

ENTHEOS TECHNOLOGIES INC
Form 10-Q
November 15, 2010

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2010

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

ENTHEOS TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation)

98-0170247
(I.R.S. Employer Identification No.)

430 Park Avenue, Suite 702, New York, NY
(Address of principal executive offices)

10022
(Zip Code)

800-755-5815
(Registrant's telephone number, including area code)

888 3rd Street SW, Suite 1000, Calgary, Alberta, Canada, T2P 5C5
(Former address if changed since last report)

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 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 Not Applicable

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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 12b-2 of the Exchange Act.

| | | | |
|-------------------------|-----------------------|---------------------------|----------------------------------|
| Large accelerated filer | <input type="radio"/> | Accelerated filer | <input type="radio"/> |
| Non-accelerated filer | <input type="radio"/> | Smaller reporting company | <input checked="" type="radio"/> |

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 63,075,122 shares of Common Stock, par value \$0.00001, were outstanding on November 4, 2010.

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 FORM 10-Q
 For the Quarterly Period Ended September 30, 2010

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

ENTHEOS TECHNOLOGIES, INC.
BALANCE SHEETS
September 30, 2010 and December 31, 2009

| | (Unaudited) | December |
|--|---------------|--------------|
| | September 30, | 31, |
| | 2010 | 2009 |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 2,180,721 | \$2,409,770 |
| Accounts receivable | 1,432 | 8,759 |
| Inventory | 2,507 | - |
| Total current assets | 2,184,660 | 2,418,529 |
| Oil and gas properties at cost (Note 4) | | |
| Proven properties | 431,309 | 424,191 |
| Unproven properties | 103,087 | 101,682 |
| Accumulated depreciation, depletion, amortization and impairment | (482,334) | (429,338) |
| Oil and gas properties, net | 52,062 | 96,535 |
| Total assets | \$ 2,236,722 | \$2,515,064 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 10,852 | \$30,468 |
| Accounts payable - related parties | 12,859 | 5,172 |
| Asset retirement obligation | 10,000 | 10,000 |
| Warrant liability (Note 5) | 284,776 | 1,368,420 |
| Total current liabilities | 318,487 | 1,414,060 |
| Long-term liabilities | | |
| Asset retirement obligation, less current portion | 41,906 | 40,000 |
| Total liabilities | 360,393 | 1,454,060 |
| STOCKHOLDERS' EQUITY (Note 5) | | |
| Preferred stock: \$0.0001 par value: Authorized: 10,000,000 shares Issued and outstanding: nil | | |
| | - | - |
| Common stock: \$0.00001 par value; Authorized: 200,000,000 shares Issued and outstanding: 63,075,122 shares (2009: 63,075,122) | | |
| | 631 | 631 |
| Additional paid-in capital | 5,462,236 | 5,498,374 |
| Accumulated deficit | (3,586,538) | (4,438,001) |
| Total stockholders' equity | 1,876,329 | 1,061,004 |

| | | |
|--|--------------|-------------|
| Total liabilities and stockholders' equity | \$ 2,236,722 | \$2,515,064 |
|--|--------------|-------------|

(The accompanying notes are an integral part of these financial statements)

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ENTHEOS TECHNOLOGIES, INC.
 STATEMENTS OF OPERATIONS
 For the three and nine-months ended September 30, 2010 and 2009
 (Unaudited)

| | Three-months ended September 30, | | Nine-months ended September 30, | |
|---|-------------------------------------|-------------|------------------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Revenue | | | | |
| Oil and gas sales | \$6,150 | \$8,783 | \$30,237 | \$37,409 |
| Expenses | | | | |
| Lease operating expenses | 4,247 | 10,296 | 15,886 | 35,374 |
| General and administrative expenses | 62,021 | 84,480 | 193,536 | 235,541 |
| Impairment and depreciation | 12,113 | 87,304 | 52,996 | 332,725 |
| Total operating expenses | 78,381 | 182,080 | 262,418 | 603,640 |
| Operating Loss | (72,231) | (173,297) | (232,181) | (566,231) |
| Other income / (expense) | | | | |
| Change in fair value of warrant liability | 1,068,044 | 1,548,394 | 1,083,644 | 2,603,133 |
| | 1,068,044 | 1,548,394 | 1,083,644 | 2,603,133 |
| Net income attributable to common stockholders | \$995,813 | \$1,375,097 | \$851,463 | \$2,036,902 |
| Income per common share - basic and diluted | \$0.02 | \$0.02 | \$0.01 | \$0.03 |
| Weighted average number of shares - basic and diluted | 63,075,122 | 63,075,122 | 63,075,122 | 63,075,122 |

(The accompanying notes are an integral part of these financial statements)

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ENTHEOS TECHNOLOGIES, INC.
 STATEMENTS OF STOCKHOLDERS' EQUITY
 For the nine-months ended September 30, 2010 and year ended December 31, 2009
 (Unaudited)

| | Common Stock Shares | Common Stock Amount | Additional paid-in capital | Accumulated earnings (deficit) | Total Stockholders' Equity |
|---|------------------------|------------------------|----------------------------------|--------------------------------------|----------------------------------|
| Balance, December 31, 2008 | 63,075,122 | \$631 | \$7,107,622 | \$ (4,083,037) | \$ 3,025,216 |
| Cumulative effect of change in accounting principle | - | - | (1,653,362) | (1,624,513) | (3,277,875) |
| Stock-based compensation expense | - | - | 44,114 | - | 44,114 |
| Net income, year ended December 31, 2009 | - | - | - | 1,269,549 | 1,269,549 |
| Balance, December 31, 2009 | 63,075,122 | 631 | 5,498,374 | (4,438,001) | 1,061,004 |
| Stock-based compensation expense | - | - | (36,138) | - | (36,138) |
| Net income, nine-months ended September 30, 2010 | - | - | - | 851,463 | 851,463 |
| Balance, September 30, 2010 | 63,075,122 | \$631 | \$5,462,236 | \$ (3,586,538) | \$ 1,876,329 |

(The accompanying notes are an integral part of these financial statements)

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ENTHEOS TECHNOLOGIES, INC.
 STATEMENTS OF CASH FLOWS
 For the nine-months ended September 30, 2010 and 2009
 (Unaudited)

| | September 30, 2010 | September 30, 2009 |
|--|--------------------------|--------------------------|
| Cash flows from operating activities | | |
| Net income | \$851,463 | \$2,036,902 |
| Adjustments to reconcile net income to net cash flows from operating activities: | | |
| Impairment and depreciation | 52,996 | 332,725 |
| Stock-based compensation | (36,138) | 37,047 |
| Accretion of asset retirement obligation | 1,906 | - |
| Change in fair value of warrant liability | (1,083,644) | (2,603,133) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 7,327 | (1,231) |
| Inventory | (2,507) | - |
| Prepaid expenses | - | 720 |
| Accounts payable & accrued liabilities including related party payables | (11,929) | (34,320) |
| Net cash flows from operating activities | (220,526) | (231,290) |
| Cash flows from investing activities | | |
| Acquisition of oil and gas properties | (8,523) | (33,245) |
| Net cash flows from investing activities | (8,523) | (33,245) |
| Decrease in cash and cash equivalents | | |
| | (229,049) | (264,535) |
| Cash and cash equivalents, beginning of period | 2,409,770 | 2,734,591 |
| Cash and cash equivalents, end of period | \$2,180,721 | \$2,470,056 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid in cash | \$- | \$- |
| Income tax paid in cash | \$- | \$- |

(The accompanying notes are an integral part of these financial statements)

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ENTHEOS TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010
(Unaudited)

Note 1. Organization and Nature of Operations

Entheos Technologies, Inc. (the "Company", "we", "us", and "our") is a small independent oil and gas production company with a focus on participation in producing oil and gas wells and the re-development/recompletion of oil and gas wells. The Company pursues oil and gas prospects in partnership with oil and gas companies with exploration, development and production expertise. Currently, the Company's interests consist of non-operating, minority working interests. The Company's prospect areas consist of land in La Salle County, Lee County, Fayette County and Frio County, Texas. Currently four of the five wells in which the Company has minority working interests are producing. The Company does not operate any of the wells in which it has an interest.

