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MAJESTIC OIL & GAS
Form 10QSB
August 16, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended: June 30, 2006

OR

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from to

MAJESTIC OIL & GAS INC.
(Name of small business issuer in its charter)

20-3955577
(I.R.S. employer identification number)

P.O Box 488 Cut Bank, Montana
(Address of principal executive offices)

59427
(Zip code)

Issuer's telephone number: 406-873-5580

SEC File Number: File No. 333-127813

Check whether the issuer: (1) filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such
shorter period that the registrant was required to file such reports), and (2)
has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common
equity, as of the latest practicable date: 6,240,000 shares of common stock
outstanding as of August 8, 2006.

Transitional Small Business Disclosure Format (check one): Yes ☐ No ☒

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PART I - Financial Information

Item 1. Financial Statements

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting and pursuant to the rules and regulations of the Securities and Exchange Commission ("Commission"). While these statements reflect all normal recurring adjustments which are, in the opinion of management, necessary for fair presentation of the results of the interim period, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the financial statements and footnotes thereto, contained in the Majestic Oil & Gas's latest registration statement filed with the Commission on Form SB-2/A.

Majestic Oil & Gas, Inc (A Development Stage Company)
Condensed Consolidated Balance Sheets

	June 30 2006 UNAUDITED -----
ASSETS	
Cash and cash equivalents	\$ 188,521
Trade receivables	4,818 -----
Total Current Assets	193,339 -----
PROPERTY AND EQUIPMENT Oil and gas properties, using the full cost method of accounting:	
Properties being amortized	192,187
Less accumulated depletion, amortization and impairment	(44,000) -----
Net Property and Equipment	148,187 -----

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Total Assets	\$ 341,526
	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts payable	\$ 7,159
Common stock, no par value-	
Authorized Shares - 100,000,000	
Issued & Outstanding: 6,240,000 shares	\$ 624,000
(Deficit) accumulated during the development stage	(289,633)

	\$ 341,526
	=====

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Majestic Oil & Gas, Inc (A Development Stage Company) Condensed Consolidated Statements of Operations

	Three Months Ended June 30, 2006 UNAUDITED	Three Months Ended June 30, 2005 UNAUDITED	Six Months Ended June 30, 2006 UNAUDITED	Six Months Ended June 30, 2005 UNAUDITED
REVENUE	\$ 9,686	\$ 28,145	\$ 27,532	\$ 5,000
EXPENSES				
Administrative staff	1,719	1,714	3,334	
Organization expenses	--	--	--	
Taxes & royalties	2,435	7,075	3,293	1,000
Well operating fees	250	1,308	500	
Legal, accounting and filing fees	4,742	75	17,572	
Consulting	--	--	--	
Engineering	--	--	--	
Travel	--	--	--	
Depletion and amortization	5,000	5,000	10,000	1,000
Transfer Agent Fees	450	450	900	
Bank Charges	--	--	--	
Field expenses	611	--	829	
Office Expenses	--	127	275	
Phone and utilities	203	178	421	
Currency exchange (gain) loss	--	--	--	
	15,409	15,926	37,124	3,000
NET INCOME (LOSS)	\$ (5,723)	12,219	\$ (9,592)	2,000

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EARNINGS PER SHARE

Net Income, basic and diluted	\$ (0.00)	\$ 0.00	\$ (0.00)	\$
	=====	=====	=====	=====
Weighted average number of shares outstanding	6,240,000	6,240,000	6,240,000	6,240,000
Diluted potential shares - stock warrants	--	--	--	--
	-----	-----	-----	-----
Adjusted weighted average shares	6,240,000	6,240,000	6,240,000	6,240,000
	=====	=====	=====	=====

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Majestic Oil & Gas, Inc (A Development Stage Company) Condensed Consolidated Statements of Stockholders' Equity

