows are discounted at 10%, which the Company believes

approximates fair value, to determine the amount of impairment.

During the six months ended June 30, 2011 the company noted impairment indicators on intangible assets related to investments in drilling technology. The investments were fully impaired for a loss of \$6,978 as the fair value of the asset was determined to be zero.

Note receivable

The Company realized that a note for \$50,000 was uncollectable after discussion with the third party. Therefore, the note was written off to bad debt expense during the six months ended June 30, 2011.

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Asset retirement obligation

The FASB standard on accounting for asset retirement obligation requires that the fair value of the liability for asset retirement costs be recognized in an entity's balance sheet, as both a liability and an increase in the carrying values of such assets, in the periods in which such liabilities can be reasonably estimated. The present value of the estimated future asset retirement obligation ("ARO"), as of the date of acquisition or the date at which a successful well is drilled, is capitalized as part of the costs of proved oil and natural gas properties and recorded as a liability. The asset retirement costs are depleted over the production life of the oil and natural gas property on a unit-of-production basis.

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

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

The following table is a reconciliation of the ARO liability for continuing operations for the six months ended June 30, 2011:

	June 30, 2011
Asset retirement obligation at beginning of period	\$ 1,519,600
Wells plugged and abandoned	(2,782)
Accretion expense	89,112
Asset retirement obligation at end of period	\$ 1,605,930

Income taxes

The Company accounts for income taxes in accordance with the provisions of the applicable FASB standard. Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. Deferred tax assets include tax loss and credit carry forwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

On January 1, 2007, the Company adopted the FASB Interpretation on accounting for uncertainty in income taxes. The interpretation prescribes a measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, the interpretation provides guidance regarding uncertain tax positions relating to de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company will classify any interest and penalties associated with income taxes as interest expense. As of June 30, 2011, the Company had no uncertain tax positions.

Stock based compensation

Beginning January 1, 2006, the Company adopted the FASB standard for accounting for stock based compensation to account for its Incentive Compensation Plan (the "2005 Incentive Plan"). The standard requires all share-based

payments to employees (which includes non-employee Board of Directors), including employee stock options, warrants and restricted stock, be measured at the fair value of the award and expensed over the requisite service period (generally the vesting period). The fair value of common stock options or warrants granted to employees is estimated at the date of grant using the Black-Scholes option pricing model by using the historical volatility of comparable public companies. The calculation also takes into account the common stock fair market value at the grant date, the exercise price, the expected life of the common stock option or warrant, the dividend yield and the risk-free interest rate.

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Under the 2005 Incentive Plan, the Company from time to time may issue stock options, warrants and restricted stock to acquire goods or services from third parties. Restricted stock, options or warrants issued to other than employees or directors are recorded on the basis of their fair value, which is measured as of the date issued. The options or warrants are valued using the Black-Scholes option pricing model on the basis of the market price of the underlying equity instrument on the "valuation date," which for options and warrants related to contracts that have substantial disincentives to non-performance, is the date of the contract, and for all other contracts is the vesting date. Expense related to the options and warrants is recognized on a straight-line basis over the shorter of the period over which services are to be received or the vesting period.

Revenue Recognition

The Company recognizes oil, gas and natural gas condensate revenue in the period of delivery. Settlement on sales occurs anywhere from two weeks to two months after the delivery date. The Company recognizes revenue when an arrangement exists, the product has been delivered, the sales price is fixed or determinable, and collectability is reasonably assured

Earnings per share

Basic earnings per share are computed using the weighted average number of common shares outstanding. Diluted earnings per share reflect the potential dilutive effects of common stock equivalents such as options, warrants and convertible securities. Due to the Company incurring a net loss from continuing operations during the six months ended June 30, 2011 and 2010, basic and diluted loss per share are the same as all potentially dilutive common stock equivalents are anti-dilutive.

Restricted Cash

This account is held by our attorney in a trust account for security reasons. The company requests funds as needed for operations.

Note 3 – Derivative Liability

Derivative

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. On March 8, 2010 the Agreement was mutually terminated with no further liability to the Company. The warrants remained outstanding to YA Global after termination.

On January 1, 2009, the Company adopted Topic No. 815, and as a result the 1,500,000 warrants issued by the Company containing exercise price reset provisions, were classified as a derivative liability as of August 21, 2009 as these warrants were not deemed to be indexed to the Company's own stock. These warrants had an exercise price of \$7.50 at issuance and expire in August 2012. The exercise price was ratcheted down to \$5.47 at June 30, 2011 based on the ratchet provisions in the warrant agreement. Also, as a part of the agreement, an additional 557,448 warrants were available to be exercised by YA global. This totals 2,057,448 warrants due to the anti-dilution provision as of June 30, 2011. As of June 30, 2011 and December 31, 2010, the fair value of these warrants was \$1,835 and \$6,797, respectively. The change in fair value during the period ended June 30, 2011 and 2010 was \$4,962 and \$67,561 and

was recorded as a derivative gain in the accompanying Consolidated Statements of Operations.

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Note 4 – Debt

Notes payable consists of the following at June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010
Notes payable	\$ 612,500	\$ 612,500
Notes payable in default	\$ 625,000	\$ 625,000
Related party notes payable	\$ 3,175,000	\$ 4,675,000
Related party notes payable in default	\$ 8,815,469	\$ 7,370,333
Convertible notes payable, related party in default	\$ 700,000	\$ 700,000
Debt balance prior to discounts	\$ 13,927,969	\$ 13,982,833
Less unamortized debt discount	\$ (899,041)	\$ (1,852,225)
Debt balance net of discounts	\$ 13,028,928	\$ 12,130,608
Less current maturities:		
Current portion, non-convertible	\$ (12,328,928)	\$ (11,430,608)
Current Portion, convertible notes payable, related party, net of discount	\$ (700,000)	\$ (700,000)
Notes payable, net of current maturities and discount	\$ -	\$ -

The Company has a note payable for a loan taken in 2005 from an individual investor aggregating \$400,000 at June 30, 2011. This note payable matured on September 30, 2007 bearing interest at fixed rate of 18%. Interest will accrue from the note issue date and is due and payable either at maturity or quarterly or semi-annually until maturity. The Company is in default on this note as of June 30, 2011. Accrued interest on this note as of June 30, 2011 is \$288,000.