Incorporated under the laws of the State of Nevada, the Company has an authorized capital of 200,000,000 shares of \$0.00001 par value common stock, of which 63,075,122 shares are outstanding and 10,000,000 shares of \$0.0001 par value preferred stock, of which none are outstanding.

The Company has recently incurred net operating losses and operating cash flow deficits. It may continue to incur losses from operations and operating cash flow deficits in the future. Management believes that the Company's cash and cash equivalent balances, anticipated cash flows from operations and other external sources of credit will be sufficient to meet its cash requirements through December 2011 if not further. The future of the Company after December 2011 will depend in large part on its ability to successfully generate cash flows from operations and raise capital from external sources to fund operations.

Note 2. Significant Accounting Policies

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (which are of a normal recurring nature) considered necessary for a fair presentation of the financial statements have been included. Operating results for the quarter ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ended December 31, 2010 or any other interim period. For further information, refer to the financial statements and notes thereto included in our 2009 Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission.

References to Authoritative Accounting Literature

In June 2009, the Financial Accounting Standards Board ("FASB") issued the Accounting Standards Codification ("ASC") as the single source of authoritative accounting principles generally accepted in the United States of America ("U.S. GAAP") recognized by the FASB to be applied by non-governmental entities in preparation of financial statements in conformity with U.S. GAAP, except for additional authoritative rules and interpretative releases issued by the SEC. While the adoption of the ASC changes how the Company reference accounting standards, the adoption did not have an impact on our financial statements.

Principles of Consolidation

The Company accounts for its undivided interest in oil and gas properties using the proportionate consolidation method, whereby its share of assets, liabilities, revenues and expenses are included in its financial statements.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Management's judgments and estimates in these areas are based on information available from both internal and external sources, including engineers, geologists, consultants and historical experience in similar matters. The more significant reporting areas impacted by management's judgments and estimates are warrant derivative liabilities; accruals related to oil and gas sales and expenses; estimates used in the impairment of oil and gas properties; and the estimated future timing and cost of asset retirement obligations.

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Actual results could differ from the estimates as additional information becomes known. The carrying values of oil and gas properties are particularly susceptible to change in the near term. Changes in the future estimated oil and gas reserves or the estimated future cash flows attributable to the reserves that are utilized for impairment analysis could have a significant impact on the future results of operations.

Full Cost Method of Accounting for Oil and Gas Properties

The Company has elected to utilize the full cost method of accounting for its oil and gas activities. In accordance with the full cost method of accounting, all costs associated with acquisition, exploration, and development of oil and gas reserves, including directly related overhead costs and related asset retirement costs, are capitalized.

All capitalized costs of oil and gas properties, including the estimated future costs to develop proved reserves, are amortized on the unit-of-production method using estimates of proved reserves once proved reserves are determined to exist. The Company has not yet obtained reserve reports. Management is assessing production data to determine the feasibility of obtaining reserves studies. At September 30, 2010, there were no capitalized costs subject to amortization.

Oil and gas properties without estimated proved reserves are not amortized until proved reserves associated with the properties can be determined or until impairment occurs. The cost of these properties is assessed quarterly, on a property-by-property basis, to determine whether the properties are recorded at the lower of cost or fair market value. In determining whether such costs should be impaired, the Company evaluates historical experience, current drilling results, lease expiration dates, current oil and gas industry conditions, international economic conditions, capital availability, and available geological and geophysical information.

Sales of oil and gas properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in income. The Company has not sold any oil and gas properties.

Full Cost Ceiling Test

At the end of each quarterly reporting period, the unamortized costs of oil and gas properties are subject to a "ceiling test" which basically limits capitalized costs to the sum of the estimated future net revenues from proved reserves, discounted at 10% per annum to present value, based on current economic and operating conditions, adjusted for related income tax effects.

Oil and Gas Revenues

The Company recognizes oil and gas revenues when oil and gas production is sold to a purchaser at a fixed or determinable price, when delivery has occurred and title has transferred, and if collectability of the revenue is probable. Delivery occurs and title is transferred when production has been delivered to a purchaser's pipeline or truck. As a result of the numerous requirements necessary to gather information from purchasers or various measurement locations, calculate volumes produced, perform field and wellhead allocations, distribute and disburse funds to various working interest partners and royalty owners, the collection of revenues from oil and gas production may take up to 45 days following the month of production. Therefore, the Company may make accruals for revenues and accounts receivable based on estimates of its share of production. Since the settlement process may take 30 to 60 days following the month of actual production, its financial results may include estimates of production and revenues for the related time period. The Company will record any differences between the actual amounts ultimately received and the original estimates in the period they become finalized.

Asset Retirement Obligation

The Company accounts for its future asset retirement obligations by recording the fair value of the liability during the period in which it was incurred. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The increase in carrying value of a property associated with the capitalization of an asset retirement obligation is included in proven oil and gas properties in the balance sheets. The Company's asset retirement obligation consists of costs related to the plugging of wells, removal of facilities and equipment and site restoration on its oil and gas properties. The asset retirement obligation is allocated to operating expense using a systematic and rational method considering the estimated remaining life of the well.

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Inventory

The Company records crude oil inventories at cost using the first-in, first-out (FIFO) method of accounting. The Company's inventory consisted of crude oil only totaling \$2,507 and nil at September 30, 2010, and December 31, 2009, respectively.

Fair Value

The Company measures fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The Company utilizes a three-tier hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1. Valuations based on quoted prices in active markets for identical assets or liabilities that an entity has the ability to access. The Company has no assets or liabilities valued with Level 1 inputs.

Level 2. Valuations based on quoted prices for similar assets or liabilities, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities. The Company has no assets or liabilities valued with Level 2 inputs.

Level 3. Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Liabilities valued with Level 3 inputs are described in "Note 5. Stockholders' Equity" and "Note 4. Oil and Gas Properties."

Warrant Derivative Liability

The Company evaluates financial instruments for freestanding or embedded derivatives. The warrant derivative liability is recorded at fair value with changes in value recognized as other income (expense) in the statements of operations in the period of change.

Stock-Based Compensation

The Company measures all stock-based compensation awards at fair value on the date of grant and recognize such expense in our financial statements over the requisite service period for awards expected to vest. The Company uses the Black-Scholes pricing model to determine the fair value of stock-based compensation awards on the date of grant. The Black-Scholes pricing model requires management to make assumptions regarding the option lives, expected volatility, and risk free interest rates. See "Note 6. Stock Options" for additional information on the Company's stock-based compensation plans.

Earnings (Loss) Per Share

The computation of basic net income (loss) per common share is based on the weighted average number of shares that were outstanding during the period. The computation of diluted net income (loss) per common share is based on the weighted average number of shares used in the basic net income (loss) per share calculation plus the number of common shares that would be issued assuming the exercise of all potentially dilutive common shares outstanding using the treasury stock method for shares subject to stock options and warrants. See "Note 3. Earnings (Loss) Per Share" for further discussion.

Related Party Transactions

A related party is generally defined as (i) any person who holds 10% or more of the Company's securities and their immediate families, (ii) the Company's management, (iii) someone who directly or indirectly controls, is controlled by or is under common control with the Company, or (iv) anyone who can significantly influence the financial and operating decisions of the Company. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. (See "Note 7. Related Party Transactions").

Recent and Adopted Accounting Pronouncements

The Company reviews new accounting standards as issued. Although some of these accounting standards issued or effective after the end of our previous fiscal year may be applicable to us, the Company expects that none of the new standards will have a significant impact on our financial statements.

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Note 3. Earnings (Loss) Per Share (EPS)

Basic EPS is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS is computed by dividing net income attributable to common stockholders by the weighted average number of common and potential common shares outstanding during the period, which includes the additional dilution related to conversion of stock options and common stock purchase warrants as computed under the treasury stock method.

