

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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Black Raven Energy, Inc.

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SIC: **1382** Oil & gas field exploration services

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**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, 2011

Or

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

For the transition period from _____ to _____

Commission file number: 001-32471

BLACK RAVEN ENERGY, INC.

(Exact Name of Registrant as Specified in its Charter)

Nevada

(State or Other Jurisdiction
of Incorporation or Organization)

20-0563497

(I.R.S. Employer
Identification No.)

1331 Seventeenth Street, Suite 350

Denver, CO

(Address of Principal Executive Offices)

80202

(Zip Code)

Registrant's Telephone Number, including area code: **(303) 308-1330**

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

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

The number of shares of the registrant’s common stock outstanding as of September 30, 2011 was 17,010,531.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

Black Raven Energy, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)
(In thousands)

September 30, 2011

December 31, 2010

Assets

Current assets:			
Cash and cash equivalents	\$	4,064	\$ 948
Restricted cash (Note 3)		19,591	5,637
Accounts receivable, net		1,644	282
Derivative asset (Note 10)		466	–
Inventory		53	53
Prepaid expenses		150	260
Total current assets		<u>25,968</u>	<u>7,180</u>
Oil and gas properties accounted for under the successful efforts method of accounting:			
Proved properties		15,810	5,113
Unproved leaseholds		4,544	3,375
Wells-in-progress		157	48
Total oil and gas properties		20,511	8,536
Less: Accumulated depreciation, depletion and amortization		<u>(1,335)</u>	<u>(1,265)</u>
Net oil and gas properties		19,176	7,271
Gathering and other property and equipment		3,086	2,962
Less: Accumulated depreciation and amortization		<u>(1,046)</u>	<u>(974)</u>
Net gathering and other property and equipment		<u>2,040</u>	<u>1,988</u>
Other non-current assets:			
Derivative asset (Note 10)		657	–
Deferred financing costs		3,802	–
Restricted cash (Note 6)		450	–
Other		637	152
Total other non-current assets		<u>5,546</u>	<u>152</u>
TOTAL ASSETS	\$	<u>52,730</u>	\$ <u>16,591</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Black Raven Energy, Inc.
Condensed Consolidated Balance Sheets (Continued)
(Unaudited)
(In thousands, except share and per share amounts)

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$ 3,266	\$ 1,234
Accrued expenses and other current liabilities	1,241	656
Advances from Atlas (Note 3)	20,096	4,824
Total current liabilities	<u>24,603</u>	<u>6,714</u>
Senior secured debentures, net of discount	18,848	18,848
Senior secured notes, net of discount	18,179	–
Asset retirement obligation	863	241

Total liabilities	62,493	25,803
Commitments and Contingencies (Note 9)		
Stockholders' deficit:		
Common stock, par value \$.001; 150,000,000 authorized; 17,010,531 and 16,660,965 issued and outstanding at September 30, 2011 and December 31, 2010, respectively	17	17
Additional paid-in-capital	30,684	29,744
Accumulated deficit	(40,464)	(38,973)
Total stockholders' deficit	(9,763)	(9,212)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 52,730	\$ 16,591

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Black Raven Energy, Inc.
Condensed Consolidated Statements of Operations
(Unaudited)
(In thousands, except share and per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Operating revenue:				
Oil and gas sales	\$ 493	\$ 114	\$ 740	\$ 344
Gain on sale of oil and gas properties (Note 3)	836	-	945	-
Total operating revenue	1,329	114	1,685	344
Operating expenses:				
Oil and gas production expense	211	300	359	608
Exploration expense	1	-	7	11
Depreciation, depletion, amortization and accretion	88	44	177	112
General and administrative	648	463	1,815	1,670
Total operating expenses	948	807	2,358	2,401
Operating income (loss)	381	(693)	(673)	(2,057)
Other income (expense):				
Interest and other income	19	4	44	7
Realized and unrealized gain on derivative contracts	1,180	-	1,180	-
Gain (loss) on disposal of assets	-	-	-	(6)
Interest expense	(1,107)	(146)	(2,042)	(1,085)
Total other income (expense)	92	(142)	(818)	(1,084)
Income (loss) before reorganization items and income taxes	473	(835)	(1,491)	(3,141)
Reorganization items:				
Gain on reorganization	-	-	-	1,069
Professional fees	-	-	-	(4)

Total reorganization items	-	-	-	1,065
Net income (loss) before income taxes	473	(835)	(1,491)	(2,076)
Income tax provision/benefit	-	-	-	-
Net income (loss)	\$ 473	\$ (835)	\$ (1,491)	\$ (2,076)
Net income (loss) per common share, basic and diluted	\$ 0.03	\$ (0.05)	\$ (0.09)	\$ (0.12)
Weighted average shares outstanding, basic and diluted	16,974,778	16,658,109	16,854,566	16,658,507

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Black Raven Energy, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Nine Months Ended	
	September 30,	
	2011	2010
Cash flows from operating activities		
Net loss	\$ (1,491)	\$ (2,076)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on sale of oil and gas properties	(945)	-
Depreciation, depletion, amortization and accretion	177	112
Amortization of debt issuance costs	130	53
Amortization of debt discount	83	672
Share-based compensation expense	235	242
Non-cash interest expense	705	-
Gain on reorganization	-	(1,069)
Loss on sale of assets	-	6
Unrealized gain on derivative contracts	(1,123)	-
Changes in assets and liabilities:		
Accounts receivable	(1,341)	(24)
Inventory	-	9
Prepaid expenses	110	13
Other non-current assets	(484)	(4)
Restricted cash - Farmout Agreement (Note 3)	(13,954)	(941)
Advances from Atlas (Note 3)	15,251	660
Accounts payable	2,192	205
Accrued expenses and other current liabilities	681	202
Net cash provided by (used in) operating activities	226	(1,940)
Cash flows from investing activities		
Property acquisitions	(15,336)	-
Capital expenditures	(794)	(320)
Restricted cash - interest reserve (Note 6)	(450)	-

Proceeds from Farmout Agreement (Note 3)	3,240	1,360
Net cash (used in) provided by investing activities	(13,340)	1,040
Cash flows from financing activities		
Proceeds from loans	18,000	250
Deferred financing costs	(1,770)	-
Net cash provided by financing activities	16,230	250
Net increase (decrease) in cash	3,116	(650)
Cash—beginning of period	948	1,064
Cash and cash equivalents—end of period	<u>\$ 4,064</u>	<u>\$ 414</u>
Supplemental disclosure of cash flow activity		
Cash paid for interest	<u>\$ 551</u>	<u>\$ 117</u>
Supplemental schedule of non-cash investing and financing activities		
Accrued capital expenditures	<u>\$ 165</u>	<u>\$ 33</u>
Conversion of interest to debt	<u>\$ 96</u>	<u>\$ 348</u>
Overriding royalty interest conveyed as financing costs	<u>\$ 2,161</u>	<u>\$ -</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

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BLACK RAVEN ENERGY, INC.
Notes to Condensed Consolidated Financial Statements
September 30, 2011
(Unaudited)

Note 1—Description of Business, Basis of Presentation and Summary of Significant Accounting Policies

Description of Business

Black Raven Energy, Inc. and its subsidiaries (“Black Raven,” the “Company,” “us,” “our” or “we”), operate as an independent energy company engaged in the acquisition, exploitation, development and production of natural gas and oil in the Rocky Mountain region of the United States.

On March 5, 2008, the Company (under its former name, PRB Energy, Inc.) and its subsidiaries filed voluntary petitions for relief (the “Chapter 11 Bankruptcy”) under Chapter 11 of the United States Bankruptcy Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the District of Colorado (the “Bankruptcy Court”). The Company continued to operate its business as a “debtor-in-possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code. On January 16, 2009, the Bankruptcy Court entered an order confirming a Modified Second Amended Joint Plan of Reorganization (the “Plan”) of the Company and PRB Oil and Gas, Inc. (“PRB Oil”), which was then a wholly-owned subsidiary. The effective date of the Plan was February 2, 2009 (the “Effective Date”). After the Effective Date, PRB Oil was merged into the Company. On the Effective Date, we issued an Amended and Restated Senior Secured Debenture (the “Amended Debenture”) payable to West Coast Opportunity Fund, LLC (“WCOF”), the principal pre-petition secured creditor, in the original principal amount of \$18,450,000. WCOF also became our principal stockholder as of the Effective Date.

Effective November 1, 2008, control of the Recluse Gathering System owned by PRB Gathering, Inc. (“PRB Gathering”), a wholly-owned subsidiary, was turned over to a receiver appointed by the State Court of Wyoming. Based on our loss of control, we

deconsolidated PRB Gathering during the fourth quarter of 2008. PRB Gathering was dismissed from Chapter 11 Bankruptcy on February 17, 2010, and a gain on reorganization of approximately \$1.1 million was recognized. Upon PRB Gathering's dismissal from bankruptcy, the Company reacquired control of PRB Gathering. PRB Gathering has no significant assets or liabilities as of September 30, 2011 and December 31, 2010 and no significant operations for the nine months ended September 30, 2011 and 2010.

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern. As shown in the accompanying financial statements, the Company continues to experience net losses from its operations, reporting a net loss of \$1.49 million for the nine months ended September 30, 2011. Cash and cash equivalents on hand and internally generated cash flows may not be sufficient to execute the Company's business plan. Future bank financings, asset sales, or other equity or debt financings may be required to fund the Company's debt service, working capital requirements, planned drilling, potential acquisitions and other capital expenditures. These conditions raise substantial doubt about the Company's ability to continue as a going concern. These financial statements do not include any adjustments that may result from the outcome of this uncertainty.

The Company entered into a Farmout Agreement dated July 23, 2010 (the "Farmout Agreement") with Atlas Resources, LLC ("Atlas"), as further discussed in Note 3. The Farmout Agreement is expected to provide the Company sufficient cash flow to continue drilling operations on behalf of Atlas on the properties subject to the agreement. There can be no assurances that the cash flow generated from the Farmout Agreement will be sufficient to execute the Company's business plan.

On July 27, 2011, the Company completed the purchase of the oil and gas properties in the Adena Field in Morgan County, Colorado (the "Adena Properties") as further discussed in Note 4. In order to finance this purchase, the Company entered into a note purchase agreement with Carlyle Energy Mezzanine Opportunities Fund and its affiliates (collectively "Carlyle"), as further discussed in Note 6.

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and generally accepted accounting principles in the United States ("GAAP"). In the opinion of management, the condensed consolidated financial statements include the adjustments, consisting of normal recurring accruals, necessary for a fair statement of the information required to be set forth therein. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been

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condensed or omitted from these statements pursuant to such rules and regulations. Accordingly, these financial statements should be read in conjunction with our audited consolidated financial statements, included in our Annual Report on Form 10-K for the year ended December 31, 2010. The results for interim periods are not necessarily indicative of the results for the entire year.

In connection with the preparation of the condensed consolidated financial statements, the Company evaluated subsequent events after the balance sheet date of September 30, 2011, through the filing date of this report.

Summary of Significant Accounting Policies

The accounting policies followed by the Company are set forth in Note 1 to the Company's consolidated financial statements in its Annual Report on Form 10-K for the year ended December 31, 2010 ("2010 10-K"), and are supplemented throughout the notes to the condensed consolidated financial statements in this report. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the 2010 Form 10-K.

Net Earnings (Loss) Per Share - We account for earnings (loss) per share (“EPS”) in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 260, “Earnings per Share” (“ASC Topic 260”). Under ASC Topic 260, basic EPS is computed by dividing the net loss applicable to common stockholders by the weighted average common shares outstanding without including any potentially dilutive securities. Potentially dilutive securities for the diluted earnings per share calculation consist of in-the-money outstanding warrants and stock options to purchase our common stock for the periods ended September 30, 2011 and 2010. Diluted EPS is computed by dividing the net loss applicable to common stockholders for the period by the weighted average common shares outstanding plus, when their effect is dilutive, common stock equivalents. For the nine months ended September 30, 2011 and 2010, and the three months ended September 30, 2011 and 2010, there were no potentially dilutive securities outstanding whose effect would be dilutive to our earnings (loss) per share calculation.

Potentially dilutive securities, which have been excluded from the determination of diluted earnings (loss) per share because their effect would be anti-dilutive, are as follows:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Warrants	1,494,298	1,494,298	1,494,298	1,494,298
Options	1,747,500	1,532,500	1,747,500	1,532,500
Total potentially dilutive shares excluded	3,241,798	3,026,798	3,241,798	3,026,798

Subsequent to September 30, 2011, and through the filing date of this report, we have not issued any dilutive securities that would have increased the number of potentially dilutive shares.

Concentration of Credit Risk - Revenues from customers that represented 10% or more of our oil and gas sales for the three and nine months ended September 30, 2011 and 2010 were as follows:

Customer	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(% of total revenue)		(% of total revenue)	
A	9%	75%	26%	70%
B	5%	25%	10%	30%
C	5%	–	10%	–
D	81%	–	54%	–

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Note 2—Recent Accounting Pronouncements

In January 2010, the FASB issued ASC Update 2010-06, “Fair Value Measurements and Disclosures” (“ASC Update 2010-06”), which requires additional disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, the fair value measurements of the activity in Level 3 on a gross basis and transfers between Levels 1 and 2. This new authoritative guidance was effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures regarding gross activity in the Level 3 rollforward, which were effective for the Company on January 1, 2011. The adoption of ASC Update 2010-06 did not have a material impact on the Company’s financial statements.

In December 2010, the FASB issued ASC Update 2010-29, “Business Combinations: Disclosure of Supplementary Pro Forma Information for Business Combinations”, which amended FASB ASC Topic 805, “Business Combinations”. The objective of this update is to clarify and expand the pro forma revenue and earnings disclosure requirements for business combinations. The guidance was effective for fiscal years beginning after December 15, 2010, and the Company adopted the provision on January 1, 2011. Adoption of the disclosure requirements did not have a material impact on the Company’s financial position or results of operations.

In May 2011, the FASB issued new fair value measurement authoritative guidance that clarifies the application of fair value measurement and disclosure requirements and changes particular principles or requirements for measuring fair value. This guidance is effective for annual periods beginning after December 15, 2011. The Company is currently evaluating this guidance and assessing the impact, if any, it may have on the Company’s fair value disclosures.

In June 2011, the FASB issued new authoritative guidance that states an entity that reports items of other comprehensive income has the option to present the components of net income and comprehensive income in either one continuous financial statement or two consecutive financial statements. This guidance is effective for annual periods beginning after December 15, 2011. The Company is currently evaluating this guidance and assessing the impact it may have on the Company’s comprehensive income disclosures.

Note 3–Farmout Agreement

On July 23, 2010, the Company entered into a Farmout Agreement with Atlas, a wholly-owned subsidiary of Atlas Energy, Inc., relating to natural gas drilling within an area of mutual interest in Phillips and Sedgwick counties, Colorado and Perkins, Chase and Dundy counties, Nebraska (the “AMI”).

Under the terms of the Farmout Agreement, Atlas agreed to drill six initial wells identified in the Farmout Agreement (the “Initial Wells”) and to complete certain initial projects, including 3D seismic shoots, upgrades of sales meter equipment, and the change-out of compressors and upgrade of a dehydrator at the Company’s facility. The Company assigned to Atlas all of its title and interest in the defined areas around the planned wellbores (the “Drilling Units”) for the Initial Wells.

The Farmout Agreement also provides for Atlas, at its discretion, to drill additional wells in the AMI in accordance with work plans (each a “Work Plan”) approved by Atlas under the Farmout Agreement. The initial Work Plan approved by Atlas covering the period from July 23, 2010 to April 30, 2011 provided for Atlas drilling 60 wells. For each six month period after April 30, 2011, Atlas must submit a proposal to the Company setting forth the numbers of wells that it proposes to drill for such six month period (the “Drilling Proposal”) and the Company must provide a Work Plan to be approved by Atlas outlining the development plan for the wells set forth in the Drilling Proposal. In the event that Atlas determines not to drill at least 60 wells in the course of any six month period, the Company has the right, during such six month period, to drill for its own account that number of wells equal to the difference between 60 wells and the number of wells agreed to be drilled by Atlas. Upon payment of a well-site fee, delivery of an executed authorization for expenditure (“AFE”) for such well by Atlas, and completion of drilling the applicable well, the Company will assign all of its rights, title and interest in the Drilling Units established for such well. The Farmout Agreement also provides for certain rights of the Company and Atlas with respect to the drilling of “deep wells” and for the payment by Atlas of drilling and future 3D seismic costs.

As of September 30, 2010, drilling of the Initial Wells had been completed, and through the first quarter of 2011, Atlas had funded and drilled an additional 40 wells pursuant to the initial Work Plan. On June 3, 2011, Atlas submitted its Drilling Proposal for the six month period beginning May 1, 2011 in which it proposed to drill 135 wells after July 1, 2011. The Company

submitted a Work Plan which Atlas approved and drilling commenced on August 15, 2011. As of September 30, 2011, an additional 37 wells had been funded and drilled pursuant to the Work Plan, for a total of 83 wells.

Restricted cash of \$19.6 million and \$5.6 million at September 30, 2011 and December 31, 2010, respectively, includes cash received from Atlas for drilling activities in connection with oil and gas properties subject to the Farmout Agreement. The accounts payable balances at September 30, 2011 and December 31, 2010 contain drilling costs related to the Farmout Agreement of \$2.4 million and \$0.8 million, respectively. Advances from Atlas of \$20.1 million at September 30, 2011 include cash received from Atlas for drilling activities in connection with oil and gas properties subject to the Farmout Agreement. Advances from Atlas of \$4.8 million at December 31, 2010 include cash received from Atlas for drilling activities in connection with oil and gas properties subject to the Farmout Agreement.

In consideration for the agreements made under the Farmout Agreement, Atlas paid the Company \$1,000,000 upon execution of the Farmout Agreement. In addition, Atlas agreed to pay the Company a \$60,000 well-site fee for each well drilled by Atlas in the AMI, including the Initial Wells. As of September 30, 2011, the Company had received \$4,980,000 of well site fees for the 83 wells drilled through September 30, 2011. The Company also received prepaid well site fees of \$2.9 million for wells to be drilled in the fourth quarter of 2011.

The Company will also receive an undivided six percent of eight eighths (6% of 8/8ths) overriding royalty interest on substantially all of the oil and gas produced and sold that is attributable to the Drilling Units assigned to Atlas under the Farmout Agreement, subject to certain deductions. The average overriding royalty interest on the first 83 wells drilled is 5.70%.

The term of the Farmout Agreement is ten years, subject to earlier termination pursuant to the terms set forth therein.

On August 11, 2010, in connection with the Farmout Agreement and ongoing investment advisory services, the Company entered into an advisory fee agreement with a third party, whereby the Company agreed to pay \$10,000 per well for the first 220 wells that are funded and drilled by Atlas under the Farmout Agreement discussed above, up to a maximum fee of \$2.2 million. As of September 30, 2011, Atlas had funded and drilled 83 wells, and the Company had paid advisory fees of \$830,000.

Note 4 – Acquisitions

Marks Butte Acquisition

On June 6, 2011, the Company acquired from Diamond Operating all of its interests in the Marks Butte area of Sedgwick County, Colorado. The purchase price was \$98,500 in cash, and included title and interest in all oil and gas leases, all easements, rights-of-way, a 100% working interest in two shut-in wells, 6.15 miles of pipeline and compressor station with a tap into the Trailblazer Pipeline. The Company acquired the assets in order to utilize the tap for the planned drilling in the East Marks Butte area as part of the Farmout Agreement.

The preliminary purchase price allocation, which is subject to final purchase price allocation adjustments, is as follows (in thousands):

Proved properties	\$	38
Unproved properties		4
Gathering and other property and equipment		86
Less: Asset retirement obligation assumed		(29)
Total net purchase price	\$	<u>99</u>

Adena Field Acquisition

On July 27, 2011, the Company completed the purchase of the Adena Properties. The acquisition consists of an 80% working interest in 18,760 gross acres, with a net purchase price of \$15.24 million, subject to adjustments for production after the effective date and other matters. The effective date of the Adena Property acquisition was May 1, 2011. The Company will operate the Adena Properties. The Company has entered into an agreement with a strategic partner which will provide geological, engineering, and management services associated with this project and will earn 24% of the Company's 80% working interest after payout of all costs, including financing costs. The Adena Properties consist of an existing waterflood in the J Sand, and a conventional oil field in the D Sand. In addition, there is a gas cap in the J Sand that can be produced in the future. The acquisition was financed by Carlyle (see Note 6).

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The preliminary purchase price allocation, which is subject to final purchase price allocation adjustments, is as follows (in thousands):

Oil and gas properties – proved	\$ 12,274
Oil and gas properties – unproved	3,667
Asset retirement obligation	(557)
Liabilities assumed	(147)
Total cash	<u>\$ 15,237</u>

The Adena Properties acquisition qualified as a business combination and, as such, the Company estimated the fair value of the assets acquired as of the acquisition date, July 27, 2011. To estimate the fair values of the properties as of the acquisition date, the Company used a net asset value approach. The Company utilized a discounted cash flow model that took into account the following inputs to arrive at estimates of future net cash flows:

- Estimated ultimate recovery of crude oil and natural gas as prepared by the Company's petroleum engineers;
- Estimated future commodity prices based on NYMEX crude oil futures prices as of the acquisition date and adjusted for estimated location and quality differentials as well as related transportation costs;
- Estimated future production rates; and
- Estimated timing and amounts of future operating and development costs.

To estimate the fair value of proved properties, the Company discounted the future net cash flows using a market-based rate that the Company determined appropriate at the acquisition date for the various proved reserve categories. To compensate for the inherent risk of estimating and valuing unproved properties, the Company reduced the discounted future net cash flows of the unproved properties by additional risk-weighting factors.

The results of operations from the Adena Property Acquisition are included in the Company's condensed consolidated financial statements from the acquisition date of July 27, 2011. The pro forma results of operations, presented as if the Company had acquired the Adena Properties on January 1, 2010, for the nine months ended September 30, 2011 and 2010 are as follows:

**For the
Nine Months Ended
September 30,**

	(Unaudited)	
	2011	2010
	(in thousands)	
Revenues:		
Oil and gas sales	\$ 2,198	\$ 1,758
Gain on sale of oil and gas properties	945	–
Total revenues	<u>3,143</u>	<u>1,758</u>
Direct operating expenses:		
Oil and gas production expense	1,010	1,529
Exploration expense	7	–
Total direct operating expenses	<u>1,017</u>	<u>1,529</u>
Excess of revenues over direct operating expenses	<u>\$ 2,126</u>	<u>\$ 229</u>

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Note 5 –Asset Retirement Obligations

The Company recognizes an estimated liability for future costs associated with the abandonment of its oil and gas properties. A liability for the fair value of an asset retirement obligation and corresponding increase to the carrying value of the related long-lived asset are recorded at the time a well is completed or acquired. The increase in carrying value is included in proved oil and gas properties in the accompanying condensed consolidated balance sheets. The Company depletes the amount added to proved oil and gas property costs and recognizes expense in connection with the accretion of the discounted liability over the remaining estimated economic lives of the respective oil and gas properties. Cash paid to settle asset retirement obligations is included in the operating section of the Company' s accompanying condensed consolidated statements of cash flows.

The Company' s estimated asset retirement obligation liability is based on historical experience in abandoning wells, estimated economic lives, estimates as to the cost to abandon the wells in the future, and federal and state regulatory requirements. The liability is discounted using the credit-adjusted risk-free rate estimated at the time the liability is incurred or revised. Revisions to the liability could occur due to changes in estimated abandonment costs or well economic lives, or if federal or state regulators enact new requirements regarding the abandonment of wells.

A reconciliation of the Company' s asset retirement obligations is as follows:

	For the Nine Months Ended September 30,	
	2011	2010
	(in thousands)	
Asset retirement obligations, beginning of period	\$ 241	\$ 219
Asset retirement obligation assumed	586	–
Accretion expense	36	16
Revision to estimated cash flows	–	–
Asset retirement obligations, end of period	<u>\$ 863</u>	<u>\$ 235</u>

Note 6–Borrowings

As of September 30, 2011 and December 31, 2010, our borrowings consisted of the following:

	September 30, 2011	December 31, 2010
	(in thousands)	
Amended senior secured debenture	\$ 18,848	\$ 18,848
Senior secured notes	18,179	–
Total borrowings	37,027	18,848
Less current portion	–	–
Total borrowings, long term	\$ 37,027	\$ 18,848

Amended Senior Secured Debenture

On the Effective Date, in connection with the consummation of the Plan, we, along with PRB Oil, entered into a Limited Waiver, Consent and Modification Agreement (the “Modification Agreement”) with WCOF. Under the Modification Agreement, we issued the Amended Debenture, payable to WCOF in the original principal amount of \$18.45 million.