	Common Stock	
	Shares	Amount
	-----	-----
BEGINNING BALANCE, INCEPTION (APRIL 16, 2002) TO DECEMBER 31, 2003		
Common stock issued	4,205,000	\$ 420,500
Net loss	--	--
BALANCE, DECEMBER 31, 2003	4,205,000	420,500
Common stock issued	2,035,000	203,500
Net income	--	--
	-----	-----
BALANCE, DECEMBER 31, 2004	6,240,000	624,000
Common stock issued	--	--
Net income	--	--
	-----	-----
BALANCE, DECEMBER 31, 2005	6,240,000	624,000
Common stock issued	--	--
Net loss for the six months ended June 30, 2006 (UNAUDITED)	--	--
	-----	-----
BALANCE, JUNE 30, 2006	6,240,000	\$ 624,000
	=====	=====

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Majestic Oil & Gas, Inc (A Development Stage Company)
Condensed Consolidated Statements of Cash Flows

	SIX MONTHS ENDED JUNE 30, 2006 UNAUDITED	SIX MONTHS ENDED JUNE 30, 2005 UNAUDITED	
OPERATING ACTIVITIES			
Net income (loss)	\$ (9,592)	\$ 26,712	\$
Changes and credits to net income (loss) not affecting cash			
Depletion and amortization	10,000	10,000	
Organizational expenses paid with stock	--	--	
Legal fees paid with stock	--	--	
Changes in assets and liabilities			
Trade receivables	27,891	27,275	
Production taxes and royalties payable (2,510)	9,048	7,159	
Other	--	--	
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	25,789	73,035	
INVESTING ACTIVITIES			
Additions to property and equipment	--	--	
NET CASH USED FOR INVESTING ACTIVITIES	--	--	
FINANCING ACTIVITIES			
Proceeds from issuance of stock	--	--	
NET CASH USED FROM FINANCING ACTIVITIES	--	--	
NET CHANGE IN CASH AND CASH EQUIVALENTS	25,789	73,035	
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	162,732	53,663	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 188,521	\$ 126,698	\$

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Notes to Unaudited June 30, 2006 Financial Statements:

Note 1 - Business Activity and Significant Accounting Policies

Principle Business Activity

Majestic Oil & Gas, Inc. (Company) is a development stage enterprise and its operations consist of oil and natural gas development and production in the Rocky Mountain region. The financial statements and notes to the financial statements are the representation of the Company's management, who is responsible for their integrity and objectivity. The accounting policies of the Company are in accordance with generally accepted accounting principles and conform to the standards applicable to development stage enterprises. These interim financial statements include all necessary adjustments which in the opinion of management are necessary in order to make the financial statements not misleading.

Going Concern

The Company is in the development stage and has incurred losses since its inception that have resulted in an accumulated deficit. Also, management of the Company believes it will require additional financing that it has not yet secured in order to emerge from the development stage. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management intends to vigorously pursue financing either from creditors or from a future stock offering. However, such financing may not occur, or if it does occur, may not raise sufficient funds to emerge from the development stage.

Cash Equivalents

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Trade Receivables

The Company is subject to credit risk associated with the purchases of its produced natural gas. Exposure to this risk is controlled through credit approvals and monitoring procedures. Collateral is not required. The Company believes all trade receivables currently outstanding are collectible, accordingly, no allowance for doubtful accounts has been established.

Oil & Gas Properties

The Company utilizes the full cost method of accounting for oil and gas properties. Accordingly, all costs associated with the acquisition, exploration and development of oil and gas reserves (including costs of abandoned leaseholds, delay lease rentals, dry hole costs, geological and geophysical costs, certain internal costs associated directly with acquisition, drilling and well equipment inventory, exploration and development activities, estimated dismantlement and abandonment costs, site restoration and environmental exit costs, etc.) are capitalized.

All capitalized costs of oil and gas properties, net of estimated salvage values, plus the estimated future costs to develop proved reserves, are amortized on the unit-of-production method using estimates of proved reserves. Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined or until impairment occurs. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized.