For the three and nine month periods ended September 30, 2010 and 2009, potential gross common shares (arising from common stock purchase warrants and stock options) of 12.9 million and 13.1 million, respectively, were anti-dilutive and not included in computing diluted EPS.

| | Three -months ended September 30, 2010 | | Nine-months ended September 30, 2009 | |
|--|--|-------------|--|-------------|
| Numerator - net income | \$995,813 | \$1,375,097 | \$851,463 | \$2,036,902 |
| Denominator - weighted average number of common shares outstanding | 63,075,122 | 63,075,122 | 63,075,122 | 63,075,122 |
| Basic and diluted income per common share | \$0.02 | \$0.02 | \$0.01 | \$0.03 |

Note 4. Oil and Gas Properties

As of September 30, 2010, the Company owned non-operating, working interests in five wells in one geographic area as follows:

| | Acquisition Date | Working Interest | Interest Net Revenue | Month Production Started | Acreage | Formation |
|----------------------|---------------------|---------------------|-------------------------|--------------------------------|---------|---------------------|
| Proven Properties: | | | | | | |
| Cooke #6 | 9/1/2008 | 21.75 % | 16.3125 % | Dec-07 | 40 | Escondido Austin |
| Onnie Ray #1 | 9/12/2008 | 20.00 % | 15.00 % | Oct-08 | 80 | Chalk Austin |
| Stahl #1 | 9/12/2008 | 20.00 % | 15.00 % | Oct-08 | 20 | Chalk Austin |
| Pearce #1 | 10/31/2008 | 20.00 % | 15.00 % | Dec-08 | 360 | Chalk Austin |
| Unproven Properties: | | | | | | |
| Haile #1 | 9/12/2008 | 20.00 % | 15.00 % | - | 100 | Chalk Austin |

Costs incurred for oil and gas property properties are summarized as follows as of September 30, 2010:

| | Proven | Unproven | Total |
|-------------------|------------|-----------|------------|
| Acquisition costs | \$ 218,528 | \$ 17,476 | \$ 236,004 |
| Exploration costs | 31,069 | 85,611 | 116,680 |

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| | | | |
|---|-----------|-----------|-----------|
| Development costs | 181,712 | - | 181,712 |
| | 431,309 | 103,087 | 534,396 |
| Accumulated depreciation, depletion, amortization and impairment | (384,484) | (97,850) | (482,334) |
| Oil and gas properties, net | \$ 46,825 | \$ 5,237 | \$ 52,062 |

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The Company amortizes all capitalized costs of oil and gas properties on the unit-of-production method using proved reserves. The Company has not obtained reserve studies with estimated proved reserves. Management is assessing production data to determine the feasibility of obtaining reserves studies. Therefore for the nine month periods ended September 30, 2010 and 2009, there were no capitalized costs subject to amortization.

Unproven properties costs as of September 30, 2010 are associated with a development oil well which was completed in August 2009 and did not produce. Management has considered the well impaired to the extent of anticipated salvage value of the equipment.

Properties which are not being amortized are assessed quarterly, on a property-by-property basis, to determine whether they are recorded at the lower of cost or fair market value. As a result of this analysis and lack of proved reserves, the Company recorded an impairment loss of \$6,863 (2009: \$87,304) and \$19,621 (2009: \$332,725) for the three and nine-months ended September 30, 2010, respectively. The impairment is similar to amortization and therefore is not added to the cost of properties being amortized. Depreciation amounted to \$5,250 and \$nil for the three month periods ended September 30, 2010 and 2009, respectively. Depreciation amounted to \$33,375 and \$nil for the nine month periods ended September 30, 2010 and 2009, respectively.

Asset Retirement Obligation

The following table summarizes the activity for the Company's asset retirement obligations for the nine-months ended September 30, 2010 and 2009:

| | 2010 | 2009 |
|---|-----------|------|
| Asset retirement obligations, beginning of period | \$ 50,000 | \$ - |
| Accretion expense | 1,906 | - |
| Liabilities incurred | - | - |
| Change in estimated obligations | - | - |
| Asset retirement obligations, end of period | 51,906 | - |
| Less: current portion | (10,000) | - |
| Long-term asset retirement obligations, end of period | \$ 41,906 | \$ - |

The carrying value of asset retirement obligations were measured using Level 3 inputs, as defined in the fair value hierarchy.

Note 5. Stockholders' Equity

On July 28, 2008, the Company completed a self-directed private placement of 6,450,000 units at a price of \$0.50 per unit or \$3,225,000 in the aggregate. Each unit consists of one share of the Company's common stock, one Series A stock purchase warrant ("Series A warrant") to purchase one share of common stock at \$0.60 per share for a period of 18 months from the date of issuance and one Series B stock purchase warrant ("Series B warrant") to purchase one share of common stock at \$0.75 per share for a period of 24 months from the date of issuance (refer to the "Warrants" section below for a discussion of the extension of the expiration date of the warrants).

In connection with the private placement, the Company issued an aggregate of 50,000 units in payment of legal fees in the amount of \$25,000. These units were otherwise issued on the same terms and conditions as the units sold in the private placement.

Pursuant to the Subscription Agreement and the Registration Rights Agreement relating to the private placement, the Company and the investor parties made other covenants and representations and warranties regarding matters that are customarily included in financings of this nature. In the event that during the period when the warrants are outstanding, if the Company issues common stock or common stock equivalents at a price per share which is less than the warrant exercise price, \$0.60 per share for Series A warrants and \$0.75 per share for Series B warrants, then the exercise price for the warrants shall be reduced to equal the share price of the new issuance and the number of warrant shares issuable shall be increased such that the aggregate exercise price payable shall be equal to the aggregate exercise price prior to such adjustment according to the Securities Purchase Agreement (the "Dilutive Issuance").

Warrants

Each of the Company's warrants outstanding entitles the holder to purchase one share of the Company's common stock for each warrant share held. No warrants were exercised during the nine month periods ended September 30, 2010 and 2009.

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On December 14, 2009, the Company extended the expiration date of the 6,450,000 Series A warrants from January 28, 2010 to July 28, 2010 and extended the expiration date of the 6,450,000 Series B warrants from July 28, 2010 to January 28, 2011. The exercise price of the warrants remains unchanged at \$0.60 and \$0.75 for the Series A and Series B warrants, respectively.

On January 27, 2010, the Company extended the expiration date of 6,450,000 Series A warrants again from July 28, 2010 to January 28, 2011 and extended the expiration date of the 6,450,000 Series B warrants again from January 28, 2011 to July 28, 2011. The exercise price of the warrants remains unchanged at \$0.60 per share and \$0.75 per share for the Series A and Series B warrants, respectively.

The potential impact of a Dilutive Issuance to the warrants' exercise price and number of underlying shares of common stock may result in a settlement amount that does not equal the difference between the fair value of a fixed number of the Company's common stock and a fixed exercise price. Accordingly, the warrants are not considered indexed to the Company's own stock and, therefore, are accounted for as a derivative pursuant to ASC 815-40 Contracts in an Entity's Own Equity which became effective January 1, 2009. Upon the adoption of this guidance, the Company recognized a one-time decrease to opening accumulated deficit of \$1,624,513.

As of September 30, 2010, the Company has not sold any shares of common stock or common stock equivalents that would result in an adjustment to the exercise price or number of shares of common stock underlying the warrants outstanding. Additionally, the Company does not intend to sell any shares of common stock or common stock equivalents at a price that is below the exercise price of the warrants, prior to their expiration dates, which would result in an adjustment to the exercise price or number of shares of common stock underlying the warrants. Since the Company determined that the future probability of a Dilutive Issuance is deemed unlikely, it did not have a material impact on the fair value estimate of the warrant liability at September 30, 2010 as it relates to the Series A or Series B Warrants.