During 2008, the Company borrowed \$100,000 from an individual at an interest rate of 18% with maturity date of April 2, 2010. Simple interest accrues from the note issue date and is due and payable monthly. This note is in default at June 30, 2011. Accrued interest on this note as of June 30, 2011 is \$3,750.

During 2008, the Company borrowed \$100,000 from an individual at an interest rate of 15% with a one year maturity. Simple interest accrues from the note issue date and is due and payable monthly. This note is in default at June 30, 2011. Accrued interest on this note as of June 30, 2011 is \$4,500.

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During 2009, the Company borrowed \$25,000 due and payable on December 31, 2009 at an interest rate of 8%. Simple interest accrues from the note issue date and is due and payable either at maturity or quarterly or semi-annually until maturity. This note is in default at June 30, 2011. Accrued interest on this note as of June 30, 2011 is \$1,812.

During 2009, the Company borrowed \$1,500,000 due and payable on June 30, 2010 from a related party at an interest rate of 15%. Simple interest accrues from the note issue date and is due and payable at maturity. This funding was restricted funds to bring the Delhi field wells back into production and settle certain liabilities related to an environmental claim. The Company issued 200,000 shares of common stock as an inducement to the lender. The 200,000 shares were valued at the closing price on the date of issuance equaling a total of \$300,000. This value was taken as a discount on debt. The discount was amortized over the life of the note according to the effective interest method. The Company received \$1,477,271 of the total \$1,500,000 funds related to the note. The difference of \$22,729 was paid for offering costs associated with the loan. These costs have been capitalized and were amortized according to the effective interest method over the life of the loan. This note is in default at June 30, 2011. In accordance with the terms of the agreement, 3,000,000 shares previously held in escrow were issued to the lender due to the default. The shares were valued at the inception of the agreements in 2009 at \$4,500,000 and were expensed in the period ended June 30, 2010 upon default. Due to the anti-dilution provision of the agreement, 3,281,848 additional shares were also expensed at the value of \$461,734 calculated periodically whenever a diluting event occurred prior to default. Accrued interest on this note as of June 30, 2011 is \$450,000.

During 2009, the Company borrowed an additional \$1,000,000 from this related party that was due and payable on October 31, 2010 at an interest rate of 15%. Simple interest accrues from the note issue date and is due and payable at maturity. This funding was restricted funds to bring the Delhi field wells back into production and settle certain liabilities related to an environmental claim. The Company issued 1,000,000 shares of common stock as an inducement to the lender, valued at the closing price on the date of issuance equaling a total of \$60,000. This value was taken as a discount on debt. The discount was amortized over the life of the note according to the effective interest method. Accrued interest on this note as of June 30, 2011 is \$250,000.

In conjunction with the previous two loans, the Company issued to Lender a term assignment of an overriding royalty interest in the Delhi Field equal to fifteen percent of eight-eighths (15% of 8/8") and ten percent of eight-eighths (10% of 8/8") of all Hydrocarbons produced and saved from or attributable or allocable to the Delhi Field net of severance taxes owing with respect thereto through December 31, 2011. Further, if a total of \$7,500,000 (including the principal and interest repayments on the two notes above) is not paid by December 31, 2011, the Company will make a cash payment to cover the deficiency. The balance owed related to the overriding interest only of \$5,000,000 was fully discounted upon issuance due to its attachment to the notes payable of \$1,500,000, and \$1,000,000. The discounts were amortized over the term of the notes payable. Amortization on the discounts related to the overriding royalty interest and the aforementioned discounts due to shares issued with the debt was \$0 and \$3,097,056 for the periods ending June 30, 2011 and 2010, respectively. The discount was fully amortized as of June 30, 2011. During the periods ending June 30, 2011 and 2010 overriding royalty payments were made against the \$5,000,000 balance of \$54,864 and \$26,981. As of June 30, 2011 \$7,315,469 was owed for these notes and related balloon payments. The net balance has been presented within related party notes payable in default on the balance sheet.

During the quarter ended June 30, 2010, the Company borrowed an additional \$1,500,000 from this related party that was due and payable on April 01, 2011 at an interest rate of 15%. Simple interest accrues from the note issue date and is due and payable at maturity. This funding was restricted funds to bring the Delhi field wells back into production. The Company issued 1,500,000 shares of common stock as an inducement to the lender, valued at the closing price on the date of issuance equaling a total of \$210,000. This value was taken as a discount on debt. The discount was fully amortized as of June 30, 2011. The discount is being amortized over the life of the note according to the effective interest method. As of October 1, 2010, each of the Notes and the respective notes given pursuant to

the Original Amended Agreement and the Second Loan Agreement have not been paid in full, the Company therefore after written notice from the Lender, could begin marketing for sale the properties encumbered by the Mortgages. The Delhi and Belton field are used as collateral for the notes. Accrued interest on this note as of June 30, 2011 is \$281,250.

During 2009 The Company issued originally 5,000,000 default shares of common stock valued at \$4,620,000 that were held in escrow as insurance to the lenders and will be remitted back to the Company if the note is paid in full with 15% interest. As of July 1, 2010, the Company was in default on the first loan Agreement and 3,000,000 of these shares were assumed by the lender due to default on the first note agreement. The company valued these shares according to the closing price of the shares on the date of issuance. As of November 1, 2010, the Company was in default on the second loan Agreement, and 2,000,000 shares were assumed by the lender from the escrow.

