

Edgar Filing: Conquest Petroleum Inc - Form S-1

Conquest Petroleum Inc  
Form S-1  
October 09, 2009

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

Registration No. 333-\_\_\_\_\_

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

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

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

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

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

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

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

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

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

Edgar Filing: Conquest Petroleum Inc - Form S-1

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

## CALCULATION OF REGISTRATION FEE

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

- (1) Represents shares offered by the selling stockholders. Includes (i) restricted shares owned by the selling stockholders and (ii) an indeterminable number of additional shares of common stock, pursuant to Rule 416 under the Securities Act of 1933, as amended, that may be issued to prevent dilution from stock splits, stock dividends or similar transactions that could affect the shares to be offered by selling stockholders.
- (2) Pursuant to Rule 457(c) under the Securities Act of 1933, as amended, the registration fee has been calculated based on the average of the bid and asked price of the Registrant's Common Stock as reported by the OTC Bulletin Board on October 5, 2009.

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

Subject to completion, dated October 9, 2009

Preliminary Prospectus

6,556,100 Shares

Conquest Petroleum Incorporated

Common Stock

---

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

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

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

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

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

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

---

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

---

The date of this prospectus is October 9, 2009.



## TABLE OF CONTENTS

<u>SUMMARY</u>	<u>1</u>
<u>CONQUEST PETROLEUM INCORPORATED</u>	<u>1</u>
<u>RISK FACTORS</u>	<u>5</u>
<u>FORWARD-LOOKING STATEMENTS</u>	<u>16</u>
<u>USE OF PROCEEDS</u>	<u>17</u>
<u>DIVIDEND POLICY</u>	<u>17</u>
<u>SELECTED HISTORICAL FINANCIAL DATA</u>	<u>18</u>
<u>OUR BUSINESS</u>	<u>20</u>
<u>MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION</u>	<u>32</u>
<u>AND RESULTS OF OPERATIONS</u>	<u>-</u>
<u>MANAGEMENT</u>	<u>43</u>
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	<u>49</u>
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	<u>51</u>
<u>SELLING STOCKHOLDERS</u>	<u>52</u>
<u>PLAN OF DISTRIBUTION</u>	<u>54</u>
<u>DESCRIPTION OF CAPITAL STOCK</u>	<u>56</u>
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	<u>59</u>
<u>LEGAL MATTERS</u>	<u>59</u>
<u>EXPERTS</u>	<u>59</u>

Glossary of Terms

A-1

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

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

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

## SUMMARY

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

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

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

## CONQUEST PETROLEUM INCORPORATED

### Our Company

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

The following are key elements of the business strategy:

### Phase One – Acquisition Phase

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

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

### Phase Two – Completion of Existing Wells Phase

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

Edgar Filing: Conquest Petroleum Inc - Form S-1

Currently, we have active operations on our fields located in Louisiana and Kentucky. We have begun an active fourteen well workover program on our biggest asset, the Delhi Field in Louisiana. Of the fourteen, eight producing wells and six water injection wells, all in the Mengel Sand, will be completed. We have 515 low rate productive natural gas wells in our Marion field in Louisiana that we received through the purchase of this field along with over 110 miles of a natural gas gathering pipeline. We have plans to repair leaks in the existing pipeline to more efficiently capture additional natural gas from the existing wells as well as other remedial programs such as



the installing of hub compressors, installing packers to repair holes in casings, and swabbing existing wells. Lastly, we have initiated a 17 well workover program in our Belton Field in Kentucky. Due to limited funding, we have only partially completed the planned activities and foresee the plan to extend into late 2009, if funding is obtained.

#### Phase Three – Development Drilling on Proved Assets

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

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

#### Phase Four – Expansion Phase

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

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

#### Going Concern

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

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

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

August 2009 Standby Equity Distribution Agreement

On August 21, 2009, and amended on September 25, 2009, the Company and YA Global entered into a Standby Equity Distribution Agreement, or SEDA, pursuant to which, for a two-year period, we have the right to sell shares of our common stock

2

---

to YA Global. On August 21, 2009, we issued 260,000 shares of our common stock to YA Global in lieu of payment of a \$65,000 commitment fee. As part of the transaction, we also issued YA Global a warrant to buy 1,500,000 shares of our common stock at \$7.50 per share. As of September 30, 2009, we had not sold any shares of common stock to YA Global under the SEDA.

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

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

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

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

#### Corporate Information

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

The Offering

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

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

## RISK FACTORS

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

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

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

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

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

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

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

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

We have and expect to continue to have substantial capital needs as a result of our active exploration, development, and acquisition programs. We expect that additional external financing will be required in the future to fund our growth. We may not be able to obtain additional financing, and we have no financing under existing or new credit facilities and these may not be available in the future. Without additional capital resources, we may be forced to limit

or defer our planned natural gas and oil exploration and development program and this will adversely affect the recoverability and ultimate value of our natural gas and oil properties, in turn negatively affecting our business, financial condition, and results of operations.

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

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

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

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

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

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

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

Edgar Filing: Conquest Petroleum Inc - Form S-1

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



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

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

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

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

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

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

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

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

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

7

---

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

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

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

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

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

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

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

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

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

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

We cannot assure you that:

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

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