At September 30, 2010, the Company valued the warrant liability using a Black-Scholes model (Level 3 inputs) containing the following assumptions:

| | Series A Warrants | Series B Warrants |
|---|----------------------|----------------------|
| Warrants outstanding and exercisable at September 30, 2010 | 6,450,000 | 6,450,000 |
| Exercise price | \$0.60 | \$0.75 |
| Black-Scholes option pricing model assumptions: | | |
| Risk-free interest rate | 0.16% | 0.23% |
| Expected term (in years) | 0.33 | 0.83 |
| Expected volatility | 82.20% | 127.82% |
| Dividend per share | \$0 | \$0 |
| Expiration date | January 28, 2011 | July 28, 2011 |

The following table is a roll forward of the fair value of the warrant liability related to the common stock warrants using the Black-Scholes assumptions as of September 30, 2010 (Level 3 inputs):

| | Series A Warrants | Series B Warrants | Total |
|---------------------------------|----------------------|----------------------|--------------|
| Balance as of December 31, 2009 | \$ 309,215 | \$ 1,059,205 | \$ 1,368,420 |

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| | | | |
|----------------------------------|------------|-------------|--------------|
| Change in fair value | 1,062,779 | 860,145 | 1,922,924 |
| Balance as of March 31, 2010 | 1,371,994 | 1,919,350 | 3,291,344 |
| Change in fair value | (618,272) | (1,320,252) | (1,938,524) |
| Balance as of June 30, 2010 | \$ 753,722 | \$ 599,098 | \$ 1,352,820 |
| Change in fair value | (739,694) | (328,350) | (1,068,044) |
| Balance as of September 30, 2010 | \$ 14,028 | \$ 270,748 | \$ 284,776 |

As a result of adjusting the warrant liability to fair value, the Company recorded a non-cash gain of \$295,187 and a non-cash gain of \$788,457 relating to the Series A and Series B Warrants, respectively, for the nine month period ended September 30, 2010.

A total of 12,900,000 shares of the Company's common stock have been reserved for issuance upon exercise of Series A and Series B warrants outstanding as of September 30, 2010.

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Note 6. Stock Options

The Company has an active stock option plan that provides shares available for option grants to employees, directors and others. A total of 120,000,000 shares of the Company's common stock have been reserved for award under the stock option plan, of which 120,000,000 were available for future issuance as of September 30, 2010. Options granted under the Company's option plan generally vest over five years or as otherwise determined by the Board of Directors, have exercise prices equal to the fair market value of the common stock on the date of grant, and expire no later than ten years after the date of grant.

During the nine month periods ended September 30, 2010 and 2009, the Company did not grant any stock options awards.

On August 27, 2010, Mr. Derek Cooper resigned from the positions of President, Chief Executive Officer, Chief Financial Officer and Director of the Company. At the time of his separation, certain of Mr. Cooper's outstanding stock options were fully vested and exercisable. The unvested stock options were immediately cancelled and the stock compensation expense of \$16,710 that the Company had recognized in relation to these unvested options was reversed to general and administrative expenses during the period ended September 30, 2010.

On August 26, 2010, Messrs. Jeet Sidhu and Christian Hudson resigned as members of the Board of Directors. At the time of their separation, certain of their outstanding stock options were fully vested and exercisable. The unvested stock options were immediately cancelled and the stock compensation expense of \$33,419 that the Company had recognized in relation to these unvested options was reversed to general and administrative expenses during the period ended September 30, 2010.

During the three and nine-months ended September 30, 2010, stock-based compensation expense totaled (\$50,129) and (\$36,138), respectively.

During the three and nine-months ended September 30, 2009, stock-based compensation expense totaled \$11,465 and \$37,047, respectively.

As of September 30, 2010, the Company had no unrecognized compensation cost related to unvested stock options.

The Company does not repurchase shares to fulfill the requirements of options that are exercised. Further, the Company issue new shares when options are exercised.

Note 7. Related Party Transactions

Executive Management

The Company incurred \$5,000 (2009: \$7,500) and \$20,000 (2009: \$22,500) in fees paid to Mr. Cooper for the three and nine-months ended September 30, 2010, respectively. At the time of his separation, certain of Mr. Cooper's outstanding stock options were fully vested and exercisable. The unvested stock options were immediately cancelled and the stock compensation expense of \$16,710 that the Company had recognized in relation to these unvested options was reversed to general and administrative expenses during the period ended September 30, 2010. For the three and nine-months ended September 30, 2010, the Company incurred (\$16,710) and \$(12,047), respectively, as stock compensation expense related to options granted to Mr. Cooper.

Immediately upon Mr. Cooper's resignation, the Company appointed Mr. Antonino Cacace to the Board of Directors and the positions of President, Chief Executive Officer and Chief Financial Officer. The Company has agreed to pay

Mr. Cacace a monthly management fee of \$3,000 for his services. For the three and nine month periods ended September 30, 2010, the Company incurred \$6,000 in management fees paid to Mr. Cacace.

Director Fees

On August 26, 2010, Messrs. Jeet Sidhu and Christian Hudson resigned as members of the Board of Directors. The Company incurred nil (2009: \$6,000) and nil (2009: \$18,435), in board fees for these non-employee directors for the three and nine-months ended September 30, 2010, respectively. At the time of their separation, certain of their outstanding stock options were fully vested and exercisable. The unvested stock options were immediately cancelled and the stock compensation expense of \$33,419 that the Company had recognized in relation to these unvested options was reversed to general and administrative expenses during the period ended September 30, 2010. For the three and nine-months ended September 30, 2010, the Company recorded (\$33,419) and (\$24,091), respectively, as stock compensation expense related to options granted to these non-employee directors. For the three and nine-months ended September 30, 2009, the Company recorded \$7,601 and \$24,887, respectively, as stock compensation expense related to options granted to these non-employee directors (refer to "Note 6. Stock Options").

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In order to fill the vacancies created by the resignations of Messrs. Jeet Sidhu and Christian Hudson, the Company appointed Messrs. David Jenkins and Joseph Sierchio to the Board of Directors. The Company has agreed to pay Messrs. Jenkins and Sierchio a monthly fee of \$2,000 each for their services. For the three and nine-months ended September 30, 2010, the Company has incurred \$8,000 in management fees paid to Messrs. Jenkins and Sierchio.

Legal Fees

Legal fees expensed for the three and nine-months ended September 30, 2010 totaled \$12,385 (2009: \$15,910) and \$22,793 (2009: \$38,025), respectively, were paid or are due to our attorney, Mr. Sierchio, who was appointed to our board effective August 26, 2010.

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

Forward-Looking Statements

Except for the historical information presented in this document, the matters discussed in this Form 10-Q for the nine-months ended September 30, 2010, and specifically in the items entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," or otherwise incorporated by reference into this document, contain "forward-looking statements" (as such term is defined in the Private Securities Litigation Reform Act of 1995). These statements are identified by the use of forward-looking terminology such as "believes," "plans," "intend," "scheduled," "potential," "continue," "estimates," "hopes," "goal," "objective," "expects," "may," "will," "should," or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties.

The safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, apply to forward-looking statements made by the Company. The reader is cautioned that no statements contained in this Form 10-Q should be construed as a guarantee or assurance of future performance or results. These forward-looking statements involve risks and uncertainties, including those identified within this Form 10-Q. The actual results that the Company achieves may differ materially from any forward-looking statements due to such risks and uncertainties. These forward-looking statements are based on current expectations, and the Company assumes no obligation to update this information. Readers are urged to carefully review and consider the various disclosures made by the Company in this Form 10-Q and in the Company's other reports filed with the Securities and Exchange Commission that attempt to advise interested parties of the risks and factors that may affect the Company's business.

Overview

Incorporated under the laws of the State of Nevada, we have an authorized capital of 200,000,000 shares of \$0.00001 par value common stock, of which 63,075,122 shares are outstanding and 10,000,000 shares of \$0.0001 par value preferred stock, of which none are outstanding.

Our principal executive offices are located at 430 Park Avenue, Suite 702, New York, NY, 10022. Our telephone number is 800-755-5815.

