

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

BLACKSANDS PETROLEUM, INC.

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SIC: **1311** Crude petroleum & natural gas

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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 July 31, 2014

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: 000-51427

**BLACKSANDS
PETROLEUM, INC.**

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation
or organization)

20-1740044

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

800 Bering, Suite 250

Houston, Texas 77057

(Address of principal executive offices) (zip code)

(713) 554-4490

(Registrant's telephone number, including area code)

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

As of September 12, 2014, there were 18,756,199 shares of registrant's common stock outstanding.

BLACKSANDS PETROLEUM, INC.
FORM 10-Q
For the Quarter Ended July 31, 2014

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Blacksands Petroleum, Inc. and Subsidiaries
Consolidated Balance Sheets
(Unaudited)

	<u>July 31,2014</u>	<u>October 31,2013</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 719,586	\$ 1,335,237
Accounts receivable	197,610	417,597
Prepaid expenses	12,660	--
Total Current Assets	<u>929,856</u>	<u>1,752,834</u>
Oil and gas property costs (successful efforts method of accounting)		
Proved, net of accumulated depletion of 7,368,699 and 6,309,607	4,015,072	2,077,872
Other assets	50,000	50,312
TOTAL ASSETS	<u>\$ 4,994,928</u>	<u>\$ 3,881,018</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Note payable	\$ 60,000	\$ 280,000
Accounts payable	478,650	523,365
Accrued expenses	4,011,483	3,121,900
Total Current Liabilities	<u>4,550,133</u>	<u>3,925,265</u>
Notes Payable, net of discount of \$-- and \$1,329,581	5,820,000	4,270,419

Convertible debenture net of discount of \$1,337,497 and \$--	162,503	--
Asset Retirement obligation	48,081	649,233
Total Liabilities	10,580,717	8,844,917
Stockholders' Deficit:		
Preferred stock - \$0.001 par value; 10,000,000 shares authorized:		
Series A - \$.001 par value, 310,000 shares authorized, nil shares issued and outstanding	--	--
Series B - \$.001 par value, 2,217,281 shares authorized, 500,000 shares issued and outstanding	500	--
Common stock - \$0.001 par value; 100,000,000 shares authorized; 17,725,610 and 17,719,360 shares issued and outstanding at July 31, 2014 and October 31, 2013, respectively	17,726	17,720
Additional paid-in capital	25,559,704	23,726,191
Accumulated deficit	(31,163,719)	(28,707,810)
Total Stockholders' Deficit	(5,585,789)	(4,963,899)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 4,994,928	\$ 3,881,018

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

Blacksands Petroleum, Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

	Nine Months Ended July 31,		Three Months Ended July 31,	
	2014	2013	2014	2013
Revenue:				
Oil and gas revenue	\$1,062,491	\$1,303,045	\$465,791	\$467,879
Expenses:				
Selling, general and administrative	960,706	1,107,685	244,723	336,255
Depreciation and depletion	366,501	375,257	69,924	138,211
Accretion expense	15,648	31,287	1,707	8,525
Lease operating expenses	430,473	507,585	129,902	152,460
Gain on sale of interest in Cabeza Creek Field	(645,323)	--	--	--
Gain on transfer of interest to PIE Holdings	(1,760,390)	--	--	--
Oil and gas exploration costs	--	220,000	--	220,000
Impairment of oil and gas property interest	2,219,813	--	--	--
Total expenses	1,587,428	2,241,814	446,256	855,451
Gain (loss) from operations	(524,937)	(938,769)	19,535	(387,572)
Other income and (expense):				
Interest expense	(1,941,519)	(955,918)	(769,317)	(360,411)
Other income	10,547	27,763	10,547	--
Total other income (expense)	(1,930,972)	(928,155)	(758,770)	(360,411)
Loss before provision for income taxes	(2,455,909)	(1,866,924)	(739,235)	(747,983)
Provision for income taxes	--	--	--	--
Net loss	(2,455,909)	(1,866,924)	(739,235)	(747,983)
Preferred stock dividends	2,500	150,000	2,500	50,000

Deemed dividend	450,000	--	450,000	--
Net loss attributable to common shareholders	<u><u>\$2,908,409</u></u>	<u><u>\$2,016,924</u></u>	<u><u>\$1,191,735</u></u>	<u><u>\$797,983</u></u>
Loss per share attributable to common shareholders				
Basic	\$(0.16))	\$(0.12))
Diluted	\$(0.16))	\$(0.12))
Weighted Average Shares Outstanding				
Basic	17,721,546	16,388,648	17,722,655	16,389,738
Diluted	17,721,546	16,388,648	17,722,655	16,389,738

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

BLACKSANDS PETROLEUM, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Nine Months Ended July 31, 2014 and 2013
(Unaudited)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(2,455,909)	\$(1,866,924)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Impairment of oil and gas property costs	2,219,813	--
Equity compensation expense	(15,980)	236,526
Amortization of debt discount	1,342,084	433,032
Gain on transfer of interest to PIE Holdings	(1,760,392)	--
Depreciation, depletion and accretion	382,148	406,544
Gain on sale of oil and gas properties	(645,323)	--
Changes in operating assets and liabilities:		
Accounts receivable	219,987	161,185
Prepaid expense and other current assets	(12,660)	169,611
Accounts payable	(12,753)	315,562
Net cash flows from operating activities	<u><u>(738,985)</u></u>	<u><u>(144,464)</u></u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Oil and gas property costs	(1,926,666)	(390,401)
Proceeds from the sale of Cabeza Creek	50,000	--
Net cash flows from investing activities	<u><u>(1,876,666)</u></u>	<u><u>(390,401)</u></u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on debt	1,500,000	--
Proceeds from preferred stock subscription	500,000	--
Net cash flows from financing activities	<u><u>2,000,000</u></u>	<u><u>--</u></u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS - Beginning of period	(615,651)	(534,865)
CASH AND CASH EQUIVALENTS - End of period	<u><u>1,335,237</u></u>	<u><u>1,160,320</u></u>
	<u><u>\$ 719,586</u></u>	<u><u>\$ 625,455</u></u>
<i>Supplemental Disclosures</i>		
Cash paid for interest	\$ 252,252	\$ 167,240
Cash paid for income taxes	\$ --	\$ --
<i>Supplemental non-cash activities:</i>		
Oil and gas costs in accounts payable	\$ 858,009	\$ --
Discount on debt	\$ 1,350,000	\$ --

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

BLACKSANDS PETROLEUM, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

1. The Company and Summary of Significant Accounting Policies

Blacksands Petroleum, Inc. (hereinafter referred to as the “Company”) was incorporated in the State of Nevada on October 12, 2004. Since August 2007, the Company has been engaged in the exploration, development, exploitation and production of oil and natural gas. The Company sells its oil and gas products primarily to domestic pipelines and refineries. Its operations are presently focused in the States of Texas and New Mexico.

The accompanying unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and rules of the Securities and Exchange Commission (“SEC”), and should be read in conjunction with the audited financial statements and notes thereto contained in annual report on Form 10-K for the year ended October 31, 2013 filed with the SEC on February 14, 2014. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the consolidated financial statements which would substantially duplicate the disclosure contained in the audited financial statements as reported in the 2013 annual report on Form 10-K have been omitted.

Oil and Gas Properties

The Company follows the successful efforts method of accounting for its oil and natural gas properties. Oil and gas properties are periodically assessed to determine whether they have been impaired. Any impairment in value of unproved properties is charged to exploration expense. The costs of unproved properties, which are determined to be productive, are transferred to prove oil and gas properties and amortized on an equivalent unit-of-production basis. Exploratory expenses, including geological and geophysical expenses and delay rentals for unevaluated oil and gas properties, are charged to expense as incurred. Exploratory drilling costs are initially capitalized as unproved property but charged to expense if and when the well is determined not to have found proved oil and gas reserves. In accordance with ASC No. 935, exploratory drilling costs are evaluated within a one-year period after the completion of drilling. For proved properties, we compare expected undiscounted future cash flows at a producing field level to the unamortized capitalized cost of the asset. If the future undiscounted cash flows, based on our estimate of future natural gas and crude oil prices, operating costs, anticipated production from proved reserves and other relevant date, are lower than the unamortized capitalized cost, the capitalized cost is reduced to fair value. Fair value is calculated by discounting the future cash flows at an appropriate risk-adjusted discount rate.

During the three months ended January 31, 2014, the Company impaired its oil and gas properties by \$2,219,813, which is reflected in the consolidated statement of operations. This impairment was the result of the additional costs incurred in the AP Clark Field related to the three wells on which the drilling was commenced in November 2013.