During 2010, the Company issued 3,000,000 default shares in relation to the 2nd quarter 2010 funding (the third loan Agreement) to be held in escrow as insurance to the lenders if the note is not fully paid with 15% interest by April 1, 2011. Shares were valued on the date of grant to be \$420,000. Additional shares were owed related to these default shares valued at \$27,287. The Company failed to meet the deadline and defaulted on this note subsequent to the balance sheet date. As a result, the remaining shares held in escrow were issued to the lender in April of 2011, and the value of the shares issued and owed of \$447,287 was expensed at the time.

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During the 4th quarter 2010, The Company borrowed an additional \$1,000,000 from this related party that was due and payable on June 30, 2011 at an interest rate of 15%. Simple interest accrues from the note issue date and is due and payable at maturity. This funding was restricted funds to bring the Delhi field back into production and settle certain other liabilities. The Company was actively pursuing a financing to relieve all debt per the Agreements with this third party. The Company agreed to pay back \$3,000,000 for the \$1,000,000 cash received. The \$2,000,000 shortfall was recorded as a discount. Amortization was \$894,357 for the six months ended June 30, 2011. The remaining discount as of June 30, 2011 is \$889,041. Accrued interest on this note as of June 30, 2011 is \$102,059.

The Company has an anti-dilution clause with the lender that any shares of capital stock (excluding the Default Shares) held by the Lender or any affiliate thereof shall represent an agreed upon percentage of all of the issued and outstanding shares of capital stock of Borrower computed on a fully diluted basis as of the date hereof, which Percentage Interest is 21.31% with funding of the third loan. Lender shall at all times from and after the Loan Date hold a minimum equity interest in Borrower equal to the Percentage Interest, and Borrower shall not, and shall not permit any of its Subsidiaries to, take any action that in any way dilutes or impairs the Percentage Interest at any time. In the event Borrower shall (a) issue or sell (i) Equity Interests of Borrower or any of its Subsidiaries, or (ii) any options, warrants, rights, debt securities, promissory notes, or other securities exercisable or exchangeable for or convertible into shares of capital stock of Borrower or any Subsidiary thereof, (b) declare or pay any dividend or other distribution to holders of Equity Interests of Borrower or any of its Subsidiaries, or (c) repurchase or redeem any Equity Interests of Borrower or any of its Subsidiaries, and if as a result such event or occurrence dilutes or impairs in any manner and to any extent (a "Diluting Event") the Percentage Interest, Lender shall be entitled to receive, and Borrower shall issue to Lender immediately upon such event or occurrence, such additional number of shares of capital stock of Borrower such that after giving effect to any such event or occurrence Lender's equity interest in Borrower is not less than the Percentage Interest, such additional shares of capital stock to be issued to and acquired by Lender without any additional consideration of any nature. In the event prior to the Default Shares being deemed issued to Lender (and thereby covered by the language above), a Diluting Event occurs which will lessen the Default Percentage Interest, the Default Shares, without any additional consideration of any nature, shall be increased by such additional number of shares of capital stock of Borrower such that after giving effect to any such event or occurrence the number of Default Shares is not less than the Default Percentage. Related to this clause the Company expensed additional shares owed whenever a diluting event occurs. As of June 30, 2011, all shares owed related to this clause were fully accrued within the stock payable account.

Convertible notes payable

During 2005, the Company executed a convertible note payable with a related party investor aggregating \$700,000. This note payable matured March 29, 2007, bearing interest at a fixed rate of 9%. Simple interest will accrue from the note date and is due and payable quarterly until maturity. Should the 9% convertible note go into default, interest will accrue at a rate of 18%. The note is unsecured. This note payable is convertible into shares of the Company's common stock at an exchange rate of \$7.50 per share, or into 93,333 shares of common stock. The maturity date on this note was extended to mature on September 30, 2007 and then extended again to March 30, 2008, whereby the Company issued the note holder warrants to purchase 466,666 shares of the Company's common stock at an exercise price of \$7.50 per share for a period of five years and then issued warrants to purchase another 466,666 shares of the Company's common stock at an exercise price of \$7.50 per share for a period of three years, as fees for the extensions. The fair value of the warrants was amortized to interest expense using the effective interest method over the extension periods. The extension also revised the notes payable to bear interest at 12% from October 1, 2007 through March 30, 2008 and 18% in the event of default. The Company is currently in default on this note payable and is in negotiations with the note holder. Accrued interest as of June 30, 2011 is \$451,500.

Production Payment with BlueRock Energy Capital, LTD

- Effective May 1, 2008, the Company finalized its negotiations with BlueRock Energy Capital, LTD (“BlueRock”) to restructure its monthly production payment facility on its Marion Field. The new agreement calls for a reduction of the interest rate from its current 18% to 8% and to give back to the Company up to \$25,000 of its production payment per month so that the field would be cash flow positive. The Company’s obligations under these new terms would be to seek refinancing of the production payment payable or the outright purchase of the production payable by no later than the anniversary of the execution of the new agreement. Should the Company not meet this obligation, BlueRock has the option of taking back the field in full payment of the production payment payable or reverting back to the previous terms under the existing agreement. This agreement was later extended for 6 months until October 30, 2009. The balance owed including interest for June 30, 2011 and December 31, 2010 is \$9,980,069 and \$9,243,325 respectively.
- Effective May 1, 2009, the Company notified BlueRock that the Company was in default under the Conveyance and the Production Agreement. A third amendment was finalized and the 8% interest rate was increased back to 18%. A fourth amendment was finalized and the agreement was extended to November 30, 2009. At June 30, 2011, the Company is in default.