Description of Business

We are a small independent energy company engaged in the acquisition and development of crude oil and natural gas interests in the United States. We pursue oil and gas prospects in partnership with oil and gas companies with exploration, development and production expertise. We currently have interests in producing properties in La Salle County, Fayette County, Lee County and Frio County, Texas.

The leases for these properties are maintained and operated by our partners Leexus Oil LLC and Bayshore Exploration LLC; there are no obligations to further explore or develop lands in the lease areas to maintain the leases. The operators of the leases are not affiliated with the Company or any of its directors or major shareholders. We are not aware of any relationships or affiliations between or among any of our leasehold partners and the lease operators.

Management Changes

On August 26, 2010, Messrs. Jeet Sidhu and Christian Hudson resigned as members of the Board of Directors. In order to fill the vacancies created by their resignations, we appointed Messrs. David Jenkins and Joseph Sierchio to

the Board of Directors. We have agreed to pay Messrs. Jenkins and Sierchio a monthly fee of \$2,000 each for their services.

On August 27, 2010, Mr. Derek Cooper resigned from the positions of President, Chief Executive Officer, Chief Financial Officer and Director of the Company. Immediately upon Mr. Cooper's resignation, we appointed Mr. Antonino Cacace, to the Board of Directors and to the positions of President, Chief Executive Officer and Chief Financial Officer. We have agreed to pay Mr. Cacace a monthly management fee of \$3,000 for his services.

The resignation of each Messrs. Cooper, Hudson and Sidhu was not the result of a disagreement with the Company on any matter relating to the Company's operations, policies or practices.

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Oil and Gas Properties

The following table sets forth a summary of our current oil and gas interests:

| | Acquisition Date | Working | Interest % | Net Revenue | Month Production Started | Acreage | Formation |
|-----------------------------|---------------------|---------|---------------|-------------|--------------------------------|---------|-----------------|
| Proven Properties: | | | | | | | |
| Cooke #6 | 9/1/2008 | 21.75 | % | 16.3125 | % Dec-07 | 40 | Escondido |
| Onnie Ray #1 | 9/12/2008 | 20.00 | % | 15.00 | % Oct-08 | 80 | Austin Chalk |
| Stahl #1 | 9/12/2008 | 20.00 | % | 15.00 | % Oct-08 | 20 | Austin Chalk |
| Pearce #1 | 10/31/2008 | 20.00 | % | 15.00 | % Dec-08 | 360 | Austin Chalk |
| Unproven Properties: | | | | | | | |
| Haile #1 | 9/12/2008 | 20.00 | % | 15.00 | % - | 100 | Austin Chalk |

We utilize the full cost method of accounting for our oil and gas activities. In accordance with the full cost method of accounting, all costs associated with acquisition, exploration, and development of oil and gas reserves, including directly related overhead costs and related asset retirement costs, are capitalized. Net capitalized costs associated with oil and gas properties as of September 30, 2010 and December 31, 2009 are summarized as follows:

| | Cost Incurred for Oil & Gas Properties | | | |
|--|--|------------|-------------|----------|
| | 9/30/2010 | 12/31/2009 | \$ Change | % Change |
| Proven | | | | |
| Acquisition costs | \$218,528 | \$218,528 | \$- | 0 % |
| Exploration costs | 31,069 | 25,260 | 5,809 | 23 % |
| Development costs | 181,712 | 180,403 | 1,309 | 1 % |
| | 431,309 | 424,191 | 7,118 | 2 % |
| Unproven | | | | |
| Acquisition costs | 17,476 | 16,071 | 1,405 | 9 % |
| Exploration costs | 85,611 | 85,611 | - | 0 % |
| | 103,087 | 101,682 | 1,405 | 1 % |
| Accumulated depreciation, depletion, amortization and impairment | (482,334) | (429,338) | (52,996) | 12 % |
| Oil and gas properties, net | \$52,062 | \$96,535 | \$(44,473) | (46 %) |

Capital expenditures totaled \$8,523 for the nine-months ended September 30, 2010 representing \$7,118 to correct a tubing puncture in the Onnie Ray #1 well and \$1,405 in lease royalty payments. An authorization for expenditure totaling \$7,500 was submitted to us by the well operator in January 2010 and the workover was completed in March 2010. Since completion of the workover, production has increased but the well is still producing below last year's levels as the well continues to age. Depreciation, depletion, amortization and impairment totaled by \$12,113 and \$52,996 for the three and nine-months ended September 30, 2010, respectively, and was determined using a systematic and rational method.

We recorded an impairment loss (included in depreciation, depletion, amortization and impairment) of \$6,863 and \$19,621 for the three and nine-months ended September 30, 2010.

At the time of acquisition, the unproven property, Haile #1, was being recompleted to a zone that was previously productive. Once the recompletion efforts were final and the well did not support production, an exploratory drilling program was started in early 2009 to complete a new unproven upper zone. The new upper zone completion also resulted in no oil or gas production and the well was shut-in during August 2009. In accordance with our accounting policies, we assessed this well, at December 31, 2009, to determine whether the well was recorded at the lower of cost or fair market value. Upon completion of our assessment, we impaired the well to the extent of anticipated salvage value of the equipment and recorded an asset retirement obligation to accrue for estimated closure costs.

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Critical Accounting Policies

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Management's judgments and estimates in these areas are based on information available from both internal and external sources, including engineers, geologists, consultants and historical experience in similar matters. The more significant reporting areas impacted by management's judgments and estimates are warrant derivative liabilities; accruals related to oil and gas sales and expenses; estimates used in the impairment of oil and gas properties; and the estimated future timing and cost of asset retirement obligations.

Actual results could differ from the estimates as additional information becomes known. The carrying values of oil and gas properties are particularly susceptible to change in the near term. Changes in the future estimated oil and gas reserves or the estimated future cash flows attributable to the reserves that are utilized for impairment analysis could have a significant impact on the future results of operations.

Full Cost Method of Accounting for Oil and Gas Properties

The Company has elected to utilize the full cost method of accounting for its oil and gas activities. In accordance with the full cost method of accounting, all costs associated with acquisition, exploration, and development of oil and gas reserves, including directly related overhead costs and related asset retirement costs, are capitalized.

All capitalized costs of oil and gas properties, including the estimated future costs to develop proved reserves, are amortized on the unit-of-production method using estimates of proved reserves once proved reserves are determined to exist. The Company has not yet obtained reserve reports. Management is assessing production data to determine the feasibility of obtaining reserves studies. At September 30, 2010, there were no capitalized costs subject to amortization.

Oil and gas properties without estimated proved reserves are not amortized until proved reserves associated with the properties can be determined or until impairment occurs. The cost of these properties is assessed quarterly, on a property-by-property basis, to determine whether the properties are recorded at the lower of cost or fair market value. In determining whether such costs should be impaired, the Company evaluates historical experience, current drilling results, lease expiration dates, current oil and gas industry conditions, international economic conditions, capital availability, and available geological and geophysical information.

Sales of oil and gas properties are accounted for as adjustments of capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil and gas, in which case the gain or loss is recognized in income. The Company has not sold any oil and gas properties.

Full Cost Ceiling Test

At the end of each quarterly reporting period, the unamortized costs of oil and gas properties are subject to a "ceiling test" which basically limits capitalized costs to the sum of the estimated future net revenues from proved reserves, discounted at 10% per annum to present value, based on current economic and operating conditions, adjusted for related income tax effects.

Oil and Gas Revenues

The Company recognizes oil and gas revenues when oil and gas production is sold to a purchaser at a fixed or determinable price, when delivery has occurred and title has transferred, and if collectability of the revenue is probable. Delivery occurs and title is transferred when production has been delivered to a purchaser's pipeline or truck. As a result of the numerous requirements necessary to gather information from purchasers or various measurement locations, calculate volumes produced, perform field and wellhead allocations, distribute and disburse funds to various working interest partners and royalty owners, the collection of revenues from oil and gas production may take up to 45 days following the month of production. Therefore, the Company may make accruals for revenues and accounts receivable based on estimates of its share of production. Since the settlement process may take 30 to 60 days following the month of actual production, its financial results may include estimates of production and revenues for the related time period. The Company will record any differences between the actual amounts ultimately received and the original estimates in the period they become finalized.