Subsequently, during the three months ended April 30, 2014, the Company recorded income of \$1,760,392 in connection with the transfer of some of the Company’s interest in three wells to PIE Holdings, LP on which drilling commenced in November 2013. This income is included in the income statement as an operating expense.

Going Concern

As shown in the accompanying consolidated financial statements, the Company has incurred an accumulated deficit of \$31,163,719 through July 31, 2014. In addition, at July 31, 2014, the Company had a working capital deficit of \$3,620,277, a stockholders’ deficit of \$5,585,789 and cash and cash equivalents of \$719,586.

The current rate of cash usage raises substantial doubt about the Company’s ability to continue as a going concern, absent the raising of additional capital, restructuring or extending the terms on its current debt and/or additional significant revenue from new oil production. The Company’s financial statements do not include any adjustments

relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event that the Company cannot continue in existence.

2. Asset Retirement Obligation

The following table summarizes the change in the asset retirement obligation (“ARO”) for the periods ended July 31, 2014:

Beginning balance at November 1, 2013	\$ 649,233
Liabilities settled	--
Liabilities incurred through acquisition of assets	--
Liabilities settled through sale of assets	(616,800)
Accretion expense	15,648
Ending balance at July 31, 2014	<u>\$ 48,081</u>

The ARO reflects the estimated present value of the amount of dismantlement, removal, site reclamation and similar activities associated with the Company’s oil and gas properties. Inherent in the fair value calculation of the ARO are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal, regulatory, environmental and political environments. To the extent future revisions to these assumptions impact the fair value of the existing ARO liability, a corresponding adjustment is made to the oil and gas property balance.

3. Contingencies

The Company, as an owner or lessee and operator of oil and gas properties, is subject to various federal, state and local laws and regulations relating to discharge of materials into, and protection of, the environment. These laws and regulations may, among other things, impose liability on the lessee under an oil and gas lease for the cost of pollution clean-up resulting from operations and subject the lessee to liability for pollution damages. In some instances, the Company may be directed to suspend or cease operations in the affected area. The Company maintains insurance coverage, which it believes is customary in the industry, although the Company is not fully insured against all environmental risks. The Company is not aware of any environmental claims existing as of July 31, 2014, which have not been provided for, covered by insurance or otherwise have a material impact on its financial position or results of operations. There can be no assurance, however, that current regulatory requirements will not change, or past noncompliance with environmental laws will not be discovered on the Company’s properties.

In June 2014, the Company received notice that it owed to PIE Holdings LP approximately \$485,000 for the completion costs related to the three new wells in the AP Clark Field. According to the Joint Operating Agreement the Company has with PIE Holdings, LP, these amounts are required to be paid within seven days of the notification that fracking activities commenced. These amounts have not been paid to date. According to the Joint Operating Agreement, the Company could be forced to give up all or a portion of its interest in these wells for non-payment. The Company has not been notified to date of any actions to be taken for the non-payment of these completion costs.

4. Stockholders’ Equity

Series B Convertible Preferred Stock

In June 2014, the Company designated 2,217,281 shares of preferred stock as non-voting Redeemable Convertible Series B Preferred Stock (“Series B Preferred”) (See Note 6). Each share of Series B Preferred is entitled to a dividend of 3% payable annually through the issuance of additional Series B Preferred. Each share of Series B Preferred may be converted at the option of the holder any time on or prior to May 30, 2017 into shares of the Company’s common stock at a conversion price of \$1.00 per share, which is subject to adjustment. The Company has the right to redeem the shares, in whole or in part, any time after May 30, 2017 at \$1.00 per share.

Under the terms set forth in the Certificate of Designation, the holders of Series B Preferred stock have the exclusive right, voting separately as a class, to elect one director of the Board (“Series B Director”), who must be reasonably

acceptable to the Company. The Series B Director must be appointed by the holders of a majority of the issued and outstanding shares of Series B Preferred Stock. The Series B Director was appointed to the Board in June 2014.

Stock Options

A summary of the Company's stock option activity and related information is as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at November 1, 2013	1,046,333	\$3.13
Granted	-	-
Exercised	-	-
Cancelled	27,500	\$4.50
Outstanding at July 31, 2014	<u>1,018,833</u>	<u>\$3.09</u>
Exercisable at July 31, 2014	<u>1,018,833</u>	<u>\$3.09</u>

During the nine months ended July 31, 2014 and 2013, the Company recorded stock-based compensation of \$(15,980) and \$236,526, respectively, as general and administrative expenses. At July 31, 2014, the weighted average remaining life of the stock options is 6.02 years.

Warrants

A summary of the Company's warrant activity and related information is as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at November 1, 2013	2,057,268	\$4.50
Granted	-	-
Exercised	-	-
Expired	2,057,268	\$4.50
Outstanding at July 31, 2014	--	--
Exercisable at July 31, 2014	--	--

5. Sale of Cabeza Creek Field

In January 2014, the Company sold its interest in all of the wells in the Cabeza Creek Field for all depths from the surface to 8,500 feet below the surface in exchange for \$50,000 and the assumption of all future liabilities associated with the plugging and abandoning of all wells in the Cabeza Creek Field (\$616,800).

The following is a summary of the pro forma information for the nine months ended July 31, 2014 and 2013 assuming the sale of the Cabeza Creek field had occurred as of the beginning of each fiscal year presented:

	2014	2013
Oil and gas revenue	\$ 1,062,491	\$ 1,149,001
Expenses		
Selling, general and administrative	1,018,271	1,107,685
Depreciation and depletion	366,501	301,620
Accretion	15,648	1,143
Lease operating expense	430,473	447,579

Impairment of oil and gas property interest	2,219,813	--
Oil and gas exploration costs	--	220,000
Total expenses	4,050,706	2,078,027
Loss from operations	(2,988,215)	(929,026)
Other income (expense)	(230,952)	(928,155)
Net loss	\$ (3,219,167)	\$(1,857,181)

6. Subscription Agreement

On June 6, 2014, the Company entered into a subscription agreement with Pacific LNG Operations Ltd., a company incorporated in the British Virgin Islands (“Pacific LNG”), whereby the Company issued to Pacific LNG, in exchange for \$2,000,000, a (i) \$1,500,000 principal face amount 5% Convertible Debenture (“Debenture”) convertible into shares of Series B Preferred (Note 5) at a conversion price of \$1.00 per share, and (ii) \$500,000 in exchange for 500,000 shares of Series B Preferred.

The Debenture accrues interest at the rate of 5% per annum, payable semi-annually in arrears, and matures on June 6, 2017. Pacific LNG has the right, at any time prior to June 6, 2015, to convert the outstanding principal and interest, if any, of the Debenture into shares of Series B Preferred at a price of \$1.00 per share of Series B Preferred.

Each share of Series B Preferred has a stated value of \$1.00 (“Stated Value”) and accrues a dividend of 3% of the Stated Value per annum, which is payable in additional shares of Series B Preferred annually on December 31 in arrears. Each share of Series B Preferred may be converted at any time on or prior to May 30, 2017 into such number of shares of the Company’s common stock equal to the Stated Value divided by \$1.00 per share. The Company has the right, at any time after May 30, 2017, to redeem the Series B Preferred at a price of \$1.00 per share. Management has evaluated the Series B Preferred and its related terms and determined there are no embedded derivatives.

In connection with the issuance of the Debenture, the Company has reported a beneficial conversion feature for the difference between the conversion price pursuant to the Debenture and the quoted price of the Company’s common stock on the date of the agreement. On the date of the agreement, a discount totaling \$1,350,000 was recorded. The unamortized discount which at July 31, 2014 was \$1,337,497, will be amortized over the remaining term of the Debenture using the effective interest method. In addition, a deemed dividend totaling \$450,000 was recorded in connection with the beneficial conversion feature associated with the conversion features in the Series B Preferred.

7. Subsequent Events

Amendment to Silver Bullet Notes Payable

In August 2014, the Company and Silver Bullet Property Holdings SDN BHD (“Silver Bullet”) entered into an Amendment and Exchange Agreement (the “August 2014 Amendment”). Pursuant to the August 2014 Amendment, all accrued and unpaid interest through June 30, 2014 on the outstanding notes issued to Silver Bullet, totaling \$1,052,407, was exchanged for 1,052,407 shares of the Company’s common stock. In addition, interest accrued on the notes is to be paid quarterly in arrears in shares of the Company’s common stock based upon the average common stock price for the last five trading days of the quarter. The due dates on each of the notes payable to Silver Bullet were extended to December 31, 2015.