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In December 2006, the Company borrowed an amount of \$640,000 from Robert Newton to utilize as a down payment for the purchase of the Delhi Field which was paid back. Subsequently, the purchase was closed using funds from another party. Management never assigned any interest in the property to Mr. Newton. In early 2007, the Company sold 11 wells obtained in the purchase to an offset operator for \$2,200,000. Mr. Newton felt as if he should have shared in the proceeds of this sale. To compensate Mr. Newton, an Accounts Payable entry was placed on the Company's books in the amount of \$337,500 (approximately 15% of the sale proceeds) with no maturity date. In 2009, the Company reached a verbal agreement with Mr. Newton whereby the \$337,500 would be reclassified as debt with an 8% interest component retroactive to the initial entry. As of June 30, 2011 principal and interest total \$450,000.

On September 30, 2010, the Company issued a Promissory Note in the amount of \$150,000 to a related party, a director of the Company, in exchange for a 1% Overriding Royalty Interest he held for the Days Creek Field. The Note carries an interest rate of 10 %, which is accrued and has no maturity date. As of June 30, 2011, the outstanding balance including accrued interest is \$161,250.

On September 1, 2010, the Company issued a Promissory Note in the amount of \$25,000 to a related party, a director of the Company, in exchange for a 10% revenue interest in the McDermott Well #5 located in the Marion Field. The Note carries an interest rate of 10 %, which is accrued and has no maturity date.. As of June 30, 2011, the outstanding balance including accrued interest is was \$27,083

On September 1, 2010, the Company issued two Promissory Notes in the amount of \$50,000 each to two 3rd parties in exchange for each of their 25% revenue interest in the McDermott Well #5 located in the Marion Field. The Notes carry an interest rate of 10 %, which is accrued and has no maturity date. As of June 30, 2011, the outstanding balance including accrued interest for each Note was \$54,167 for a total of \$108,334.

In the suit, LFI 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 payable in 2009 and 2008. In connection with this suit, an additional 25% in attorney fees and interest are owed and have been accrued at September 30, 2010. In October 2010 a settlement was finalized. The Company entered into an agreement with LFI Fort Pierce d/b/a Labor Finders on October 8, 2010. The Company agreed to deliver a \$150,000 Promissory Note at (8%) annum to be paid on October 8, 2011 the maturity date to Labor Finders. Also, the Company delivered a \$25,000 Promissory Note at (8%) annum to be paid on October 8, 2011, the maturity date to John F. Aplin attorney for Labor Finders. Labor Finders agreed to fully release Conquest and Tiger Bend Drilling from all judgments. The Company also paid court costs to John F. Aplin in the amount of \$951 on October 8, 2010. The company recognized a gain and wrote the liability amount down to the settlement amount at December 31, 2010. As of June 30, 2010 a total of \$182,000 is owed including accrued interest.

Interest expense, net

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

	June 30, 2011	June 30, 2010
Interest expense related to debt	\$ 1,354,132	\$ 1,130,668
Other Interest expense	74,154	-
Amortization of deferred financing costs	-	-
Amortization of debt discount	953,184	3,144,596
	\$ 2,381,470	\$ 4,275,264

Note 5 – Stockholders' Deficit

Preferred stock

On June 30, 2008, the Board of Directors resolved to cancel the Company's previous class of preferred stock and issue up to 5,000,000 shares of a new class of preferred stock, of which 1,000,000 has been designated as a Series A Preferred Stock, \$.00001 par value per share. This series has liquidation preference above common stock. The holders of Series A Preferred Stock shall be entitled to receive dividends if and when declared by the Board of Directors. Each share of Series A Preferred Stock shall have voting rights identical to a share of common stock (i.e. one vote per share) and shall be permitted to vote on all matters on which holders of common stock are entitled to vote. So long as any shares of Series A Preferred Stock remain outstanding, the Company shall not without first obtaining the approval of the holders of seventy-five percent (75%) of the then-outstanding shares of Series A Preferred Stock: (i) alter or change the rights, preferences or privileges of the shares of Series A Preferred Stock so as to adversely affect such shares; (ii) increase or decrease the total number of authorized shares of Series A Preferred Stock; (iii) issue any Senior Securities; or (iv) take any action that alters or amends this Series.

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During the second quarter of 2008, the Company issued 545,455 shares of Series A Preferred Stock in exchange for \$3,000,000 of corporate notes payable. At June 30, 2011 and December 31, 2010, there were 545,455 shares of Series A Preferred Stock issued and outstanding.

Common stock

During the period ending March 31, 2011 4,500 shares of common stock were issued to a related party for services as a director valued at \$285 based on the closing stock price on the date the service period was completed.

There was no stock issued in the quarter ending June 30, 2011 but 1,500 shares were accrued for a related party for services as a director. These shares were valued at \$90 based on the closing stock price on the date the service period was completed, and recorded within stock payable as of June 30, 2011.

Warrants

During the third quarter of 2009, warrants to acquire 1,500,000 shares of the Company's common stock were issued containing exercise price reset provisions, were classified as a derivative liability as of August 21, 2009 as these warrants were not deemed to be indexed to the Company's own stock. These warrants had an exercise price of \$7.50 upon issuance and expire in August 2012. The exercise price is subject to ratchet provisions which resulted in a derivative liability. The price was ratcheted down to \$5.47 after issuance.

500,000 warrants were issued to a third party at an exercise price of \$.07/share. These shares vested upon grant and have a ten year term. The shares were calculated using the Black Sholes model and were valued at \$29,731. The key inputs to the model were a stock price of \$0.06 on the valuation date, discount rate of 2.97% , and volatility of 162%. These warrants were issued in order to extend an agreement concerning the production payment on the Marion property.