Since its issuance, the terms of the Amended Debenture have been modified on several occasions. Currently, a total of approximately \$18.85 million of principal is outstanding under the Amended Debenture. The outstanding principal bears interest at a total of ten percent (10%) per annum and is due and payable on January 15, 2014. Interest is paid to WCOF on the outstanding principal at a rate equal to five percent (5%) per annum in shares of common stock of the Company in an amount based on a share price of \$2.00 per share (the “Stock Interest”). Additional interest is payable to WCOF on the outstanding

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principal at a rate equal to five percent (5%) per annum in cash (the “Cash Interest”). The Stock Interest is due and payable to WCOF quarterly in arrears on the last day of each calendar quarter. The Cash Interest is due and payable to WCOF on the maturity date of the Amended Debenture, less \$5,000 per well drilled under the Farmout Agreement (see Note 3), which is payable to WCOF upon the Company’s receipt of the applicable well-site fees from Atlas under the Farmout Agreement.

We have guaranteed payment of the Amended Debenture and pledged substantially all of our assets as collateral. If we fail to comply with the restrictions in the agreements governing the Amended Debenture, an event of default could occur that would permit WCOF to foreclose on substantially all of our assets. The Company and WCOF have agreed that no event of default shall occur on the Amended Debenture until written notice of default is given to the Company by WCOF and such default shall have continued for a period of 30 days after written notice is delivered to the Company.

In connection with the financing of the Adena Properties acquisition described below, WCOF agreed to subordinate the payment obligations under the Amended Debenture and related security interests to the payment obligations arising under the Adena acquisition financing, pursuant to the terms and conditions of an intercreditor and subordination agreement. As further security for the payment of the notes, WCOF, which is also the majority stockholder in the Company, pledged to the lenders all of its shares of stock in the Company.

Senior Secured Notes

On July 27, 2011, in order to finance the acquisition of the Adena Properties, the Company entered into a note purchase agreement (the "Note Purchase Agreement") with Carlyle as administrative agent and collateral agent. Pursuant to the Note Purchase Agreement, the Company closed on the issuance and sale of Tranche A promissory notes (the "Tranche A Notes") in the aggregate principal amount of \$18.0 million. The Tranche A Notes mature and are due and payable on July 27, 2016. They bear interest at a stated rate of 13% per annum, of which 10% must be paid in cash, and, at the election of the Company, 3% may be paid in cash or paid in kind and capitalized into the Tranche A Notes. A portion of the proceeds received from the sale of the Tranche A Notes was used for the acquisition of the Adena Properties with the balance to be used according to a mutually approved plan of development for the Adena Properties. The Company was required to establish a reserve account pursuant to the Note Purchase Agreement in the amount of \$450,000, which is included in restricted cash (non-current) within the condensed consolidated balance sheets.

Subject to certain conditions, the Company can voluntarily prepay the Tranche A Notes. If the Company prepays the Tranche A Notes before July 31, 2014, subject to certain exceptions, the Company must pay a "make-whole" amount, equal to the present value at the time of the prepayment of the amount of interest which would have been payable on the principal balance of the Tranche A Notes through July 31, 2014.

Concurrently with the issuance of the Tranche A Notes, the Company issued to the holders of the Tranche A Notes Tranche B promissory notes ("Tranche B Notes, and with the Tranche A Notes the "Senior Secured Notes") in the aggregate principal amount of \$2.5 million with a stated interest rate of 13% per annum, all of which is paid in kind and capitalized into the Tranche B Notes. The Company may prepay the Tranche B Notes only in whole, and upon prepayment, the Company must pay a "make-whole" amount, equal to \$1.2 million less the amount of paid in kind interest that has been capitalized into the Tranche B Notes as of such date. The Tranche B Notes have been recorded net of a discount of \$2.5 million, which is being amortized over the life of the loan. For the three and nine months ended September 30, 2011, amortization of debt discount was \$83,000. The Tranche B Notes are due and payable on the earlier of July 27, 2016, or the repayment of the Tranche A Notes.

The Company incurred deferred financing costs totaling \$1.8 million in connection with the issuance of the Senior Secured Notes. As additional consideration for the issuance of the Senior Secured Notes, the Company conveyed to the holders of the Senior Secured Notes overriding royalty interests equal to 3% of 8/8ths in the Adena Properties and agreed to convey overriding royalty interests in any future oil and gas properties acquired by the Company, subject to certain permissible acquisitions, during the term of the Note Purchase Agreement. The Company has estimated the value of the overriding royalty interests to be \$2.2 million at the date of the financing and has recorded additional deferred financing costs associated with its Senior Secured Notes related to these interests. The Company's deferred financing costs will be amortized to interest expense over the term of the Note Purchase Agreement. If future overriding royalty interests in oil and gas properties acquired by the Company are conveyed to Carlyle under the terms of the Note Purchase Agreement, additional deferred financing costs will be recorded and amortized as an adjustment to the yield on the Senior Secured Notes over the remaining period of the Note Purchase Agreement. Depending on the nature of any future acquisitions made by the Company, the value of the applicable overriding royalty interests conveyed to Carlyle may be material to the Company's financial position or results of operations.

The Senior Secured Notes are collateralized by substantially all of the assets of the Company and its subsidiaries. The Senior Secured Notes are subject to customary events of default. Upon the occurrence of an event of default, as described in the Note Purchase Agreement, the payment of the principal amounts under the Senior Secured Notes may be accelerated and the

interest rate applicable to the principal amounts will be increased to a stated interest rate of 16% per annum during the period the default exists. WCOF, a majority stockholder in the Company and the holder of the Amended Secured Debentures discussed above, agreed to subordinate the payment obligations under the debenture and related security interests to the payment obligations arising under the Senior Secured Notes and the security interests securing payment of the Senior Secured Notes, pursuant to the terms and conditions of

an intercreditor and subordination agreement. As further security for the payment of the Senior Secured Notes, WCOF pledged to Carlyle all of its shares of stock in the Company.

As of September 30, 2011, \$96,000 of interest had been converted to debt.

Note 7—Income Taxes

Income tax expense during interim periods is based on applying an estimated annual effective income tax rate to year-to-date income, plus any significant, unusual or infrequently occurring items which are recorded in the interim period. The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgment including, but not limited to, the expected operating income or loss for the year, projections of the proportion of income earned and taxed in various jurisdictions, permanent and temporary timing differences, and the likelihood of recovering deferred tax assets generated in the current and prior years. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is acquired, additional information is obtained or as the tax environment changes.

The provision for income taxes for the nine months ended September 30, 2011 and 2010 differs from the amount that would be provided by applying the statutory U.S. federal income tax rate of 35% to pre-tax income because of state income taxes, non-deductible interest expense and the Company's valuation allowance.

In assessing the need for a valuation allowance on the Company's deferred tax assets, all available evidence, both negative and positive, was considered in determining whether it is more likely than not that some portion or all of the deferred tax assets will be realized. Based on this assessment, the Company has recorded a full valuation allowance against its net deferred tax asset as of September 30, 2011. The Company's evaluation of the amount of the deferred tax asset considered more likely than not to be realizable will likely change in future periods as estimates of future income change due to changes in expected future oil and gas prices and other factors, and these changes could be material.

The Company accounts for its uncertain tax positions in accordance with the provisions of the ACS Topic 740, "Income Taxes". During the nine months ended September 30, 2011, there was no change to the Company's liability for uncertain tax positions.

Note 8—Equity Compensation Plan

In June 2009, the Board of Directors of the Company adopted the Black Raven Energy, Inc. Equity Compensation Plan (the "Equity Compensation Plan") under which we may grant nonqualified stock options, stock appreciation rights, stock awards or other equity-based awards to certain of our employees, consultants, advisors and non-employee directors. The Board initially reserved 3,791,666 shares of common stock for issuance under the Equity Compensation Plan and that number is adjusted annually to 25% of shares issued and outstanding on July 1. As of September 30, 2011, there were 4,223,264 shares of common stock authorized for issuance under the Equity Compensation Plan.

The following table summarizes activity for options:

	For the Nine Months Ended		For the Nine Months Ended	
	September 30, 2011		September 30, 2010	
	Number of	Weighted Avg.	Number of	Weighted Avg.
	Options	Exercise Price	Options	Exercise Price
Outstanding, beginning of period	1,647,500	\$ 2.00	1,332,500	\$ 2.00
Cancelled	—	\$ —	—	\$ —
Granted	100,000	\$ 2.00	200,000	\$ 2.00
Forfeitures	—	\$ —	—	\$ —
Exercised	—	\$ —	—	\$ —

Outstanding, end of period	1,747,500	\$ 2.00	1,532,500	\$ 2.00
Awards vested or expected to vest, end of period	1,607,500	\$ 2.00	1,305,833	\$ 2.00
Available for future grants, end of period	2,475,764		2,259,166	

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The Company recorded equity compensation expense, which is included in general and administrative expenses in the condensed consolidating statements of operations, of \$235,000 during the nine months ended September 30, 2011 and \$242,000 during the nine months ended September 30, 2010.

Note 9 –Commitments and Contingencies

In the normal course of business operations, the Company has entered into operating leases for office space and office equipment. Rental payments under these operating leases totaled \$91,000 and \$82,000 for the nine months ended September 30, 2011 and 2010, respectively, and are included in general and administrative expenses in the condensed consolidating statements of operations.

Note 10 –Derivative Financial Instruments

To mitigate a portion of the exposure to potentially adverse market changes in oil prices and the associated impact on cash flows, the Company has entered into an oil swap contract. As of September 30, 2011, the Company has a forward contract in place through July 31, 2014 for a total of 72,000 barrels of crude oil production.

The Company's oil derivatives are measured at fair value and are included in the accompanying condensed consolidated balance sheets as derivative assets. The fair value is an estimated exit-price that management believes provides a reasonable and consistent methodology for valuing derivative instruments. The derivative instruments utilized by the Company are not considered by management to be complex, structured, or illiquid. The oil derivative markets are highly active. The fair value of the Company's oil commodity derivative contract was a net asset of \$1.1 million at September 30, 2011.

Derivative Assets
(in thousands)

	Balance Sheet Classification	Sept. 30, 2011 Fair Value	Dec. 31, 2011 Fair Value
	Current Derivative		
Commodity Contracts	Assets	\$ 466	\$ –
	Non-current Derivative		
Commodity Contracts	Assets	657	–
Derivatives not designated as hedging instruments		<u>\$ 1,123</u>	<u>\$ –</u>

The following table summarizes the realized gain and loss from derivative cash settlements and the unrealized gain and loss from changes in fair value of derivative contracts as presented in the accompanying statements of operations.

For the Three Months Ended September 30, 2011	For the Nine Months Ended September 30, 2011
(in thousands)	

Realized gain:			
Oil contracts	\$	57	\$ 57
Total realized gain	\$	57	\$ 57
Unrealized gain on changes in fair value:			
Oil contracts	\$	1,123	\$ 1,123
Total net unrealized gain on change in fair value	\$	1,123	\$ 1,123
Total unrealized and realized derivative gain on derivative contracts	\$	1,180	\$ 1,180

For the three and nine months ended September 30, 2010, the Company did not have any derivative financial instruments in place.

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Note 11 –Fair Value Measurements

The Company follows FASB ASC Topic 820, “Fair Value Measurement and Disclosure”, which establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The three levels are defined as follows:

- Level 1: Quoted Prices in Active Markets for Identical Assets – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2: Significant Other Observable Inputs – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3: Significant Unobservable Inputs – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The Company reflects transfers between the three levels at the beginning of the reporting period in which the availability of observable inputs no longer justifies classification in the original level.

The following tables set forth by level within the fair value hierarchy the Company’s financial assets and financial liabilities as of September 30, 2011 that are measured at fair value on a recurring basis.

As of September 30, 2011

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(in thousands)			
Assets				

Current Derivative Assets	\$	-	\$	466	\$	-	\$	466
Non-current Derivative Assets		-		657		-		657

As of December 31, 2010, there were no financial assets or financial liabilities that were measured at fair value on a recurring basis.

The following methods and assumptions were used to estimate the fair values of the assets and liabilities in the tables above:

Derivatives - Commodity derivative instruments consist entirely of crude oil swaps. The Company's derivatives are valued using industry-standard models, which are based on a market approach. These models consider various assumptions, including quoted forward prices for commodities, time value and volatility factors. These assumptions are observable in the marketplace throughout the full term of the contracts, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace, and are therefore designated as Level 2 within the valuation hierarchy. The discount rates used in the fair values of these instruments include a measure of either the Company's or the counterparty's nonperformance risk, as appropriate. The Company utilizes counterparties' valuations to assess the reasonableness of its own valuations.

The following tables set forth by level within the fair value hierarchy the Company's financial assets and financial liabilities as of September 30, 2011 that were measured at fair value on a non-recurring basis:

As of September 30, 2011

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(in thousands)			
Assets				
Oil and gas properties - proved	\$ -	\$ -	\$ 12,312	\$ 12,312
Oil and gas properties - unproved	-	-	3,671	3,671
Gathering and other property and equipment	-	-	86	86
Liabilities				
Accrued expenses	\$ -	\$ -	\$ 147	\$ 147
Asset retirement obligation	-	-	586	586

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As of December 31, 2010, there were no financial assets and financial liabilities that were measured at fair value on a non-recurring basis.

The following methods and assumptions were used to estimate the fair values of the assets and liabilities in the tables above:

Properties and Equipment - The Company estimated the fair values of the property and equipment related to the Marks Butte acquisition and the Adena Field acquisition as of the acquisition date, using a net asset value approach. The Company utilized a discounted cash flow model that took into account the following inputs to arrive at estimates of future net cash flows:

To estimate the fair value of proved properties, the Company discounted the future net cash flows using a market-based rate that the Company determined appropriate at the acquisition date for the various proved reserve categories. To compensate for the inherent risk of estimating and valuing unproved properties, the Company reduced the discounted future net cash flows of the unproved properties by additional risk-weighting factors. Due to the unobservable nature of the inputs, the fair values of the proved and unproved oil and gas properties are considered Level 3 fair value measurements.

Other Fair Value Disclosures

Our financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable and secured debentures, are carried at cost. At September 30, 2011, the fair value of the cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximates their carrying value due to the short term nature of these instruments. Due to the nature of the Amended Debenture, the Company is unable to reliably estimate its fair value at September 30, 2011. The fair value of the Company's Senior Secured Notes approximates book value due to the recent issuance of these instruments.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Forward-Looking Statements

The following discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this Quarterly Report that address activities, events, or developments with respect to our financial condition, results of operations, or economic performance that we expect, believe, or anticipate will or may occur in the future, or that address plans and objectives of management for future operations, are forward-looking statements. The words "anticipate," "assume," "believe," "budget," "estimate," "expect," "forecast," "intend," "plan," "project," "will," and similar expressions are intended to identify forward-looking statements.

Our forward-looking statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions, expected future developments, and other factors that we believe are appropriate under the circumstances. These statements are subject to a number of known and unknown risks and uncertainties which may cause our actual results and performance to be materially different from any future results or performance expressed or implied by the forward-looking statements. These risks are described in the "Risk Factors" section of our 2010 Form 10-K.

Overview

You should read the following discussion in conjunction with the unaudited condensed consolidated financial statements and related notes in Item 1 and the audited consolidated financial statements and related notes in our 2010 Form 10-K.

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern. As shown in the accompanying condensed consolidated financial statements, the Company continues to experience net losses from its operations, reporting a net loss of \$1.49 million for the nine months ended September 30, 2011. Cash and cash equivalents on hand and internally generated cash flows may not be sufficient to execute the Company's business

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plan. Future bank financings, asset sales, or other equity or debt financings may be required to fund the Company's debt service, working capital requirements, planned drilling, potential acquisitions and other capital expenditures. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that may result from the outcome of this uncertainty.

The Company entered into a Farmout Agreement dated July 23, 2010 with Atlas, as further discussed in Notes 1 and 3 to the condensed consolidated financial statements. The Farmout Agreement is expected to provide the Company sufficient cash flow to

continue drilling operations on behalf of Atlas on the properties subject to the agreement. There can be no assurances that the cash flow generated from the Farmout Agreement will be sufficient to execute the Company's business plan.

As of September 30, 2010, drilling of the six Initial Wells had been completed, and through the first quarter of 2011, Atlas had funded and drilled an additional 40 wells pursuant to the initial Work Plan. On June 3, 2011, Atlas submitted its Drilling Proposal for the six month period beginning May 1, 2011 in which it proposed to drill 135 wells after July 1, 2011. Drilling began on August 15, 2011, and as of September 30, 2011 an additional 37 wells had been funded and drilled, for a total of 83 wells.

In consideration for the agreements made under the Farmout Agreement, Atlas paid the Company \$1,000,000 upon execution of the Farmout Agreement. In addition, Atlas agreed to pay the Company a \$60,000 well-site fee for each well drilled by Atlas, including the Initial Wells. As of September 30, 2011, the Company had received \$4,980,000 of well site fees for 83 wells drilled through September 30, 2011, and the Company had paid fees of \$830,000 to a third party advisor pursuant to an advisory fee agreement. If the additional 98 wells are drilled under the current Work Plan, the Company will receive \$5,880,000 in well site fees and would be obligated to pay the third party advisor \$980,000 pursuant to the advisory fee agreement. See Note 3 to the condensed consolidated financial statements.

On July 27, 2011, the Company completed the purchase of the Adena Properties. The acquisition consists of an 80% working interest in 18,760 gross acres, with a net purchase price of \$15.24 million. The effective date of the acquisition is May 1, 2011. The Company will operate the Adena Properties. The Company has entered into an agreement with a strategic partner which will provide geological, engineering, and management services associated with this project and will earn 24% of the Company's 80% working interest after payout of all costs, including financing costs. The Adena Properties consist of an existing waterflood in the J Sand, and a conventional oil field in the D Sand. In addition, there is a gas cap in the J Sand that can be produced in the future.

On July 27, 2011, in order to finance the acquisition of the Adena Properties, the Company entered into the Note Purchase Agreement with Carlyle. Pursuant to the Note Purchase Agreement, the Company closed on the issuance and sale of Tranche A Notes in the aggregate principal amount of \$18.0 million and Tranche B Notes in the aggregate principal amount of \$2.5 million. The Tranche A Notes mature and are due and payable on July 27, 2016. They bear interest at a stated rate of 13% per annum, of which 10% must be paid in cash, and, at the election of the Company, 3% may be paid in cash or paid in kind and capitalized into the Tranche A Notes. The Tranche B Notes bear a stated interest rate of 13% per annum, all of which is payable in kind and capitalized into the Tranche B Notes.

Subject to certain conditions, the Company can voluntarily prepay the Tranche A Notes. If the Company prepays the Tranche A Notes before July 27, 2014, subject to certain exceptions, the Company must pay a "make-whole" amount, equal to the present value at the time of the prepayment of the amount of interest which would have been payable on the principal balance of the Tranche A Notes through July 31, 2014.

The Company may prepay the Tranche B Notes only in whole, and upon prepayment, the Company must pay a "make-whole" amount, equal to \$1.2 million less the amount of paid in kind interest that has been capitalized into the note as of such date.

As additional consideration for the issuance of the Senior Secured Notes, the Company conveyed to the holders of the Senior Secured Notes overriding royalty interests equal to 3% of 8/8ths in the Adena Properties and agreed to convey overriding royalty interests in certain additional oil and gas properties acquired by the Company during the term of the Note Purchase Agreement.

The Senior Secured Notes are collateralized by substantially all of the assets of the Company. The Senior Secured Notes are subject to customary events of default. Upon the occurrence of an event of default, as described in the Note Purchase Agreement, the payment of the principal amounts under the Senior Secured Notes may be accelerated and the interest rate applicable to the principal amounts will be increased to a stated interest rate of 16% per annum during the period the default exists.

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The Company received approximately \$18.0 million from the sale of the Senior Secured Notes, of which approximately \$17.0 million was used for the acquisition of the Adena Properties and for related acquisition and financing costs and fees. The balance of approximately \$1.0 million is to be used according to a plan of development for the Adena Properties that is subject to approval by Carlyle.

As of September 30, 2011, we had \$18.85 million outstanding under the Amended Debenture. Under the Amended Debenture as amended to date: (i) the maturity date is January 15, 2014, (ii) interest is payable to WCOF on any outstanding principal at a rate equal to five percent (5%) per annum payable in shares of common stock of the Company in an amount based on a share price of \$2.00 per share (the "Stock Interest") and (iii) additional interest is payable to WCOF on any outstanding principal at a rate equal to five percent (5%) per annum payable in cash (the "Cash Interest"). The Stock Interest is due and payable to WCOF quarterly in arrears on the last day of each calendar quarter, commencing with the calendar quarter ending on December 31, 2010. The Cash Interest is due and payable to WCOF on the maturity date of the Amended Debenture, less \$5,000 per well drilled under the Farmout Agreement, which will be paid to WCOF upon the Company's receipt of well-site fees from Atlas in accordance with the Farmout Agreement. Additionally, the Company and WCOF have agreed that no event of default shall occur on the Amended Debenture until written notice of default is given to the Company by WCOF and such default shall have continued for a period of 30 days after written notice is delivered to the Company. WCOF agreed to subordinate the payment obligations under the Amended Debenture and related security interests to the payment obligations arising under the Senior Secured Notes and the security interests securing payment of the Senior Secured Notes pursuant to the terms and conditions of an intercreditor and subordination agreement. As further security for the payment of the Senior Secured Notes, WCOF pledged to Carlyle all of its shares of stock in the Company. The intercreditor agreement provides that WCOF may buy out the Tranche A Notes from Carlyle upon an event of default by the Company. For additional information on the Amended Debenture, see Note 6 to the accompanying condensed consolidated financial statements.

Results of Operations

The financial information with respect to the three and nine months ended September 30, 2011 and 2010, respectively, which is discussed below, is unaudited. In the opinion of management, such information contains all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the results for such periods. The results of operations for interim periods are not necessarily indicative of the results of operations for the full fiscal year.

Three Months Ended September 30, 2011 (unaudited) Compared to the Three Months Ended September 30, 2010 (unaudited)

	Three months Ended September 30, (in thousands)		Increase/ Decrease	Percentage Change
	2011	2010	2011 vs 2010	2011 vs 2010
Revenue				
Oil and gas sales	\$ 493	\$ 114	\$ 379	332.5%
Gain on sale of oil and gas properties	836	–	836	100.0%
Total revenue	1,329	114	1,215	1065.8%
Operating expenses				
Oil and gas production expense	211	300	(89)	-29.7%
Exploration expense	1	–	1	100.0%
DD&A	88	44	44	100.0%
G&A	648	463	185	40.0%
Total expenses	948	807	141	17.5%
Operating income (loss)	381	(693)	1,074	155.0%

Interest and other income	19	4	15	375.0%
Realized and unrealized gain on derivative contracts	1,180	-	1,180	100.0%
Interest expense	(1,107)	(146)	(961)	-658.2%
Net income (loss)	\$ 473	\$ (835)	\$ 1,308	156.6%

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Oil and Gas Sales

Oil and natural gas sales for the three months ended September 30, 2011 increased \$379,000, or 332.5%, compared to the three months ended September 30, 2010 as a result of an increase in the volume of oil sold and an increase in natural gas prices, partially offset by a decrease in the volume of natural gas sold. Oil sales, due to acquisition of the Adena Properties, were 5,008 barrels, or Bbls, for total revenue of \$397,000 for the three months ended September 30, 2011. Natural gas sales volumes decreased during the three months ended September 30, 2011 by 8,035 Mcf (or thousand cubic feet), from 32,730 Mcf for 2010 to 24,695 Mcf for 2011, resulting in a decrease in revenue of \$30,000 for the three months ended September 30, 2011 compared to the three months ended September 30, 2010. The average natural gas sales price during the three months ended September 30, 2011 was \$0.39 per Mcf higher than the average natural gas sales price for the three months ended September 30, 2010 (\$3.87 for 2011 compared to \$3.48 for 2010) resulting in an increase in revenue of \$12,000.

Gain on Sale of Oil and Gas Properties

During the three months ended September 30, 2011, the Company recognized a gain of \$836,000 on the sale of proved well sites to Atlas as part of the Farmout Agreement.

Oil and Gas Production Expense

Oil and gas lease operating expense in the third quarter of 2011 decreased \$89,000, or 29.7%, to \$211,000 from \$300,000 in the third quarter of 2010. The decrease is a result of the Farmout Agreement, which includes provisions for allocating and billing operating expenses to Atlas.

Depreciation, Depletion, Amortization and Accretion (“DD&A”)

DD&A expense for the third quarter of 2011 increased \$44,000, or 100.0%, to \$88,000 from \$44,000 in the third quarter of 2010 as a result of the increase in oil and gas production in 2011.