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Asset Retirement Obligation

The Company accounts for its future asset retirement obligations by recording the fair value of the liability during the period in which it was incurred. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The increase in carrying value of a property associated with the capitalization of an asset retirement obligation is included in proven oil and gas properties in the balance sheets. The Company's asset retirement obligation consists of costs related to the plugging of wells, removal of facilities and equipment and site restoration on its oil and gas properties. The asset retirement obligation is allocated to operating expense using a systematic and rational method considering the estimated remaining life of the well.

Inventory

The Company records crude oil inventories at cost using the first-in, first-out (FIFO) method of accounting. The Company's inventory consisted of crude oil only totaling \$2,507 and nil at September 30, 2010, and December 31, 2009, respectively.

Fair Value

The Company measure fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The Company utilizes a three-tier hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1. Valuations based on quoted prices in active markets for identical assets or liabilities that an entity has the ability to access. The Company has no assets or liabilities valued with Level 1 inputs.

Level 2. Valuations based on quoted prices for similar assets or liabilities, quoted prices for identical assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities. The Company has no assets or liabilities valued with Level 2 inputs.

Level 3. Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Liabilities valued with Level 3 inputs are described in "Note 5. Stockholders' Equity" and "Note 4. Oil and Gas Properties."

Recent and Adopted Accounting Pronouncements

The Company reviews new accounting standards as issued. Although some of these accounting standards issued or effective after the end of our previous fiscal year may be applicable to us, the Company expects that none of the new standards will have a significant impact on our financial statements.

Variables and Trends

We have very limited history with respect to our acquisition and development of oil and gas properties. In the event we are able to obtain the necessary financing to move forward with our growth plans, we expect our expenses to increase significantly as we grow our business. Accordingly, the comparison of the financial data for the periods presented may not be a meaningful indicator of our future performance and must be considered in light of these circumstances.

GLOSSARY OF CERTAIN OIL AND GAS TERMS

The following is a description of the meanings of some of the natural gas and oil industry terms used in this filing:

“Bbl” means a barrel or barrels of oil.

“BOE” means barrels of oil equivalent.

“Btu” means British thermal unit, which means the quantity of heat required to raise the temperature of one pound of water by one degree Fahrenheit.

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“Completion” means the installation of permanent equipment for the production of natural gas or oil.

“Condensate” means hydrocarbons naturally occurring in the gaseous phase in a reservoir that condense to become a liquid at the surface due to the change in pressure and temperature.

“Crude” means unrefined liquid petroleum.

“Gross acres” or “gross wells” refer to the total acres or wells, as the case may be, in which a working interest is owned.

“Mcf” means thousand cubic feet of natural gas. The Company has assumed that 1Mcf = 1 MMBtu for our calculations.

“MMBtu” means one million Btus.

“Operator” refers to the individual or company responsible for the exploration, development and production of an oil or gas well or lease.

“Proved developed oil and gas reserves” refers to reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery should be included as “proved developed reserves” only after testing by a pilot project or after the operation of an installed program has confirmed through production responses that increased recovery will be achieved.

“Proved oil and gas reserves” means the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Reservoirs are considered proved if economic producibility is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes (a) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any, and (b) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir. Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the “proved” classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based. Estimates of proved reserves do not include the following: (a) oil that may become available from known reservoirs but is classified separately as “indicated additional reserves”; (b) crude oil, natural gas and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics or economic factors; (c) crude oil, natural gas and natural gas liquids that may occur in undrilled prospects; and (d) crude oil, natural gas and natural gas liquids that may be recovered from oil shales, coal, gilsonite and other such sources.

“Proven properties” refers to properties containing proved reserves.

“Proved undeveloped reserves” refers to reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Proved undeveloped reserves may not include estimates attributable to any acreage for which an application of fluid injection or other improved recovery

technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

“Recompletion” means, after the initial completion of the well, the actions and techniques of re-entering the well and redoing or repairing the original completion in order to restore the well's productivity.

“Shut-in” means a well which is capable of producing but is not presently producing.

“Unproven properties” refers to properties containing no proved reserves.

“Working interest” refers to the operating interest that gives the owner the right to drill, produce and conduct operating activities on the property and receive a share of production.

“Workover” means operations on a producing well to restore or increase production.

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Results of Operations

The following table sets forth certain unaudited operating information with respect to the Company's oil and gas operations for the periods indicated:

| | For the three-months ended | | | |
|---|----------------------------|--------------|---------------|----------|
| | 9/30/2010 | 9/30/2009 | change | % change |
| Production: | | | | |
| Oil (Bbls) | 54.4 | 134.4 | (80.0) | (60 %) |
| Gas (Mcf) | 339.7 | 366.1 | (26.4) | (7 %) |
| Total production (BOE) | 111.0 | 195.4 | (84.4) | (43 %) |
| Average daily production (BOE) | 1.2 | 2.1 | (0.9) | (43 %) |
| % oil of production | 49 % | 69 % | (20 %) | (29 %) |
| Average sales price: | | | | |
| Oil (per Bbl) | \$ 67.66 | \$ 47.67 | \$ 19.99 | 42 % |
| Gas (per Mcf) | \$ 7.27 | \$ 6.49 | \$ 0.78 | 12 % |
| Total (per BOE) | \$ 55.41 | \$ 44.95 | \$ 10.46 | 23 % |
| Oil and gas revenues: | | | | |
| Oil revenue | \$ 3,679 | \$ 6,407 | \$ (2,728) | (43 %) |
| Gas revenue | \$ 2,471 | \$ 2,376 | \$ 95 | 4 % |
| Total | \$ 6,150 | \$ 8,783 | \$ (2,633) | (30 %) |
| Lease operating expenses | \$ 4,247 | \$ 10,296 | \$ (6,049) | (59 %) |
| Additional per BOE data: | | | | |
| Sales price | \$ 55.41 | \$ 44.94 | \$ 10.47 | 23 % |
| Lease operating expenses | \$ 38.26 | \$ 52.69 | \$ (14.43) | (27 %) |
| Operating Margin per BOE | \$ 17.15 | \$ (7.74) | \$ 24.89 | (321 %) |
| Impairment and DDA | \$ 12,113 | \$ 87,304 | \$ (75,191) | (86 %) |
| General and administrative: | | | | |
| Management fees | \$ (31,129) | \$ 24,965 | \$ (56,094) | (225 %) |
| Accounting & legal | \$ 53,946 | \$ 44,361 | \$ 9,585 | 22 % |
| Office, travel and investor relations | \$ 39,204 | \$ 15,154 | \$ 24,050 | 159 % |
| Total | \$ 62,021 | \$ 84,480 | \$ (22,459) | (27 %) |
| Change in fair value of warrant liability | \$ 1,068,044 | \$ 1,548,394 | \$ (480,350) | (31 %) |