In addition, the capitalized costs are subject to a "ceiling test" which basically limits such costs to the aggregate of the "estimated present value," discounted at a 10-percent interest rate, of future net revenues from proved reserves, based on current economic and operating conditions, plus the lower of cost or fair market value of unproved properties.

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Gains or losses are not recognized upon the sale or other disposition of oil and gas properties, except in extraordinary transactions.

Revenue Recognition

Revenue from the sale of oil and gas production is recognized when deliveries occur.

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Note 2 - Organization and Development of the Company

The Company was formed on April 16, 2002 as a corporation. The Company is a development stage enterprise and it is management's intention that operations will ultimately consist of oil and natural gas development and production in the Rocky Mountain region. The accompanying financial statements reflect organizational activities and limited oil and gas development and production activities and they are not necessarily indicative of what the financial statements will reflect once the intended operations of the Company are fully underway.

The Company has registered with the Securities and Exchange Commission and intends to trade its outstanding shares of stock on the OTC Bulletin Board. Approval of the Company's registration statement has occurred, but trading of its outstanding shares of stock on the OTC Bulletin Board has not yet occurred and there is no guarantee that the shares will be quoted and traded on the OTC Bulletin Board or any other public exchange.

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

Forward-Looking Statements

The following discussion and analysis is provided to increase the understanding of, and should be read in conjunction with, the Financial Statements of the Company and Notes thereto included elsewhere in this Report. Historical results and percentage relationships among any amounts in these financial statements are not necessarily indicative of trends in operating results for any future period. The statements, which are not historical facts contained in this Report, including this Plan of Operations, and Notes to the Financial Statements, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based on currently available operating, financial and competitive information, and are subject to various risks and uncertainties. Future events and the Company's actual results may differ materially from the results reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, dependence on existing and future key strategic and strategic end-user customers, limited ability to establish new strategic relationships, ability to sustain and manage growth, variability of operating results, the Company's expansion and development of new service lines, marketing and other business development initiatives, the commencement of new engagements, competition in the industry, general economic conditions, dependence on key personnel, the ability to attract, hire and retain personnel who possess the technical skills and experience necessary to meet the service requirements of its clients, the potential liability with respect to actions taken by its existing and past employees, risks associated with international sales, and other risks described herein and in the Company's other SEC filings.

The safe harbors of forward-looking statements provided by Section 21E of the Exchange Act are unavailable to issuers of penny stock. As we issued securities at a price below \$5.00 per share, our shares are considered penny stock and such safe harbors set forth under the Reform Act are unavailable to us.

The following discussion of our financial condition and results of operations should be read in conjunction with the Financial Statements and Notes to the Condensed Consolidated Financial Statements appearing elsewhere in this report.

Business Development

We were incorporated in Nevada on April 16, 2002 as M2 Group Energy Corporation and on June 21, 2004, we changed our name to Majestic Oil & Gas, Inc. We are authorized to issue 100,000,000 shares of common stock of which 6,240,000 shares are outstanding.

We, through our wholly-owned subsidiary, Grizzly Energy, Inc., own a 25% working interest in a producing gas well on a state of Montana lease located in Section 36-T29N-R5W, Pondera County, Montana (Ludwig/State #36-1). It currently has gas reserves of 95.04 million cubic feet of Proved Net Producing Reserves, which are reserves established based upon actual production. Net Reserves are gross reserves less taxes, royalties and all expenses.

Majestic Oil & Gas, Inc participated in the drilling of the Boucher 27-1 with Altamont and our 33% of the proportionate share of the drilling and completion costs were \$32,186.67. For this expenditure, we earned a 25% working interest. The Boucher 27-1 well is located in Section 27-T29N-5W, Pondera County, Montana. This well currently has gas reserves of 96.40 million cubic feet of Proved Net Producing Reserves.