The following is a summary of the warrant activity for the period ended June 30, 2011:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2010	3,009,749	6.00
Granted	500,000	.06
Exercised	-	-
Expired or cancelled	-	-
Outstanding June 30, 2011	3,509,749	5.15

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The following is a summary of the stock option activity for the period ended June 30, 2011:

	2011	Weighted Average Exercise Price
	Number of Shares	
Non-vested, beginning of period	-	\$ -
Granted	-	
Vested	-	-
Non-vested, end of period	-	\$
	2011	Weighted Average Exercise Price
	Number of Shares	
Outstanding, beginning of period	489,916	\$ 7.5
Granted	-	
Exercised	-	-
Expired or cancelled	-	-
Outstanding, end of period	489,916	\$ 7.5

Note 6 - Commitments and Contingencies

Office Lease

The Company has executed a new one year lease beginning January 1, 2011 and has paid a deposit of \$2,054. The 2011 lease payments will be \$24,648 annually.

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Litigation

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

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

- In the suit, Raymond Thomas, et al. vs. Ashley Investment Company, et al., in the 5th Judicial District Court for Richmond Parish, Louisiana, numerous present and former owners of property were seeking damages in an unspecified amount for alleged soil, groundwater and other contamination, allegedly resulting from oil and gas operations of multiple companies in the Delhi Field in Richmond Parish, Louisiana over a time period exceeding fifty years. Originally consisting of 14,000 acres upon discovery of the field in 1952, the Company acquired an interest in leases covering 1,400 acres in 2006. Although the suit was filed in 2005, and was pending when the Company acquired its interest in 2006, as part of the acquisition terms, the Company agreed to indemnify predecessors in title, including its grantor, against ultimate damages related to the prior operations. As part of the Company's purchase terms, a Site Specific Trust Account was established with the State of Louisiana Department of Natural Resources intended to provide funds for remediation of the lands involved in its acquired interest. The lawsuit was settled in June 2009 with the Company being required to complete remediation of the alleged damages. To that time, the Company had spent \$750,000 on legal fees and remediation. Subsequently, the Company incurred and paid an additional \$500,000 in clean-up costs. At June 30, 2011, the Company had no accrual for remediation costs. The Company does not anticipate additional remediation costs.
- In the suit, LFI 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 payable in 2009 and 2008. In connection with this suit, an additional 25% attorney fees and interest are owed and have been accrued at September 30, 2010. In October 2010 a settlement was finalized. The Company entered into an agreement with LFI Fort Pierce d/b/a Labor Finders on October 8, 2010. The Company agreed to deliver a \$150,000 Promissory Note at (8%) annum to be paid on October 8, 2011 the maturity date to Labor Finders. Also, the Company delivered a \$25,000 Promissory Note at (8%) annum to be paid on October 8, 2010, the maturity date to John F. Aplin attorney for Labor Finders. Labor Finders agreed to fully release Conquest and Tiger Bend Drilling from all judgments. The Company also paid court costs to John F. Aplin in the amount of \$951 on October 8, 2010. The company recognized a gain and wrote the liability amount down to the settlement amount at December 31, 2010. The notes and accrued interest are fully accrued as of June 30, 2011.
- 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 will be determined based on receiving financing. This amount has been accrued at June 30, 2011.
- During 2008 Bailey's Repair Service, LLC filed a lawsuit against Tiger Bend Drilling, LLC for \$22,932 for past due invoices. A default judgment was filed in favor of Bailey's on March 1, 2011. This amount has been accrued at June 30, 2011.
- In a suit with Pannell Kerr Forster of Texas PC (AKA PKF Texas) and PKF (UK) LLP was seeking payment for services rendered. This lawsuit was settled for a sum of \$281,818, payable in 24 monthly installments. If the Company defaults on monthly installment, the entire outstanding balance of \$563,636 becomes due. The Company

defaulted on payments and is the process of negotiating an additional settlement. The default balance is accrued at June 30, 2011.

- During 2009, a former employee filed a claim with the Texas Workforce Commission for back wages and severance pay. The Texas Workforce Commission awarded \$284,166 to be paid on behalf of the former employee and the wages and severance pay were accrued at December 31, 2010. The Company has appealed the ruling with the Texas Workforce Commission which has been continued to August 22, 2011. This amount has been accrued at June 30, 2011.
- Conquest obtained its interest in the Delhi Field from McGowan Working Parties who had obtained their interest from Eland Energy, Inc. Despite assurances throughout the Delhi Environmental Restoration Project that Eland had no indemnification right from McGowan, Eland has now asserted such a claim. If successful, Conquest has indemnified McGowan (upon purchase) against any and all liabilities in this matter. Eland is claiming \$1,000,000 for their settlement with Chevron, \$400,000 for their settlement with Total, and an undisclosed amount for their settlement with Anadarko (formerly Kerr McGee). Arbitration has been scheduled between Eland and McGowan. McGowan is going to defend its claim of no indemnity. If unsuccessful, McGowan will look to Conquest for payment. The Company does not think the probability of losing is likely.

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Further, at a committee meeting held among all defendants in the Delhi Environmental lawsuit, everyone agreed to allow McGowan to lead in the physical restoration efforts and defend against unreasonable claims. Additionally, a percentage of all costs expended for expert witnesses and other matters were allocated to each party. McGowan spent the money, from their own account; but, their effort to collect is now being disputed by Chevron, Total, and Anadarko. The current estimate is approximately \$277,000; and, if McGowan is unable to collect, they will look to Conquest for payment. Conquest has already borne the costs for the physical restoration. Both of the preceding matters are corporate obligations and will have no effect on the mortgage of the property. The Company does not think the probability of losing is likely. The \$277,000 was accrued at June 30, 2011.