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The following table sets forth certain unaudited operating information with respect to the Company's oil and gas operations for the periods indicated:

| | For the nine-months ended | | | |
|---|---------------------------|-------------|---------------|----------|
| | 9/30/2010 | 9/30/2009 | change | % change |
| Production: | | | | |
| Oil (Bbls) | 310.8 | 647.1 | (336.3) | (52 %) |
| Gas (Mcf) | 1,013.8 | 1,654.1 | (640.3) | (39 %) |
| Total production (BOE) | 479.7 | 922.8 | (443.1) | (48 %) |
| Average daily production (BOE) | 1.8 | 3.4 | (1.6) | (48 %) |
| % oil of production | 65 % | 70 % | (5 %) | (8 %) |
| Average sales price: | | | | |
| Oil (per Bbl) | \$72.47 | \$44.79 | \$27.68 | 62 % |
| Gas (per Mcf) | \$7.61 | \$5.09 | \$2.52 | 50 % |
| Total (per BOE) | \$63.03 | \$40.54 | \$22.49 | 55 % |
| Oil and gas revenues: | | | | |
| Oil revenue | \$22,519 | \$28,988 | \$(6,469) | (22 %) |
| Gas revenue | \$7,718 | \$8,421 | \$(703) | (8 %) |
| Total | \$30,237 | \$37,409 | \$(7,172) | (19 %) |
| Lease operating expenses | \$15,886 | \$35,374 | \$(19,488) | (55 %) |
| Additional per BOE data: | | | | |
| Sales price | \$63.03 | \$40.54 | \$22.49 | 55 % |
| Lease operating expenses | \$33.11 | \$38.33 | \$(5.22) | (14 %) |
| Operating Margin per BOE | \$29.91 | \$2.21 | \$27.7 | 1253 % |
| Impairment and DDA | \$52,996 | \$332,725 | \$(279,729) | (84 %) |
| General and administrative: | | | | |
| Management fees | \$(2,139) | \$77,983 | \$(80,122) | (103 %) |
| Accounting & legal | \$127,024 | \$134,359 | \$(7,335) | (5 %) |
| Office, travel and investor relations | \$68,651 | \$23,199 | \$45,452 | 196 % |
| Total | \$193,536 | \$235,541 | \$(42,005) | (18 %) |
| Change in fair value of warrant liability | \$1,083,644 | \$2,603,133 | \$(1,519,489) | (58 %) |

Total Revenue

Total oil and gas revenues decreased 30% from \$8,783 to \$6,150 comparatively for the three-month ended September 30, 2009 to 2010 due to a decline in production from the natural decline in the reservoirs. Average daily production on an equivalent basis for the three-months ended September 30, 2010 was 1.2 BOE compared to 2.1 BOE for the same period in 2009 which represents a decrease of 43%. For the first time in our history, oil does not represent the majority of our revenue mix at 49% for the three-months ended September 30, 2010 compared to 69% for the same period in 2009. The relative decline in oil compared to gas production is due to the natural decline in the reservoirs.

Oil Revenue

Oil production for the three-months ended September 30, 2010 and 2009 was 54.4 and 134.4 barrels, respectively, and generated revenue of \$3,679 and \$6,407, respectively, for an average price per barrel of \$67.66 and \$47.67. The 60% decrease in production was offset by the 42% increase in price per barrel.

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Oil production for the nine-months ended September 30, 2010 and 2009 was 310.8 and 647.1 barrels, respectively, and generated revenue of \$22,519 and \$28,988, respectively, for an average price per barrel of \$72.47 and \$44.79, respectively. The 52% decrease in production was offset by the 62% increase in price per barrel.

Gas Revenue

Gas production for the three-months ended September 30, 2010 and 2009 was 339.7 and 366.1 Mcf, respectively, and generated revenue of \$2,471 and \$2,376, respectively, for an average price per Mcf of \$7.27 and \$6.49, respectively. The 7% decrease in production was offset by a 12% increase in price per Mcf. We continue to receiving premium pricing on gas production due to high quality, or high Btu, gas.

Gas production for the nine-months ended September 30, 2010 and 2009 was 1,013.8 and 1,654.1 Mcf, respectively, and generated revenue of \$7,718 and \$8,421, respectively, for an average price per of \$7.61 and \$5.09 per Mcf, respectively. The decrease in production is due to the natural decline in reservoirs. The 39% decrease in production was offset by the 50% increase in price per Mcf.

Lease Operating Expenses

Lease operating expenses for the three-months ended September 30, 2010 decreased 59% or \$6,049 to \$4,247 from \$10,296 for the same period in 2009. This decrease is attributable primarily to reduced maintenance costs; increased operator efficiency; and lower taxes from the Texas Severance Tax Incentive. Lease operating expenses on an equivalent production basis decreased 14.43 per BOE to 38.26 from 52.69 or 27% due to lower operating expenses.

Lease operating expenses for the nine-months ended September 30, 2010 decreased 55% to \$15,886 from \$35,374 for the same period in 2009. This decrease is attributable primarily to reduced maintenance costs; increased operator efficiency; and lower taxes from the Texas Severance Tax Incentive. Lease operating expenses on an equivalent production basis decreased 5.22 per BOE to 33.11 from 38.33 or 14% due to operator efficiency as well as reduced maintenance costs.

Impairment and DDA

The impairment of oil and gas properties decreased to \$6,863 from \$87,304 comparatively for the three-month ended September 30, 2010 and 2009, respectively. We believe that our net book value approximates fair market value. Depreciation amounted to \$5,250 for the three months ended September 30, 2010.

The impairment of oil and gas properties decreased to \$19,621 from \$332,725 comparatively for the nine-months ended September 30, 2010 and 2009, respectively. We believe that our net book value approximates fair market value. Depreciation amounted to \$33,375 for the nine-months ended September 30, 2010.

Management Fees

Management fees decreased to (\$31,129) from \$24,965 comparatively for the three-months ended September 30, 2010 and 2009. The \$56,094 decrease is comprised of a \$50,129 reversal of stock compensation expense from the cancellation of stock options upon the resignation of the previous management team in August 2010, and a \$5,965 increase in management fees due to an increase in compensation fees paid to the new management team compared to the previous management team.

Management fees decreased to (\$2,139) from \$77,983 comparatively for the nine-months ended September 30, 2010 and 2009. The \$80,122 decrease is comprised of a \$73,185 decrease in stock compensation expense from the

cancellation of stock options upon the resignation of the previous management team in August 2010, and a \$6,937 decrease in management fees due to an agreement by the directors to waive payment of monthly management fees.

Upon the appointment of Mr. Antonino Cacace to the Board of Directors, and to the positions of President, Chief Executive Officer and Chief Financial Officer, we agreed to pay a monthly management fee of \$3,000 for his services. Upon the appointed Messrs. David Jenkins and Joseph Sierchio to the Board of Directors effective August 26, 2010, we agreed to pay Messrs. Jenkins and Sierchio a monthly fee of \$2,000 each for their services.

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Accounting and Legal Fees

Accounting and legal expenses increased for the three-months ended September 30, 2010 and 2009 to \$53,946 from \$44,361 respectively, representing an increase of 22%. The \$9,585 increase is due to a \$2,009 increase in external accounting fees due to timing of invoices, an \$11,128 increase in internal accounting fees due to the change in management in August 2010, offset by \$3,552 decrease in legal fees.

Accounting and legal expenses decreased for the nine-months ended September 30, 2010 and 2009 to \$127,024 from \$134,359, respectively, representing a decrease of 5%. The \$7,335 decrease is comprised of an increase in internal accounting fees of \$18,463 due to the recent change in management, which is offset by a \$10,566 decrease in external accounting fees, and a decrease in legal fees of \$15,232 primarily due to the completion of the S-1 filing.

Office, Travel and Investor Relations

Office, travel and investor relations expenses increased to \$39,204 from \$15,154 for the three-months ended September 30, 2010 compared to the same period in 2009 representing an increase of \$24,050 or 159% increase. This increase is due to an increase in travel expenses of \$21,411 and increase of \$2,639 in office, facilities fees and investor relations. These increases are due to an overall increase in activity within the Company with the change in management.

Office, travel and investor relations expenses increased to \$68,651 from \$23,199 for the nine-months ended September 30, 2010 compared to the same period in 2009 representing an increase of \$45,452 or 196% increase. This increase is due to an increase in travel expenses of \$28,366; an increase of \$5,757 in investor relations; and increase of \$11,329 in office, facilities fees and investor relations. These increases are due to an overall increase in activity within the Company with the change in management.

Change in Fair Value of Warrant Liability

During 2009, we began to account for the Series A and the Series B Warrants as derivatives. We determined that our Series A and Series B warrants contained a Dilutive Issuance provision. As a result, we reclassified a total of 12,900,000 warrants from equity to a noncurrent warrant liability and recorded a cumulative effect of change in accounting principle that reduced our accumulated deficit as of January 1, 2009 by \$1,624,513.