Development Agreement with Adwar Drilling Fund III

In August 2014, ApClark, LLC, a wholly-owned subsidiary of the Company, entered into a Participation and Development Agreement with Adwar Drilling Fund III, LP. (“Adwar III”). Pursuant to the agreement, Adwar III has the right to invest up to \$7.5 million in contributions to acquire working interests of up to 50% in certain future development wells.

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

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes a number of forward-looking statements that reflect Management's current views with respect to future events and financial performance. You can identify these statements by forward-looking words such as "may" "will," "expect," "anticipate," "believe," "estimate" and "continue," or similar words. Those statements include statements regarding the intent, belief or current expectations of us and members of its management team as well as the assumptions on which such statements are based. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risk and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements.

Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the Securities and Exchange Commission. Important factors currently known to us could cause actual results to differ materially from those in forward-looking statements. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in the future operating results over time. We believe that its assumptions are based upon reasonable data derived from and known about our business and operations and the business and operations of the Company. No assurances are made that actual results of operations or the results of our future activities will not differ materially from its assumptions. Factors that could cause differences include, but are not limited to, expected market demand for the Company's services, fluctuations in pricing for materials, and competition.

Overview

We currently focus our oil and natural gas exploration, exploitation and development operations on projects located in Texas. The higher potential impact projects ("Core Focus Area") are concentrated in the Spraberry, Wolfberry, Cline, Strawn and Mississippian formations in the Permian Basin (Midland Basin) in W. Texas. We also have interests in (i) conventional reef structures in the Pedregosa Basin in S.W. New Mexico, (ii) conventional structure and stratigraphic formations and unconventional resource formations in Southern Colorado and (iii) Beech Creek Field in Hardin County, Texas ("Non-core Properties").

As of July 31, 2014, we owned interests in (i) approximately 7,700 gross (3,900 net) acres in the Midland Basin, (ii) approximately 108,715 gross (54,357 net) acres in the Pedregosa Basin, and (iii) approximately 3,300 gross (1,650 net) acres in Colorado.

We have approximately 112,793 gross acres (56,100 net acres) held by production and continuous drilling operations. This includes approximately 3,100 gross acres (1,145 net acres) in Midland Basin and 108,715 gross acres (54,357 net acres) in the Pedregosa Basin. In addition, we own between a 24% and 30% working interest in two wells in the Beech Creek Field, which are operated by Gaither Petroleum Corp. We have no production in Colorado.

We began oil and gas operations in the United States on November 1, 2009, with the purchase of a producing conventional oil and gas field, located in the Gulf Coast region of Texas, from Pioneer Natural Resources. Additionally, we acquired interests in two properties located in the Gulf Coast region of Texas and one property in our Core Focus Area located in West Texas.

The Core Focus Area provides us with the opportunity to grow reserves and cash flow by drilling and developing the properties. The Core Focus Area we currently plan to concentrate on developing is in the AP Clark Field. The three wells that we commenced drilling on in the AP Clark Field in November 2013 were completed and have been producing. During the three months ended July 31, 2014, our portion of the production amounted to approximately 1,000 barrels of oil. These wells came online in the month of May 2014 with our portion of the production averaging approximately 18 barrels of oil per day, which had decreased to approximately 4 barrels of oil per day at July 31, 2014. During August 2014, the wells were shut in for completion and fracking. We are still testing zones on the wells and are waiting for the formations to come back in. We will need to raise additional capital in order to drill any potential future wells.

We continue to pursue avenues to reduce or eliminate our financial exposure on a case by case basis for each project. Joint venture arrangements may be considered for others to participate for a disproportionate share of the initial leasing and/or drilling costs, further reducing our exposure. In order to maintain our financial position, we have sold equity and used joint venture agreements with other industry companies to limit or eliminate our financial exposure in early drilling.

We have not entered into any commodity derivative arrangements or hedging transactions. Although we have no current plans to do so, we may enter into commodity swap and/or hedging transactions in the future in conjunction with oil and gas production. We have no off-balance sheet arrangements.

Consolidated Results of Operations for the Nine and Three Months Ended July 31, 2014 Compared to the Nine and Three Months Ended July 31, 2013

Revenue for the nine months ended July 31, 2014 totaled \$1,062,491 as compared to \$1,303,045 for the nine months ended July 31, 2013. Revenue for the three months ended July 31, 2014 totaled \$465,791 as compared to \$467,879 for the three months ended July 31, 2013. \$154,044 of the \$240,554 reduction in the revenue during the nine months ended July 31, 2014 resulted from the sale of the Cabeza Creek Field in January 2014 and the lack of production in that field for several months prior to being sold. The balance of the decrease in revenue comes from lower production from the Beech Creek and older AP Clark wells. Revenue for the three months ended July 31, 2014 remained flat as compared to the three months ended July 31, 2013. We were able to replace the revenue lost as a result of the sale of the Cabeza Creek Field and lower production from the existing wells in the AP Clark Field with the production from the three completed wells in the AP Clark Field drilled in the first quarter of fiscal 2014.

Selling, general and administrative expenses decreased \$146,979 from \$1,107,685 in the nine months ended July 31, 2013 to \$960,706 in the nine months ended July 31, 2014. This decrease is primarily the result of a decrease of \$252,507 in the stock based compensation recorded in the nine months ended July 31, 2014 from reduced vesting of previously granted stock options, which was partially offset by additional consulting fees of \$63,114 and professional services of \$37,423. There were no options granted during the nine months ended July 31, 2014. Selling, general and administrative expenses decreased \$91,532 from \$336,255 in the three months ended July 31, 2013 to \$244,723 in the three months ended July 31, 2014. This decrease is primarily the result of a decrease of \$102,488 in the stock based compensation recorded in the three months ended July 31, 2014 from reduced vesting of previously granted stock options, which was partially offset by additional consulting fees of \$15,000.

Depreciation, depletion and accretion decreased \$24,395 from \$406,544 in the nine months ended July 31, 2013 to \$382,149 for the nine months ended July 31, 2014. Depreciation, depletion and accretion decreased \$75,105 from \$146,736 in the three months ended July 31, 2013 to \$71,631 for the three months ended July 31, 2014. The decreases are primarily a result of the depletion expense for the costs related to the decrease in production of the older AP Clark Field wells and the loss of production from the sale of the Cabeza Creek Field.

Lease operating expenses decreased by \$77,112 from \$507,585 in the nine months ended July 31, 2013 to \$430,473 in the nine months ended July 31, 2014. Lease operating expenses decreased by \$22,558 from \$152,460 in the three months ended July 31, 2013 to \$129,902 in the three months ended July 31, 2014. The decreases were primarily the result of the costs eliminated as a result of the sale of the Cabeza property in January 2014.

During the nine months ended July 31, 2014, we reported an impairment of our oil and gas properties totaling \$2,219,813. These impairment charges resulted from the carrying costs of the AP Clark Field, including the costs of the three new wells exceeding the estimated fair value of the field based on estimated future cash flows. There were no impairments during the three months ended July 31, 2014 or the three and nine months ended July 31, 2013.

The gain on the sale of oil and gas properties of \$645,323 in the nine months ended July 31, 2014 was the result of selling our rights in the Cabeza Creek Field. In January 2014, we sold our interest in all of the wells in the Cabeza Creek Field for all depths from the surface to 8,500 feet below the surface in exchange for \$50,000 and the assumption by the purchaser of \$617,189 in current liabilities and all future liabilities associated with the plugging and abandoning of all wells in the Cabeza Creek Field.

The gain on sale of interest to PIE Holdings of \$1,760,392 for the nine months ended July 31, 2014 is the result of the partial transfer of our interest in three wells in the AP Clark Field, ranging from between 38.6% and 50.0%, to PIE Holdings, LP. In connection with these transfers, PIE Holdings paid a purchase price of \$20.00 and assumed aggregate obligations of approximately \$1.3 million, which related to expense obligations incurred in relation to the wells and related interests.

Interest expense increased by \$985,601 from \$955,918 in the nine months ended July 31, 2013 to \$1,941,519 in the nine months ended July 31, 2014. These increases are primarily related to an \$896,549 increase in the amortization of the discount on the amounts due to KP-RAHR Ventures III, LLC, which represents the balance of the discount on the amounts due KP-RAHR Ventures III, LLC using the effective interest method of amortization, amortization totaling \$12,503 on the discount of Pacific LNG convertible note, interest of \$19,746 on the additional loan made by Silver Bullet in the last half of 2013 and \$26,507 from the Pacific LNG convertible debenture.

