Conquest Petroleum Inc
Form 10-Q
February 07, 2012

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: September 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	20-0650828
(State or other jurisdiction of incorporation or organization)	(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 x   Noo

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

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

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 x   No o

The number of shares of the registrant’s common stock outstanding as of September 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 September 30, 2011, the aggregate market value of the registrant’s Common Stock held by non-affiliates of the registrant was approximately $1,788,768 based on the closing price of such stock on such date of $0.04.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

Conquest Petroleum Incorporated
Consolidated Balance Sheets
(Unaudited)

	September 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 1,647	$ 75,699
Accounts receivable	85,400	111,928
Certificate of deposit, restricted	251,781	287,876
Restricted Cash	100	400,000
Other receivables	74,987	22,940
Prepaid expenses and other current assets	35,811	47,946
Total current assets	449,726	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	(3,297,040)	(3,236,504)
Oil and natural gas properties, net	783,713	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	(431,620)	(417,411)
Property and equipment, net	589,281	648,015
Other assets	167,928	225,006
Total assets	$ 1,990,648	$ 2,659,109

See accompanying notes to consolidated financial statements

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

	September 30, 2011	December 31, 2010
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 2,596,750	$ 2,452,238
Interest payable	2,205,792	1,386,658
Accrued payroll and related taxes and benefits	1,677,271	1,338,161
Accrued liabilities	350,688	831,575
Derivative liability	22,364	6,797
Production payment payable, current	10,347,226	9,243,325
Notes payable	612,500	612,500
Notes payable, in default	625,000	625,000
Related party notes payable in default	8,799,940	7,370,333
Related party notes payable	2,951,126	2,822,775
Convertible notes payable to related parties in default, net of discount	700,000	700,000
Total current liabilities	30,888,657	27,389,362
Deferred revenue	37,500	45,000
Asset retirement obligation	1,636,420	1,519,600
Total liabilities	32,562,577	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 September 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 September 30, 2011 and December 31, 2010, respectively	450	450
Stock payable	2,332,675	2,332,525
Stock held in escrow	-	(447,287)
Additional paid-in capital	104,899,438	104,850,672
Accumulated deficit	(137,804,497)	(133,031,218)
Treasury stock, at cost (839 shares held at September 30, 2011 and December 31, 2010, respectively)	-	-
Total stockholders' deficit	(30,571,929)	(26,294,853)
Total liabilities and stockholders' deficit	$ 1,990,648	$ 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 September 30, 2011	Three Months Ending September 30, 2010	Nine Months Ending September 30, 2011	Nine Months Ending September 30, 2010
Revenues:				
Oil and natural gas revenues	$ 222,841	427,507	$ 809,109	$ 1,068,204
License fees, royalties and related services	2,500	2,500	7,500	12,500
Total revenues	225,341	430,007	816,609	1,080,704
Cost and expenses:				
Production and lease operating expenses	130,892	331,627	733,791	1,194,135
Depletion, depreciation and amortization	36,647	105,767	119,270	300,960
Accretion of asset retirement obligation	46,336	32,104	135,448	85,276
Impairment of Intangible Assets	-	-	6,978	-
General and administrative expenses	34,383	860,197	718,571	6,610,176
Total cost and expenses	248,258	1,329,695	1,714,058	8,190,547
Loss from operations	(22,917)	(899,688)	(897,449)	(7,109,843)
Other income (Expense):				
Change in value of derivative liability gain(loss)	(20,529)	15,359	(15,567)	82,920
Interest expense, net	(1,382,298)	(1,372,674)	(3,763,768)	(5,647,938)
Gain/(Loss) on sale of assets	14,629	(55,565)	14,629	(103,807)
Loss on settlements	121,555	-	369,586	-
Interest Income	(2)	-	3,830	-
Other miscellaneous income (expense), net	(61,419)	(747)	(37,253)	(8,456)
Penalties on GEF default	-	-	(447,287)	-
Total other income (expense), net	(1,328,064)	(1,413,627)	(3,875,830)	(5,677,281)
Net loss	$ (1,350,981)	(2,313,315)	$ (4,773,279)	$ (12,787,124)
Net loss per common share:				
Basic and diluted	$ (.03)	(0.05)	$ (0.11)	$ (0.30)
Weighted average common shares outstanding:				
Basic and diluted	44,719,189	44,714,689	44,718,453	42,889,690

See accompanying notes to consolidated financial statements

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Conquest Petroleum Incorporated
Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ending September 30, 2011	September 30, 2010
Cash flows from continuing operating activities:		
Net loss for continuing operations	$ (4,773,279)	$ (12,787,124)
Adjustments to reconcile net loss from continuing operations to net cash used in operating activities:		
Depreciation & Depletion expense	119,270	290,105
Accretion expense	122,541	85,276
Loss on sale of assets	-	103,807
Change in fair value of derivative liabilities	15,567	(82,920)
Loss on write off of investment in technology	6,978	-
Gain on abatement of taxes	(248,031)	-
Amortization of debt discount	1,628,351	3,893,639
Bad debt expense	50,000	10,000
Bad debt recovery	(16,000)	-
Warrants issued for note extension	48,481	-
Gain on plugging of well	(14,629)	-
Expense escrow shares due to default on related party note	447,287	4,500,000
Amortization of deferred financing costs	-	10,855
Amortization of deferred revenue	(7,500)	(12,500)
Common stock issued for services	435	285
Common stock owed for consulting agreement and anti-dilution agreement	-	11,019
Common stock owed for services	-	52
Common stock owed due to default on note payable	-	461,734
Changes in operating assets and liabilities:		
Accounts receivable	(18,058)	(29,019)
Restricted cash	-	-
Prepaid expenses and other current assets	4,673	25,680
Other current assets	436,095	2,029
Accounts payable	144,512	373,505
Accrued expenses	925,388	1,674,364
ARO	8,908	-
Accrued interest	645,299	-
Net Cash Used For Operating Activities	(473,712)	(1,469,213)
Cash flows from investing activities:		
Proceeds from sale of fixed assets	-	15,805
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	(9,681)
Cash flows from financing activities:		

Borrowings on production liability	458,602	-
Proceeds - issuance of notes payable	-	1,500,000
Principal payments on notes payable - related parties	-	(25,000
Principal payments on notes payable	(70,392)	(59,994)
Net cash provided by financing activities	388,210	1,415,006
Change is cash during period	(74,052)	(63,888)
Cash at beginning of year	75,699	89,813
Cash at end of period	1,647	25,925
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 shared 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 $4,773,279 during the Nine months ended September 30, 2011, and losses are expected to continue in the near term. Current liabilities exceeded current assets by $30,438,931 and the accumulated deficit is $137,804,497 at September 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 September 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 valua