- July 6, 2010 R. R. Donnelley & Sons Company was granted a judgment in the amount of \$6,013. On October 11, 2010 The Company entered into an agreement with R. R. Donnelly whereby Donnelly accepted \$5,330 to be paid \$500 per month starting October 15, 2010 until balance is paid in full. The first payment was made on October 15, 2010 and the Company continues to make payments monthly. The final payment was made on August 8, 2011 and was accrued for at June 30, 2011.
- The Company through a contract with a former employee received a \$100,000 Loan bearing interest at 18% per annum. The Company reached an overall global settlement involving the issuance of stock and an agreement to pay the interest on the loan on a monthly basis. Since May 2009, the Company has been making interest payments of \$1,500 per month. The Company was unable to make the October 1, 2010; but, upon receipt of funds, paid the November 1, 2010 payment and the delinquent payment. Subsequently, the employee's attorney sent a Demand Letter for full payment followed by a lawsuit seeking a judgment. In December of 2010, the employee filed a Motion for Nonsuit for dismissal of the case. The default balance is accrued as of June 30, 2011.
- June 7, 2010 Lou Fusz Sr. 2006 Partnership filed a claim that the Company has breached a promissory note in the original principal amount of \$700,000. The company intends to seek an out-of-court settlement. The default balance is accrued as of June 30, 2011.
- October 2010 George Fine a prior consultant filed a lawsuit with Well Enhancement Service naming Conquest as a co-defendant. Conquest does not believe there is any basis for the company to be named in the lawsuit.
- November 2006 Days Creek Operating Company entered into an operating agreement that set out the specifics by which Conquest would be responsible for its share of operating expenses in mutually owned oil and gas interest in the Days Creek Field. The agreement was drafted by Days Creek Operating Company and its principals. The operating agreement gave the principals the right upon default by Conquest to take possession of The Company's interest and to convey said interest to them. Days Creek Operating Company upon default of the Company took possession and filed a lawsuit for expenses and took possession of Conquests interest. Conquest filed a third-party claim against the principals denying that it was in default and alleging cause of action for wrongful foreclosure, usury, and conversion. Our expectation is that the Company will prevail in our countersuits which will more than offset Days Creek Operating Company's claim.

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Note 7 - Subsequent Events

During 2008, the Company's prior management failed to pay payroll taxes to the Internal Revenue Service and various state revenue agencies totaling \$329,337 and \$30,525 respectively. In April, 2009, the Company made a payment of \$125,000 to the Internal Revenue Service. Also, in 2009 the company was informed that prior management had not filed the 2005 W-2 and W-3 tax forms which resulted in penalties and interest equaling \$246,795. Then in 2011, we were notified that prior management had not filed 2007 W-2 and W-3 forms which resulted in additional penalties and interest equaling \$226,554. Since this is quite a serious matter which could result in substantial penalties and interest which would be very detrimental to the Company's financial position, the Company has hired a consulting firm to deal with the Internal Revenue Service and the State Agencies and to date has paid them \$18,500. The Company has accrued all payroll liabilities and the estimated interest and penalties related to this as of June 30, 2011. In addition to the payment made in April 2009 the company has also paid \$190,132. By making these payments the trust fund (employee's withholding) has been paid and all taxes owed by Axiom TEP, LLC. The balance remaining is \$7,500 in taxes for Conquest and penalties and interest which are being negotiated by our consulting firm. The Company is accruing penalties and interest monthly. On May 12, 2011 we received notice that the 2005 payroll tax penalty for not filing the W-2 has been abated. Therefore, the balance owed as of July 6, 2011 is \$401,915. The balance has been fully accrued as of June 30, 2011.

On March 3, 2011 the Company had entered into an Agreement with a third party financing entity to eliminate the Production Payment on the Marion property with a cash payment due on March 31, 2011 in the amount of \$2,800,000. The Company further agreed to pay the financing entity a sum of \$340,000 to purchase a Nitrogen Recovery Unit on the Marion property. The Company was to assume all contingent liabilities and burdens on the property. The Company would then own the Marion property free and clear of any mortgage. This Agreement was amended as of April 1, 2011 whereby the Company was required to make the payment on April 30, 2011. The Agreement was then amended as of May 1, 2011 whereby the Company is now required to make the payment as of June 30, 2011. The purchase price was increased to \$3,000,000 to achieve the extension. Further, if the Company makes the payment on or before June 30, 2011, the financing entity will also receive a stock option to purchase 500,000 shares of common stock at a stock price of \$.06/share. The term of the option is ten years. The Agreement was then amended as of July 1, 2011 whereby the Company is now required to make the payment as of August 1, 2011. The purchase price was increased to \$3,200,000 to achieve the extension. Further, the Stock Option relating to the May 1, 2011 extension became vested; and, if the Company makes the purchase on or before August 31, 2011, the financing company will also receive another stock option to purchase 500,000 shares of common stock at a stock price of \$.06/share. The term of the option is ten years.

On July 14, 2011, the Company entered into a settlement agreement with Days Creek Operating and its principals whereby, each party mutually release the other party. In exchange for foregoing any operating costs attributable to the Company during the period of operations from May 1, 2008 to present; the Company assigned its 10% remaining working interest, to the principals. Further, since the Company had issued its 7.5% revenue interest to 6 different parties in the form of overriding royalty interests; the principals were granted the right to utilize the 10% working interest with these 6 parties. The Company maintains certain liabilities relating to its past operations of the property.

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

Forward Looking Statements

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

General Overview

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

Going concern

As presented in the unaudited consolidated financial statements, the Company has incurred a net loss of \$3,422,297 during the six months ended June 30, 2011, and losses are expected to continue in the near term. Current liabilities exceeded current assets by \$29,171,396 and the accumulated deficit is \$136,453,515 at June 30, 2011. Amounts outstanding and payable to creditors are in arrears and the Company is in negotiations with certain creditors to obtain extensions and settlements of outstanding amounts. The Company is currently in default on most of its debt obligations and the Company has no future borrowings or funding sources available under existing financing arrangements. Management anticipates that significant additional capital expenditures will be necessary to develop the Company's oil and natural gas properties, which consist primarily of proved reserves that are non-producing, before significant positive operating cash flows will be achieved.