Interest expense increased by \$408,976 from \$360,411 in the three months ended July 31, 2013 to \$769,387 in the three months ended July 31, 2014. These increases are primarily related to a \$385,503 increase in the amortization of the discount on the amounts due to KP-RAHR Ventures III, LLC, which represents the balance of the discount on the amounts due KP-RAHR Ventures III, LLC using the effective interest method of amortization, amortization totaling \$12,503 on the discount of Pacific LNG convertible note, interest of \$6,654 on the additional loan made by Silver Bullet in the fourth quarter of fiscal 2013 and \$2,178 from the Pacific LNG convertible debenture issued during the quarter ended July 31, 2014.

We incurred a net loss for the nine months ended July 31, 2014 of \$2,455,909, compared to a net loss of \$1,866,924 for the nine months ended July 31, 2013. We incurred a net loss for the three months ended July 31, 2014 of \$739,235, compared to a net loss of \$747,983 for the three months ended July 31, 2013.

Liquidity and Capital Resources

We had cash and cash equivalents of \$719,586 as of July 31, 2014. The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying consolidated financial statements, as of July 31, 2014, we had \$719,586 in cash and cash equivalents on hand, a working capital deficiency of approximately \$3.6 million, a stockholders' deficit of approximately \$5.6 million and an accumulated deficit of approximately \$31 million. As such, we currently do not have sufficient cash to engage in any further drilling or exploration activities. In addition, our cash balances are not sufficient to satisfy our anticipated cash requirements for normal operations, or to meet our accounts payable, accrued expenses and obligations regarding our indebtedness or capital expenditures for the foreseeable future.

We have incurred substantial losses since inception and we are not operating at cash flow breakeven. Our cash balance at July 31, 2014 is not sufficient to fully fund our business plan or to satisfy our cash requirements for normal operations, to meet our immediate accounts payable or other obligations regarding our indebtedness or our anticipated development activities over the next twelve months. In view of our capital requirements, current cash resources, nondiscretionary expenses, debt and near term accounts payable and accrued expenses obligations, we may explore all strategic alternatives to maintain our business as a going concern including, but not limited to, a sale of assets of our company, or one or more other transactions that may include a comprehensive financial reorganization of our company.

In order to continue operations and engage in development of our properties, we will be dependent on raising capital, debt or equity, from outside sources to pay for further expansion, exploration and development of our business, and to meet current obligations. Such capital may not be available to us when we need it on terms acceptable to us if at all, particularly in the current global economic conditions. The issuance of additional equity securities by us will result in a dilution to our current stockholders, which could depress the trading price of our common stock. Obtaining debt financing will increase our liabilities and future cash commitments. If we are unable to obtain financing in the amounts and on terms deemed acceptable to us, we may be unable to continue our business and may be required to scale back, sell a portion of or cease our operations. The terms of securities we issue in future capital transactions may be more favorable to our new investors, and may include preferences, superior voting rights and the issuance of warrants or other derivative securities, and issuances of incentive awards under equity employee incentive plans, which may have a further dilutive effect.

We may incur substantial costs in pursuing future capital financing, including investment banking fees, legal fees, accounting fees, securities law compliance fees, and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we may issue, such as convertible notes and warrants, which may adversely impact our financial condition. However, there is no assurance that we will be able to obtain sufficient funds on terms acceptable to us or at all. If adequate additional funding is not available, we may be forced to limit our activities.

If we are not able to obtain sufficient capital either from the sale of assets or external sources of capital to fund our immediate operating requirements, we may determine that it is in the Company's best interests to seek relief through a pre-packaged, pre-negotiated or other type of filing under Chapter 11 of the U.S. Bankruptcy Code.

In the event we seek protection under Chapter 11 of the U.S. Bankruptcy Code, it may be necessary, in order to obtain the approval of our creditors and the Bankruptcy Court to a plan of reorganization for the Company, to eliminate and cancel all existing equity of the Company, including common stock, options, warrants and other securities that are linked to our equity, which will result in a loss of the entire investment of the holders of such securities, including our stockholders. Further, if we were unable to implement a plan of reorganization or if sufficient debtor-in-possession financing were not available, we could be forced to liquidate under Chapter 7 of the U.S. Bankruptcy Code, which would result in a loss of your entire investment.

June 2014 Financing

On June 6, 2014, the Company entered into a subscription agreement with Pacific LNG Operations Ltd., a company incorporated in the British Virgin Islands ("Pacific LNG"), whereby the Company issued to Pacific LNG a (i) \$1,500,000 principal face amount 5% Convertible Debenture ("Debenture") convertible into shares of Series B Preferred Stock (as hereinafter defined) at a conversion price of \$1.00 per share and (ii) 500,000 shares of Series B Convertible Preferred Stock ("Series B Preferred Stock") at a price of \$1.00 per share.

The Debenture accrues interest at the rate of 5% per annum, payable semi-annually in arrears, and matures on June 6, 2017. Pacific LNG has the right, at any time prior to June 6, 2015, to convert the outstanding principal and interest, if any, of the Debenture into shares of Series B Preferred Stock at a price of \$1.00 per share of Series B Preferred Stock.

Each share of Series B Preferred Stock has a stated value of \$1.00 ("Stated Value") and accrues a dividend of 3% of the Stated Value per annum, which is payable in additional shares of Series B Preferred Stock annually on December 31 in arrears. Each share of Series B Preferred Stock may be converted at any time on or prior to May 30, 2017 into such number of shares of the Company's Common Stock equal to the Stated Value divided by \$1.00 per share. The Company has the right, at any time after May 30, 2017, to redeem the Series B Preferred Stock at a price of \$1.00 per share.

Amendment to Silver Bullet Notes Payable

In August 2014, the Company and Silver Bullet Property Holdings SDN BHD ("Silver Bullet") entered into an Amendment and Exchange Agreement (the "August 2014 Amendment"). Pursuant to the August 2014 Amendment, all accrued and unpaid interest through June 30, 2014 on the outstanding notes issued to Silver Bullet, totaling \$1,052,407, was exchanged for 1,052,407 shares of the Company's common stock. In addition, interest accrued on the notes is to be paid quarterly in arrears in shares of the Company's common stock based upon the average common stock price for the last five trading days of the quarter. The due dates on each of the notes payable to Silver Bullet were extended to December 31, 2015.

Development Agreement with Adwar Drilling Fund III

In August 2014, ApClark, LLC, a wholly-owned subsidiary of the Company, entered into a Participation and Development Agreement with Adwar III. Pursuant to the agreement, Adwar has the right to invest up to \$7.5 million in contributions to acquire working interests up to 50% in certain future development wells.

Net Cash Used In Operating Activities

Cash used in operating activities for the nine months ended July 31, 2014 was \$738,985, compared to \$144,464 for the nine months ended July 31, 2013. The increase in cash used in operating activities was primarily a result of a noncash gain on the transfer of interest in oil and gas properties to PIE Holdings of \$1,760,392, a non-cash gain of \$645,323 on the sale of the Cabeza Creek Field, a \$588,985 increase in the net loss, a \$328,315 decrease in accounts payable and a \$252,506 decrease in equity compensation expense, which was partially offset by a \$2,219,813 increase in the impairment costs for oil and gas properties and a \$909,052 increase in the amortization of debt discounts.

Cash Flows Used In Investing Activities

Net cash used in investing activities for the nine months ended July 31, 2014 was \$1,876,666 compared to \$390,401 for the nine months ended July 31, 2013. Investing activities for both periods relate to our oil and gas acquisitions and development activity. The costs for the nine months ended July 31, 2014 represented \$1,926,666 paid to drill the three new wells in the AP Clark Field, offset in part by \$50,000 of cash received from the sale of Cabeza Creek. There were no acquisitions of additional leaseholds incurred in either period.

Cash Flows From Financing Activities

During the nine months ended July 31, 2014, we obtained additional financing totaling \$2 million. On June 6, 2014, we entered into a subscription agreement with Pacific LNG, whereby, in exchange for the \$2 million previously received, we issued to Pacific LNG the (i) \$1,500,000 Debenture and (ii) 500,000 shares of Series B Preferred Stock. There was no cash provided by financing activities during the nine months ended July 31, 2013.

Critical Accounting Policies

Oil and Gas Accounting

Accounting for oil and gas exploratory activity is subject to special accounting rules unique to the oil and gas industry. The acquisition of geological and geophysical seismic information, prior to the discovery of proved reserves, is expensed as incurred, similar to accounting for research and development costs. However, leasehold acquisition costs and exploratory well costs are capitalized on the balance sheet pending determination of whether proved oil and gas reserves have been discovered on the prospect.