General and Administrative Expense

General and administrative expense for the third quarter of 2011 increased by \$185,000, or 40.0%, to \$648,000 from \$463,000 for the third quarter of 2010. The increase is primarily a result of the \$277,000 general and administrative expense related to the Adena Properties acquisition.

Interest and Other Income

Interest and other income for the third quarter of 2011 increased \$15,000 to \$19,000 from \$4,000 for the third quarter of 2010.

Gain on Derivative Contracts

During the three months ended September 30, 2011, the Company realized a gain of \$57,300 on the cash settlement of derivative oil contracts, and recorded an unrealized gain of \$1,122,700 from changes in fair value of derivative contracts, for a total realized and unrealized gain of \$1,180,000.

Interest Expense

Interest expense for the third quarter of 2011 increased \$961,000, or 658.2%, to \$1,107,000 from \$146,000 for the third quarter of 2010. This increase is due to the issuance of the Senior Secured Notes to fund the Adena Properties Acquisition.

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Nine Months Ended September 30, 2011 (unaudited) Compared to the Nine Months Ended September 30, 2010 (unaudited)

	Nine months Ended September 30,		Increase/ Decrease	Percentage Change
	(in thousands)			
	2011	2010	2011 vs 2010	2011 vs 2010
Revenue				
Oil and gas sales	\$ 740	\$ 344	\$ 396	115.1%
Gain on sale of oil and gas properties	945	-	945	100.0%
Total revenue	1,685	344	1,341	389.8%
Operating expenses				
Oil and gas production expense	359	608	(249)	-41.0%
Exploration expense	7	11	(4)	-36.4%
DD&A	177	112	65	58.0%
G&A	1,815	1,670	145	8.7%
Total expenses	2,358	2,401	(43)	-1.8%
Operating loss	(673)	(2,057)	1,384	67.3%
Interest and other income	44	7	37	*nm
Realized and unrealized gain on derivative contracts	1,180	-	1,180	100.0%
Interest expense	(2,042)	(1,085)	(957)	-88.2%
Reorganization items	-	(10)	10	100.0%
Gain on reorganization	-	1,069	(1,069)	-100.0%
Net loss	\$ (1,491)	\$ (2,076)	\$ 585	28.2%

* not meaningful

Natural Gas Sales

Oil and natural gas sales for the nine months ended September 30, 2011 increased \$396,000, or 115.1%, compared to the nine months ended September 30, 2010 as a result of an increase in the volume of oil and natural gas sold, partially offset by a decrease in natural gas prices. Oil sales, due to acquisition of the Adena Properties, were 5,008 Bbbls, for total revenue of \$397,000 for the nine months ended September 30, 2011. Natural gas sales volumes increased during the nine months ended September 30, 2011 by 3,194 Mcf, from 85,930 Mcf for 2010 to 89,124 Mcf for 2011, resulting in an increase in revenue of \$13,000 for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010. The natural gas sales volume increase is attributable to the overriding royalty interest received from the Farmout Agreement. The average sales price during the nine months ended

September 30, 2011 was \$0.16 per Mcf lower than the average sales price for the nine months ended September 30, 2010 (\$3.85 for 2011 compared to \$4.01 for 2010) resulting in a decrease in revenue of \$14,000.

Gain on Sale of Oil and Gas Properties

During the nine months ended September 30, 2011, the Company recognized a gain of \$945,000 on the sale of proved well sites to Atlas as part of the Farmout Agreement.

Oil and Gas Production Expense

Natural gas lease operating expense during the nine months ended September 30, 2011 decreased \$249,000, or 41.0%, to \$359,000 from \$608,000 during the nine months ended September 30, 2010. The decrease is a result of the Farmout Agreement, which includes provisions for allocating and billing operating expenses to Atlas.

Depreciation, Depletion, Amortization and Accretion

DD&A expense for the nine months ended September 30, 2011 increased \$65,000, or 58.0%, to \$177,000 from \$112,000 during the nine months ended September 30, 2010 as a result of the increase in oil and gas production in 2011.

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General and Administrative Expense

General and administrative expenses for the nine months ended September 30, 2011 increased by \$145,000, or 8.7%, to \$1,815,000 from \$1,670,000 for the nine months ended September 30, 2010. The increase is primarily a result of general and administrative expense related to the property acquisitions described in Note 4, which consisted of \$4,900 for the Marks Butte acquisition and \$277,000 for the Adena Properties acquisition, and the \$540,000 of advisory fees paid in connection with the drilling of wells under the Farmout Agreement. These increases were partially offset by the overhead reimbursement of \$555,000 received from Atlas under the Farmout Agreement.

Gain on Reorganization

PRB Gathering was dismissed from Chapter 11 Bankruptcy on February 17, 2010 and a gain on reorganization of approximately \$1.1 million was recognized during the quarter ended March 31, 2010.

Interest and Other Income

Interest and other income for the nine months ended September 30, 2011 increased \$37,000 to \$44,000 from \$7,000 for the nine months ended September 30, 2010, due to office sublease income.

Gain on Derivative Contracts

During the nine months ended September 30, 2011, the Company realized a gain of \$57,300 on the cash settlement of derivative oil contracts, and recorded an unrealized gain of \$1,122,700 from changes in fair value of derivative contracts, for a total realized and unrealized gain of \$1,180,000.

Interest Expense

Interest expense for the nine months ended September 30, 2011 increased \$957,000, or 88.2%, to \$2,042,000 from \$1,085,000 for the nine months ended September 30, 2010. This increase is due to the issuance of the Senior Secured Notes to fund the Adena Properties Acquisition.

Liquidity and Capital Resources

At September 30, 2011, cash and cash equivalents totaled approximately \$4.1 million. At September 30, 2011, the Company had working capital of \$1.4 million, compared to working capital of \$0.5 million at December 31, 2010. The accounts payable balances at September 30, 2011 and December 31, 2010 contain drilling costs related to the Farmout Agreement of \$2.4 million and \$0.8 million, respectively. Advances from Atlas of \$20.1 million at September 30, 2011 include cash received from Atlas restricted for drilling activities in connection with oil and gas properties subject to the Farmout Agreement. Advances from Atlas of \$4.8 million at December 31, 2010 include cash received from Atlas restricted for drilling activities in connection with oil and gas properties subject to the Farmout Agreement.

As noted in the risk factors in Item 1A of our 2010 Form 10-K, cash and cash equivalents on hand and internally generated cash flows will require augmentation from future bank financings, asset sales, or other equity or debt financing to fund our debt service, working capital requirements, planned drilling, potential acquisitions and other capital expenditures. The amount and allocation of future capital and exploitation expenditures will depend upon a number of factors including the number and size of acquisitions and drilling opportunities, our cash flows from operating and financing activities and our ability to assimilate acquisitions. Also, the impact of oil and gas market prices on investment opportunities, the availability of capital and borrowing facilities and the success of our exploitation and development activities, particularly with respect to the Adena Properties, could lead to changes in funding requirements for future development.

Cash Flow Provided by (Used in) Operating Activities

During the nine months ended September 30, 2011, our net loss of \$1,491,000 included non-cash DD&A expense of \$177,000, non-cash stock compensation expense of \$235,000 and an unrealized gain on derivative contracts of \$1,123,000. Net cash provided by operating activities was \$226,000 during the nine months ended September 30, 2011 compared to \$1,940,000 used in operating activities for the same period of 2010.

Derivative Activities

Our operating cash flow is sensitive to many variables, the most significant of which is the volatility of prices for natural gas and oil. Prices for these commodities are determined primarily by prevailing market conditions. National and worldwide

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economic and political activity, weather, infrastructure capacity to reach markets, supply levels and other variable factors influence market conditions for these products. These factors are beyond our control and are difficult to predict.

To mitigate some of the potential negative impact on cash flow caused by changes in natural gas and oil prices, we have entered into financial commodity swap contracts to receive fixed prices for a portion of our production revenue. At September 30, 2011, we had in place crude oil swaps covering portions of our 2011, 2012, 2013 and 2014 production revenue,

The Company's derivative instruments are recorded at fair market value and are included in the Unaudited Condensed Consolidated Balance Sheets as assets or liabilities. All fair values are adjusted for non-performance risk. The change in the fair value of

the derivative instrument is recognized in derivative contract gain (loss) in the Unaudited Condensed Consolidated Statements of Operations. These mark-to-market adjustments have no cash flow impact relative to changes in market prices. Our cash flow is only impacted when the underlying physical sales transaction takes place in the future and when the associated derivative instrument contract is settled by making a payment to or receiving a payment from the counterparty. Realized gains and losses of the Company's derivative instruments are also recognized in derivative gain (loss) in the Unaudited Condensed Consolidated Statements of Operations and are reflected in cash flows from operations on the Unaudited Condensed Consolidated Statements of Cash Flows.

The following table summarizes all of our derivative contracts in place as of September 30, 2011. We did not enter into any additional derivative contracts subsequent to September 30, 2011 through November 15, 2011.

Contract	Total Hedged Volumes	Quantity Type	Weighted Average Fixed Price	Index Price(1)	Fair Market Value (in thousands)
Swap Contracts:					
2011					
Oil	6,000	Bbls	\$ 100.30	WTI	\$ 122
2012					
Oil	24,000	Bbls	\$ 100.30	WTI	\$ 441
2013					
Oil	24,000	Bbls	\$ 100.30	WTI	\$ 363
2014					
Oil	14,000	Bbls	\$ 100.30	WTI	\$ 197
Total					\$ 1,123

(1) WTI refers to West Texas Intermediate price as quoted on the New York Mercantile Exchange.

Cash Flow Provided by (Used in) Investing Activities

Net cash used in investing activities was \$13,340,000 during the nine months ended September 30, 2011, compared to cash provided by investing activities of \$1,040,000 for the nine months ended September 30, 2010. This increase was due to the acquisition of the Adena Properties, partially offset by Farmout Agreement proceeds of \$3,240,000, of which \$945,000 was recorded as a reduction of oil and gas property costs, received during 2011.

Capital Expenditures

Our capital expenditures are summarized in the following table:

Area	Nine months Ended September 30,	
	2011	2010
	(in thousands)	
Amherst	\$ 596	\$ 314
Other	38	32
Total excluding acquisitions	634	346
Adena	15,237	—
Marks Butte	99	—

Total including acquisitions	\$ 15,970	\$ 346
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	Nine months Ended September 30,	
	2011	2010
	(in thousands)	
Acquisitions of proved and unproved properties	\$ 15,250	\$ –
Acquisition of gathering assets	86	–
Drilling and development of oil and gas properties and gathering assets	596	314
Furniture, fixtures and equipment	38	32
Total	\$ 15,970	\$ 346

Cash Flow from Financing Activities

Net cash provided by financing activities during the nine months ended September 30, 2011 was \$16,230,000, which were proceeds of \$18,000,000 related to the Senior Secured Notes net of \$1,770,000 in cash paid for deferred financing costs. Cash of \$150,000 was provided by WCOF during the nine months ended September 30, 2010.

Off Balance-Sheet Arrangements

We did not have any off-balance sheet financing arrangements as of September 30, 2011.

Critical Accounting Policies and Estimates

We refer you to the corresponding section in Part II, Item 7 of our 2010 Form 10-K. We have had no material changes to our critical accounting policies and estimates since filing our 2010 Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES.

We maintain a system of disclosure controls and procedures that is designed to ensure that information required to be disclosed in our SEC reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and to ensure that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Acting Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of September 30, 2011, we carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and the Acting Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and the Acting Chief Financial Officer concluded that our disclosure controls and procedures were effective for the purposes discussed above as of the end of the period covered by this Quarterly Report on Form 10-Q.

There was no change in our internal control over financial reporting that occurred during the three months ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, the effectiveness of our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

As of the date of filing of this Quarterly Report, we are not currently party to any material pending litigation.

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ITEM 1A. RISK FACTORS.

There have been no material changes to the risk factors contained in our 2010 Form 10-K.

ITEM 6. EXHIBITS.

Exhibit Number	Description
2.1	Modified Second Amended Joint Plan of Reorganization Filed by PRB Energy, Inc. and PRB Oil & Gas, Inc., dated December 3, 2008 (incorporated herein by reference to Exhibit 99.1 to our Current Report on Form 8-K filed on January 21, 2009)
3.1	Amended and Restated Articles of Incorporation of Black Raven Energy, Inc. (incorporated herein by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on February 6, 2009)
3.2	Amended and Restated Bylaws of Black Raven Energy, Inc. (incorporated herein by reference to Exhibit 3.2 to our Current Report on Form 8-K filed on February 6, 2009)
4.1	Amended and Restated Senior Secured Debenture (incorporated herein by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on February 6, 2009)
4.2+	Second Amendment to the Amended and Restated Senior Secured Debenture dated November 9, 2009
4.3	Third Amendment to the Amended and Restated Senior Secured Debenture dated July 23, 2010 (incorporated herein by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on November 18, 2010)
4.4	Fourth Amendment to the Amended and Restated Senior Secured Debenture dated October 12, 2010 (incorporated herein by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q filed on November 18, 2010)
10.1+	Purchase and Sale Agreement with Adena Badger Creek, LLC dated May 17, 2011
31.1+	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act

- 31.2+ Certification of the Acting Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act.
- 32.1+ Certification of the Chief Executive Officer and Acting Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act.
- 101.INS XBRL Instance Document**
- 101.SCH SBRL Taxonomy Extension Schema Document**
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document**
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document**
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document**
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document**

** Pursuant to Rule 406T of Regulation S-T, these Interactive Data Files are deemed not filed or part of a registration statement of prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to the liability under these sections.

+ Filed herewith

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SIGNATURES

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

Black Raven Energy, Inc.

Date: November 21, 2011

/s/ Thomas E. Riley

Thomas E. Riley

Chief Executive Officer

Date: November 21, 2011

/s/ Patrick A. Quinn

Patrick A. Quinn

Acting Chief Financial Officer

SECOND AMENDMENT OF AMENDED AND RESTATED SENIOR SECURED DEBENTURE

This Second Amendment of Amended and Restated Senior Secured Debenture (this "Amendment"), is made and entered into, effective as of the 10th day of January, 2010, by and between **Black Raven Energy, Inc.**, a Nevada corporation formerly known as "PRB Energy, Inc." ("Parent"), and **West Coast Opportunity Fund, LLC**, a Delaware limited liability company ("WCOF"), with reference to the following facts:

Recitals:

A. On March 5, 2008 (the "Petition Date"), Parent and PRB Oil & Gas, Inc. ("PRB Oil") filed voluntary petitions for relief under Chapter 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Colorado (the "Bankruptcy Court").

B. On January 16, 2009, the Bankruptcy Court confirmed that certain "Modified Second Amended Joint Plan of Reorganization filed by Parent and PRB Oil dated December 3, 2008 (the "Plan"), and the confirmation of the Plan thereafter became effective on February 2, 2009 (the "Confirmation Date").

C. Pursuant to the Plan, on February 2, 2009, Parent and PRB Oil executed that certain Amended and Restated Senior Secured Debenture dated February 2, 2009, in the principal amount of Eighteen Million Four Hundred Fifty Thousand Dollars (\$18,450,000) (the "Debenture"), to evidence a secured loan from WCOF.

D. Effective February 2, 2009, PRB Oil was merged into Parent.

E. On April 13, 2009, an Agreement Regarding New Equity Raise Under the Modified Second Amended Joint Plan of Reorganization (the "New Equity Raise") was executed by and among the Parent, WCOF and the Official Committee of Unsecured Creditors Appointed by the Bankruptcy Court in the Company's Bankruptcy Case.

F. On October 1, 2009, Parent and WCOF entered into the First Amendment of Amended and Restated Senior Secured Debenture whereby certain interest was capitalized to the principal amount owed under the Debenture.

G. The Debenture, by its terms, may be amended only with the vote of the "Required Holders" (as defined in the Debenture), and WCOF is the sole holder of the Debenture.

H. The parties have agreed to execute this Amendment in order to memorialize the amendment of the terms of the Debenture as described below.

Agreement:

NOW, THEREFORE, the parties hereto, intending to be legally bound and to amend the Debenture as set forth below, do hereby agree as follows:

1. **Amendment of Debenture.** The Debenture is hereby amended as follows:

1.1 **Maturity Date.** Subject to Black Raven Energy, Inc. raising at least \$25 million in new common equity at a minimum price of \$2.00 per share by February 12, 2010 (the "Terms"), the due date

of all principal evidenced by the debenture is hereby extended to June 30, 2013 (as of which date the entire unpaid principal of, all accrued and unpaid interest on, and all other accrued and unpaid charges on the Debenture shall be due and payable in full). If Black Raven Energy, Inc. raises less than \$25 million on the Terms stated above, then the maturity date of the Debenture shall not be extended.

2. **Miscellaneous.** Except as expressly modified by Section 1, above, (a) no other term or provision of the Plan, the Debenture or the New Equity Raise will be modified or amended, and (b) the Plan and the Debenture remain in full force and effect in accordance with their respective original terms and are hereby ratified and confirmed by Parent and WCOF. All capitalized terms that appear in this Amendment and are not defined herein shall have the meaning ascribed thereto in the Debenture. This Amendment may be executed in two or more counterparts, each of which may be delivered by facsimile and shall be deemed an original, but all of which together shall constitute one and the same instrument. This Amendment will be governed by and construed under the laws of the State of Colorado, without giving effect to the principles of conflict of law.

IN WITNESS WHEREOF, the parties to this Agreement have duly executed it as of the date first above written.

“WCOF:”

West Coast Opportunity Fund, LLC

By: _____
Atticus Lowe
Its: CIO _____

“Parent:”

Black Raven Energy, Inc.

By: _____
W. F. Hayworth
Its: President _____

PURCHASE AND SALE AGREEMENT

BETWEEN

ADENA BADGER CREEK, LLC

AND

BLACK RAVEN ENERGY, INC.

DATED MAY 17, 2011

LIST OF EXHIBITS

- A. Leases and Lands
- B. Adena J Sand Unit
- C. Subject Wells
- D. Equipment
- E. Assignment and Bill of Sale
- F. Quitclaim Deed
- G. Existing Litigation
- H. Preferential Purchase Rights and required Third Party Consents
- I. Gas Imbalances
- J. Required Regulatory Authorizations
- K. Production Sale Contracts
- L. Drilling Commitments
- M. Plugging and Abandonment Obligations
- N. Form of Letters-in-Lieu
- O. Form of Non-Foreign Affidavit

PURCHASE AND SALE AGREEMENT

THIS PURCHASE AND SALE AGREEMENT (“Agreement”) is dated May 17, 2011, by and between Adena Badger Creek, LLC, a Colorado limited liability company, (“Seller”), and Black Raven Energy, Inc., a Nevada corporation (“Buyer”).

Recitals

1. Seller is engaged in the business of exploration for and production of oil, natural gas and other liquid and gaseous hydrocarbons, is record owner of the oil and gas properties and interests in the Adena Field in Morgan County, Colorado, described below, and is the operator of the Adena Unit.
2. Buyer desires to purchase and Seller desires to sell 100% of its oil and gas properties and interests in the Adena Field, including the Adena Unit, subject to the terms and conditions and for the consideration set forth herein.

NOW, THEREFORE, for valuable consideration and in consideration of the premises, the covenants and agreements set forth herein, Seller and Buyer agree as follows:

ARTICLE I

DEFINITIONS

1.01 Defined Terms. In this Agreement, capitalized terms have the meanings provided in this Article, unless expressly provided otherwise in other Articles. All references to Exhibits refer to Exhibits attached to and made a part of this Agreement.

“Adena Gas Plant” is the idle gas processing plant and related facilities located on the Plant Site.

“Adena Unit” is the Adena J Sand Unit described on Exhibit B.

“Affiliate” means and includes any entity that, directly or indirectly, through one or more intermediaries, controls or is controlled by or is under common control with the entity specified or is a party engaged in a joint venture with Buyer in the state of Colorado.

“Alleged Environmental Condition” means an environmental condition asserted by Buyer in accordance with Section 9.03 that, as of the Effective Date, (i) is not in compliance with the then existing Environmental Laws and, (ii) which constitutes an Environmental Liability in excess of \$25,000.

“Assignment and Bill of Sale” means the assignment, conveyance, and bill of sale of the Properties, in the form attached hereto as Exhibit E.

“Business Day” means a Day, excluding Saturdays, Sundays and U.S. legal holidays.

“Casualty Loss” means any loss, damage or reduction in value resulting from mechanical failure or defects, catastrophic occurrences, acts of God and any other losses which are not the result of normal wear and tear or of natural reservoir changes.

“Claim” or “Claims” means any and all claims, demands, suits, causes of action, losses, damages, liabilities, fines, penalties and costs (including attorneys’ fees and costs of litigation) which are brought by or owed to a Third Party.

“Close” or “Closing” means the consummation of the transfer of title to the Properties to Buyer, including execution and delivery of all documents provided herein.

“Closing Date” means June 2, 2011, or such other date as may be mutually agreed upon by the parties.

“Code” means the Internal Revenue Code of 1986, as amended, and in effect on the Closing Date.

“Control” (and correlative terms such as “controls”, “controlled by” and “under common control with”) means that with respect to a corporation, (i) the ownership or other control of securities to which are attached more than fifty percent (50%) of the voting interest of all securities issued by the corporation, (ii) with respect to a partnership (general or limited) or limited liability company, the ownership or other control of more than fifty percent (50%) of the partnership or membership interests in the partnership or limited liability company, and (iii) with respect to any other Person, the possession, direct or indirect, of the power to direct or exercise a controlling influence over the direction of the management and policies of such Person, by contract or otherwise.

“Day” means a calendar day consisting of twenty-four (24) hours from midnight to midnight.

“Defensible Title” means, as to the Properties, such title held by Seller that, subject to and except for the Permitted Encumbrances:

- a. entitles Seller to receive not less than the Net Revenue Interests set forth in Exhibit A of all oil, gas and associated liquid and gaseous hydrocarbons produced, saved and marketed from the Properties.
- b. obligates Seller to bear costs and expenses relating to the ownership, operation, maintenance and repair of the wells and facilities located on or attributable to the Properties in an amount not greater than the Working Interests set forth in Exhibit A, unless there is a corresponding increase in the Net Revenue Interests; and
- c. is free and clear of liens, encumbrances and encroachments.

“Effective Date” means April 1, 2011, at 7:00 a.m., MDT on all the Properties.

“Environmental Laws” means all laws, statutes, ordinances, permits, orders, judgments, rules or regulations which are promulgated, issued or enacted by a local, state, or federal

governmental entity or tribal authority in effect as of the date of this Agreement that, (a) relate to the prevention of pollution or environmental damage, (b) the remediation of pollution or environmental damage, or (c) the protection of the environment, persons, or the public welfare from (i) actual or potential exposure (or the effects of exposure); (ii) any actual or potential release, discharge, spill or emission (whether past or present) of, or regarding the manufacture, processing, production, gathering, transportation, importation, use, treatment, storage or disposal of any chemical, raw material, petroleum, pollutant, contaminant or toxic, corrosive, hazardous or non-hazardous substances or waste, including without limitation, the Clean Air Act, as amended, the Clean Water Act, as amended, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendment and Reauthorization Act, the Federal Water Pollution Control Act, as amended, the Resource Conservation and Recovery Act of 1976, as amended, the Safe Drinking Water Act, as amended, the Toxic Substance and Control Act, as amended, the Hazardous and Solid Waste

Amendments Act of 1984, as amended, the Oil Pollution Act of 1990, as amended, the Hazardous Materials Transportation Act, as amended, the National Environmental Policy Act, as amended, the Endangered Species Act, as amended, the National Historic Preservation Act, as amended, the Emergency Planning and Community Right To Know Act, amended, and the Federal Insecticide, Fungicide and Rodenticide Act, as amended.

“Existing Litigation” shall refer to the pending lawsuits or claims (if any) as set forth in Exhibit G, affecting the Properties, or any part thereof.

“Final Statement” has the meaning set forth in Section 3.03.

“Final Settlement Date” has the meaning set forth in Section 3.03

“Final Settlement Price” has the meaning set forth in Section 3.03.

“Indemnitee” means any person or persons (collectively) which may be entitled to seek indemnification pursuant to the provisions of Sections 9.03, 12.02 and 12.03 hereof.

“Indemnitor” means any person or persons (collectively) which may be obligated to provide indemnification pursuant to Sections 9.03, 12.02 and 12.03 hereof.

“Lands” means those lands, appurtenant rights therein, described in the Leases.

“Leases” means the oil, gas and/or mineral leases (and interests therein, including overriding royalty interests) in which and to the extent Seller now owns an interest, whether producing or non-producing, described in Exhibit A.

“Laws” means laws, statutes, ordinances, permits, decrees, orders, judgments, rules or regulations (including, without limitation, Environmental Laws) which are promulgated, issued or enacted by a governmental entity or tribal authority having appropriate jurisdiction.