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

Three Months Ended June 30, 2011 Compared to the Three Months Ended June 30, 2010.

Oil and Natural Gas Revenues: Oil and natural gas revenues for the three months ended June 30, 2011 and 2010 were \$298,902 and \$313,816, respectively, a decrease of 4.7%. This decrease was due to loss volumes at Marion from a pipeline shut in because of nitrogen content and decrease in gas price.

Production and Lease Operating Expenses: Production and lease operating expenses for the three months ended June 30, 2011 and 2010 were \$221,002 and \$419,888 respectively, a decrease of 47.3% which was due to the lack of funding.

Depletion, Depreciation and Amortization: Depletion, depreciation, and amortization for the three months ended June 30, 2011 and 2010 was \$40,616 and \$103,880 respectively, a decrease of \$63,264. The decrease was due to the

decrease in depletion and depreciation of the reserve basis in the Marion and Belton Field.

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General and Administrative Expenses: General and administrative expenses for the three months ended June 30, 2011 and 2010 were \$301,087 and \$5,429,460, respectively. This net decrease of \$5,128,373 is due to lack of funding.

Interest Expense, net: Interest expense, net for the three months June 30, 2011 and 2010 was \$1,211,590 and \$2,474,606 respectively. In October 2010, an agreement was made with lender to eliminate additional penalty and interest, to comply with usury laws.

Net Loss: The Company incurred a loss for the three months ended June 30, 2011 and 2010 of \$1,720,188 and \$8,139,283 respectively, specifically due to reasons discussed above

Six months Ended June 30, 2011 Compared to the Six months Ended June 30, 2010.

Oil and Natural Gas Revenues: Oil and natural gas revenues for the six months ended June 30, 2011 and 2010 were \$586,269 and \$640,697, respectively, a decrease of 8.5%. This decrease was due to loss volumes at Marion from a pipeline shut in because of nitrogen content and decrease in gas price. The Delhi field's revenue is down because of the lack of funds for well repairs.

Production and Lease Operating Expenses: Production and lease operating expenses for the six months ended June 30, 2011 and 2010 were \$602,899 and \$862,508 respectively, a decrease of 30.0% which was due to the lack of funding.

Depletion, Depreciation and Amortization: Depletion, depreciation, and amortization for the six months ended June 30, 2011 and 2010 was \$82,623 and \$195,193 respectively, a decrease of \$112,570. 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, 2011 and 2010 were \$684,188 and \$5,749,979 respectively. This net decrease of \$5,065,791 is due to the lack of funding.

Interest Expense, net: Interest expense, net for the six months June 30, 2011 and 2010 was \$2,381,470 and \$4,275,264, respectively. In October 2010, an agreement was made with lender to eliminate additional penalty and interest, to comply with usury laws.

Net Loss: The Company incurred a loss for the six months ended June 30, 2011 and 2010 of \$3,422,297 and \$10,473,809 respectively, specifically due to reasons discussed above

Liquidity and Capital Resources

At June 30, 2011, the Company had a working capital deficit of \$29,171,396 as compared to a working capital deficit of \$26,442,973 at December 31, 2010. Current liabilities increased to \$29,594,587 at June 30, 2011 from \$27,389,362 at December 31, 2010.

Net cash used in operating activities totaled \$338,628 for the six months ended June 30, 2011. Net cash used in operating activities totaled \$1,487,977 for the six months ended June 30, 2010. Net cash used in operating activities for the 2011 period consists primarily of the net loss of \$3,422,297. The reduction in cash used in operating activities in the 2011 period was primarily due to the limited availability of funds.

Net cash used in investing activities totaled \$11,450 for the six months ended June 30, 2011. Net cash used in investing activities totaled \$14,681 for the six months ended June 30, 2010.

Net cash provided by financing activities totaled \$253,601 for the six months ended June 30, 2011. Net cash used in financing activities totaled \$1,444,194 for the six months ended June 30, 2010.

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

Item 3. Quantitative and Qualitative Disclosures about market risk.

None.

Item 4. Controls and Procedures.

Management's assessment of the effectiveness of the registrant's internal control over financial reporting is as of the quarter ended June 30, 2011. Based on that evaluation, our management concluded that our control over financial reporting and related disclosure controls and procedures were not effective because our accounting processes lack appropriate segregation of responsibilities and accounting technical expertise necessary for an effective system of internal control. We believe that our lack of technical expertise constitutes a material weakness in our internal control. In addition to this material weakness, Management's assessment showed that the following material weaknesses from the quarter ended June 30, 2011.

As of June 30, 2011, we did not maintain effective controls over the control environment. Specifically, we have not developed and effectively communicated to our employees its accounting policies and procedures. This has resulted in inconsistent practices. Further, the Board of Directors does not currently have any director who qualifies as an audit committee financial expert as defined in Item 407(d)(5)(ii) of Regulation S-B. Since these entity level programs have a pervasive effect across the organization, management has determined that these circumstances constitute a material weakness.

As of June 30, 2011, we did not maintain effective controls over financial statement disclosure. Specifically, controls were not designed and in place to ensure that all disclosures required were originally addressed in our financial statements. Accordingly, management has determined that this control deficiency constitutes a material weakness.

This lack of internal controls over financial reporting resulted in numerous adjusting journal entries proposed by our independent auditor during their review of the quarter ended June 30, 2011.