Property Acquisition Costs

For individually significant leaseholds, management periodically assesses for impairment based on exploration and drilling efforts to date. For leasehold acquisition costs that individually are relatively small, management exercises judgment and determines a percentage probability that the prospect ultimately will fail to find proved oil and gas reserves and pools that leasehold information with others in the geographic area. For prospects in areas that have had limited, or no, previous exploratory drilling, the percentage probability of ultimate failure is normally judged to be quite high. This judgmental percentage is multiplied by the leasehold acquisition cost, and that product is divided by the contractual period of the leasehold to determine a periodic leasehold impairment charge that is reported in exploration expense.

This judgmental probability percentage is reassessed and adjusted throughout the contractual period of the leasehold based on favorable or unfavorable exploratory activity on the leasehold or on adjacent leaseholds, and leasehold impairment amortization expense is adjusted prospectively. Management periodically assesses individually significant leaseholds for impairment based on the results of exploration and drilling efforts and the outlook for project commercialization.

Exploratory Costs

For exploratory wells, drilling costs are temporarily capitalized, or “suspended,” on the balance sheet, pending a determination of whether potentially economic oil and gas reserves have been discovered by the drilling effort to justify completion of the find as a producing well. If exploratory wells encounter potentially economic quantities of oil and gas, the well costs remain capitalized on the balance sheet as long as sufficient progress assessing the reserves and the economic and operating viability of the project is being made. The accounting notion of “sufficient progress” is a judgmental area, but the accounting rules do prohibit continued capitalization of suspended well costs on the mere chance that future market conditions will improve or new technologies will be found that would make the project’s development economically profitable. Often, the ability to move the project into the development phase and record proved reserves is dependent on obtaining permits and government or co-venture approvals, the timing of which is ultimately beyond our control. Exploratory well costs remain suspended as long as we are actively pursuing such approvals and permits, and believe they will be obtained. Once all required approvals and permits have been obtained, the projects are moved into the development phase, and the oil and gas reserves are designated as proved reserves. Once a determination is made the well did not encounter potentially economic oil and gas quantities, the well costs are expensed as a dry hole and reported in exploration expense.

Management reviews suspended well balances quarterly, continuously monitors the results of the additional appraisal drilling and seismic work, and expenses the suspended well costs as a dry hole when it determines the potential field does not warrant further investment in the near term. Criteria utilized in making this determination include evaluation of the reservoir characteristics and hydrocarbon properties, expected development costs, ability to apply existing technology to produce the reserves, fiscal terms, regulations or contract negotiations, and our required return on investment.

Proved Reserves

Engineering estimates of the quantities of proved reserves are inherently imprecise and represent only approximate amounts because of the judgments involved in developing such information. Reserve estimates are based on geological and engineering assessments of in-place hydrocarbon volumes, the production plan, historical extraction recovery and processing yield factors, installed plant operating capacity and operating approval limits. The reliability of these estimates at any point in time depends on both the quality and quantity of the technical and economic data and the efficiency of extracting and processing the hydrocarbons.

Despite the inherent imprecision in these engineering estimates, accounting rules require disclosure of “proved” reserve estimates due to the importance of these estimates to better understand the perceived value and future cash flows of a company’s exploration and production operations. There are several authoritative guidelines regarding the engineering criteria that must be met before estimated reserves can be designated as “proved.” Our reservoir engineers have policies and procedures in place consistent with these authoritative guidelines.

Proved reserve estimates are adjusted annually and during the year if significant changes occur, and take into account recent production and subsurface information about each field. Also, as required by current authoritative guidelines, the estimated future date when a field will be permanently shut down for economic reasons is based on 12-month average prices and year-end costs. This estimated date when production will end affects the amount of estimated reserves. Therefore, as prices and cost levels change from year to year, the estimate of proved reserves also changes.

Our proved reserves include estimated quantities related to production sharing contracts, which are reported under the “economic interest” method and are subject to fluctuations in prices of crude oil, natural gas and natural gas liquids; recoverable operating expenses; and capital costs. The estimation of proved developed reserves also is important to the statement of operations because the proved developed reserve estimate for a field serves as the denominator in the unit-of-production calculation of depreciation, depletion and amortization of the capitalized costs for that asset.

For proved properties, we compare expected undiscounted future cash flows at a producing field level to the unamortized capitalized cost of the asset. If the future undiscounted cash flows, based on our estimate of future natural gas and crude oil prices, operating costs, anticipated production from proved reserves and other relevant date, are lower than the unamortized capitalized cost, the capitalized cost is reduced to fair value. Fair value is calculated by discounting the future cash flows at an appropriate risk-adjusted discount rate.

Asset Retirement Obligations

Under various contracts, permits and regulations, we have material legal obligations to remove tangible equipment and plug wells at the end of operations at operational sites. The fair values of obligations for dismantling and removing these facilities are accrued at the installation of the asset based on estimated discounted costs. Estimating the future asset removal costs necessary for this accounting calculation is difficult. Most of these removal obligations are many years, or decades, in the future and the contracts and regulations often have vague descriptions of what removal practices and criteria must be met when the removal event actually occurs. Asset removal technologies and costs, regulatory and other compliance considerations, expenditure timing, and other inputs into valuation of the obligation, including discount and inflation rates, are also subject to change.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not required under Regulation S-K for “smaller reporting companies.”

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures.

Our management, with the participation of our interim president and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of July 31, 2014. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on management’s evaluation, our interim president and chief financial officer concluded that, as of July 31, 2014 our disclosure controls and procedures are not designed at a reasonable assurance level and are ineffective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. The material weaknesses, which relate to internal control over financial reporting, that were identified are:

- a) Due to our small size, we did not have sufficient personnel in our accounting and financial reporting functions nor do we have a proper segregation of duties. During the period ended July 31, 2014, we had limited staff that performed nearly all aspects of our financial reporting process, including, but not limited to, access to the underlying accounting records and systems, the ability to post and record journal entries and responsibility for the preparation of the financial statements. This creates certain incompatible duties and a lack of review over the financial reporting process that would likely result in a failure to detect errors in spreadsheets, calculations, or assumptions used to compile the financial statements and related disclosures as filed with the Securities and Exchange Commission. In addition, we have had an overreliance on consultants involved in our financial statement closing process. As a result we were not able to achieve adequate segregation of duties and were not able to provide for adequate reviewing of the financial statements. This control deficiency, which is pervasive in nature, results in a reasonable possibility that material misstatements of the financial statements will not be prevented or detected on a timely basis; and

- b) Our executive officers only work for the Company on a part-time basis, have outside interests and are unable to devote all of their business time and effort to the Company. As a result, they may be unable to provide the level of oversight required.

Management's Remediation Plans

We are committed to improving our financial organization. When funds are available, we will look to increase our personnel resources and technical accounting expertise within the accounting function to resolve non-routine or complex accounting matters. As our operations are relatively small and we continue to have net cash losses each quarter, we do not anticipate being able to hire additional internal personnel until such time as our operations are profitable on a cash basis or until our operations are large enough to justify the hiring of additional accounting personnel. As necessary, we will engage consultants in the future in order to ensure proper accounting for our consolidated financial statements.

Management believes that hiring additional knowledgeable personnel with technical accounting expertise will remedy the following material weakness: insufficient personnel with an appropriate level of technical accounting knowledge, experience, and training in the application of GAAP commensurate with our complexity and our financial accounting and reporting requirements.

Management believes that the hiring of additional personnel who have the technical expertise and knowledge with the non-routine or technical issues we have encountered in the past will result in both proper recording of these transactions and a much more knowledgeable finance department as a whole. Due to the fact that our internal accounting staff consists of a Chief Financial Officer and a bookkeeper, additional personnel will also ensure the proper segregation of duties and provide more checks and balances within the department. Additional personnel will also provide the cross training needed to support us if personnel turn over issues within the department occur. We believe this will greatly increase our internal control procedures in the future.

In addition to the accounting personnel to be hired in the future, we are actively searching for a full time Chief Executive Officer to oversee our operations.

(b) Changes in internal control over financial reporting.

There were no changes in our internal control over financial reporting that occurred during the quarter ended July 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We are currently not a party to any material legal proceedings or claims.

Item 1A. Risk Factors.

Not required under Regulation S-K for "smaller reporting companies."