“Letters-in-Lieu” means a document in the form of Exhibit N.

“Liability” or “Liabilities” means and include any direct or indirect indebtedness, claim, loss, damage deficiency, obligation or responsibility, whether known or unknown, fixed or

unfixed, conditional or unconditional, choate or inchoate, liquidated or unliquidated, secured or unsecured, accrued, absolute, contingent or otherwise (including, without limitation, reasonable fees and expenses of counsel).

“Net Proceeds of Production” shall mean the gross proceeds of production attributable to the Properties which are received or which are estimated to be received thereafter for sale of production attributable to the Properties for a particular period of time less all amounts paid by Seller with respect to such period of time in connection with the Properties, including, without limitation, all lease operating expenses, capital expenditures, royalty, overriding royalty, net profits interests, production, severance, excise taxes, any ad valorem taxes and other applicable expenses paid by Seller. All Net Proceeds of Production attributable to the Properties prior to the Effective Date shall be owned by and for the account of Seller. Buyer shall be entitled to all Net Proceeds of Production attributable to the operation of the Properties after the Effective Date. Seller shall be entitled to the proceeds of all merchantable oil and natural gas liquid hydrocarbons stored in tanks and vessels on the Property on the Effective Date. Oil and other liquid hydrocarbons in treating equipment, separation equipment and tanks below pipeline connections as of the Effective Date shall not be considered merchantable

and shall become the property of Buyer. Buyer shall assume Seller's suspense funds attributable to the Properties and these funds shall be accounted for in the Final Statement. The term "Net Proceeds of Production" shall apply only with respect to the period of time prior to the Closing Date.

"Net Revenue Interest" means a share of the proceeds of production, expressed as a percentage or a decimal, from or attributable to a Property as set forth on Exhibit A under the column "NRI" to which Seller is entitled, after deducting any royalties, overriding royalties, production payments and other burdens on production attributable thereto.

"Non-Foreign Affidavit" means a document in the form of Exhibit O.

"Permitted Encumbrances" means:

a. The terms, conditions, restrictions, exceptions, reservations, limitations and other matters contained in the agreements, instruments and other documents which create or reserve to Seller its interest in any of the Properties, provided that the same do not (i) reduce the Net Revenue Interest (or increase the working interest without proportionately increasing the Net Revenue Interest) of Seller in the Property affected thereby below that set forth in Exhibit A, or (ii) require after the date hereof the drilling of an additional well or capital expenditures in excess of \$25,000 (a "Capital Obligation") in order for Seller to continue to own the interests credited to such Seller in the applicable geologic formation in the applicable Subject Well (limited to the drilling and spacing unit therefor) set forth therein or to avoid a breach of a covenant under any such instrument, agreement or other document which would otherwise result in Buyer being liable for damages.

b. Royalties, overriding royalties, production payments, reversionary interests, convertible interests, net profits interests, division orders and similar burdens encumbering the Properties to the extent the net cumulative effect of such burdens do not, as of Closing, operate to reduce the Net Revenue Interests (or increase the working interest, without proportionately increasing the Net Revenue Interest) of Seller in the Property affected thereby to less than the Net Revenue Interests set forth on Exhibit A.

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c. Preferential purchase rights and required third party consents to assignment and similar agreements encumbering the Properties as set forth in Exhibit H with respect to which, prior to Closing, (i) waivers or consents are obtained from the appropriate parties, or (ii) the appropriate time period for asserting such rights has expired without an exercise of such rights;

d. All rights to consent by, required notices to, filings with, or other actions by governmental entities or tribal authorities in connection with the sale or conveyance of the Properties, if the same are customarily obtained subsequent to the transfer of title;

e. Rights reserved to or vested in any governmental entity or tribal authority having appropriate jurisdiction to control or regulate the Properties in any manner whatsoever, and all Laws of any such governmental entity or tribal authority;

f. Easements, rights-of-way, servitudes, permits, surface leases, sub-surface leases and other rights with respect to service operations, pipelines, logging, canals, ditches, reservoirs, or the like, conditions, covenants or other restrictions, and easements of streets, alleys, highways, pipelines, telephone lines, power lines, railways and other easements or rights-of-way on, over or with respect to any of the Properties which do not materially and adversely affect the Property or its current use. grazing rights, logging rights, canals, ditches, reservoirs, pipelines, utility lines, telephone lines, power lines, railways, streets, roads, alleys, highways and structures on, over and through the Properties, to the extent such rights, interests or structures do not materially interfere or adversely affect the operations of the Property(s) or its current use.

g. Any obligations or duties affecting the Properties to any municipality or public authority with respect to any franchise, grant, license or permit and all applicable and valid laws, rules and orders of any governmental authority.

h. Liens for taxes or assessments not yet due or not yet delinquent or, if delinquent, that are being contested by Seller in good faith in the normal course of business;

i. Rights existing under applicable laws (including, but not limited to, statutory liens) or operating agreements or similar contracts to assert liens against the Properties, but not including liens and other rights which have actually been asserted, unless Seller is disputing the validity of such lien (and Seller indemnifies Buyer with respect to such disputed lien) or the amount to be owed in connection therewith in appropriate proceedings, or such lien or other right is not enforceable against the interest of the Seller.

j. Conventional rights of reassignment requiring less than sixty (60) days notice to the holder of such rights.

k. Existing operating agreements, unit agreements, gas purchase or sale contracts and any and all other agreements which are customary in the oil and gas exploration, development, production or extraction business or in the business of processing of gas and gas condensate of production for the extraction of proper products therefrom (except for contracts with Affiliates which Seller cannot terminate at Closing without penalty, cost or liability), which will not reduce the Net Revenue Interest (or increase the working interest without

proportionately increasing the Net Revenue Interest) of Seller in the Property affected thereby as set forth in Exhibit A.

l. Any rights in the Property existing in favor of third parties, to the extent that the interests of such third parties, whether presently or when transferred to such third parties in accordance with the rights of such parties, will not reduce the Net Revenue Interest (or increase the working interest without proportionately increasing the Net Revenue Interest) of Seller in the Property affected thereby as set forth in Exhibit A.

“Person” means any individual, general or limited partnership, corporation, limited liability company, executor, administrator or estate, association, trustee or trust, or other entity.

“Plant Site” means the approximately thirty (30) acre parcel described in that certain Quitclaim Deed dated February 10, 2006, from NBB Energy Partners I, L.P., to Adena Badger Creek LLC, Aspire Investments LLC and Pangloss Oil Partners LLC.

“Preferential Rights” refers to those lease, operating and other agreements, letters and other documents referenced in Exhibit H which contain options, rights of first refusal, required third party consents, preferential purchase rights or similar rights held by third parties who are not Affiliates respecting the Properties.

“Properties” means the assets being sold by Seller and purchased by Buyer under this Agreement as more particularly described in Section 2.02 herein.

“Quitclaim Deed” means the form of Quitclaim Deed attached hereto as Exhibit F.

“Records” means all of the Seller’s books, records, files, agreements, documents, geological computer programs, logs, tapes, maps, seismic and geological data (to the extent Seller can assign such data under existing agreements) and any other information related to the Properties; excluding, however, previous offers and economic analysis associated with the purchase, sale or exchange of the Properties, proprietary information, interpretive information, internal communications, personnel information, tax information, information covered by a non-disclosure obligation and information covered by a legal privilege.

“Subject Wells” means those oil and gas wells (or proposed wells or locations) listed in Exhibit B hereto.

“Title Defect” means that Seller’s title to a Property or to a Subject Well shall be subject to one or more of the following conditions that exceed an individual defect value of \$1,000:

a. Seller’s title in a Property shall be subject to an outstanding mortgage, deed of trust, pledge, encroachment, enforceable lien or encumbrance (excepting a “Permitted Encumbrance”) or other adverse claim, deficiency or uncertainty which would cause Seller to have less than Defensible Title.

b. Seller shall, as of the Effective Date, own less than the Net Revenue Interest described in Exhibit A hereto with respect to a Property or greater than the working interest set forth therein without proportionately increasing the Net Revenue Interest;

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c. Seller’s right and interests in a Property shall be subject to being reduced by virtue of the exercise by a third party of reversionary, back-in or similar rights not reflected in Exhibit A hereto or reflected in the calculation of Net Revenue Interest contained therein; or;

d. Seller shall be in default (and such default shall be continuing) under any provision of a lease, farmout agreement or any other agreement affect a Property, which default adversely affects the value of said Property.

e. Buyer’s ownership of any of the Property would be imperfection in title or encumbrance which would, if asserted, cause a Title Defect to exist which would not be waived by prudent persons in the oil and gas business when buying producing properties without purchase price adjustment because the value of the affected Property would be adversely affected.

“Title Defect Dispute” has the meaning set forth in Section 10.04.

“Third Party” means any person or entity, governmental or otherwise, other than Seller and Buyer, and their respective Affiliates.

“Third Party Indemnity Claim” means any and all Liabilities which arise out of or result from (i) any claims or actions asserted against an Indemnitee by a third party, (ii) any rights of a third party asserted against an Indemnitee, or (iii) any Liabilities of, or amounts payable by an Indemnitee to a third party arising out of clauses (i) or (ii).

1.02 Construction. For purposes of this Agreement, the following rules of construction shall apply, unless elsewhere specifically indicated to the contrary:

a. All terms defined herein in the singular shall include the plural as the context requires, and vice versa;

b. Pronouns stated in the neuter gender shall include the masculine, the feminine and the neuter genders;

c. The term “including” (or any form thereof) shall not be limiting or exclusive;

d. References to the designated Sections or Articles are references to Sections or Articles of this Agreement unless otherwise indicated; and

e. Any reference made in this Agreement to a statute, law, code or regulation of any governmental authority or tribal authority is a reference to such statute, law or regulation as amended and in effect on the relevant date (unless otherwise expressly indicated to the contrary).

ARTICLE II

TRANSFER OF THE PROPERTIES

2.01 Sale and Purchase. On the Closing Date, effective as of the Effective Date and upon the terms and conditions herein set forth, Seller shall sell, transfer, assign and convey unto Buyer,

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and Buyer shall purchase and acquire from Seller, one hundred percent (100%) of Seller' s right, title and interest in the Properties.

2.02 Properties. The following are the Properties (herein individually or collectively, as the context indicates, the "Properties"):

- a. The Leases, including all seismic and geological information specific thereto.
- b. The Lands.
- c. The Adena Unit.
- d. The Subject Wells (whether producing, plugged and abandoned or shut-in) and associated equipment, materials and other wells and wellbore cores and personal property located in or on the Lands or attached to the Subject Wells, including, without limitation tanks, boilers, buildings, fixtures, machinery, equipment, pipelines, utility lines, power lines, telephone lines, telegraph lines, roads and other appurtenances.
- e. All other property and rights used or held for use directly in connection with the production, storage, gathering, processing and treating of oil, gas and other liquid and gaseous hydrocarbons produced in association therewith (and the disposal of salt water produced in association therewith) from and to the extent allocable to the Properties, including without limitation, all of Seller' s interests, as owner or lessee, in and to the equipment, machinery, goods vehicles, materials and other personal property (including inventories of tubular goods, supplies, tools and other oil and gas field equipment), fixtures and improvements in, on or allocable to the Properties, appurtenant thereto or used or obtained in connection with them or with the operations, ownership, possession, maintenance or occupancy of the Properties or with the exploration, development, production, gathering, storage, transportation, treatment, processing, marketing, purchase, sale, disposal or other disposition of oil, gas and hydrocarbon substances, and/or minerals or waste produced from the Properties or attributable thereto and all other appurtenances thereunto belonging, wherever located (collectively, the "Equipment"), including, without limitation, the Equipment described on Exhibit C.
- f. All of the presently existing and valid unitization and pooling agreements and units (including all units formed by voluntary agreement and those formed under the rules, regulations, orders or other official acts of any governmental entity or tribal authority having appropriate jurisdiction) to the extent they relate to any of oil and gas properties and interests described on Exhibit A.
- g. All contracts, commitments or arrangements of Seller that in any way relate or pertain to any of the Properties, including without limitation, all presently existing and valid oil sales contracts, casinghead gas sales contracts, gas sales contracts, liquids contracts, processing contracts, gas treating contracts, gas storage agreements, gas gathering contracts, gas transportation contracts, farmout agreements, farming agreements, joint operating agreements, joint venture agreements, water rights agreements, exploration agreements, bottom-hole agreements, dry-hole agreements, acreage contribution agreements, surface leases or agreements, easements, rights-of-way, servitudes, privileges, licenses, ,or other real property agreements

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relating to the use of the ownership of surface and subsurface properties to the extent they relate to any of the oil and gas properties and interests described in Exhibit A.

h. All leases, options, rights of first refusal, contracts, equipment rental contracts, operating agreements or other agreements and instructions to the extent that the same appertain or relate to any of the oil and gas properties and interests described in Exhibit A .

i. All permits, approvals, certificates, franchises and other authorizations or other rights granted by any governmental or tribal authorities and all certificates of convenience or necessity, immunities, privileges, grants, and other rights that relate to any of the Properties or the ownership, operation, use, possession, occupancy, or maintenance of any part thereof.

j. Any of Seller' s accounts, instruments, and intangibles attributable to the Properties with respect to any period of time on or after the Effective Date and liens and security interests in favor of Seller, whether choate or inchoate, under any laws, rules, regulations, authority, contracts or agreements or otherwise arising from the ownership, operation, use, possession, maintenance, occupancy, enjoyment, or sale (or other disposition) of any of the Properties on or after the Effective Date.

k. All Records.

2.03 Reserved Interests. Notwithstanding any provision in this Agreement to the contrary, Seller reserves and retains, and Buyer shall not acquire, (i) Seller' s corporate, financial, tax and legal records and its other business records; (ii) cash, bank accounts, and travel letter accounts; (iii) the management information systems, and other intellectual property rights of Seller used by Seller in the management and administration of its business; (iv) all claims that Seller may have under any policy of insurance, indemnity or bond maintained by Seller other than claims relating to property damage or casualty loss affecting the Properties occurring between the Effective Date and Closing; (v) all accounts receivable, trade credits or notes receivable attributable to the period before the Effective Date; (vi) any files, records, licenses or other assets that Seller may not lawfully convey to Buyer; and (vii) the Adena Gas Plant and Plant Site.

ARTICLE III PURCHASE PRICE

3.01 Purchase Price. The total Purchase Price paid for the Properties shall be Fifteen Million Seven Hundred Fifty Thousand Dollars and No/100 United States Dollars (US \$15,750,000) ("Purchase Price"). The Purchase Price shall be subject to the adjustments hereinafter set forth in this Article III. Buyer and Seller have allocated the Purchase Price among the Properties as set forth in Exhibit A hereto (herein called the "Allocated Value"). The Allocated Value is for the purpose of providing a mechanism to adjust the Purchase Price in the event of Title Defects or other defects as covered herein with respect to the Properties and for the purpose of valuing a portion thereof which may be subject to a Preferential Purchase Right.

3.02 Closing Adjustments to Purchase Price. The Purchase Price shall be adjusted (either upward or downward) based upon the Net Proceeds of Production received by Seller from or attributable to the Properties after the Effective Date. The following provisions shall apply to such adjustment:

a. Buyer shall prepare, in accordance with this Agreement, a proposed statement (the "Purchase Price Adjustment Statement") setting forth the amount by which the Purchase Price shall be adjusted (either upward or downward) based upon the following:

(i) an amount equal to the estimated Net Proceeds of Production from the Properties to Seller's interest after the Effective Date and prior to Closing;

(ii) the value of any variance in the gas imbalances as of the Effective Date from the quantities reflected on Exhibit G hereto;

(iii) an amount equal to the sum of all adjustments to the Purchase Price due to Title Defects asserted under Article X in an aggregate amount in excess of \$25,000 and/or the exercise of purchase rights or failure to obtain consents under Section 10.03; and

(iv) an amount equal to the sum of all adjustments to the Purchase Price due to Environmental Liabilities in an aggregate amount in excess of \$50,000 for Environmental Conditions.

(v) an amount equivalent to all funds or accounts that relate to the Properties that Seller is holding in suspense as of the Closing Date for suspended third party owners of royalty, overriding royalty, working or other interests for production of oil or gas or other substances attributable to the Properties for periods prior to the Effective Date (the "Royalty Suspense Accounts"), together with a list of all such Royalty Suspense Accounts setting out the name, address, amount, accrual period, and identity of each of the Properties to which the Royalty Suspense Accounts relate. After closing, Buyer shall assume and be liable for the payment or escheat, as appropriate, of all Royalty Suspense Accounts in accordance with all applicable laws, and will instruct the Escrow Agent to make the appropriate disbursements in accordance therewith.

b. Buyer shall submit the Purchase Price Adjustment Statement to Seller not less than seven (7) Business Days prior to Closing, and shall afford Seller access to Buyer's calculation in order to compute the Purchase Price Adjustment Statement. At least three (3) Business Days prior to Closing, Seller shall deliver to Buyer a written report containing such changes, if any, which Seller proposes to be made to the Purchase Price Adjustment Statement. Seller and Buyer shall each make every reasonable effort to agree prior to the Closing Date on a mutually agreed Purchase Price Adjustment Statement.

3.03 Post-Closing Adjustments to Purchase Price. Not more than ninety (90) days after Closing, Seller shall prepare a statement (herein called the "Final Statement"), which shall detail the Net Proceeds of Production received by Seller after Closing, and shall show the calculation of the final settlement price (herein called the "Final Settlement Price") based upon such Final Statement. Seller shall submit such Final Statement to Buyer and shall afford Buyer access to Seller's records pertaining to the computations contained in the Final Statement. As soon as practicable after receipt of the Final Statement, but in any event within thirty (30) days thereafter, Buyer shall deliver to Seller a written report either confirming Seller's calculations or containing Buyer's proposed changes to the Final Statement. The parties shall agree with respect

to the amounts due pertaining to such Final Settlement Price not later than ninety (90) days after Closing (the date on which such agreement is reached shall be herein called the "Final Settlement Date").

3.04 Arbitration of Final Settlement Price. If Seller and Buyer cannot agree upon the Final Statement not later than one hundred twenty (120) days after Closing, either Seller or Buyer may request binding arbitration of the Final Statement to be conducted before one arbitrator in Denver, Colorado in accordance with the Uniform Arbitration Act, as adopted and then in effect in the State of Colorado, and in accordance with the rules promulgated by the American Arbitration Association. The parties will mutually agree upon an accounting firm to act as arbitrator. If such firm is unwilling or unable to serve in such capacity, Seller and Buyer shall again attempt to designate, in good faith, another acceptable person or firm to act as the sole arbitrator under this Section 3.04. If the parties are unable to agree upon the designation of a person as substitute arbitrator, then Seller or Buyer may request the American Arbitration

Association to select the arbitrator. Seller, Buyer and the arbitrator shall proceed with due diligence and in good faith in order that the arbitration is commenced and completed as promptly as possible. Any arbitration decision shall be final and binding upon Buyer and Seller, it being expressly understood and agreed by the parties that the specific issue or issues so determined shall not be the subject of (i) any further dispute between the parties, (ii) any further arbitration under this Section 3.04, or (iii) judicial appeal. The expenses of such arbitration, including the fees of the arbitrator, shall be divided equally between Seller and Buyer, unless otherwise specified in the award. Each party shall pay the fees and expenses of its own witnesses and legal counsel, unless otherwise specified in the award.

3.05 Payment of Final Settlement Price. In the event that (i) the Final Settlement Price is more than the amount previously paid to Seller, Buyer shall pay to Seller, within two (2) Business Days after the date on which Buyer and Seller have agreed on the Final Settlement Price or the arbitrator has rendered his decision pursuant to Section 3.05 above, in immediately available funds, the amount of such difference, or (ii) the Final Settlement Price is less than the amount previously paid to Seller, Seller shall pay to Buyer, within two (2) Business Days after such date in immediately available funds, the amount of such difference.

ARTICLE IV THE CLOSING

4.01 Time and Place of Closing. Closing shall occur, unless Buyer and Seller agree otherwise in writing, in the offices of Welborn, Sullivan, Meck & Tooley, P.C., 1225 17th Street, Suite 2200, Denver, Colorado 80202. Subject to Section 16.02 the Closing will be held at 10:00 a.m. MDT on June 15, 2011 (the "Closing Date").

4.02 Deliveries at Closing. At Closing, the following shall occur:

- a. Seller and Buyer shall execute, acknowledge and deliver the Assignment and Bill of Sale;
- b. Buyer shall pay Seller the Adjusted Purchase Price;

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c. Seller shall deliver to Buyer evidence that all consents and approvals prerequisite to the sale and conveyance of the Properties (except for consents and approvals of governmental entities or tribal authorities customarily obtained subsequent to the transfer of title) have been obtained, as well as evidence of waiver or lapse of any unexercised preferential purchase rights applicable to the Properties;

d. Seller shall deliver to Buyer Letters-in-Lieu;

e. Seller shall deliver to Buyer a Non-Foreign Affidavit;

f. Seller shall deliver documents or evidence confirming or verifying that Buyer shall succeed Seller as operator of the Assets.

g. Seller shall deliver to Buyer such other instruments as necessary to carry out Seller's obligations under this Agreement; and

h. Seller shall, subject to the terms of any applicable agreements (including, without limitation, operating agreements) and to the other provisions hereof, deliver to Buyer exclusive possession of the Properties, effective as of the Effective Date.

4.03 Conditions to the Obligations of Buyer to Close. The obligations of Buyer to proceed with the Closing are subject to the fulfillment (or waiver in writing by Buyer), at the time of Closing, of each of the following conditions:

a. Representations and Warranties True. The representations and warranties of Seller contained in Article V shall be true on and as of the Closing Date, except for inaccuracies which are not in the aggregate material and which would not have a substantial adverse impact on the Properties taken as a whole; and, Seller shall have delivered to Buyer at the Closing a certificate signed on its behalf by an authorized officer of its Manager.

b. Compliance with Obligations and Covenants. Seller shall have substantially performed, in all material respects, all of its obligations under this Agreement and substantially complied with its material covenants hereunder.

c. Regulatory Authorizations. The authorizations, consents, orders and approvals of federal, state, tribal authorities and foreign regulatory bodies and officials listed on Exhibit J necessary for the consummation of the transactions contemplated hereby shall have been received.

d. Absence of Litigation. There shall be no action, suit or governmental proceeding (excluding any such matter initiated by Buyer) pending, or threatened in writing to be instituted, before any court or governmental agency seeking to restrain, prohibit or obtain damages or other relief in connection with this Agreement or the consummation of the transactions contemplated hereby.

e. Consents. Seller shall have secured the consents, votes and otherwise satisfied all third party requirements necessary to allow Buyer to buy the Properties and, after the Closing Date, to operate the Properties now under the operatorship or contract operatorship of Seller

under any applicable joint operating agreements, and/or contractual agreements with third parties.

4.04 Conditions to the Obligation of Seller to Close. The obligations of Seller to proceed with the Closing are subject to the fulfillment (or waiver in writing by Seller), at the time of Closing, of each of the following conditions:

a. Representations and Warranties True. The representations and warranties of Buyer contained in Article VI shall be true on and as of the Closing Date, except for inaccuracies which are not in the aggregate material; and, Buyer shall have delivered to Seller at the Closing a certificate signed on its behalf by an authorized officer.

b. Compliance with Obligations and Covenants. Buyer shall have substantially performed, in all material respects, all of its obligations under this Agreement and substantially complied with its material covenants hereunder.

c. Regulatory Authorizations. The authorizations, consents, orders and approvals of federal, state, tribal authorities and foreign regulatory bodies and officials listed on Exhibit J hereto necessary for the consummation of the transactions contemplated hereby shall have been received.

d. Absence of Litigation. There shall be no suit, action or other proceeding (excluding any such matter initiated by Seller) pending, or threatened in writing to be instituted, before any court or governmental agency seeking to restrain, prohibit or obtain damages or other relief in connection with this Agreement or the consummation of the transactions contemplated hereby.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF SELLER

Seller represents and warrants to Buyer as set forth below:

5.01 Existence. Seller is, and until Closing shall continue to be a limited liability company duly organized, validly existing and in good standing under the laws of the State of Colorado, with full legal power and right to carry on its business as such is now being conducted.

5.02 Legal Power. Seller has the legal power and right to enter into and perform this Agreement and the transactions contemplated herein. The consummation of the transactions contemplated by this Agreement will not violate, nor be in conflict with: (a) any agreement or instrument to which Seller is a party or by which Seller or any of the Properties is bound, other than provisions of leases or other agreements requiring that the consent of certain parties be obtained prior to, or granting to such parties preferential purchase rights in connection with, the transfer of the rights under such lease or agreement, all of which are set forth in Exhibit H; or (b) any judgment, order, ruling or decree applicable to Seller as a party in interest or any law, rule or regulation applicable to Seller's ownership or operation of the Properties.