Grizzly Energy acquired the 25% working interest from Altamont Oil and Gas, Inc., a Montana corporation and an affiliate of our President, Mr. Patrick Montalban, in July 2004 for 16,000 shares of Grizzly Energy common stock. Mr. Patrick Montalban owns and manages Altamont Oil and Gas, Inc. Mr. Patrick Montalban owns and manages Grizzly Energy, Inc. Thereafter in July 2004, Majestic Oil & Gas, Inc. acquired all 16,000 issued and outstanding shares of Grizzly Energy, Inc. common stock for the issuance of 1,600,000 shares of our common stock. Prior to the sale to Majestic Oil & Gas, Inc, Altamont Oil & Gas, Inc incurred an expense of \$120,000 in the acquisition of a 50% Working Interest in this well. Altamont retained the remaining 25% interest in this well.

We believe that all the terms of the transactions and agreements with related parties in connection with our business development as described above were comparable to terms we could have obtained from unaffiliated parties.

Majestic Oil & Gas, Inc is engaged in the exploration, development, acquisition and operation of gas properties. Because gas exploration and development and development requires significant capital and because our assets and resources are limited, we participate in the gas industry through the purchase of interests in either producing wells or gas exploration and development and production projects.

Majestic Oil & Gas, Inc. is a development stage company, and as such it is

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difficult for us to forecast our revenues or earnings accurately. We believe that future period-to-period comparisons of our operating results may not be meaningful and should not be relied upon as an indication of future performance as we have and will have no backlog of orders. Our operating results in one or more future quarters may fall below investor expectations which, assuming our common stock trades on a recognized market, would almost certainly cause the future trading price of our common stock to decline. You should read the following discussion together with the condensed consolidated financial statements and their accompanying notes, included elsewhere in the report.

Based upon our Management's experience in the industry and on recent events, including increasing global demand for energy and energy disruptions caused by natural disasters, we believe the trend in oil and gas prices will remain relatively stable or decrease slightly, but over the long-term are more likely to increase. We expect to continue to generate positive net income from operations in the future, although our revenue and expenses will increase as we expand our drilling and ownership activities.

RESULTS OF OPERATIONS

Three months ended June 30, 2006 vs. Three months ended June 30, 2005

	Three months ended June 30, 2006	Three months ended June 30, 2005
	-----	-----
Revenue	\$ 9,686	\$28,145
Expenses	\$ 15,409	\$15,926
Net Income (Loss)	(\$5,723)	\$12,219

Gross Revenues for 2nd Quarter 2006 of \$9,686 decreased by \$18,459 from the \$28,145 in Gross Revenues reported for the 2nd Quarter 2005. The change in the revenues between these two periods is a direct result of the decrease in the price received for our natural gas production along with a significant decrease in production volumes. This production decrease is due to the gathering system in the Lake Frances Field reaching its maximum capacity. The Operator of the Lake Frances Gathering System is currently applying for a new air quality permit for a new compressor, which will be installed in the Lake Frances Field in the Fourth Quarter of 2006. This will increase the capacity of the gathering system and should result in an increase in production from the wells in which Majestic Oil & Gas, Inc., holds an interest. Majestic Oil & Gas Operations, Inc.'s Net Share of the production volumes from the Ludwig State #36-1 and Boucher #27-1 wells for 2nd Quarter 2006 were 2,199 MCF compared to 5,029 MCF for 2nd Quarter 2005. The average price received per thousand cubic feet of natural gas during the 2nd Quarter 2006 was \$3.63 compared to the average price of \$4.58 per million cubic feet received during the 2nd Quarter 2005.

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Our expenses decreased slightly for the three months ended June 30, 2006 vs. the three months ended June 30, 2005 with a significant decrease in the expense for taxes and royalties, offset by a significant increase in legal and accounting expenses. The majority of the legal and accounting fees are a result of fees paid to EideBailly, LLP, for the auditing of our financial statements for the period ending December 31, 2005.

The Company showed a Net Loss of \$5,723 for the 2nd Quarter 2006 compared to the Net Income of \$12,219 realized during 2nd Quarter 2005. This variance is directly related to the decrease in revenues for the quarter.