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

During the quarter ended July 31, 2014, 3,125 shares of a restricted stock award granted to Richard Hunter vested and were deemed issued.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

On July 9, 2014 but effective as of March 31, 2014, ApClark, LLC (“APC”), Blacksands Petroleum Texas, LLC (“Blacksands Texas”), NRG Assets Management, LLC (“NRG”) and Adwar Drilling Fund II, LP (“Adwar”) (collectively, the “Parties”) amended (“Amendment II”) the Development Agreement, dated September 3, 2013 and amended on January 1, 2014 (the “Development Agreement”). Pursuant to Amendment II, all references to Blacksands Texas in the Development Agreement were deemed to refer to APC. In addition, Adwar’s acquisition was amended to an undivided working interest in and to three (3) development wells: the Livestock Well No. 7-2, the Livestock Well No. 18-2 and the BVR Well No. 5-1 (the “Development Wells”). Also pursuant to Amendment II, the Parties (i) acknowledged the receipt by APC from Adwar of \$630,000 under the Development Agreement and (ii) agreed that of such funds, \$10,000 shall be designated as “Upfront Monies” paid with respect to the Livestock Well No. 7-2, \$10,000 shall be designated as “Upfront Monies” paid with respect to Livestock Well No. 18-2 and \$10,000 shall be designated as “Upfront Monies” paid with respect to the BVR Well No. 5-1. The remaining \$600,000 of funds shall be credited to Adwar’s earned working interest in the Development Wells as follows: (i) \$200,000 shall be credited to Adwar’s earned working interest in the Livestock Well No. 7-2, (ii) \$200,000 shall be credited to Adwar’s earned working interest in the Livestock Well No. 18-2 and (iii) \$200,000 shall be credited to Adwar’s earned working interest in the BVR Well No. 5-1. The Parties also acknowledged under Amendment II that PIE Operating, LLC, has obtained the exclusive appointment as operator for the Livestock Well No. 7-2, Livestock Well No. 18-2 and BVR Well No. 5-1, effective March 17, 2014.

Item 6. Exhibits.

10.01	Amendment 2 to Development Agreement, dated July 9, 2014, by and among ApClark, LLC, Blacksands Petroleum Texas, LLC, NRG Assets Management, LLC and Adwar Drilling Fund II, LP
10.02	Participation and Development Agreement, dated August 9, 2014, by and between ApClark, LLC and Adwar Drilling Fund III, L.P.
31.01	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.02	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.01	Certifications of Principal Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS **	XBRL Instance Document
101.SCH **	XBRL 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

** XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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.

BLACKSANDS PETROLEUM, INC.

Date: September 15, 2014

By: /s/ RHONDA ROSEN

Name: Rhonda Rosen

Title: Interim President (Principal Executive Officer)

Date: September 15, 2014

By: /s/ DONALD GIANNATTASIO

Name: Donald Giannattasio

Title: Chief Financial Officer

Blacksands Petroleum-Texas, LLC

800 Bering, Suite 250 Houston, Texas 70577
Main no. 713.554.4491 Fax no. 713.583.1617

July 9, 2014

Adwar Drilling Fund II, L.P.
c/o Adwar Drilling Partners, LLC3753 Howard Hughes Pkwy., Second Floor Suite 314
Las Vegas, Nevada89169

Re: **Amendment 2 toDevelopment Agreement (defined below)**
ApClark Field Project
Borden County, Texas

Gentlemen:

This letter, to be effective as of March 31, 2014, constitutes the second amendment (“**DA Amendment 2**”) to that certain Development Agreement, dated September 3, 2013 (“**Development Agreement**”), by and among (i) Blacksands Petroleum-Texas, LLC, a Texas Limited Liability Company (“**Blacksands**”), (ii) NRG Assets Management, LLC, a Texas Limited Liability Company (“**NRG**”), and (iii) Adwar Drilling Fund II, L.P., a Nevada Limited Partnership (“**Participant**”). Blacksands, NRG and Participant may each be referred to herein as a “**Party**” or, collectively, as the “**Parties**”. Capitalized terms used but not defined herein shall have the meaning ascribed to them in the Development Agreement.

RECITALS

A. Pursuant to the Development Agreement, Participant agreed to participate in the drilling and operation by NRG of four Development Wells (“**Development Wells**”) located on the Oil, Gas and Mineral Lease(s) covering the lands delineated in the Development Agreement on Exhibit “A”, which wells consisted of (i) the Livestock Well No. 7-2, (ii) the Livestock Well No. 18-2, (iii) the BVR Well No. 5-1, and (iv) the Clark Well No. 3-1.

B. The Parties acknowledge that, at the time the Development Agreement was entered into, ApClark LLC, a Delaware limited liability company (“**APC**”), and not Blacksands, owned or was otherwise the beneficial owner of the interests in the wells conveyed or to be conveyed to Participant under the Development Agreement (the “**Adwar Interests**”).

C. The Parties desire to amend the Development Agreement to recognize APC’s conveyance of the Adwar Interests and to make APC a signatory to the Development Agreement.

D. Adwar desires to reduce the number of Development Wells in which it participates under the Development Agreement to three, with Adwar acquiring a participation interest only in (i) the Livestock Well No. 7-2, (ii) the Livestock Well No. 18-2, and (iii) the BVR Well No. 5-1.

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E. The Parties desire to amend the Development Agreement to reflect that the Adwar Interests shall apply only to the Livestock Well No. 7-2, the Livestock Well No. 18-2, and the BVR Well No. 5-1, and that the Adwar Interests shall not apply to the Clark Well No. 3-1.

F. The Parties desire to acknowledge the appointment of PIE Operating, LLC as the Operator for Livestock Well No. 7-2, Livestock Well No. 18-2, and the BVR Well No. 5-1.

G. In consideration of the foregoing and of the covenants and agreements hereinafter set forth, it is hereby agreed by and among the Parties that the Development Agreement shall be amended as follows:

AMENDMENTS

1. The Preamble to the Development Agreement is hereby deleted in its entirety and the following new Preamble to the Development Agreement is substituted in its place and stead, in the same manner as if the said new Preamble to the Development Agreement had been originally incorporated into the Development Agreement:

“This Development Agreement and the Exhibits attached hereto (“Development Agreement”) constitute the Development Agreement between **Blacksands Petroleum-Texas, LLC** a Texas Limited Liability Company (“Blacksands”), **NRG Assets Management, LLC**, a Texas Limited Liability Company (“NRG”), **ApClark, LLC**, a Delaware Limited Liability Company (“APC”), and **Adwar Drilling Fund II, L.P.**, a Nevada Limited Partnership (“Participant”) regarding **Participant** participating in the drilling and operating by **PIE Operating, LLC** of three development wells located on the Oil, Gas and Mineral Lease(s) covering the lands delineated on **Exhibit “A”**, attached hereto and located in Borden County, Texas (“ApClark Project” or the “Property”). **Blacksands, NRG, APC** and **Participant** are sometimes hereinafter collectively referred to as the “**Parties**” and singularly as a “**Party**.”

2. All references to “Blacksands” in the Development Agreement shall be deemed to refer to APC, and not Blacksands.

3. Article I of the Development Agreement is hereby deleted in its entirety and the following new Article I of the Development Agreement is substituted in its place and stead, in the same manner as if the said new Article I of the Development Agreement had been originally incorporated into the Development Agreement:

“**Participant** desires to acquire from APC an undivided working interest in and to the Livestock Well No. 7-2, the Livestock Well No. 18-2, and the BVR Well No. 5-1 (collectively referred to as the “Development Wells”), insofar as to the wellbores and production therefrom and **Participant**’s proportionate undivided leasehold working interest as set out herein for the Livestock Well No. 7-2, Livestock Well No. 18-2, and the BVR Well No. 5-1 in return for its (i) Upfront Monies set out in Article II below, and (ii) participation in the drilling of the **Development Well(s)** under the terms set out in Article IV below.”

4. All references to and provisions pertaining to the Clark Well No. 3-1 shall be excised from the Development Agreement for all intents and purposes, such that the Development Agreement (and the Adwar Interests) shall pertain solely to the Livestock Well No. 7-2, the Livestock Well No. 18-2 and the BVR Well No. 5-1.