5.03 Execution. The execution, delivery and performance by Seller of this Agreement and the transactions contemplated by this Agreement are within the power and authority of Seller, have

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been duly and validly authorized by all requisite limited liability company action on the part of Seller and will not result in any breach of the terms and conditions of, or constitute a default or require the further consent of any person under, any provision of the relevant documents by which Seller was formed and organized or under applicable law or regulation. This Agreement has been (and all documents and instruments required under this Agreement to be executed and delivered by Seller at Closing shall have been) duly executed and delivered on behalf of Seller. This Agreement does, and such documents and instruments shall, constitute legal, valid and binding obligations of Seller generally enforceable in accordance with their terms.

5.04 Accuracy of Materials. With respect to title opinions, contracts and other materials containing information respecting the nature, value or ownership of the Properties (the "Information"), which Information shall be made available by Seller to Buyer in Seller's offices, to the best of Seller's knowledge, no error, inaccuracy or omission exists respecting the Information which would, singly or in the aggregate, as of Closing have an adverse effect on the Properties taken as a whole; provided, however, that any representation or warranty made herein is subject to all assumptions contained in the Information. In determining the Purchase Price, Buyer has relied in part on certain information as to Seller's net revenue interests in the Properties. In the event that a material portion of the information cannot be confirmed by Buyer during its due diligence, Buyer shall have the right to terminate this Agreement.

5.05 Default. Except as disclosed in the Information, (i) there has been no default on the part of Seller under any obligation, lease, contract, plan or arrangement, which default or defaults would, singly or in the aggregate, adversely affect the ownership, operation or value of any portion of the Properties subsequent to the Effective Date, (ii) Seller has not received any notice of such default, and (iii) with respect to the ownership, operation, production, gathering, processing, storage, transportation and sale of hydrocarbons and carrying on of the business of Seller with respect to the Properties and the condition thereof, Seller has complied with all applicable laws, rules and regulations and agreements.

5.06 Compliance with Licenses and Laws. Seller possesses all governmental licenses, permits, certificates, orders, approvals and authorizations necessary for its ownership, development and operation of the Properties (collectively the "Permits") and is in compliance with the Permits and all laws, ordinances, regulations and orders applicable to the Properties, except where failure to possess any Permits or failure to be in compliance would not, singly or in the aggregate, adversely affect the ownership, operation or value of any portion of the Properties subsequent to the Effective Date.

5.07 Litigation. Except for the Existing Litigation (if any) set forth in Exhibit G, there are no actions, suits or governmental proceedings pending or, to the best of Seller's knowledge, threatened, and there are no pending investigations or audits against Seller, or against any portion of the Properties (a) seeking to prevent the consummation of the transactions contemplated hereby, (b) which would,

singly or in the aggregate, if decided adversely to Seller, result in an impairment or loss of Seller's title to any part of the Properties or the value thereof, or (c) which might, if decided adversely to Seller, hinder or impede the development or operation of the Properties.

5.08 Production Sale Contracts. Except as set forth on Exhibit K, (a) Seller is not obligated by virtue of any prepayment made under any production sales contract or any similar arrangement,

to deliver oil or gas produced from and after the Effective Date without receiving payment therefor in the ordinary course of business, (b) no proceeds of production from the Properties prior to the Closing Date are subject to any refund as a result of the price paid therefor exceeding the applicable maximum lawful prices, and (c) no purchaser of production from the Properties has placed any amount of funds owing to Seller and attributable to the period of time subsequent to the Effective Date in suspense due to any purported problem affecting Seller's title to the applicable Property.

5.09 Drilling Commitment. Except as set forth on Exhibit L, Seller has not paid, incurred or otherwise committed from and after the Effective Date to any expenditures in excess of \$25,000, net to the interest of Seller for any single operation, with respect to the drilling, completion, recompletion or rework of any well not shown on Exhibit C hereof and no such expenditures are pending and unapproved.

5.10 Affiliate Agreements. Seller is not subject to an agreement with any Affiliate of Seller that cannot be terminated by Seller after Closing without penalty, cost or liability.

5.11 No Cash Balancing. Except as provided in Exhibit I, as of the Effective Date, there is no portion of the Properties with respect to which, in the aggregate (a) a gas overproduction balance exists, or (b) the applicable gas balancing agreement contains a provision that would require a cash balancing payment upon the transfer of the affected Properties through a transaction of the nature contemplated in this Agreement.

5.12 Preferential Purchase Rights.

a. Compendium of Preferential Purchase Rights. Exhibit H sets forth a complete compendium of those Leases, operating and other agreements and documents which contain options, rights of first refusal, required third party consents, preferential purchase rights or similar rights held by third parties who are not Affiliates of Seller.

b. Records Furnished. Included in the Information furnished by Seller to Buyer will be true and correct copies of agreements (or copies of extracts and summaries of agreements) relating to any preferential purchase rights and third party consents set forth in Exhibit H hereto.

5.13 Seller Not a Foreign Person. Seller is not a "foreign person" within the meaning of Sections 4145 and 7701 of the Code (i.e. Seller is not a non-resident alien, foreign corporation, foreign partnership, foreign trust or foreign estate as those terms are defined in the Code and regulations promulgated thereunder) and Sellers shall deliver at Closing a Certificate of Non-Foreign Status (Exhibit O) to certify such fact.

5.14 Taxes. All ad valorem, real property, personal property, production, severance, excise and other taxes applicable to the ownership and operation of the Properties prior to the Effective Date have been or will be duly and timely paid, except for calendar year 2011 ad valorem taxes which are provided for in Section 13.01.

5.15 Agreements. The parties acknowledge that Seller is in the business of exploring and developing oil and gas interests and, in the course of carrying on such business, either executes (or assumes) and makes applicable to its interests various agreements of the types generally

experienced in the oil and gas industry. In this regard, Seller represents and warrants to Buyer that the contractually binding arrangements which are included in or applicable to the Properties are of the type generally found in the oil and gas industry and do not (individually or in the aggregate) contain provisions which would have a material adverse effect on the Properties taken as a whole.

5.16 Absence of Material Adverse Changes. Seller has, for all periods from and after the Effective Date, and shall through Closing, continue to own and operate (or cause third parties to operate) the Properties in the ordinary course of Seller's business and in a manner consistent with past practices. In this regard, Seller represents that, as of Closing, there shall have been no material adverse changes in the condition of the Properties from or after the date of this Agreement.

5.17 Status of Subject Wells. Except as set forth in Exhibit M, there are no Subject Wells located on the Leases that:

- a. Seller is currently obligated by law or contract to plug and abandon;
- b. Seller will be obligated by law or contract to plug and abandon with the lapse of time or notice or both because the Subject Well is not currently capable of producing in commercial quantities;
- c. are subject to exceptions to a requirement to plug and abandon issued by a regulatory authority having jurisdiction over the Leases; or
- d. have been plugged and abandoned but have not been plugged in accordance with all applicable requirements of each regulatory authority having jurisdiction over the assets.

5.18 Subject Wells; Compliance. Seller warrants that, to Seller's knowledge, (i) all of the Subject Wells have been drilled and completed substantially within the limits permitted by contract, pooling or unit agreement, and by law; and (ii) all drilling and completion of the Subject Wells and all related development and operations have been conducted in material compliance with all applicable laws, ordinances, rules, regulations and permits. Seller warrants that no Subject Well is subject to penalties on allowable after the date hereof because of any overproduction or any other violation of applicable laws, rules, regulations, or permits or judgments, orders or decrees of any court or governmental body or agency which would have a material adverse effect on the Properties taken as a whole.

5.19 Bankruptcy or Insolvency Actions. There are no bankruptcy, reorganization or similar proceedings pending, being contemplated by, or, to the best knowledge of Seller, threatened against Seller.

5.20 Payment of Costs and Expenses. All costs and expenses of operation of the Properties, costs of marketing, transportation and processing of production and all royalties of overriding royalties for periods of time prior to the Effective Date that have been billed to Seller prior to the date of this Agreement have been paid or will be paid by Seller in a timely manner.

5.21 Absence of Certain Changes. Between the date of execution of this Agreement and the Closing Date, there has not been without Buyer's prior written consent:

- a. A sale, lease or other disposition of the Properties, other than in the ordinary course of business;
- b. A mortgage, pledge or grant of a lien or security interest in any of the Properties; or
- c. A contract or commitment to do any of the foregoing.

5.22 Environmental Compliance. Seller represents that, in regards to the Properties, to the best knowledge of Seller, it has been and is in compliance in all material respects with all applicable Environmental Laws and has obtained and is in material compliance with all permits, licenses and other authorizations required under any Environmental Law. Seller further represents that it is not subject to any pending, threatened or potential judicial administrative or regulatory proceeding with regards to any Environmental Law pertaining to the Properties.

5.23 Reversionary Interests. Seller represents that none of Properties are subject to any reversionary rights in any third party which would reduce the interests specified on Exhibit A following the date hereof, unless and except as expressly specified on Exhibit A.

ARTICLE VI REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Seller as set forth below:

6.01 Existence. Buyer is, and until Closing shall continue to be a corporation (a) duly organized, validly existing and in good standing under the laws of the State of Nevada, (b) with full legal power and right to carry on its business as such is now being conducted, and (c) duly qualified to do business and in good standing in Colorado.

6.02 Legal Power. Buyer has the legal power and right to enter into and perform this Agreement and the transactions contemplated by this Agreement. The consummation of the transactions contemplated by this Agreement will not violate, nor be in conflict with (a) any provision of the articles of incorporation or bylaws of Buyer, or (b) any judgment, order, rule and/or decree applicable to Buyer as a party in interest or any law, rule or regulation which would have an adverse affect on Buyer's ability to own or operate the Properties after Closing.

6.03 Execution. The execution, delivery and performance by Buyer of this Agreement and the transactions contemplated herein are within the corporate power and authority of Buyer, have been duly and validly authorized by all requisite action on the part of Buyer (including, without limitation, all requisite actions of the shareholders and directors of Buyer), and will not result in any breach of the terms and conditions of, or constitute a default or require the further consent of any person under, any provision of applicable law or regulation. This Agreement has been (and all documents and instruments required under this Agreement to be executed and delivered by Buyer at Closing shall have been) duly executed and delivered on behalf of Buyer. This

Agreement does, and such documents and instruments shall, constitute legal, valid and binding obligations of Buyer generally enforceable in accordance with their terms.

6.04 Bankruptcy or Insolvency Actions. There are no bankruptcy, reorganization or similar proceedings pending, being contemplated by, or to the best knowledge of Buyer threatened against Buyer.

6.05 Qualification to Hold Leases on Public Lands. Buyer is now, or prior to Closing will be, qualified to own all Federal and State Leases constituting a portion of the Properties, and the consummation of the transactions contemplated hereby will not cause Buyer to

be disqualified to own Federal or State Leases in Colorado or to exceed any acreage limitation imposed by any law, statute, rule or regulation. As used herein, the term "Federal and State Leases" shall refer to all oil and gas leases secured (a) from the United States government or agencies thereof, (b) from or on behalf of any Indian tribes, and (c) from any state governmental authority or agency or any county, municipal or local government authority.

6.06 Litigation. There are no actions, suits or governmental proceedings pending or, to the best of Buyer's knowledge, threatened, against Buyer or any of its Affiliates or their respective properties, assets, operations or businesses seeking to prevent the consummation of the transactions contemplated hereby.

6.07 Bonds. As of Closing, Buyer shall furnish replacement bonds in order to secure releases for Seller of all of Seller's operating and other bonds and shall thereafter be responsible for all bonds required in connection with the ownership and operation of the Properties.

6.08 Independent Evaluation. Buyer acknowledges that it is an experienced and knowledgeable investor in the oil and gas business, and the business of purchasing, owning, developing, and operating oil and gas properties such as the Properties. In making the decision to enter into this Agreement and to consummate the transactions contemplated hereby, subject to Section 5.04, Buyer has relied solely upon the representations, warranties, covenants, and agreements of Buyer and Sellers set forth in this Agreement and Buyer's own independent due diligence and investigation of the Properties, and has been advised by and has relied solely on its own expertise and its own legal, tax, operations, environmental, reservoir engineering, and other professional counsel and advisors concerning the transaction contemplated hereby, the Properties and the value thereof.

ARTICLE VII
ADDITIONAL AGREEMENTS AND COVENANTS OF SELLER

From and after the date of execution of this Agreement and until Closing, except as otherwise consented to by Buyer, and subject further to the constraints of any applicable operating or other agreements, Seller covenants and agrees that:

7.01 Maintenance of Properties. Seller will cause the Properties to be maintained and operated in a good and workmanlike manner; and will pay or cause to be paid all costs and expenses incurred in connection with the development, operation and maintenance of the Properties before bills or invoices become delinquent; and will perform and comply with the covenants and conditions in all agreements relating to the Properties; and, will continue to maintain such

Properties in the ordinary course of business; provided, however, that from and after the date hereof, Seller shall not enter into any new commitment with respect to any of the Properties which shall require an expenditure in excess of \$50,000 for any single operation, net to Seller's interest, without the consent of Buyer, which consent shall not be unreasonably withheld.

7.02 Insurance Coverage. Seller will maintain (or cause third parties to maintain) in full force and effect all policies of insurance covering the Properties now maintained by Seller or third parties (or policies with substantially similar coverage), but shall not be obligated to secure any additional insurance, regardless of the extent or nature of insurance now maintained by Seller or third parties.

7.03 Other Filings and Authorizations. Seller, as promptly as practicable, shall make all such filings and submissions under such laws, rules and regulations applicable to Seller as may be required for the consummation of the transactions contemplated hereby.

7.04 Sale or Encumbrance of Properties. Seller will not surrender, abandon, release, mortgage, encumber, sell, transfer, assign or otherwise dispose of or place (or permit to be placed) any security interest, mortgage, lien or other encumbrance upon the Properties, or

any tangible or intangible assets which constitute oil and gas assets, except for dispositions made in connection with the expiration of a Lease.

7.05 Limitations on Covenants of Seller. Notwithstanding any other provisions of this Article VII, (a) Seller may take any of the foregoing actions otherwise prohibited by the provisions of any relevant section if reasonably necessary under emergency circumstances, provided Buyer is notified as soon as practicable thereafter; and (b) except to the extent provided in Article X relating to any Title Defect resulting therefrom, Seller shall have no liability to Buyer (but shall remain liable to the obligee and shall indemnify Buyer as to any action taken by obligee against Buyer with respect thereto) for any incorrect payment of delay rentals, royalties, shut-in royalties or similar payments or for any failure to make any such payments through mistake or oversight including, without limitation, Seller's negligence.

7.06 Information and Access and Inspection of Properties.

a. Immediately upon execution by the parties to this Agreement, Seller shall give Buyer and Buyer's authorized representatives, upon reasonable notice and at any reasonable time before Closing, access to the Properties, including, without limitation, (i) the Subject Wells and other equipment included in or on the Properties, at Buyer's sole risk, cost and expense, for the purpose of inspecting the same. Seller will also permit Buyer access to the Properties, including, without limitation, the Subject Wells, the Adena Gas Plant, and other equipment included in this transaction for the purpose of inspecting the environmental condition of the Properties, including, without limitation, the Subject Wells and the Adena Gas Plant, and will permit Buyer to conduct tests related to the environmental condition of the Properties, including, without limitation, the Subject Wells and the Adena Gas Plant, so long as the testing does not unreasonably interfere with the operation of the Properties. Seller shall also use best efforts to obtain permission for Buyer to gain access to any Properties, including, without limitation, the Subject Wells operated by a third party for the purposes of inspecting the environmental condition of the Properties, including, without limitation, the Subject Wells, and conducting tests related to the environmental condition of the Properties, including, without limitation, the

Subject Wells, so long as the testing does not unreasonably interfere with the operation of the Properties. Buyer additionally agrees to comply with the rules, procedures and instructions issued by Seller or Third Party operator of the Properties while upon the Properties, and (ii) all production, engineering and other technical data and records, and to all contact, land and lease records, in Seller's possession which relate to the Properties; provided, however, that Seller shall have no obligation to provide Buyer such access to any data or information to which access cannot be legally provided to Buyer because of third party restrictions on Seller. Buyer shall repair any damage to the Properties, including, without limitation, the Subject Wells resulting from any inspection by Buyer thereof and Buyer does hereby agree to defend, indemnify, and hold Seller harmless from any and all losses, costs, damages, obligations, claims, liabilities, expenses or causes of action arising from Buyer's inspection of the Properties, including, without limitation, claims for personal injuries, property damage and attorneys' fees relating thereto.

b. Seller will exercise reasonable diligence in safeguarding all engineering, geological and geophysical data, reports and maps and all other confidential data in its possession relating to the Properties.

7.07 Reasonable Efforts. Seller will use all reasonable efforts to obtain the satisfaction of the conditions to Closing set forth in Section 4.03.

7.08 Damage to Properties Prior to Closing. From the date hereof until Closing, Seller shall promptly notify Buyer of any loss or damage to the Properties, or any part thereof, known to Seller and in the aggregate exceeding \$25,000 (twenty-five thousand dollars), net to Seller's interest.

ARTICLE VIII

ADDITIONAL AGREEMENTS AND COVENANTS OF BUYER

8.01 Filings and Authorizations. Buyer, as promptly as practicable, shall make or cause to be made, all such filings and submissions under such laws, rules and regulations applicable to it as may be required for the consummation of the transactions contemplated hereby.

8.02 Reasonable Efforts. Buyer will use all reasonable efforts to obtain the satisfaction of the conditions to Closing set forth in Section 4.04.

ARTICLE IX

ADDITIONAL COVENANTS AND OBLIGATIONS OF THE PARTIES

9.01 Public Announcements. Seller and Buyer will consult with each other before they or any of their respective Affiliates issue any press releases or otherwise make any public statements with respect to this Agreement and the transactions contemplated hereby, and neither Seller nor Buyer, nor any of their respective Affiliates, shall issue any such press release or make any such public statement prior to such consultation except, in each case, as may be required by law or by obligations pursuant to any listing agreement with any securities exchange on which any of its or their shares may be listed.

9.02 Further Assurances. Seller and Buyer will use all reasonable efforts to take, or cause to be taken, all action, and to do, or cause to be done, all things necessary, proper or advisable to

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carry out their respective obligations under this Agreement and to consummate and make effective the purchase and sale of the Properties pursuant hereto. The parties agree that should the Assignment delivered at Closing fail to transfer and convey to Buyer the entirety of the Properties, the parties will, as promptly as practicable on learning of the existence of Properties not conveyed to Buyer, execute such additional Assignments as may be necessary to accomplish the transfer of the Properties as contemplated herein. At Closing and thereafter, Seller shall execute and deliver to Buyer all documents necessary or appropriate to effect a change in ownership, such as letters in lieu of division orders, transfer orders or the like or cause the same to be delivered to each purchaser of production from the Properties, instructing the purchaser to make all future payments directly to Buyer from and after the Effective Date. Buyer shall promptly replace any and all signs located on the Properties which presently show Seller as operator (or owner) thereof, with signs showing the new operator (or owner) thereof.

9.03 Environmental Matters.

a. Seller's Environmental Representation. Seller represents to Buyer that it has received no notice of any kind from any federal, state, tribal, or local governmental agency or authority and Seller has no knowledge that (i) there has been a release or threat of release of any hazardous substance (as the terms "release" and "hazardous substance" are defined or used in the Comprehensive Environmental Response Compensation and Liability Act, 42 U.S.C. §§ 9601 et seq.) on or from any Property which could result in a materially adverse environmental impact or condition, or (ii) a condition exists on or under any Property which could result in a material liability for remediation or correction to Seller under applicable Environmental Laws. For purposes of this Section 9.03 (a) only, the phrase "materially adverse environmental impact or condition" and "material liability" shall mean Environmental Liabilities (hereinafter defined) which, taken in the aggregate, would exceed \$25,000.

b. Alleged Environmental Conditions. As soon as reasonably practical thereafter, but in no event later than ten (10) Business Days prior to the Closing Date, Buyer shall notify Seller of any Alleged Environmental Condition(s). Buyer's notice of Alleged Environmental Condition(s) shall include a complete description of each individual environmental condition which Buyer takes exception to (including any and all supporting documentation) and the costs which Buyer in good faith attributes to remediating the same. Seller may undertake to satisfy some, all or none of Buyer's Alleged Environmental Condition(s) at Seller's sole cost and

expense. Buyer and Seller shall meet at least five (5) Business Days prior to the Closing Date in an attempt to mutually agree on an acceptable resolution addressing the Alleged Environmental Condition(s) which remains uncured. In evaluating the existence or magnitude of an Alleged Environmental Condition, due consideration shall be given to the length of time the Alleged Environmental Condition has been in existence and whether such fact, circumstance or condition is of the type expected to be encountered in the area involved, and whether the Alleged Environmental Condition is customarily acceptable to reasonable persons engaged in the business of ownership and operation of oil and gas properties. Buyer or Seller shall have the right to terminate this Agreement on the Closing Date if the value attributable to the Alleged Environmental Condition(s) which remain uncured as of the Closing Date exceeds more than 10% of the unadjusted Purchase Price.

Prior to Closing (unless otherwise agreed to in writing by the Seller and Buyer), either Seller or Buyer may initiate arbitration (with written notice to the other) to resolve any disputes

over the value attributable to the Alleged Environmental Condition(s) or whether or not the Agreement can be terminated under this Article. In such event, the parties shall mutually agree upon a neutral arbitrator who is an attorney licensed in the State of Colorado with at least fifteen (15) years environmental law experience who has never been an officer, director, employee, consultant, agent or representative of either Seller or Buyer. If such arbitrator is unavailable or unable to serve in such capacity, Seller and Buyer shall again attempt to mutually agree upon and designate a qualified and acceptable arbitrator. If the parties are unable to agree upon the designation of person as an arbitrator, then Seller or Buyer shall request the American Arbitration Association to select a qualified arbitrator. Seller and Buyer shall proceed diligently and in good faith in order that the arbitration is commenced and completed as promptly as possible. The arbitration shall be conducted in Denver, Colorado in accordance with the Uniform Arbitration Act, as adopted and then in effect in the State of Colorado. The expenses of the arbitration, including the arbitrator's fees, shall be divided equally between Seller and Buyer. Each party shall pay the fees and expenses of its own witnesses and legal counsel, unless otherwise specified in the award. Any arbitration decision shall be final and conclusive upon Buyer and Seller, it being expressly understood and agreed by the parties that the specific issue or issues so determined shall not be the subject of (i) any further dispute between the parties, (ii) any further arbitration under this Section, or (iii) judicial appeal.

c. Environmental Liabilities. From and after closing, the following provisions shall pertain to any and all direct or indirect demands, claims, notices of violation, filings, investigations, administrative proceedings, judicial proceedings, actions, causes of actions, suits, other legal proceedings, payments, obligations, charges, judgments, assessments, losses, liabilities, costs and expenses paid or incurred, or diminutions in value of any kind or character (whether or not asserted prior to the date hereof, and whether known or unknown, fixed or unfixed, conditional or unconditional, based on negligence, strict liability or otherwise, choate, or inchoate, liquidated or unliquidated, secured or unsecured, accrued, absolute, contingent or otherwise), including, without limitation, penalties, interest on any amount payable to a third party as a result of the foregoing, and any legal or other expenses reasonably incurred in connection with the investigation or defense of any claim, demand or legal or administrative proceeding whether or not resulting in liability, and all amounts paid in settlement of claims, demands, or legal or administrative proceedings relating to the Properties and all costs and fees in connection therewith resulting from violations of Applicable Environmental Laws (individually and collectively, as the context requires, "Environmental Liabilities").

(i) Liabilities of Seller. Seller shall be responsible for Environmental Liabilities to the extent that the same are attributable to the periods of operation or production prior to the Closing Date provided, however, that Seller's responsibility under this clause is restricted to only such Environmental Liabilities as shall be set forth in a notice or notices given by Buyer to Seller not less than seven (7) calendar days prior to the Closing Date ("Seller Environmental Liabilities").