We measure the fair value of the warrant liability in accordance with ASC 820 Fair Value Measurement and Disclosure which emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). At the end of each reporting period, we revalue the warrant liability using a Black-Scholes model (Level 3 inputs). As a result of adjusting the warrant liability to fair value, we recorded a non-cash gain of \$739,694 and \$328,350 (total gain of \$1,068,044) relating to the Series A and Series B Warrants, respectively, for the three-months ended September 30, 2010.

As a result of adjusting the warrant liability to fair value, we recorded a non-cash gain of \$295,187 relating to the Series A Warrants, and a non-cash gain of \$788,457 relating to the Series B Warrants (total gain of \$1,083,644) for the nine-months ended September 30, 2010.

Related Party Transactions

Executive Management

On August 27, 2010, Mr. Derek Cooper resigned from the positions of President, Chief Executive Officer, Chief Financial Officer and Director of the Company. The Company incurred \$5,000 (2009: \$7,500) and \$20,000 (2009: \$22,500) in fees paid to Mr. Cooper for the three and nine-months ended September 30, 2010, respectively. At the time of his separation, certain of Mr. Cooper's outstanding stock options were fully vested and exercisable. The unvested stock options were immediately cancelled and the stock compensation expense of \$16,710 that we had recognized in relation to these unvested options was reversed to general and administrative expenses during the period ended September 30, 2010. For the three and nine-months ended September 30, 2010, we incurred (\$16,710) and \$(12,047), respectively, as stock compensation expense related to options granted to Mr. Cooper.

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Immediately upon Mr. Cooper's resignation, we appointed Mr. Antonino Cacace, to the Board of Directors and the positions of President, Chief Executive Officer and Chief Financial Officer. We agreed to pay Mr. Cacace a monthly management fee of \$3,000 for his services. For the three and nine month periods ended September 30, 2010, we incurred \$6,000 in management fees paid to Mr. Cacace.

Director Fees

On August 26, 2010, Messrs. Jeet Sidhu and Christian Hudson resigned as members of the Board of Directors. We incurred nil (2009: \$6,000) and nil (2009: \$18,435), in board fees for these non-employee directors for the three and nine-month ended September 30, 2010, respectively. At the time of their separation, certain of their outstanding stock options were fully vested and exercisable. The unvested stock options were immediately cancelled and the stock compensation expense of \$33,419 that we had recognized in relation to these unvested options was reversed to general and administrative expenses during the period ended September 30, 2010. For the three and nine-months ended September 30, 2010, we recorded (\$33,419) and (\$24,091), respectively, as stock compensation expense related to options granted to these non-employee directors.

In order to fill the vacancies created by the resignations of Messrs. Jeet Sidhu and Christian Hudson, we appointed Messrs. David Jenkins and Joseph Sierchio to the Board of Directors. We agreed to pay Messrs. Jenkins and Sierchio a monthly fee of \$2,000 each for their services. For the three and nine-month ended September 30, 2010, we incurred \$8,000 in management fees paid to Messrs. Jenkins and Sierchio.

Legal Fees

Legal fees expensed for the three and nine-months ended September 30, 2010 totaled \$12,385 (2009: \$15,910) and \$22,793 (2009: \$38,025), respectively, were paid or are due to our attorney, Mr. Sierchio, who was appointed to our board effective August 26, 2010.

Liquidity and Capital Resources

We had cash and cash equivalents of \$2,180,721 and \$2,409,770 as of September 30, 2010 and December 31, 2009, respectively. We have financed our operations from cash on hand for the nine-months ended September 30, 2010.

Net cash flows used in operating activities was (\$220,526) for the nine-months ended September 30, 2010 compared to net cash used in operating activities of (\$231,290) for the nine-months period ended September 30, 2009. Cash used for operating activities decreased primarily due to a decrease in lease operating expense.

Cash used in investing activities was (\$8,523) for the nine-months ended September 30, 2010, compared to cash used in investing activities of (\$33,245) for the nine-months ended September 30, 2009. The cash used during both nine month periods represents additions to capitalized costs of oil and gas properties.

We had no cash used or generated in financing activities for the nine month periods ended September 30, 2010 and 2009.

The accompanying financial statements have been prepared assuming we will continue as a going concern. We have incurred cumulative losses of \$3,586,538 through September 30, 2010. Additionally, we have expended a significant amount of cash to acquire working interests in oil and gas properties and operating as a public entity. We expect to continue to incur losses from business operations in the future. Management believes that our cash and cash equivalent balances, anticipated cash flows from operations and other external sources of credit will be sufficient to meet our cash requirements through December 2011 if not longer. Our prospects after December 2011 will depend in

large part on our ability to successfully raise capital from external sources to pay for planned expenditures and to fund operations.

Due to the "start up" nature of our business, we expect to incur losses as we expand. We expect to raise additional funds through private or public equity investment in order to expand the range and scope of our business operations. We will seek access to private or public equity but there is no assurance that such additional funds will be available for us to finance our operations on acceptable terms, if at all.

At this time, we have no agreements or understandings with any third party regarding any financings.

Moreover, the trading price of our shares of common stock and a downturn in the United States stock and debt markets could make it more difficult to obtain financing through the issuance of equity or debt securities. Even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses, or experience unexpected cash requirements that would force us to seek alternative financing. Further, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our shares of common stock. If additional financing is not available or is not available on acceptable terms, we will have to curtail our operations.

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Off Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk is confined to our cash equivalents and short-term investments. We invest in high-quality financial instruments; primarily money market funds, federal agency notes, and US Treasury obligations, with the effective duration of the portfolio within one year which we believe are subject to limited credit risk. We currently do not hedge interest rate exposure. Due to the short-term nature of our investments, we do not believe that we have any material exposure to interest rate risk arising from our investments.

Item 4. Controls and Procedures

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. The Company's principal executive and principal financial officers have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) were effective as of September 30, 2010.

There were no changes in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1. Legal Proceeding

None

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

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

None

Item 6. Exhibits

Exhibit Index

| Exhibit No. | Description of Exhibit |
|----------------|------------------------|
|----------------|------------------------|

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| 3.1 | Articles of incorporation (exhibit 3.1). S-8 filing dated October 3, 2003. |
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| 3.2 | Bylaws (exhibit 3.2). S-8 filing dated October 3, 2003. |
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| 10.1 | Subscription Agreement (exhibit 10.1), Series A Warrant Agreement (exhibit 10.2), Series B Warrant Agreement (exhibit 10.2), Registration Rights Agreement (exhibit 10.4) for 6,450,000 unit private placement on July 28, 2008. 8-K filing dated August 1, 2008. |
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| 10.2 | Participation Agreement dated September 9, 2008 with respect to the Stahl #1 Well located Fayette County, Texas. 8-K filing dated October 24, 2008. |
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| 10.3 | Participation Agreement dated September 9, 2008 with respect to the Onnie Ray #1 Well located Lee County, Texas. 8-K filing dated October 24, 2008. |
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| 10.4 | Participation Agreement dated September 9, 2008 with respect to the Haile #1 Well located Frio County, Texas. 8-K filing dated October 24, 2008. |
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| 10.5 | 2001 Incentive Stock Option Plan (exhibit 99.1). S-8 filing dated October 3, 2003. |
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| 14.1 | Code of Ethics. 10-K filing dated April 14, 2009. |
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31.1* Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).*

32.1* Certification by the Chief Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

*Filed here within.

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SIGNATURES

Pursuant to the requirements of Sections 13 or 15 (d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 15th day of November, 2010.

Entheos Technologies, Inc.
(Registrant)

| Date | Signature | Title |
|-------------------|--|---|
| November 15, 2010 | /s/ Antonino Cacace Antonino Cacace | President, Chief Executive Officer, Chief Financial Officer and Director |