5. The Parties acknowledge the receipt by APC from Adwar of \$630,000.00 under the Development Agreement. The Parties hereby agree that \$10,000.00 of such monies shall be designated as “Upfront Monies” paid with respect to the Livestock Well No. 7-2, \$10,000.00 shall be designated as “Upfront Monies” paid with respect to the Livestock Well No. 18-2, and \$10,000.00 shall be designated as “Upfront Monies” paid with respect to the BVR Well No. 5-1. The Parties further agree that the remaining \$600,000.00 of the monies already received by APC from Adwar shall be credited to Adwar’s earned working interest in the Development Wells as follows: (i) \$200,000.00 shall be credited to Adwar’s earned working interest in the Livestock Well No. 7-2, (ii) \$200,000.00 shall be credited to Adwar’s earned working interest in the Livestock Well No. 18-2, and (iii) \$200,000.00 shall be credited to Adwar’s earned working interest in the BVR Well No. 5-1. In order to recognize the above transactions, Article II of the Development Agreement is hereby deleted in its entirety and the following new Article II of the Development Agreement is substituted in its place and stead, in the same manner as if the said new Article II of the Development Agreement had been originally incorporated into the Development Agreement:

“Upfront Monies” is defined as the costs and expenses set out below:

Development Well(s), per well:

Participant

Working Interest

Participant
Upfront
Monies

≈ 6.4%	\$10,000.00
--------	-------------

Participant's Total Est. Upfront Monies per well	\$10,000.00
---	--------------------

Participant shall acquire an undivided working interest in and to the Livestock Well No. 7-2, Livestock Well No. 18-2, and BVR Well No. 5-1 Development Wells, insofar as to the wellbores and production therefrom and a proportionate undivided leasehold working interest. As to each Development Well, the undivided working interest to which Participant shall be entitled shall be equal to seventy-five percent (75%) of the quotient derived by dividing (a) the difference of the actual total amount of funds invested by Participant in such Development Well *minus* the Upfront Monies, and (b) the actual amounts spent to complete such Development Well. The Parties estimate that Participant shall be entitled to a 6.402272% undivided leasehold working interest (with an associated 4.801704% of 8/8th net revenue interest) in and to (i) the Livestock Well No. 7-2, production therefrom and 80 gross acres around said well, (ii) the Livestock Well No. 18-2, production therefrom and 80 gross acres around said well, and (iii) the BVR Well No. 5-1 production therefrom and 80 gross acres around said well. If drilling costs are less than \$2.3M for any Development Well, (A) any excess funds will be returned to Participant, or (B) Participant's interest in such Development Well shall be increased proportionately, at the election of Participant. If drilling costs are greater than \$2.3M for any Development Well, Participant's Working Interest will be reduced proportionately.

6. Each of Exhibit E, and Exhibit I to the Development Agreement is hereby deleted in its entirety.

7. Exhibit G to the Development Agreement is hereby deleted in its entirety and the new Exhibit G to the Development Agreement attached hereto is substituted in its place and stead, in the same manner as if the said new Exhibit G to the Development Agreement had been originally incorporated into the Development Agreement.

8. Exhibit H to the Development Agreement is hereby deleted in its entirety and the new Exhibit H to the Development Agreement attached hereto is substituted in its place and stead, in the same manner as if the said new Exhibit H to the Development Agreement had been originally incorporated into the Development Agreement.

9. Exhibit J to the Development Agreement is hereby deleted in its entirety and the new Exhibit J to the Development Agreement attached hereto is substituted in its place and stead, in the same manner as if the said new Exhibit J to the Development Agreement had been originally incorporated into the Development Agreement.

10. Exhibit K to the Development Agreement is hereby deleted in its entirety and the new Exhibit K to the Development Agreement attached hereto is substituted in its place and stead, in the same manner as if the said new Exhibit K to the Development Agreement had been originally incorporated into the Development Agreement.

11. The Parties acknowledge that PIE Operating, LLC has, effective March 17, 2014, obtained the exclusive appointment as operator for the Livestock Well No. 7-2, Livestock Well No. 18-2, and BVR Well No. 5-1 Development Wells. The Parties hereby approve the appointment of PIE Operating, LLC as the operator for the Livestock Well No. 7-2, the Livestock Well No. 18-2, and BVR Well No. 5-1 and agree that PIE Operating, LLC shall not be replaced as the operator under this or any other agreement without the prior written approval of Participant and APC.

12. The Parties agree that any and all other provisions of the Development Agreement that are inconsistent with this DA Amendment 2 shall be deemed amended to the extent (and only to the extent) necessary to conform such provisions to the intent of the Parties as evidenced by this DA Amendment 2.

13. Adwar acknowledges that the amendments to the Development Agreement and the reduction in number of the Development Wells evidenced hereby are by mutual agreement of the Parties and that Adwar has conducted any and all due diligence it has deemed necessary or proper with respect to the amendments and transactions evidenced hereby. Adwar agrees to indemnify, defend and hold harmless the other Parties and each of their affiliates, directors, officers, managers, members, partners, shareholders, employees, agents, consultants, advisers and representatives from and against any and all Losses that arise from or relate to this DA Amendment 2, and the reduction in number of the Development Wells from four to three. For purposes of this Section 8, "**Losses**" shall mean any liabilities, damage, losses, claims, causes of action, payments, charges, judgments, assessments, penalties, fines, awards,

settlements, diminutions in value, liens, deficiencies, costs and expenses (including reasonable attorneys' fees and expenses).

14. Except as previously amended and as further amended hereby, the Development Agreement shall remain in full force and affect.

IN WITNESS WHEREOF, this instrument is executed effective as of the date first written above.

Blacksands:

Blacksands Petroleum-Texas, LLC

NRG:

NRG Assets Management, LLC

Name:
Title:
Date:

Name:
Title:
Date:

APC:

ApClark, LLC

Participant:

Adwar Drilling Fund II, L.P.
By: Adwar Drilling Partners, LLC
Its: General Partner

Name:
Title:
Date:

By its Managing Member Calmerica
Resource Development, Inc.
By: Anthony N. DeMint, President
Date: July 9, 2014

EXHIBIT "G"

Attached to and made a part of the Development Agreement dated September 3, 2013
between Blacksands TX, NRG and Adwar Drilling Fund II, L.P.

A U T H O R I Z A T I O N - F O R - E X P E N D I T U R E

Drill & Complete

Original AFE No.	Date:	June 5, 2013
Supplemental No.	Well Type:	Development
Revision No.	Working Interest	100.00%

Footage rate

Lease/Well Name: Livestock 18-2	New Well:	<input checked="" type="checkbox"/>	Re- Entry:	<input type="checkbox"/>
Location: Borden County, TX	County/Parish:	Borden		
Field/Prospect: ApClark Field	State:	Texas		
Objective For: Other Potential Formation:	Proposed TD:	9,300 ft		
Strawn, Cline, Mississippi	Acres in Lease	640		

**INTANGIBLE
COSTS**

IDC	ICC		<u>BCP</u>	<u>ACP</u>	<u>COMPLETION</u>
9207	9307	Permit/Survey/Damages		\$6,000	
9222	9322	Land & Legal		\$10,000	
9211	9311	Location & Road, Build & Restore		\$185,000	\$5,000
9202	9301	Contract Drilling - Day Work Day Rate: \$12,500.00			\$75,000
9203		Contract Drilling - Turnkey			
9204		Footage: 9300' @ \$36.36/Ft	\$338,148	\$6,400	
	9301	Completion Rig Day Rate: \$3,750.00			\$22,500
9245	9302	Mob / Demob			
9209	9309	Mud & Chemical	\$75,000	\$85,000	\$20,000
9224	9324	Fuel		\$2,500	
9209	9309	Water / Water Well	\$30,000	\$20,000	\$10,000
9219	9319	Bits			
9204		Directional Services			
9208	9308	Cement & Cement Services	\$35,000	\$40,000	
9218	9318	Casing Crew, Tongs & Tools		\$10,000	\$10,000
9218		Mud Log	\$10,000		
9213		Open Hole Logs	\$25,000		
9216		Coring & Formation Testing			
9213	9329	Cased Hole Logs		\$15,000	
	9329	Cased Hole Wireline, Perforating / CIBP / misc			\$60,000
9214	9314	Fracture / Stimulation			\$350,000
9212	9312	Rental Tools & Equipment	\$5,000	\$5,000	\$5,000
9215	9315	Transportation	\$10,500	\$5,000	\$10,000
9230	9330	Vacuum/Pump Truck	\$5,000	\$5,000	\$5,000
9222	9322	Consulting Services	\$29,400	\$8,400	\$6,600
9205	9305	Operating Overhead	\$2,500	\$100	\$5,000
9231	9333	Co. Labor (Time, Exp. & Benefits)	\$1,500	\$1,500	\$5,000
9221	9321	Welding, Roustabout Labor	\$3,500	\$3,500	\$5,000
9216	9316	Special Services, Testing	\$3,500		\$5,000
9298	9398	P & A Costs	\$40,000	-\$40,000	
9220	9320	Well / Well Control Insurance \$0.900 per foot	\$8,370		
9240	9340	Miscellaneous	\$3,000	\$1,000	\$1,000
		Subtotal	\$826,418	\$243,400	\$525,100
		Contingencies 15.00%	\$124,000	\$37,000	\$79,000
TOTAL INTANGIBLE COSTS			\$950,418	\$280,400	\$604,100