(ii) Liabilities of Buyer. Buyer shall be responsible for all Environmental Liabilities that are not Seller Environmental Liabilities ("Buyer Environmental Liabilities").

d. Seller's Environmental Indemnity Obligations. Seller and its successors and assigns shall, to the fullest extent permitted by law, indemnify, defend, hold harmless, discharge

and release Buyer and its Affiliates, successors and assigns, stockholders, directors, officers, employees, agents and representatives from and against any and all Seller Environmental Liabilities.

e. Buyer's Environmental Indemnity Obligations. Buyer and its successors and assigns shall, to the fullest extent permitted by law, indemnify, defend, hold harmless, discharge and release Seller and its Affiliates, successors and assigns, stockholders, directors, officers, employees, agents and representatives from and against any and all Buyer Environmental Liabilities.

f. Adena Gas Plant and Plant Site. Seller shall retain title to the Adena Gas Plant and Plant Site and shall remain solely responsible for the Environmental Condition of, and any Environmental Liabilities with respect to, such Adena Gas Plant and Plant Site. If, following the Closing, Seller elects to dismantle the Adena Gas Plant and remediates the Plant Site, to the extent remediation is required, and obtains written approval of such action from the applicable governmental agency or agencies that is reasonably satisfactory to Buyer, then Buyer agrees to purchase from Seller, and Seller agrees to sell to Buyer, the Plant Site for one hundred dollars (\$100) cash. In such case, Seller shall convey the Plant Site to Buyer using the form of Quitclaim Deed attached hereto as Exhibit F.

g. Indemnity Claims. The procedures set forth in Sections 12.04 through 12.09 shall apply to a claim for indemnity made under this Section 9.03.

ARTICLE X
TITLE REVIEW

10.01 Review of Title Records.

a. Review Period. Immediately upon execution by the parties of this Agreement, Buyer shall, at Buyer's sole cost and expense, commence and pursue such examination of title to the Properties as it deems necessary and proper. Buyer shall conduct such review during Seller's normal business hours, employing such persons or entities as it may choose. Buyer shall have the right to reasonably request copies of any and all such title Records. Buyer shall have access to or copies of all documents and materials in Seller's possession in order to assist Buyer in determining the validity of Seller's title in and to the Properties. Buyer will conclude its title review and give written notice to Seller of any asserted Title Defects that exceed an individual defect value in excess of \$1,000 not later than seven (7) calendar days prior to Closing (the period from the date hereof until seven (7) calendar days prior to the Closing Date being herein called the "Title Review Period"). Seller shall also notify Buyer of any Title Defects of which Seller becomes aware.

b. Notices. Notice of Title Defect(s) shall include a description and full explanation (including any and all supporting documentation) of each asserted Title Defect being claimed and a value which Buyer in good faith attributes to each said Title Defect. Should the title opinions or other information obtained by Buyer indicate that Seller has a higher Net Revenue Interest with respect to a Property (or group thereof) than that set forth with respect to the same as shown in Exhibit A hereto, Buyer shall inform Seller of the same as promptly as possible, and in any event, prior to the expiration of the Title Review Period.

c. In the event a third party validly exercises an applicable Preferential Purchase Right prior to Closing, the Purchase Price shall be reduced by the Allocated Value of the applicable Property, as set forth in Exhibit A. The existence of an unwaived

Preferential Purchase Right with respect to a transaction contemplated by this Agreement shall not be deemed a Title Defect, but shall be governed by the provisions of Section 10.03.

d. Subject to Buyer's rights under other provisions of this Agreement, if the Title Defect is a lien, encumbrance or other charge upon a Property which is liquidated in amount, the Purchase Price shall be reduced by the sum necessary to be paid to the obligee to remove the Title Defect from the affected Property. Subject to Buyer's rights under other provisions of this Agreement, if a Title Defect represents an obligation or burden upon the affected Property for which the economic detriment to Buyer is not capable of being liquidated but can be estimated with reasonable certainty, the Purchase Price shall be reduced by the sum necessary to compensate Buyer at Closing for the adverse economic effect which such Title Defect will have on the affected Property. If there is a lien or encumbrance in the form of a judgment secured by superseded bond or other security approved by the Court issuing such order, in an amount not less than the Allocated Value for the affected Property, such lien or encumbrance shall not be considered a Title Defect within meaning of this Agreement.

10.02 Closing Title Adjustment Provisions.

a. With respect to undisputed Title Defects, upon receipt of a notice set forth in Section 10.01 (b) above, Seller shall have the right, prior to Closing, to cure all, or any portion of the undisputed Title Defect at its sole cost and expense.

b. In the event an increase or decrease in the Net Revenue Interest with respect to a particular Property (or group thereof) is discovered during the Title Review Period which would result in an increase or decrease in the Purchase Price, the amount of any required Purchase Price adjustment shall be determined in accordance with the following procedure:

When a Title Defect is based upon the fact that Seller owns a lesser or greater Net Revenue Interest than that shown with respect to a particular Property (or group thereof) in Exhibit A hereto, then (provided the applicable working interest changes proportionately with the change in the Net Revenue Interest) the Allocated Value of such interest in Exhibit A shall be reduced or increased (as the case may be) in the same proportion that the actual Net Revenue Interest bears to the Net Revenue Interest shown therefore in Exhibit A, to-wit:

$$\text{Actual Net Revenue Interest} \times \text{Allocated Value Exhibit A, Net Revenue Interest}$$

c. In the event Seller is unable or unwilling to cure any undisputed Title Defect prior to Closing, Seller shall attempt to negotiate with Buyer for a mutually agreeable reduction in the Purchase Price for such defect prior to Closing, and in the event of such reduction agreed upon, the affected Property shall be conveyed to Buyer subject to such defect.

d. If a Title Defect involves a claim or question to a Seller's title to a particular Property (or group thereof) other than a lien or encumbrance provided for herein under Section

10.01 (d) and Seller is unable or unwilling to cure any undisputed Title Defect prior to closing, Seller and Buyer shall attempt to negotiate a mutually agreeable reduction in the Purchase Price for such defect prior to Closing, and in the event of such reduction in the Purchase Price, the affected Property shall be conveyed to Buyer subject to such defect.

10.03 Preferential Purchase Rights and Consents. As represented by Seller under Section 5.12, all Preferential Purchase Rights affecting the Properties known to Seller are set forth in Exhibit H. Should Buyer or Seller discover additional Preferential Purchase Rights, it shall promptly inform the other so that such rights may be resolved in accordance with the provisions hereof. All Preferential Purchase Rights, whether or not appearing on Exhibit H, which affect the Properties shall be resolved or treated in accordance with the following provisions:

a. If a third party who has been offered an interest in all or any portion of the Properties pursuant to a Preferential Purchase Rights elects prior to Closing to purchase all or any portion of the Properties pursuant to such offer, and Seller receives notice of such election prior to Closing, Buyer may elect to terminate this Agreement without any further obligation. However, provided that Buyer elects not to terminate this Agreement, the Properties (or portion thereof so affected) will be eliminated from the transactions contemplated hereby, the Purchase Price shall be reduced by the Allocated Values for the Properties (or portion thereof so affected) and the interest offered shall be conveyed to Buyer at Closing subject to the Preferential Purchase Right of such third party. If such third party elects to purchase all or any portion of an interest in the Properties and Closing has already occurred (and payment of the Purchase Price with respect thereto made by Buyer), Buyer shall be obligated to convey such interest to such third party, and shall be entitled to receive the entire consideration from such third party for the sale of such interest or portion thereof.

b. Seller and Buyer shall each use reasonable efforts to obtain all consents to assignment prior to Closing (other than rights to consent constituting Permitted Encumbrances). If a lessor or other third party having a valid, contested right to consent to an assignment of a Property (or portion thereof) refuses to provide such consent prior to Closing (and such refusal could render Seller's assignment thereof void or voidable), the interest or portion thereof shall be deemed to be burdened by a Title Defect, and the provisions of Section 10.02 shall be applicable.

10.04 Title Defect Disputes and Unresolved Title Defects.

a. It is recognized that good faith differences of opinion may exist between Seller and Buyer regarding asserted Title Defects. These differences of opinion or "Title Defect Disputes" include, without limitation, disputes as to (a) whether or not the defect constitutes a Title Defect within the meaning of the Agreement, (b) whether or not the magnitude of an asserted Title Defect is great enough that Buyer is contractually entitled to assert a Title Defect, and, (c) whether or not the asserted Title Defect was properly and timely asserted by Buyer.

b. Seller and Buyer shall meet at least four (4) Business Days before the Closing Date to attempt to mutually agree on a proposed resolution with respect to any unresolved Title Defects or Title Defect Dispute(s).

c. Closing shall not be delayed, postponed or canceled because the parties cannot agree prior to the Closing Date on an adjustment to the Purchase Price resulting from unresolved

Title Defects or Title Defect Dispute(s). If any such difference of opinion regarding the adjustment to the Purchase Price for Title Defects or Title Defect Dispute(s) are not resolved by mutual agreement of Buyer and Seller prior to the Closing Date, the parties shall consummate the transaction using the Seller's numbers; provided however, either party shall have the right, exercisable within fifteen (15) Business Days after the Closing Date, to refer the same to arbitration using a neutral arbitrator who is an attorney licensed in the State of Colorado and who has at least fifteen (15) years oil and gas title experience and who has never been an officer, director, employee, consultant, agent or representative of either Seller or Buyer. If such arbitrator is unwilling or unable to serve as the arbitrator, Seller and Buyer shall again attempt to select an acceptable arbitrator. If the parties are unable to agree upon the selection and designation of an acceptable arbitrator, then Seller or Buyer shall request the American Arbitration Association to select a qualified arbitrator. Seller, Buyer and the arbitrator shall proceed diligently and in good faith in order that the arbitration is commenced and completed as promptly as possible. The arbitration shall be conducted in Denver, Colorado, and in accordance with the Uniform Arbitration Act, as adopted and then in effect in the State of Colorado. The expenses of the arbitration, including the arbitrator's fees, shall be divided equally between Seller and Buyer. Each party shall pay the fees and expenses of its own witnesses and legal counsel, unless otherwise specified in the award. Any arbitration decision shall be final and conclusive upon Buyer and Seller, it being expressly understood and agreed by the parties that the specific issue or issues so determined shall not be the subject of (i) any further dispute between the parties, (ii) any further arbitration under this Section, or (iii) judicial appeal.

d. Furthermore, Buyer or Seller shall have the right to terminate this Agreement on the Closing Date if the value attributable to asserted Title Defect(s) which remain uncured or unresolved as of the Closing Date exceeds ten percent (10%) of the unadjusted Purchase Price.

ARTICLE XI
POST CLOSING MATTERS

11.01 Post Closing Matters. The provisions of this Article XI shall apply after Closing:

a. Seller's responsibility for conducting the accounting for the Properties shall cease with production attributable to the calendar month during which Closing occurs, and Buyer shall thereafter be responsible for conducting such accounting; provided, however, that if Closing occurs on the first day of a month, it shall be deemed, for purposes of this subparagraph, that Closing occurred on the last day of the preceding month. Seller shall provide Buyer with a statement of accounting covering the period from the Closing Date through the end of the calendar month in which Closing occurs.

b. Should Buyer receive any proceeds of production or any invoices for any expenses attributable to production from the Properties prior to the Effective Date, Buyer shall promptly remit the same to Seller.

c. Should Seller receive any proceeds of production or any invoices for any expenses attributable to production from the Properties after the Effective Date, Seller shall promptly forward the same to Buyer.

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11.02 Seller's Right to Records. Seller shall be entitled to retain the following Records respecting the Properties and shall be permitted access, as herein below set forth, to the Records delivered by Seller hereunder with respect to the Properties:

a. Buyer recognizes that certain Records of Seller may contain only incidental information relating to the Properties and that Seller may, after review by and with the consent of Buyer, retain such Records;

b. Seller may retain (i) one copy of all Records, and (ii) all originals and copies of all documents prepared or received by Seller in connection with the transaction and sale of the Properties contemplated herein;

c. Seller may retain all financial information, tax records and all other accounting data prepared or used in connection with the financial statements prepared by Seller and made available to Buyer in the Data Room;

d. Seller shall be permitted reasonable access, for a period of seven (7) years after Closing, to Records relating to the Properties for tax and financial accounting purposes. For this purpose, Buyer agrees to retain and preserve the Records for such seven (7) year period following Closing; provided that Buyer may sell a Property and transfer the Records attributable to such Property to a purchaser if the purchaser agrees to be bound by and comply with the provisions of this section 11.02(d).

ARTICLE XII
INDEMNIFICATION

12.01 Article XII Definitions. As used in this Article XII the following terms shall have the meanings set forth below:

a. Losses. The term "Losses" shall mean any and all direct or indirect demands, claims, notices of violation, filings, investigations, administrative proceedings, actions, causes of action, suits, other legal proceedings, payments, obligations, charges,

judgments, assessments, losses, Liabilities, costs and expenses paid or incurred, or diminutions in value of any kind or character (whether or not asserted prior to the date hereof, and whether known or unknown, fixed or unfixed, conditional or unconditional, based on negligence, strict liability or otherwise, choate or inchoate, liquidated or unliquidated, secured or unsecured, accrued, absolute, contingent or otherwise), including, without limitation, penalties, interest on any amount payable to a third party as a result of the foregoing and any legal or other expenses reasonably incurred in connection with investigation or defending any claim, demand or legal or administrative proceeding, whether or not resulting in any Liability, and all amounts paid in settlement of claims, demands, or legal proceedings; provided, however, that Losses shall be net of any insurance proceeds received by an Indemnitee on account of such Losses (after taking into account any costs incurred in obtaining such proceeds and any increase in insurance premiums as a result of a claim with respect to such proceeds); provided, however, nothing in this Article XII shall require an Indemnitee to proceed against its insurance carrier or to maintain insurance of any kind.

12.02 Indemnity by Seller. Except as separately and specifically provided for under Section 9.03 above with respect to indemnification for Environmental Liabilities, Seller and its successors and permitted assigns shall, to the fullest extent permitted by law, indemnify, defend, hold harmless, discharge and release Buyer and its Affiliates, successors and permitted assigns, stockholders, directors, officers, employees, agents and representatives from and against the following:

a. Losses Resulting from Third Party Indemnity Claims. Losses resulting from Third Party Indemnity Claims arising from the breach by Seller of any representations or warranties under Article V hereof to the extent, and only to the extent that (i) such representations or warranties survive Closing under Section 18.01 below, and (ii) such Third Party Indemnity Claims arise and are communicated in writing to Seller prior to the expiration of eighteen (18) months following the Closing Date.

b. Claims of Buyer. Losses arising from the breach by Seller of any representations or warranties under Article V hereof to the extent, and only to the extent, that (i) such representations or warranties survive Closing under Section 18.01 below, and (ii) Buyer' s claim based thereupon is communicated in writing to Seller prior to the expiration of eighteen (18) months following the Closing Date.

c. Other Liabilities. Losses arising from, based on or caused by (i) Seller Environmental Liabilities, (ii) any act, omission or event involving or relating to the Properties occurring prior to the Effective Date other than Buyer Environmental Liabilities, or (iii) the ownership or operation of the Properties prior to the Effective Date other than Buyer Environmental Liabilities, to the extent and only to the extent that Buyer' s claim based thereon is communicated in writing to Seller prior to the expiration of eighteen (18) months following the Closing Date.

12.03 Indemnity by Buyer. Except as separately and specifically provided under Section 9.03 above with respect to Indemnification for Environmental Liabilities, Buyer and its successors and permitted assigns shall, to the fullest extent permitted by law, indemnify, defend, hold harmless, discharge and release Seller and its Affiliate, successors and permitted assigns, stockholders, directors, officers, employees, agents and representatives from and against the following:

a. Third Party Indemnity Claims. Losses resulting from Third Party Indemnity Claims arising from the breach by Buyer of any representations or warranties under Article VI hereof, to the extent and only to the extent that Seller' s claim based thereon is communicated to Buyer prior to the expiration of eighteen (18) months following the Closing Date.

b. Claims of Seller. Losses arising from the breach by Buyer of any representations or warranties under Article VI hereof, to the extent and only to the extent that Seller' s claim based thereon is communicated to Buyer prior to the expiration of eighteen (18) months following the Closing Date.

c. Other Liabilities. Losses arising from, based on or caused by (i) Buyer Environmental Liabilities, (ii) any act, omission, event, involving or relating to the Properties

occurring on or after the Closing Date, or (iii) the ownership or operation of the Properties on or after the Closing Date.

12.04 Demands. Any Indemnitee hereunder agrees that promptly upon its discovery of facts giving rise to a claim for indemnity under the provisions of this Agreement, including receipt by it of notice of any Third Party Indemnity Claim, with respect to any matter as to which it claims to be entitled to indemnity under the provisions of this Agreement, it will give prompt notice thereof in writing to the Indemnitor, together with a statement of such information respecting any of the foregoing as it shall have, an estimate of the amount of the claim and the approximate date(s) upon which the breach, act, omission or event occurred. Such notice shall include a formal demand for indemnification under this Agreement. The Indemnitor shall not be obligated to indemnify the Indemnitee with respect to any Third Party claim if the Indemnitee knowingly failed to notify Indemnitor or its counsel to defend against such matter and to make a timely response thereto including, without limitation, any responsive motion or answer to a complaint, petition, notice or other legal, equitable or administrative process relating to the Third Party Indemnity Claim, only insofar as such knowing failure to notify the Indemnitor actually resulted in prejudice or damage to the Indemnitor.

12.05 Right to Contest and Defend. The Indemnitor is entitled at its cost and expense to contest and defend by all appropriate legal proceedings any Third Party Indemnity Claim with respect to which it is called upon to indemnify an Indemnitee under the provisions of this Agreement; provided, that notice of the intention to so contest shall be delivered by the Indemnitor to the Indemnitee within twenty (20) calendar days from the date of receipt by Indemnitor of written notice by the Indemnitee of the assertion of the Third Party Claim. Any such contest may be conducted in the name and on behalf of the Indemnitor or the Indemnitee as may be appropriate. Such contest shall be conducted by reputable counsel employed by Indemnitor, but the Indemnitee shall have the right to participate in such proceedings and to be represented by counsel of its own choosing at its sole cost and expense. If the Indemnitee joins in any such contest, the Indemnitor shall have full authority to determine all action to be taken with respect thereto; provided, however, that the Indemnitor will not have the authority to subject the Indemnitee to any obligation whatsoever, other than the performance of purely ministerial tasks (e.g. the execution of settlement agreements and other documentation) or obligations not involving material expense. If the Indemnitor does not elect to contest any such claim, any Indemnitor shall be bound by the result obtained with respect thereto by the Indemnitee. At any time after the commencement of the defense of any Third Party Indemnity Claim, the Indemnitor may request the Indemnitee to agree in writing to the abandonment of such contest or to the payment or compromise by the Indemnitor of the asserted Third Party Indemnity Claim, whereupon such action shall be taken unless the Indemnitee determines that the contest should be continued, and so notifies the Indemnitor in writing within fifteen (15) calendar days of such request from the Indemnitor. If the Indemnitee determines that the contest should be continued, the Indemnitor shall be liable hereunder only to the extent of the amount that the other party to the contested Third Party Indemnity Claim had agreed unconditionally to accept in payment or compromise as of the time the Indemnitor made its request therefor to the Indemnitee.

12.06 Cooperation. If requested by the Indemnitor, the Indemnitee agrees to cooperate with the Indemnitor and its counsel in contesting any Third Party Indemnity Claim that the Indemnitor elects to contest or, if appropriate, in making any counterclaim against the person asserting the

Third Party Indemnity Claim, or any cross-complaint against any person, but the Indemnitor will reimburse the Indemnitee for any expenses incurred by it in so cooperating.

12.07 Right to Participate. The Indemnitor agrees to afford the Indemnitee and its counsel the opportunity to be present at, and to participate in, conferences with all persons, including governmental authorities, asserting any Third Party Indemnity Claim against the Indemnitee or conferences with representatives of or counsel for such persons.

12.08 Payment of Damages. The Indemnitor shall pay to the Indemnitee in immediately available funds the amount of any monies to which the Indemnitee may become entitled by reason of the provisions of this Article XII (and Section 9.03), such payment to be made within ten (10) calendar days after any such amount is finally determined either by mutual agreement of the parties hereto or pursuant to the final unappealable judgment of a Court of competent jurisdiction.

12.09 No Insurance; Subrogation. The indemnifications provided in this Article XII shall not be construed as a form of insurance and shall be binding upon and incur to the benefit of Seller, Buyer and their respective Affiliates, successors and permitted assigns. To the extent enforceable under existing insurance contracts and applicable laws, Seller and Buyer hereby waive for themselves, their Affiliates, successors and permitted assigns, including without limitation any insurers, any rights to subrogation for Losses for which each of them is respectively liable or against which each respectively indemnifies the other, and, if necessary, said parties shall obtain waiver of such subrogation from their respective insurers.

ARTICLE XIII
TAX MATTERS

13.01 Allocation of Tax Liability. The obligations of the parties with respect to ad valorem and property taxes relating to the Properties shall be allocated based upon the Effective Date. Seller is responsible for payment of all ad valorem and property taxes allocable to periods prior to the Effective Date. Buyer is responsible for payment of all ad valorem and property taxes allocable to the Properties for periods from and after the Effective Date.

13.02 Sales and Transfer Tax Liability. The Purchase Price provided for hereunder excludes any sales taxes or other taxes in connection with the sale of the Properties pursuant to the Agreement. If a determination is ever made that a sales tax or other transfer tax applies, Buyer shall be solely liable for all of such taxes, as well as for any applicable conveyance, transfer and recording fees, real estate transfer stamps or taxes imposed on the transfer of property to Buyer pursuant to this Agreement. Buyer shall defend, indemnify and hold Seller harmless with respect to payment of all such taxes, if any, including any interest or penalties assessed thereon.

13.03 Exchange. Seller or Buyer may desire to structure the sale and purchase of the Properties as part of an exchange under Section 1031 of the Code. In this regard, Seller and Buyer agree to execute all documents, conveyances and other instruments reasonably necessary to effectuate an exchange.

ARTICLE XIV
GAS MATTERS

14.01 Gas Imbalance Issues. Seller has provided in Section 5.11 hereof a representation regarding known gas imbalances with respect to production from or attributable to certain of the Properties as of the Effective Date. Any variance of the actual net imbalance from the estimated amounts set forth in Exhibit F, which are discovered by Buyer and confirmed by Seller prior to Closing, shall result in an adjustment to the Purchase Price, as provided in Sections 3.02 (b)(ii) and 3.03. If Closing occurs, Buyer shall bear all obligations with respect to any net overproduction liability and shall receive the benefit of and be credited with any net underproduction credit, including overproduction and underproduction attributable to periods of time prior to the Effective Date.

ARTICLE XV
CASUALTY AND CONDEMNATION

15.01 Casualty and Condemnation. If a substantial part of the Properties shall (a) be destroyed prior to Closing by a Casualty Loss, or (b) be taken in condemnation or if proceedings for such purposes shall be pending; then either Buyer or Seller may terminate this Agreement prior to the Closing. For the purpose of this Section 15.01, the term “substantial” shall mean that the Allocated Value of the Properties affected by the Casualty Loss or Condemnation constitutes twenty percent (20%) of the unadjusted Purchase Price. If either party terminates this Agreement pursuant to this Article, neither party shall have any further obligation. If neither party terminates this Agreement, Seller and Buyer shall attempt to agree on a reduction in the Purchase Price reflecting the actual reduction of the value to Buyer of the Property(s) affected by the Casualty Loss or Condemnation. Seller shall retain any and all sums paid to Seller, insurance proceeds and other payments associated with or attributable to such Casualty Loss or taking.

ARTICLE XVI
TERMINATION

16.01 Grounds for Termination. This Agreement may be terminated at any time prior to the Closing Date:

- a. by the mutual written agreement of Seller and Buyer;
- b. by Buyer in the event Buyer has not obtained financing from external sources for the payment of the Purchase Price upon satisfactory terms and conditions by the Closing Date or by an extended Closing Date pursuant to Section 16.02;
- c. by Seller or by Buyer if the Closing shall not have occurred by June 30, 2011 (or such other date, if any, as Seller and Buyer shall have agreed in writing), provided the failure to close on or before such date is not caused by any breach of this Agreement by the party electing to terminate pursuant to this Section 16.01(c);
- d. by Seller or by Buyer if the purchase and sale of the Properties would violate any nonappealable final order, decree or judgment of any Court or governmental body having competent jurisdiction;

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e. by Seller or Buyer in the event of a material breach or default hereunder which remains uncured after five (5) days written notice from the non-breaching party; or

f. by Seller or Buyer under any other provision under this Agreement providing for Seller's or Buyer's right to terminate.

16.02 Non-Refundable Deposits. On May 20, 2011, Buyer shall deliver to Seller a non-refundable deposit of \$100,000, which shall be credited against the Purchase Price if the transaction closes or which shall be retained by Seller if the transaction fails to close. If on June 15, 2011, the scheduled Closing Date, Buyer has not secured the necessary funds to close the transaction, it may extend the Closing Date to 10:00 a.m., MDT, on June 22, 2011, by delivering to Seller on or before 10:00 a.m., MDT, on June 15, 2011, an additional non-refundable deposit of \$100,000. If on June 22, 2011, Buyer has secured the necessary funds to close the transaction, but it requires additional time to access such funds, then Buyer may again extend the Closing Date to 10:00 a.m., MDT, on June 30, 2011, by delivering to Seller on or before 10:00 a.m., MDT, on June 22, 2011, an additional non-refundable deposit of \$150,000. This shall be the final extension of the Closing Date under this Agreement. If the transaction closes pursuant to this Agreement, all of the non-refundable deposits delivered by Buyer pursuant to this Section 16.02 shall be credited against the Purchase Price. If the transaction fails to close, Seller may retain all such non-refundable deposits delivered by Buyer pursuant to this Section 16.02; provided, however, that Seller shall return all of such non-refundable deposits to Buyer if this Agreement is terminated (i) by Buyer pursuant to a provision of this Agreement that provides Buyer with a right of termination, (ii) by Buyer as a result of Seller's breach or default hereunder or (iii) by mutual agreement of the parties.