Six months ended June 20, 2006 vs. Six months ended June 30, 2005

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	Six months ended June 30, 2006	Six months ended June 30, 2005
	-----	-----
Revenue	\$ 27,532	\$58,215
Expenses	\$ 37,124	\$31,503
Net Income (Loss)	(\$9,592)	\$26,712

Gross Revenues for the Six Months Ended June 30, 2006 of \$27,532 decreased by \$30,683 from the \$58,215 in Gross Revenues reported for the Six Months Ended June 30, 2005. The change in the revenues between these two periods is a direct result of the fluctuation in the price received for our natural gas production along with a significant decrease in production volumes. This production decrease is due to the gathering system in the Lake Frances Field reaching its maximum capacity. Majestic Oil & Gas Net Share of the production volumes from the Ludwig State #36-1 and Boucher #27-1 wells for the Six Months ended June 30, 2006 were 4,881 MCF compared to 10,804 MCF for the Six Months ended June 30, 2005.

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Our expenses increased slightly for the Six Months ended June 30, 2006 vs. the Six Months ended June 30, 2005 with a significant decrease in the expense for taxes and royalties, offset by a significant increase in legal and accounting expenses. The majority of the legal and accounting fees are a result of fees paid to EideBailly, LLP, for the auditing of our financial statements for the period ending December 31, 2005.

The Company showed a Net Loss of \$9,592 for the Six Months ended June 30, 2006 compared to the Net Income of \$26,712 realized during Six Months ended June 30, 2005. This variance is directly related to the decrease in revenues for the Six month period.

LIQUIDITY AND RESOURCE CAPITAL

We are a development stage company. From our inception to June 30, 2006, we incurred an accumulated deficit of \$289,633. This deficit is primarily the result of \$300,000 in expenses associated with stock issuances during fiscal year ended December 31, 2002. In addition, as of June 30, 2006, we had \$188,521 of current cash available. Our cash resources of \$188,521 are sufficient to satisfy our cash requirements over the next 12 months.

We need an additional minimum of \$1,000,000 to finance our planned expansion in the next 12 months, which funds will be used for drilling of development gas wells in the Lake Frances and Williams Fields. We hope to be able to raise additional funds from an offering of our stock in the future. However, this offering may not occur, or if it occurs, may not raise the required funding. We may also consider securing debt financing. We may not raise other equity or debt financing sufficient to fund this amount. If we don't raise or generate these funds, the implementation of our short-term business plan will be delayed or eliminated.

Our ability to continue as a going concern is dependent on our ability to raise funds to implement our planned development; however we may not be able to raise sufficient funds to do so. Our independent auditors have indicated that there is substantial doubt about our ability to continue as a going concern over the next twelve months. Our poor financial condition could inhibit our ability to achieve our business plan.

COMMITMENTS AND CONTINGENCIES

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On July 1, 2004, the Company entered into an operating agreement with Altamont Oil & Gas, Inc., through which Altamont Oil & Gas, Inc. will operate the wells in which we have acquired a working interest. Our share of monthly operating costs will be deducted from our monthly share of production revenue.

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Item 3. Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures as of June 30, 2006. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that: (i) information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure by the Company; and (ii) information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. During the quarter ended June 30, 2006, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

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

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Item 6. Exhibits

Exhibit Number, Name and/or Identification of Exhibit

1	31	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the
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Sarbanes-Oxley Act of 2002

Attached

- 2 32 Certification of the Chief Executive Officer and
Chief Executive Officer and Chief
Financial Officer pursuant to U.S.C. Section 1350 as
adopted pursuant to Section 906 of the Sarbanes-Oxley
Act of 2002

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SIGNATURES

In accordance with the Exchange Act, the registrant caused this report to be
signed on its behalf by the undersigned, thereunto duly authorized.

Majestic Oil & Gas, Inc.

Date: August 14, 2006

/s/ Patrick Montalban

Patrick Montalban
Chief Executive Officer and Chief
Financial Officer

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