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

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PART II—OTHER INFORMATION

Item 1. Legal Proceedings

Litigation

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

- In the suit, Raymond Thomas, et al. vs. Ashley Investment Company, et al., in the 5th Judicial District Court for Richmond Parish, Louisiana, numerous present and former owners of property were seeking damages in an unspecified amount for alleged soil, groundwater and other contamination, allegedly resulting from oil and gas operations of multiple companies in the Delhi Field in Richmond Parish, Louisiana over a time period exceeding fifty years. Originally consisting of 14,000 acres upon discovery of the field in 1952, the Company acquired an interest in leases covering 1,400 acres in 2006. Although the suit was filed in 2005, and was pending when the Company acquired its interest in 2006, as part of the acquisition terms, the Company agreed to indemnify predecessors in title, including its grantor, against ultimate damages related to the prior operations. As part of the Company's purchase terms, a Site Specific Trust Account was established with the State of Louisiana Department of Natural Resources intended to provide funds for remediation of the lands involved in its acquired interest. The lawsuit was settled in June 2009 with the Company being required to complete remediation of the alleged damages. To that time, the Company had spent \$750,000 on legal fees and remediation. Subsequently, the Company incurred and paid an additional \$500,000 in clean-up costs. At June 30, 2011, the Company had no accrual for remediation costs. The Company does not anticipate additional remediation costs.
- In the suit, LFI 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 payable in 2009 and 2008. In connection with this suit, an additional 25% attorney fees and interest are owed and have been accrued at September 30, 2010. In October 2010 a settlement was finalized. The Company entered into an agreement with LFI Fort Pierce d/b/a Labor Finders on October 8, 2010. The Company agreed to deliver a \$150,000 Promissory Note at (8%) annum to be paid on October 8, 2011 the maturity date to Labor Finders. Also, the Company delivered a \$25,000 Promissory Note at (8%) annum to be paid on October 8, 2010, the maturity date to John F. Aplin attorney for Labor Finders. Labor Finders agreed to fully release Conquest and Tiger Bend Drilling from all judgments. The Company also paid court costs to John F. Aplin in the amount of \$951 on October 8, 2010. The company recognized a gain and wrote the liability amount down to the settlement amount at December 31, 2010. The notes and accrued interest are fully accrued as of June 30, 2011.
- 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 will be determined based on receiving financing. This amount has been accrued at June 30, 2011.
- During 2008 Bailey's Repair Service, LLC filed a lawsuit against Tiger Bend Drilling, LLC for \$22,932 for past due invoices. A default judgment was filed in favor of Bailey's on March 1, 2011. This amount has been accrued at June 30, 2011.

- In a suit with Pannell Kerr Forster of Texas PC (AKA PKF Texas) and PKF (UK) LLP was seeking payment for services rendered. This lawsuit was settled for a sum of \$281,818, payable in 24 monthly installments. If the Company defaults on monthly installment, the entire outstanding balance of \$563,636 becomes due. The Company defaulted on payments and is the process of negotiating an additional settlement. The default balance is accrued at June 30, 2011.

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- During 2009, a former employee filed a claim with the Texas Workforce Commission for back wages and severance pay. The Texas Workforce Commission awarded \$284,166 to be paid on behalf of the former employee and the wages and severance pay were accrued at December 31, 2010. The Company has appealed the ruling with the Texas Workforce Commission which has been continued to August 22, 2011. This amount has been accrued at June 30, 2011.
- Conquest obtained its interest in the Delhi Field from McGowan Working Parties who had obtained their interest from Eland Energy, Inc. Despite assurances throughout the Delhi Environmental Restoration Project that Eland had no indemnification right from McGowan, Eland has now asserted such a claim. If successful, Conquest has indemnified McGowan (upon purchase) against any and all liabilities in this matter. Eland is claiming \$1,000,000 for their settlement with Chevron, \$400,000 for their settlement with Total, and an undisclosed amount for their settlement with Anadarko (formerly Kerr McGee). Arbitration has been scheduled between Eland and McGowan. McGowan is going to defend its claim of no indemnity. If unsuccessful, McGowan will look to Conquest for payment. The Company does not think the probability of losing is likely.

Further, at a committee meeting held among all defendants in the Delhi Environmental lawsuit, everyone agreed to allow McGowan to lead in the physical restoration efforts and defend against unreasonable claims. Additionally, a percentage of all costs expended for expert witnesses and other matters were allocated to each party. McGowan spent the money, from their own account; but, their effort to collect is now being disputed by Chevron, Total, and Anadarko. The current estimate is approximately \$277,000; and, if McGowan is unable to collect, they will look to Conquest for payment. Conquest has already borne the costs for the physical restoration. Both of the preceding matters are corporate obligations and will have no effect on the mortgage of the property. The Company does not think the probability of losing is likely. The \$277,000 was accrued at June 30, 2011.

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interest and to convey said interest to them. Days Creek Operating Company upon default of the Company took possession and filed a lawsuit for expenses and took possession of Conquests interest. Conquest filed a third-party claim against the principals denying that it was in default and alleging cause of action for wrongful foreclosure, usury, and conversion. Our expectation is that the Company will prevail in our countersuits which will more than offset Days Creek Operating Company's claim.

- During the quarter ended June 30, 2010, the Company borrowed an additional \$1,500,000 from a related party that was due and payable on April 01, 2011 at an interest rate of 15%. Simple interest accrues from the note issue date and is due and payable at maturity. This note was not paid at maturity on April 1, 2011 and became in default on that date.

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

Common stock

None.

Warrants

None.

Stock options

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Removed and Reserved

Item 5. Other Information

Item 6. Exhibits

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

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

Exhibit 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema

101.CAL XBRL Taxonomy Extension Calculation Linkbase

101.DEF XBRL Taxonomy Extension Definition Linkbase

101.LAB XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

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SIGNATURES

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

CONQUEST PETROLEUM INCORPORATED
(Registrant)

Date: August 15, 2011

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

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