16.03 Effect of Termination. If this Agreement is terminated by Seller or Buyer as the result of the other party's material breach or default hereunder, then the non-defaulting party shall have the right to enforce the specific performance of this Agreement against the defaulting party in lieu of monetary damages for such breach or default.

ARTICLE XVII
EXTENT OF REPRESENTATIONS,
WARRANTIES, COVENANTS AND AGREEMENTS

17.01 Scope of Representations of Seller. Seller makes no representations or warranties whatsoever and disclaims all liability and responsibility for any other representation, warranty, statement or information made or communicated (orally or in writing) to Buyer concerning the amounts, quality or deliverability of petroleum, natural gas or other reserves attributable to the Properties, or any geological or other interpretations.

17.02 Buyer's Acknowledgment of Access. Buyer acknowledges and affirms that, by Closing the transactions contemplated hereunder, it has had, or shall have had, full access to the Data Room and the Information contained in, or made available or provided with respect to materials contained in, the Data Room. Buyer further acknowledges that its access to the Data Room included all reasonable opportunity to inspect, and to call for further information, to make on site field inspections, if requested, and to question appropriate personnel of Seller where it felt such

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information and inquiries to be necessary or appropriate to its evaluation of the Properties. In this regard, Buyer represents that it has received all additional information so requested.

ARTICLE XVIII
SURVIVAL OF CERTAIN REPRESENTATIONS AND WARRANTIES

18.01 Survival. Each Party's representations and warranties made herein shall survive Closing and shall not terminate until the expiration of eighteen (18) months from and after Closing; providing, however, that any such representation or warranty may be perpetual as to any specific claim, but only to the extent of such claim (until such time as the applicable statute of limitations lapses), through Buyer's or Seller's delivery of written notice to the other party on or before the expiration of eighteen (18) months following the Closing Date, which notice shall (i) describe specific facts giving rise to the claim for the inaccuracy of any such representations or warranties, and include, to the extent available, photocopies of any report, agreements, correspondence or the documents supporting such claim, and (ii) provide an estimate, to the extent determinable, as to the amount of the claim.

ARTICLE XIX
BROKERS AND EXPENSES

All fees or commissions arising in favor of third parties in connection with the transactions contemplated by this Agreement (including, without limitation, broker's or attorney's fees) shall be borne solely by the party hereunder who engages the services of such third parties.

ARTICLE XX
NOTICES

All notices and other communications hereunder shall be in writing and shall be deemed given (i) when received if delivered personally, (ii) when sent if by e-mail or facsimile transmission, (iii) when sent if by telex and an answer back is received, (iv) one

Business Day after deposit with an express courier if carried on an internationally recognized express courier, or (v) three (3) Business Days after deposit with the United States mail service if mailed by registered or certified mail (return receipt requested), postage prepaid. All notices to the parties shall be at the following addresses (or at such other address for a party as shall be specified by like notice, provided that notices of a change of address shall be effective only upon receipt thereof):

a. To Buyer as follows:

By Mail or Hand Delivery:

Black Raven Energy, Inc.
1331 Seventeenth Street, Suite 350
Denver, Colorado 80203
Attn: Mr. William F. Hayworth
Fax: (303) 308-1590
Email: bhayworth@blackravenenergy.com

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With a copy to:

Charles F. Savage, Esq.
Heppenstall & Savage LLC
155 South Madison Street, Suite 326
Denver, Colorado 80209
Fax: (303) 377-2003
Email: cfsavage1@gmail.com

b. To Seller as follows:

By Mail or Hand Delivery:

Klabzuba Oil & Gas, Inc.
1700 Seventeenth Street, Suite 1300
Denver, CO 80202
Attn.: Mr. Steve Frazier
Fax No. (303) 299-9087
Email: SFrazier@klabzuba.com

ARTICLE XXI
MISCELLANEOUS

21.01 Disclaimer of Warranties. The express representations of Seller contained in Article V and the special warranty of title contained in the Assignment are exclusive and are in lieu of all of the representations and warranties, express, implied or statutory. EXCEPT FOR THE WARRANTIES WHICH SELLER HAS MADE IN ARTICLE V, SELLER DISCLAIMS ALL WARRANTIES, EXPRESS OR IMPLIED, WITH RESPECT TO THE PROPERTIES, INCLUDING, BUT NOT LIMITED TO, WARRANTY OF MERCHANTABILITY, AND WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE, WHETHER ARISING BY OPERATION OF LAW OR OTHERWISE BUYER SHALL ACCEPT THE PROPERTIES IN AN "AS IS, WHERE IS" CONDITION, WITH ALL FAULTS OR DEFECTS, BOTH PATENT AND LATENT.

21.02 Entire Agreement. This Agreement, together with its exhibits, supersedes all prior agreements between the parties (written or oral), and, except as aforesaid, is intended as a complete and exclusive statement of the terms of the agreement between the parties. This Agreement may be amended only by a written instrument duly executed by the parties.

21.03 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Colorado.

21.04 Headings. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

21.05 No Third Party Beneficiaries. Except as expressly provided herein, nothing in this Agreement shall entitle any person other than Seller or Buyer or their respective successors and permitted assigns, to any claim, cause of action, remedy or right of any kind.

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21.06 Severability. Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable in such jurisdiction the remaining terms and provisions of this Agreement and without rendering invalid or unenforceable any terms and provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, such provision shall be interpreted to be only so broad as is enforceable.

21.07 Counterparts. This Agreement may be executed in any number of counterparts, no one of which needs to be executed by both parties, and, when so executed, this Agreement shall be binding upon both parties with the same force and effect as if both parties had signed the same document, and each such signed counterpart shall constitute an original of this Agreement.

21.08 Attorney Fees. In any litigation arising under or resulting from this Agreement, the prevailing party shall be entitled to receive reasonable attorney' s fees and costs.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized officers as of the date first above written.

Black Raven Energy, Inc.

By: _____
Authorized Officer

Adena Badger Creek, LLC
By Klabzuba Oil & Gas, Inc., its Manager

By: _____
Authorized Officer

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SECTION 302 CERTIFICATION

I, Thomas E. Riley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Black Raven Energy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 21, 2011

/s/ Thomas E. Riley

Thomas E. Riley

Chief Executive Officer
(Principal Executive Officer)

SECTION 302 CERTIFICATION

I, Patrick A. Quinn, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Black Raven Energy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 21, 2011

/s/ Patrick A. Quinn

Patrick A. Quinn

Acting Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Black Raven Energy, Inc. (the "Company") on Form 10-Q for the three months ended September 30, 2011 (the "Report"), the undersigned, Chief Executive Officer and Acting Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of their knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the period covered by this report.

Date: November 21, 2011

/s/ Tom Riley

Tom Riley
Chief Executive Officer
(Principal Executive Officer)

/s/ Patrick A. Quinn

Patrick A. Quinn
Acting Chief Financial Officer
(Principal Financial Officer)

**Asset Retirement
Obligations**

**9 Months Ended
Sep. 30, 2011**

**Asset Retirement
Obligations**

Asset Retirement Obligations Note 5 –Asset Retirement Obligations

The Company recognizes an estimated liability for future costs associated with the abandonment of its oil and gas properties. A liability for the fair value of an asset retirement obligation and corresponding increase to the carrying value of the related long-lived asset are recorded at the time a well is completed or acquired. The increase in carrying value is included in proved oil and gas properties in the accompanying condensed consolidated balance sheets. The Company depletes the amount added to proved oil and gas property costs and recognizes expense in connection with the accretion of the discounted liability over the remaining estimated economic lives of the respective oil and gas properties. Cash paid to settle asset retirement obligations is included in the operating section of the Company's accompanying condensed consolidated statements of cash flows.

The Company's estimated asset retirement obligation liability is based on historical experience in abandoning wells, estimated economic lives, estimates as to the cost to abandon the wells in the future, and federal and state regulatory requirements. The liability is discounted using the credit-adjusted risk-free rate estimated at the time the liability is incurred or revised. Revisions to the liability could occur due to changes in estimated abandonment costs or well economic lives, or if federal or state regulators enact new requirements regarding the abandonment of wells.

A reconciliation of the Company's asset retirement obligations is as follows:

	For the Nine Months Ended September 30,	
	2011	2010
	(in thousands)	
Asset retirement obligations, beginning of period	\$ 241	\$ 219
Asset retirement obligation assumed	586	–
Accretion expense	36	16
Revision to estimated cash flows	–	–
Asset retirement obligations, end of period	<u>\$ 863</u>	<u>\$ 235</u>

Acquisitions

9 Months Ended
Sep. 30, 2011

[Acquisitions](#) [Acquisitions](#)

Note 4 –Acquisitions

Marks Butte Acquisition

On June 6, 2011, the Company acquired from Diamond Operating all of its interests in the Marks Butte area of Sedgwick County, Colorado. The purchase price was \$98,500 in cash, and included title and interest in all oil and gas leases, all easements, rights-of-way, a 100% working interest in two shut-in wells, 6.15 miles of pipeline and compressor station with a tap into the Trailblazer Pipeline. The Company acquired the assets in order to utilize the tap for the planned drilling in the East Marks Butte area as part of the Farmout Agreement.

The preliminary purchase price allocation, which is subject to final purchase price allocation adjustments, is as follows (in thousands):

Proved properties	\$	38
Unproved properties		4
Gathering and other property and equipment		86
Less: Asset retirement obligation assumed		(29)
Total net purchase price	\$	<u>99</u>

Adena Field Acquisition

On July 27, 2011, the Company completed the purchase of the Adena Properties. The acquisition consists of an 80% working interest in 18,760 gross acres, with a net purchase price of \$15.24 million, subject to adjustments for production after the effective date and other matters. The effective date of the Adena Property acquisition was May 1, 2011. The Company will operate the Adena Properties. The Company has entered into an agreement with a strategic partner which will provide geological, engineering, and management services associated with this project and will earn 24% of the Company's 80% working interest after payout of all costs, including financing costs. The Adena Properties consist of an existing waterflood in the J Sand, and a conventional oil field in the D Sand. In addition, there is a gas cap in the J Sand that can be produced in the future. The acquisition was financed by Carlyle (see Note 6).

The preliminary purchase price allocation, which is subject to final purchase price allocation adjustments, is as follows (in thousands):

Oil and gas properties – proved	\$	12,274
Oil and gas properties – unproved		3,667
Asset retirement obligation		(557)
Liabilities assumed		(147)
Total cash	\$	<u>15,237</u>

The Adena Properties acquisition qualified as a business combination and, as such, the Company estimated the fair value of the assets acquired as of the acquisition date, July 27, 2011. To estimate the fair values of the properties as of the acquisition date, the Company used a net asset value approach. The Company utilized a discounted cash flow model that took into account the following inputs to arrive at estimates of future net cash flows:

- Estimated ultimate recovery of crude oil and natural gas as prepared by the Company's petroleum engineers;

- Estimated future commodity prices based on NYMEX crude oil futures prices as of the acquisition date and adjusted for estimated location and quality differentials as well as related transportation costs;
- Estimated future production rates; and
- Estimated timing and amounts of future operating and development costs.

To estimate the fair value of proved properties, the Company discounted the future net cash flows using a market-based rate that the Company determined appropriate at the acquisition date for the various proved reserve categories. To compensate for the inherent risk of estimating and valuing unproved properties, the Company reduced the discounted future net cash flows of the unproved properties by additional risk-weighting factors.

The results of operations from the Adena Property Acquisition are included in the Company's condensed consolidated financial statements from the acquisition date of July 27, 2011. The pro forma results of operations, presented as if the Company had acquired the Adena Properties on January 1, 2010, for the nine months ended September 30, 2011 and 2010 are as follows:

	For the Nine Months Ended September 30, (Unaudited)	
	2011	2010
	(in thousands)	
Revenues:		
Oil and gas sales	\$ 2,198	\$ 1,758
Gain on sale of oil and gas properties	945	-
Total revenues	<u>3,143</u>	<u>1,758</u>
Direct operating expenses:		
Oil and gas production expense	1,010	1,529
Exploration expense	7	-
Total direct operating expenses	<u>1,017</u>	<u>1,529</u>
Excess of revenues over direct operating expenses	<u>\$ 2,126</u>	<u>\$ 229</u>

**Condensed Consolidated
Balance Sheets
(Parenthetical) (USD \$)**

Sep. 30, 2011 Dec. 31, 2010

Condensed Consolidated Balance Sheets

<u>Common stock, par value (in dollars per share)</u>	\$ 0.001	\$ 0.001
<u>Common stock, shares authorized</u>	150,000,000	150,000,000
<u>Common stock, shares issued</u>	17,010,531	16,660,965
<u>Common stock, shares outstanding</u>	17,010,531	16,660,965

Recent Accounting Pronouncements

**9 Months Ended
Sep. 30, 2011**

[Recent Accounting
Pronouncements](#)

[Recent Accounting
Pronouncements](#)

Note 2—Recent Accounting Pronouncements

In January 2010, the FASB issued ASC Update 2010-06, “Fair Value Measurements and Disclosures” (“ASC Update 2010-06”), which requires additional disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, the fair value measurements of the activity in Level 3 on a gross basis and transfers between Levels 1 and 2. This new authoritative guidance was effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures regarding gross activity in the Level 3 rollforward, which were effective for the Company on January 1, 2011. The adoption of ASC Update 2010-06 did not have a material impact on the Company’s financial statements.

In December 2010, the FASB issued ASC Update 2010-29, “Business Combinations: Disclosure of Supplementary Pro Forma Information for Business Combinations”, which amended FASB ASC Topic 805, “Business Combinations”. The objective of this update is to clarify and expand the pro forma revenue and earnings disclosure requirements for business combinations. The guidance was effective for fiscal years beginning after December 15, 2010, and the Company adopted the provision on January 1, 2011. Adoption of the disclosure requirements did not have a material impact on the Company’s financial position or results of operations.

In May 2011, the FASB issued new fair value measurement authoritative guidance that clarifies the application of fair value measurement and disclosure requirements and changes particular principles or requirements for measuring fair value. This guidance is effective for annual periods beginning after December 15, 2011. The Company is currently evaluating this guidance and assessing the impact, if any, it may have on the Company’s fair value disclosures.

In June 2011, the FASB issued new authoritative guidance that states an entity that reports items of other comprehensive income has the option to present the components of net income and comprehensive income in either one continuous financial statement or two consecutive financial statements. This guidance is effective for annual periods beginning after December 15, 2011. The Company is currently evaluating this guidance and assessing the impact it may have on the Company’s comprehensive income disclosures.

Farmout Agreement

**9 Months Ended
Sep. 30, 2011**

[Farmout Agreement](#)

[Farmout Agreement](#)

Note 3–Farmout Agreement

On July 23, 2010, the Company entered into a Farmout Agreement with Atlas, a wholly-owned subsidiary of Atlas Energy, Inc., relating to natural gas drilling within an area of mutual interest in Phillips and Sedgwick counties, Colorado and Perkins, Chase and Dundy counties, Nebraska (the “AMI”).

Under the terms of the Farmout Agreement, Atlas agreed to drill six initial wells identified in the Farmout Agreement (the “Initial Wells”) and to complete certain initial projects, including 3D seismic shoots, upgrades of sales meter equipment, and the change-out of compressors and upgrade of a dehydrator at the Company’s facility. The Company assigned to Atlas all of its title and interest in the defined areas around the planned wellbores (the “Drilling Units”) for the Initial Wells.

The Farmout Agreement also provides for Atlas, at its discretion, to drill additional wells in the AMI in accordance with work plans (each a “Work Plan”) approved by Atlas under the Farmout Agreement. The initial Work Plan approved by Atlas covering the period from July 23, 2010 to April 30, 2011 provided for Atlas drilling 60 wells. For each six month period after April 30, 2011, Atlas must submit a proposal to the Company setting forth the numbers of wells that it proposes to drill for such six month period (the “Drilling Proposal”) and the Company must provide a Work Plan to be approved by Atlas outlining the development plan for the wells set forth in the Drilling Proposal. In the event that Atlas determines not to drill at least 60 wells in the course of any six month period, the Company has the right, during such six month period, to drill for its own account that number of wells equal to the difference between 60 wells and the number of wells agreed to be drilled by Atlas. Upon payment of a well-site fee, delivery of an executed authorization for expenditure (“AFE”) for such well by Atlas, and completion of drilling the applicable well, the Company will assign all of its rights, title and interest in the Drilling Units established for such well. The Farmout Agreement also provides for certain rights of the Company and Atlas with respect to the drilling of “deep wells” and for the payment by Atlas of drilling and future 3D seismic costs.

As of September 30, 2010, drilling of the Initial Wells had been completed, and through the first quarter of 2011, Atlas had funded and drilled an additional 40 wells pursuant to the initial Work Plan. On June 3, 2011, Atlas submitted its Drilling Proposal for the six month period beginning May 1, 2011 in which it proposed to drill 135 wells after July 1, 2011. The Company submitted a Work Plan which Atlas approved and drilling commenced on August 15, 2011. As of September 30, 2011, an additional 37 wells had been funded and drilled pursuant to the Work Plan, for a total of 83 wells.

Restricted cash of \$19.6 million and \$5.6 million at September 30, 2011 and December 31, 2010, respectively, includes cash received from Atlas for drilling activities in connection with oil and gas properties subject to the Farmout Agreement. The accounts payable balances at September 30, 2011 and December 31, 2010 contain drilling costs related to the Farmout Agreement of \$2.4 million and \$0.8 million, respectively. Advances from Atlas of \$20.1 million at September 30, 2011 include cash received from Atlas for drilling activities in connection with oil and gas properties subject to the Farmout Agreement. Advances from Atlas of \$4.8 million at December 31, 2010 include cash received from Atlas for drilling activities in connection with oil and gas properties subject to the Farmout Agreement.

In consideration for the agreements made under the Farmout Agreement, Atlas paid the Company \$1,000,000 upon execution of the Farmout Agreement. In addition, Atlas agreed to pay the Company a \$60,000 well-site fee for each well drilled by Atlas in the AMI, including the Initial Wells. As of September 30, 2011, the Company had received \$4,980,000 of well site

fees for the 83 wells drilled through September 30, 2011. The Company also received prepaid well site fees of \$2.9 million for wells to be drilled in the fourth quarter of 2011.

The Company will also receive an undivided six percent of eight eighths (6% of 8/8ths) overriding royalty interest on substantially all of the oil and gas produced and sold that is attributable to the Drilling Units assigned to Atlas under the Farmout Agreement, subject to certain deductions. The average overriding royalty interest on the first 83 wells drilled is 5.70%.

The term of the Farmout Agreement is ten years, subject to earlier termination pursuant to the terms set forth therein.

On August 11, 2010, in connection with the Farmout Agreement and ongoing investment advisory services, the Company entered into an advisory fee agreement with a third party, whereby the Company agreed to pay \$10,000 per well for the first 220 wells that are funded and drilled by Atlas under the Farmout Agreement discussed above, up to a maximum fee of \$2.2 million. As of September 30, 2011, Atlas had funded and drilled 83 wells, and the Company had paid advisory fees of \$830,000.

Condensed Consolidated Statements of Operations (USD \$) In Thousands, except Share data	3 Months Ended		9 Months Ended	
	Sep. 30, 2011	Sep. 30, 2010	Sep. 30, 2011	Sep. 30, 2010
Operating revenue:				
<u>Oil and gas sales</u>	\$ 493	\$ 114	\$ 740	\$ 344
<u>Gain on sale of oil and gas properties (Note 3)</u>	836		945	
<u>Total operating revenue</u>	1,329	114	1,685	344
Operating expenses:				
<u>Oil and gas production expense</u>	211	300	359	608
<u>Exploration expense</u>	1		7	11
<u>Depreciation, depletion, amortization and accretion</u>	88	44	177	112
<u>General and administrative</u>	648	463	1,815	1,670
<u>Total operating expenses</u>	948	807	2,358	2,401
<u>Operating income (loss)</u>	381	(693)	(673)	(2,057)
Other income (expense):				
<u>Interest and other income</u>	19	4	44	7
<u>Realized and unrealized gain on derivative contracts</u>	1,180		1,180	
<u>Gain (loss) on disposal of assets</u>				(6)
<u>Interest expense</u>	(1,107)	(146)	(2,042)	(1,085)
<u>Total other income (expense)</u>	92	(142)	(818)	(1,084)
<u>Income (loss) before reorganization items and income taxes</u>	473	(835)	(1,491)	(3,141)
Reorganization items:				
<u>Gain on reorganization</u>				1,069
<u>Professional fees</u>				(4)
<u>Total reorganization items</u>				1,065
<u>Net income (loss) before income taxes</u>	473	(835)	(1,491)	(2,076)
<u>Income tax provision/benefit</u>	0		0	
<u>Net income (loss)</u>	\$ 473	\$ (835)	\$ (1,491)	\$ (2,076)
<u>Net income (loss) per common share, basic and diluted (in dollars per share)</u>	\$ 0.03	\$ (0.05)	\$ (0.09)	\$ (0.12)
<u>Weighted average shares outstanding, basic (in shares)</u>	16,974,778	16,658,109	16,854,566	16,658,507
<u>Weighted average shares outstanding, diluted (in shares)</u>	16,974,778	16,658,109	16,854,566	16,658,507

**Condensed Consolidated
Balance Sheets (USD \$)
In Thousands**

**Sep. 30, Dec. 31,
2011 2010**

Current assets:

<u>Cash and cash equivalents</u>	\$ 4,064	\$ 948
<u>Restricted cash (Note 3)</u>	19,591	5,637
<u>Accounts receivable, net</u>	1,644	282
<u>Derivative asset (Note 10)</u>	466	
<u>Inventory</u>	53	53
<u>Prepaid expenses</u>	150	260
<u>Total current assets</u>	25,968	7,180

Oil and gas properties accounted for under the successful efforts method of accounting:

<u>Proved properties</u>	15,810	5,113
<u>Unproved leaseholds</u>	4,544	3,375
<u>Wells-in-progress</u>	157	48
<u>Total oil and gas properties</u>	20,511	8,536
<u>Less: Accumulated depreciation, depletion and amortization</u>	(1,335)	(1,265)
<u>Net oil and gas properties</u>	19,176	7,271
<u>Gathering and other property and equipment</u>	3,086	2,962
<u>Less: Accumulated depreciation and amortization</u>	(1,046)	(974)
<u>Net gathering and other property and equipment</u>	2,040	1,988

Other non-current assets:

<u>Derivative asset (Note 10)</u>	657	
<u>Deferred financing costs</u>	3,802	
<u>Restricted cash (Note 6)</u>	450	
<u>Other</u>	637	152
<u>Total other non-current assets</u>	5,546	152
TOTAL ASSETS	52,730	16,591

Current liabilities:

<u>Accounts payable</u>	3,266	1,234
<u>Accrued expenses and other current liabilities</u>	1,241	656
<u>Advances from Atlas (Note 3)</u>	20,096	4,824
<u>Total current liabilities</u>	24,603	6,714
<u>Senior secured debentures, net of discount</u>	18,848	18,848
<u>Senior secured notes, net of discount</u>	18,179	
<u>Asset retirement obligation</u>	863	241
<u>Total liabilities</u>	62,493	25,803
<u>Commitments and Contingencies (Note 9)</u>		

Stockholders' deficit:

<u>Common stock, par value \$.001; 150,000,000 authorized; 17,010,531 and 16,660,965 issued and outstanding at September 30, 2011 and December 31, 2010, respectively</u>	17	17
<u>Additional paid-in-capital</u>	30,684	29,744
<u>Accumulated deficit</u>	(40,464)	(38,973)
<u>Total stockholders' deficit</u>	(9,763)	(9,212)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT

\$ 52,730 \$ 16,591

**Condensed Consolidated
Statements of Cash Flows
(USD \$)
In Thousands**

**9 Months Ended
Sep. 30, 2011 Sep. 30, 2010**

Cash flows from operating activities

Net loss \$ (1,491) \$ (2,076)

Adjustments to reconcile net loss to net cash used in operating activities:

Gain on sale of oil and gas properties (945)
 Depreciation, depletion, amortization and accretion 177 112
 Amortization of debt issuance costs 130 53
 Amortization of debt discount 83 672
 Share-based compensation expense 235 242
 Non-cash interest expense 705
 Gain on reorganization (1,069)
 Loss on sale of assets 6
 Unrealized gain on derivative contracts (1,123)

Changes in assets and liabilities:

Accounts receivable (1,341) (24)
 Inventory 9
 Prepaid expenses 110 13
 Other non-current assets (484) (4)
 Restricted cash - Farmout Agreement (Note 3) (13,954) (941)
 Advances from Atlas (Note 3) 15,251 660
 Accounts payable 2,192 205
 Accrued expenses and other current liabilities 681 202
 Net cash provided by (used in) operating activities 226 (1,940)

Cash flows from investing activities

Property acquisitions (15,336)
 Capital expenditures (794) (320)
 Restricted cash - interest reserve (Note 6) (450)
 Proceeds from Farmout Agreement (Note 3) 3,240 1,360
 Net cash (used in) provided by investing activities (13,340) 1,040

Cash flows from financing activities

Proceeds from loans 18,000 250
 Deferred financing costs (1,770)
 Net cash provided by financing activities 16,230 250
 Net increase (decrease) in cash 3,116 (650)
 Cash-beginning of period 948 1,064
 Cash and cash equivalents-end of period 4,064 414

Supplemental disclosure of cash flow activity

Cash paid for interest 551 117

Supplemental schedule of non-cash investing and financing activities

Accrued capital expenditures 165 33
 Conversion of interest to debt 96 348

Overriding royalty interest conveyed as financing costs

\$ 2,161

Equity Compensation Plan

**9 Months Ended
Sep. 30, 2011**

[Equity Compensation Plan](#)
[Equity Compensation Plan](#)

Note 8—Equity Compensation Plan

In June 2009, the Board of Directors of the Company adopted the Black Raven Energy, Inc. Equity Compensation Plan (the “Equity Compensation Plan”) under which we may grant nonqualified stock options, stock appreciation rights, stock awards or other equity-based awards to certain of our employees, consultants, advisors and non-employee directors. The Board initially reserved 3,791,666 shares of common stock for issuance under the Equity Compensation Plan and that number is adjusted annually to 25% of shares issued and outstanding on July 1. As of September 30, 2011, there were 4,223,264 shares of common stock authorized for issuance under the Equity Compensation Plan.

The following table summarizes activity for options:

	For the Nine Months Ended September 30, 2011		For the Nine Months Ended September 30, 2010	
	Number of Options	Weighted Avg. Exercise Price	Number of Options	Weighted Avg. Exercise Price
Outstanding, beginning of period	1,647,500	\$ 2.00	1,332,500	\$ 2.00
Cancelled	—	\$ —	—	\$ —
Granted	100,000	\$ 2.00	200,000	\$ 2.00
Forfeitures	—	\$ —	—	\$ —
Exercised	—	\$ —	—	\$ —
Outstanding, end of period	<u>1,747,500</u>	<u>\$ 2.00</u>	<u>1,532,500</u>	<u>\$ 2.00</u>
Awards vested or expected to vest, end of period	<u>1,607,500</u>	<u>\$ 2.00</u>	<u>1,305,833</u>	<u>\$ 2.00</u>
Available for future grants, end of period	<u>2,475,764</u>		<u>2,259,166</u>	

The Company recorded equity compensation expense, which is included in general and administrative expenses in the condensed consolidating statements of operations, of \$235,000 during the nine months ended September 30, 2011 and \$242,000 during the nine months ended September 30, 2010.

Income Taxes

**9 Months Ended
Sep. 30, 2011**

Income Taxes

Income Taxes

Note 7—Income Taxes

Income tax expense during interim periods is based on applying an estimated annual effective income tax rate to year-to-date income, plus any significant, unusual or infrequently occurring items which are recorded in the interim period. The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgment including, but not limited to, the expected operating income or loss for the year, projections of the proportion of income earned and taxed in various jurisdictions, permanent and temporary timing differences, and the likelihood of recovering deferred tax assets generated in the current and prior years. The accounting estimates used to compute the provision for income taxes may change as new events occur, more experience is acquired, additional information is obtained or as the tax environment changes.

The provision for income taxes for the nine months ended September 30, 2011 and 2010 differs from the amount that would be provided by applying the statutory U.S. federal income tax rate of 35% to pre-tax income because of state income taxes, non-deductible interest expense and the Company's valuation allowance.

In assessing the need for a valuation allowance on the Company's deferred tax assets, all available evidence, both negative and positive, was considered in determining whether it is more likely than not that some portion or all of the deferred tax assets will be realized. Based on this assessment, the Company has recorded a full valuation allowance against its net deferred tax asset as of September 30, 2011. The Company's evaluation of the amount of the deferred tax asset considered more likely than not to be realizable will likely change in future periods as estimates of future income change due to changes in expected future oil and gas prices and other factors, and these changes could be material.

The Company accounts for its uncertain tax positions in accordance with the provisions of the ACS Topic 740, "Income Taxes". During the nine months ended September 30, 2011, there was no change to the Company's liability for uncertain tax positions.

Fair Value Measurements

9 Months Ended
Sep. 30, 2011

[Fair Value Measurements](#)

[Fair Value Measurements](#)

Note 11 –Fair Value Measurements

The Company follows FASB ASC Topic 820, “Fair Value Measurement and Disclosure”, which establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The three levels are defined as follows:

- Level 1: Quoted Prices in Active Markets for Identical Assets – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2: Significant Other Observable Inputs – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3: Significant Unobservable Inputs – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The Company reflects transfers between the three levels at the beginning of the reporting period in which the availability of observable inputs no longer justifies classification in the original level.

The following tables set forth by level within the fair value hierarchy the Company’s financial assets and financial liabilities as of September 30, 2011 that are measured at fair value on a recurring basis.

As of September 30, 2011

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(in thousands)			
Assets				
Current Derivative Assets	\$ –	\$ 466	\$ –	\$ 466
Non-current Derivative Assets	–	657	–	657

As of December 31, 2010, there were no financial assets or financial liabilities that were measured at fair value on a recurring basis.

The following methods and assumptions were used to estimate the fair values of the assets and liabilities in the tables above:

Derivatives - Commodity derivative instruments consist entirely of crude oil swaps. The Company’s derivatives are valued using industry-standard models, which are based on a market approach. These models consider various assumptions, including quoted forward prices for commodities, time value and volatility factors. These assumptions are observable in the marketplace throughout the full term of the contracts, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace, and are therefore designated as Level 2 within the valuation hierarchy. The discount rates used in the fair values of these instruments include a measure of either the Company’s or the counterparty’s

nonperformance risk, as appropriate. The Company utilizes counterparties' valuations to assess the reasonableness of its own valuations.

The following tables set forth by level within the fair value hierarchy the Company's financial assets and financial liabilities as of September 30, 2011 that were measured at fair value on a non-recurring basis:

As of September 30, 2011

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(in thousands)			
Assets				
Oil and gas properties - proved	\$ -	\$ -	\$12,312	\$12,312
Oil and gas properties - unproved	-	-	3,671	3,671
Gathering and other property and equipment	-	-	86	86
Liabilities				
Accrued expenses	\$ -	\$ -	\$ 147	\$ 147
Asset retirement obligation	-	-	586	586

As of December 31, 2010, there were no financial assets and financial liabilities that were measured at fair value on a non-recurring basis.

The following methods and assumptions were used to estimate the fair values of the assets and liabilities in the tables above:

Properties and Equipment - The Company estimated the fair values of the property and equipment related to the Marks Butte acquisition and the Adena Field acquisition as of the acquisition date, using a net asset value approach. The Company utilized a discounted cash flow model that took into account the following inputs to arrive at estimates of future net cash flows:

To estimate the fair value of proved properties, the Company discounted the future net cash flows using a market-based rate that the Company determined appropriate at the acquisition date for the various proved reserve categories. To compensate for the inherent risk of estimating and valuing unproved properties, the Company reduced the discounted future net cash flows of the unproved properties by additional risk-weighting factors. Due to the unobservable nature of the inputs, the fair values of the proved and unproved oil and gas properties are considered Level 3 fair value measurements.

Other Fair Value Disclosures

Our financial instruments, including cash and cash equivalents, restricted cash, accounts receivable, accounts payable and secured debentures, are carried at cost. At September 30, 2011, the fair value of the cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximates their carrying value due to the short term nature of these instruments. Due to the nature of the Amended Debenture, the Company is unable to reliably estimate its fair value at September 30, 2011. The fair value of the Company's Senior Secured Notes approximates book value due to the recent issuance of these instruments.

**Commitments and
Contingencies**

**9 Months Ended
Sep. 30, 2011**

[Commitments and
Contingencies](#)

[Commitments and
Contingencies](#)

Note 9 –Commitments and Contingencies

In the normal course of business operations, the Company has entered into operating leases for office space and office equipment. Rental payments under these operating leases totaled \$91,000 and \$82,000 for the nine months ended September 30, 2011 and 2010, respectively, and are included in general and administrative expenses in the condensed consolidating statements of operations.

**Derivative Financial
Instruments**

**9 Months Ended
Sep. 30, 2011**

[Derivative Financial
Instruments](#)

[Derivative Financial
Instruments](#)

Note 10 –Derivative Financial Instruments

To mitigate a portion of the exposure to potentially adverse market changes in oil prices and the associated impact on cash flows, the Company has entered into an oil swap contract. As of September 30, 2011, the Company has a forward contract in place through July 31, 2014 for a total of 72,000 barrels of crude oil production.

The Company's oil derivatives are measured at fair value and are included in the accompanying condensed consolidated balance sheets as derivative assets. The fair value is an estimated exit-price that management believes provides a reasonable and consistent methodology for valuing derivative instruments. The derivative instruments utilized by the Company are not considered by management to be complex, structured, or illiquid. The oil derivative markets are highly active. The fair value of the Company's oil commodity derivative contract was a net asset of \$1.1 million at September 30, 2011.

**Derivative Assets
(in thousands)**

	<u>Balance Sheet Classification</u>	<u>Sept. 30, 2011 Fair Value</u>	<u>Dec. 31, 2011 Fair Value</u>
Commodity Contracts	Current Derivative Assets	\$ 466	\$ –
Commodity Contracts	Non-current Derivative Assets	657	–
Derivatives not designated as hedging instruments		<u>\$ 1,123</u>	<u>\$ –</u>

The following table summarizes the realized gain and loss from derivative cash settlements and the unrealized gain and loss from changes in fair value of derivative contracts as presented in the accompanying statements of operations.

	<u>For the Three Months Ended September 30, 2011</u>	<u>For the Nine Months Ended September 30, 2011</u>
	(in thousands)	
Realized gain:		
Oil contracts	\$ 57	\$ 57
Total realized gain	<u>\$ 57</u>	<u>\$ 57</u>
Unrealized gain on changes in fair value:		
Oil contracts	\$ 1,123	\$ 1,123
Total net unrealized gain on change in fair value	<u>\$ 1,123</u>	<u>\$ 1,123</u>
Total unrealized and realized derivative gain on derivative contracts	<u>\$ 1,180</u>	<u>\$ 1,180</u>

For the three and nine months ended September 30, 2010, the Company did not have any derivative financial instruments in place.

**Document and Entity
Information**

**9 Months Ended
Sep. 30, 2011**

Document and Entity Information

<u>Entity Registrant Name</u>	Black Raven Energy, Inc.
<u>Entity Central Index Key</u>	0001299966
<u>Document Type</u>	10-Q
<u>Document Period End Date</u>	Sep. 30, 2011
<u>Amendment Flag</u>	false
<u>Current Fiscal Year End Date</u>	--12-31
<u>Entity Current Reporting Status</u>	Yes
<u>Entity Filer Category</u>	Smaller Reporting Company
<u>Entity Common Stock, Shares Outstanding</u>	17,010,531
<u>Document Fiscal Year Focus</u>	2011
<u>Document Fiscal Period Focus</u>	Q3

**Description of Business,
Basis of Presentation and
Summary of Significant
Accounting Policies**

9 Months Ended

Sep. 30, 2011

**Description of Business,
Basis of Presentation and
Summary of Significant
Accounting Policies**

**Description of Business, Basis
of Presentation and Summary
of Significant Accounting
Policies**

**Note 1—Description of Business, Basis of Presentation and Summary of Significant
Accounting Policies**

Description of Business

Black Raven Energy, Inc. and its subsidiaries (“Black Raven,” the “Company,” “us,” “our” or “we”), operate as an independent energy company engaged in the acquisition, exploitation, development and production of natural gas and oil in the Rocky Mountain region of the United States.

On March 5, 2008, the Company (under its former name, PRB Energy, Inc.) and its subsidiaries filed voluntary petitions for relief (the “Chapter 11 Bankruptcy”) under Chapter 11 of the United States Bankruptcy Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the District of Colorado (the “Bankruptcy Court”). The Company continued to operate its business as a “debtor-in-possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code. On January 16, 2009, the Bankruptcy Court entered an order confirming a Modified Second Amended Joint Plan of Reorganization (the “Plan”) of the Company and PRB Oil and Gas, Inc. (“PRB Oil”), which was then a wholly-owned subsidiary. The effective date of the Plan was February 2, 2009 (the “Effective Date”). After the Effective Date, PRB Oil was merged into the Company. On the Effective Date, we issued an Amended and Restated Senior Secured Debenture (the “Amended Debenture”) payable to West Coast Opportunity Fund, LLC (“WCOF”), the principal pre-petition secured creditor, in the original principal amount of \$18,450,000. WCOF also became our principal stockholder as of the Effective Date.

Effective November 1, 2008, control of the Recluse Gathering System owned by PRB Gathering, Inc. (“PRB Gathering”), a wholly-owned subsidiary, was turned over to a receiver appointed by the State Court of Wyoming. Based on our loss of control, we deconsolidated PRB Gathering during the fourth quarter of 2008. PRB Gathering was dismissed from Chapter 11 Bankruptcy on February 17, 2010, and a gain on reorganization of approximately \$1.1 million was recognized. Upon PRB Gathering’s dismissal from bankruptcy, the Company reacquired control of PRB Gathering. PRB Gathering has no significant assets or liabilities as of September 30, 2011 and December 31, 2010 and no significant operations for the nine months ended September 30, 2011 and 2010.

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern. As shown in the accompanying financial statements, the Company continues to experience net losses from its operations, reporting a net loss of \$1.49 million for the nine months ended September 30, 2011. Cash and cash equivalents on hand and internally generated cash flows may not be sufficient to execute the Company’s business plan. Future bank financings, asset sales, or other equity or debt financings may be required to fund the Company’s debt service, working capital requirements, planned drilling, potential acquisitions and other capital expenditures. These conditions raise substantial doubt about the Company’s ability to continue as a going concern. These financial statements do not include any adjustments that may result from the outcome of this uncertainty.

The Company entered into a Farmout Agreement dated July 23, 2010 (the “Farmout Agreement”) with Atlas Resources, LLC (“Atlas”), as further discussed in Note 3. The Farmout Agreement is expected to provide the Company sufficient cash flow to continue drilling operations on behalf of Atlas on the properties subject to the agreement. There can be no assurances that the cash flow generated from the Farmout Agreement will be sufficient to execute the Company’s business plan.

On July 27, 2011, the Company completed the purchase of the oil and gas properties in the Adena Field in Morgan County, Colorado (the “Adena Properties”) as further discussed in Note 4. In order to finance this purchase, the Company entered into a note purchase agreement with Carlyle Energy Mezzanine Opportunities Fund and its affiliates (collectively “Carlyle”), as further discussed in Note 6.

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and generally accepted accounting principles in the United States (“GAAP”). In the opinion of management, the condensed consolidated financial statements include the adjustments, consisting of normal recurring accruals, necessary for a fair statement of the information required to be set forth therein. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted from these statements pursuant to such rules and regulations. Accordingly, these financial statements should be read in conjunction with our audited consolidated financial statements, included in our Annual Report on Form 10-K for the year ended December 31, 2010. The results for interim periods are not necessarily indicative of the results for the entire year.

In connection with the preparation of the condensed consolidated financial statements, the Company evaluated subsequent events after the balance sheet date of September 30, 2011, through the filing date of this report.

Summary of Significant Accounting Policies

The accounting policies followed by the Company are set forth in Note 1 to the Company’s consolidated financial statements in its Annual Report on Form 10-K for the year ended December 31, 2010 (“2010 10-K”), and are supplemented throughout the notes to the condensed consolidated financial statements in this report. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the 2010 Form 10-K.

Net Earnings (Loss) Per Share - We account for earnings (loss) per share (“EPS”) in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 260, “Earnings per Share” (“ASC Topic 260”). Under ASC Topic 260, basic EPS is computed by dividing the net loss applicable to common stockholders by the weighted average common shares outstanding without including any potentially dilutive securities. Potentially dilutive securities for the diluted earnings per share calculation consist of in-the-money outstanding warrants and stock options to purchase our common stock for the periods ended September 30, 2011 and 2010. Diluted EPS is computed by dividing the net loss applicable to common stockholders for the period by the weighted average common shares outstanding plus, when their effect is dilutive, common stock equivalents. For the nine months ended September 30, 2011 and 2010, and the three months ended September 30, 2011 and 2010, there were no potentially dilutive securities outstanding whose effect would be dilutive to our earnings (loss) per share calculation.

Potentially dilutive securities, which have been excluded from the determination of diluted earnings (loss) per share because their effect would be anti-dilutive, are as follows:

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Warrants	1,494,298	1,494,298	1,494,298	1,494,298
Options	1,747,500	1,532,500	1,747,500	1,532,500
Total potentially dilutive shares excluded	<u>3,241,798</u>	<u>3,026,798</u>	<u>3,241,798</u>	<u>3,026,798</u>

Subsequent to September 30, 2011, and through the filing date of this report, we have not issued any dilutive securities that would have increased the number of potentially dilutive shares.

Concentration of Credit Risk - Revenues from customers that represented 10% or more of our oil and gas sales for the three and nine months ended September 30, 2011 and 2010 were as follows:

Customer	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(% of total revenue)		(% of total revenue)	
A	9%	75%	26%	70%
B	5%	25%	10%	30%
C	5%	–	10%	–
D	81%	–	54%	–

Borrowings

9 Months Ended
Sep. 30, 2011

Borrowings

Borrowings

Note 6—Borrowings

As of September 30, 2011 and December 31, 2010, our borrowings consisted of the following:

	September 30, 2011	December 31, 2010
	(in thousands)	
Amended senior secured debenture	\$ 18,848	\$ 18,848
Senior secured notes	18,179	—
Total borrowings	37,027	18,848
Less current portion	—	—
Total borrowings, long term	\$ 37,027	\$ 18,848

Amended Senior Secured Debenture

On the Effective Date, in connection with the consummation of the Plan, we, along with PRB Oil, entered into a Limited Waiver, Consent and Modification Agreement (the “Modification Agreement”) with WCOF. Under the Modification Agreement, we issued the Amended Debenture, payable to WCOF in the original principal amount of \$18.45 million.

Since its issuance, the terms of the Amended Debenture have been modified on several occasions. Currently, a total of approximately \$18.85 million of principal is outstanding under the Amended Debenture. The outstanding principal bears interest at a total of ten percent (10%) per annum and is due and payable on January 15, 2014. Interest is paid to WCOF on the outstanding principal at a rate equal to five percent (5%) per annum in shares of common stock of the Company in an amount based on a share price of \$2.00 per share (the “Stock Interest”). Additional interest is payable to WCOF on the outstanding principal at a rate equal to five percent (5%) per annum in cash (the “Cash Interest”). The Stock Interest is due and payable to WCOF quarterly in arrears on the last day of each calendar quarter. The Cash Interest is due and payable to WCOF on the maturity date of the Amended Debenture, less \$5,000 per well drilled under the Farmout Agreement (see Note 3), which is payable to WCOF upon the Company’s receipt of the applicable well-site fees from Atlas under the Farmout Agreement.

We have guaranteed payment of the Amended Debenture and pledged substantially all of our assets as collateral. If we fail to comply with the restrictions in the agreements governing the Amended Debenture, an event of default could occur that would permit WCOF to foreclose on substantially all of our assets. The Company and WCOF have agreed that no event of default shall occur on the Amended Debenture until written notice of default is given to the Company by WCOF and such default shall have continued for a period of 30 days after written notice is delivered to the Company.

In connection with the financing of the Adena Properties acquisition described below, WCOF agreed to subordinate the payment obligations under the Amended Debenture and related security interests to the payment obligations arising under the Adena acquisition financing, pursuant to the terms and conditions of an intercreditor and subordination agreement. As further security for the payment of the notes, WCOF, which is also the majority stockholder in the Company, pledged to the lenders all of its shares of stock in the Company.

Senior Secured Notes

On July 27, 2011, in order to finance the acquisition of the Adena Properties, the Company entered into a note purchase agreement (the “Note Purchase Agreement”) with Carlyle as

administrative agent and collateral agent. Pursuant to the Note Purchase Agreement, the Company closed on the issuance and sale of Tranche A promissory notes (the "Tranche A Notes") in the aggregate principal amount of \$18.0 million. The Tranche A Notes mature and are due and payable on July 27, 2016. They bear interest at a stated rate of 13% per annum, of which 10% must be paid in cash, and, at the election of the Company, 3% may be paid in cash or paid in kind and capitalized into the Tranche A Notes. A portion of the proceeds received from the sale of the Tranche A Notes was used for the acquisition of the Adena Properties with the balance to be used according to a mutually approved plan of development for the Adena Properties. The Company was required to establish a reserve account pursuant to the Note Purchase Agreement in the amount of \$450,000, which is included in restricted cash (non-current) within the condensed consolidated balance sheets.

Subject to certain conditions, the Company can voluntarily prepay the Tranche A Notes. If the Company prepays the Tranche A Notes before July 31, 2014, subject to certain exceptions, the Company must pay a "make-whole" amount, equal to the present value at the time of the prepayment of the amount of interest which would have been payable on the principal balance of the Tranche A Notes through July 31, 2014.

Concurrently with the issuance of the Tranche A Notes, the Company issued to the holders of the Tranche A Notes Tranche B promissory notes ("Tranche B Notes, and with the Tranche A Notes the "Senior Secured Notes") in the aggregate principal amount of \$2.5 million with a stated interest rate of 13% per annum, all of which is paid in kind and capitalized into the Tranche B Notes. The Company may prepay the Tranche B Notes only in whole, and upon prepayment, the Company must pay a "make-whole" amount, equal to \$1.2 million less the amount of paid in kind interest that has been capitalized into the Tranche B Notes as of such date. The Tranche B Notes have been recorded net of a discount of \$2.5 million, which is being amortized over the life of the loan. For the three and nine months ended September 30, 2011, amortization of debt discount was \$83,000. The Tranche B Notes are due and payable on the earlier of July 27, 2016, or the repayment of the Tranche A Notes.

The Company incurred deferred financing costs totaling \$1.8 million in connection with the issuance of the Senior Secured Notes. As additional consideration for the issuance of the Senior Secured Notes, the Company conveyed to the holders of the Senior Secured Notes overriding royalty interests equal to 3% of 8/8ths in the Adena Properties and agreed to convey overriding royalty interests in any future oil and gas properties acquired by the Company, subject to certain permissible acquisitions, during the term of the Note Purchase Agreement. The Company has estimated the value of the overriding royalty interests to be \$2.2 million at the date of the financing and has recorded additional deferred financing costs associated with its Senior Secured Notes related to these interests. The Company's deferred financing costs will be amortized to interest expense over the term of the Note Purchase Agreement. If future overriding royalty interests in oil and gas properties acquired by the Company are conveyed to Carlyle under the terms of the Note Purchase Agreement, additional deferred financing costs will be recorded and amortized as an adjustment to the yield on the Senior Secured Notes over the remaining period of the Note Purchase Agreement. Depending on the nature of any future acquisitions made by the Company, the value of the applicable overriding royalty interests conveyed to Carlyle may be material to the Company's financial position or results of operations.

The Senior Secured Notes are collateralized by substantially all of the assets of the Company and its subsidiaries. The Senior Secured Notes are subject to customary events of default. Upon the occurrence of an event of default, as described in the Note Purchase Agreement, the payment of the principal amounts under the Senior Secured Notes may be accelerated and the interest rate applicable to the principal amounts will be increased to a stated interest rate of 16% per annum during the period the default exists. WCOF, a majority stockholder in the Company and the holder of the Amended Secured Debentures discussed above, agreed to subordinate the payment obligations under the debenture and related security interests to the payment obligations arising under the Senior Secured Notes and the security interests securing payment of the Senior Secured Notes, pursuant to the terms and conditions of

an intercreditor and subordination agreement. As further security for the payment of the Senior Secured Notes, WCOF pledged to Carlyle all of its shares of stock in the Company.

As of September 30, 2011, \$96,000 of interest had been converted to debt.