A U T H O R I Z A T I O N - F O R - E X P E N D I T U R E

Lease/Well Name: 0

Date: June 5, 2013

TANGIBLE COSTS

TD&C		Size	Footage	\$/foot	<u>BCP</u>	<u>ACP</u>	<u>COMPLETION</u>
9401	Conductor Pipe:	16	100	\$50.00			
		13					
9401	Surface Casing	3/8"	250	\$30.00	\$7,500		
9402	Intermediate Casing	8 5/8"	3,500	\$22.00	\$77,000		
9402	Production Casing	5 1/2"	9,200	\$11.00		\$101,000	
9403	Tubing:	2 3/8"	9,200	\$4.00			\$37,000

9419	Casing Equip. & Liner		\$1,500	\$4,000
9418	Hanger		\$500	\$1,000
9404	Valves & Fittings			\$1,000
	Wellhead Equipment			\$10,000
9490	Misc. Equipment (includes Hook-up fittings & Dump Controls)			\$3,000
9413	Downhole Equipment (Packer, XO, Nipple, Pups)			\$25,000
9420	Meter & Meter Run (includes Tap)			\$15,000
9410	Flowlines & Connections (includes ROW)			\$20,000
9407	Tanks, (Walkways, Stairways, etc.)			\$15,000
9409	Pumping Unit			\$95,000
9409	Line Heater / Dehydration Unit			\$5,000
9408	Separator / Heater-Treater			\$10,000
9490	Installation Costs			\$3,500
	Subtotal		\$86,500	\$116,000
	Contingencies 15.00%		\$13,000	\$17,000
				\$239,500
				\$36,000

TOTAL TANGIBLE COSTS \$99,500 \$133,000 \$275,500

TOTAL INTANGIBLE & TANGIBLE COSTS \$1,049,918 \$413,400 \$879,600
TOTAL WELL COSTS \$2,342,918

It is recognized that the amounts herein are estimates only and approval of this authorization shall extend to the actual costs incurred in conducting the operation specified, whether more or less than set out herein.

EXHIBIT "H"

Attached to and made a part of the Development Agreement dated September 3, 2013
 between BlacksandsTX, NRG and Adwar Drilling Fund II, L.P.

A U T H O R I Z A T I O N - F O R - E X P E N D I T U R E

Drill & Complete

Original AFE No. Date: June 5, 2013
 Supplemental No. Well Type: Development
 Revision No. Working Interest: 100.00%

Footage rate

Lease/Well Name: Livestock 7-2	New Well:	<input checked="" type="checkbox"/>	Re-Entry:	<input type="checkbox"/>
Location: Borden	County/Parish:	Borden		
County, TX				
Field/Prospect:				
Apclark Field	State:	Texas		
Objective For:	Proposed TD:	9,300 ft		
Other Potential				
Formation:	Acres in Lease	640		

INTANGIBLE COSTS			BCP	ACP	COMPLETION
IDC	ICC				
9207	9307	Permit/Survey/Damages		\$6,000	
9222	9322	Land & Legal		\$10,000	
9211	9311	Location & Road, Build & Restore		\$185,000	\$5,000
9202	9301	Contract Drilling - Day Work Day Rate: \$12,500.00			\$75,000
9203		Contract Drilling - Turnkey			
9204		Footage: 9300' @ \$36.36/Ft	\$338,148	\$6,400	
	9301	Completion Rig Day Rate: \$3,750.00			\$22,500
9245	9302	Mob / Demob			
9209	9309	Mud & Chemical	\$75,000	\$85,000	\$20,000
9224	9324	Fuel		\$2,500	
9209	9309	Water / Water Well	\$30,000	\$20,000	\$10,000
9219	9319	Bits			
9204		Directional Services			
9208	9308	Cement & Cement Services	\$35,000	\$40,000	
9218	9318	Casing Crew, Tongs & Tools		\$10,000	\$10,000
9218		Mud Log	\$10,000		
9213		Open Hole Logs	\$25,000		
9216		Coring & Formation Testing			
9213	9329	Cased Hole Logs		\$15,000	
	9329	Cased Hole Wireline, Perforating / CIBP / misc			\$60,000
9214	9314	Fracture / Stimulation			\$350,000
9212	9312	Rental Tools & Equipment	\$5,000	\$5,000	\$5,000
9215	9315	Transportation	\$10,500	\$5,000	\$10,000
9230	9330	Vacuum/Pump Truck	\$5,000	\$5,000	\$5,000
9222	9322	Consulting Services	\$29,400	\$8,400	\$6,600
9205	9305	Operating Overhead	\$2,500	\$100	\$5,000
9231	9333	Co. Labor (Time, Exp. & Benefits)	\$1,500	\$1,500	\$5,000
9221	9321	Welding, Roustabout Labor	\$3,500	\$3,500	\$5,000
9216	9316	Special Services, Testing	\$3,500		\$5,000
9298	9398	P & A Costs	\$40,000	-\$40,000	
9220	9320	Well / Well Control Insurance	\$0.900 per foot	\$8,370	
9240	9340	Miscellaneous		\$3,000	\$1,000
		Subtotal		\$826,418	\$243,400
		Contingencies 15.00%		\$124,000	\$37,000
TOTAL INTANGIBLE COSTS				\$950,418	\$280,400
					\$604,100

A U T H O R I Z A T I O N - F O R - E X P E N D I T U R E

Lease/Well Name: 0

Date: June 5, 2013

TANGIBLE COSTS			BCP	ACP	COMPLETION
TD&C		Size	Footage\$/foot		
9401	Conductor Pipe:	16	100	\$50.00	
		13			
9401	Surface Casing	3/8"	250	\$30.00	\$7,500
9402	Intermediate Casing	8 5/8"	3,500	\$22.00	\$77,000
9402	Production Casing	5 1/2"	9,200	\$11.00	\$101,000

9403	Tubing:	2 3/8" 9,200	\$4.00	\$37,000
9419	Casing Equip. & Liner			
9418	Hanger	\$1,500	\$4,000	
9404	Valves & Fittings	\$500	\$1,000	\$1,000
	Wellhead Equipment		\$10,000	\$10,000
9490	Misc. Equipment (includes Hook-up fittings & Dump Controls		\$3,000	
9413	Downhole Equipment (Packer, XO, Nipple, Pups)		\$25,000	
9420	Meter & Meter Run (includes Tap)		\$15,000	
9410	Flowlines & Connections (includes ROW)		\$20,000	
9407	Tanks, (Walkways, Stairways, etc.)		\$15,000	
9409	Pumping Unit		\$95,000	
9409	Line Heater / Dehydration Unit		\$5,000	
9408	Separator / Heater-Treater		\$10,000	
9490	Installation Costs		\$3,500	
	Subtotal	\$86,500	\$116,000	\$239,500
	Contingencies 15.00%	\$13,000	\$17,000	\$36,000

TOTAL TANGIBLE COSTS \$99,500 \$133,000 \$275,500

TOTAL INTANGIBLE & TANGIBLE COSTS \$1,049,918 \$413,400 \$879,600
TOTAL WELL COSTS \$2,342,918

It is recognized that the amounts herein are estimates only and approval of this authorization shall extend to the actual costs incurred in conducting the operation specified, whether more or less than set out herein.

EXHIBIT "J"

Attached to and made a part of the Development Agreement dated September 3, 2013 between BlacksandsTX, NRG and Adwar Drilling Fund II, L.P.

**ASSIGNMENT
(Development Wells)**

STATE OF TEXAS

KNOW ALL MEN BY THESE PRESENTS:

COUNTY OF BORDEN

THAT, **ApClark, LLC**, a Delaware limited liability company, whose address is 800 Bering, Suite 250, Houston, Texas 77057 (hereinafter referred to as "Assignor"), for and in consideration of Ten Dollars (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, does hereby bargain, sell, transfer, assign, set over and convey unto the Parties set out on Exhibit "A", the working interests and the net revenue interests associated therewith, as set out next to the Parties' names thereon (hereinafter referred to as "Assignee"), in and to the well (API No: _____) located on those certain Oil, Gas and Mineral Leases, described in **Exhibit "A" ("the Leases")**, attached hereto and made a part hereof for all purposes.

This Partial Assignment of Oil, Gas and Mineral Leases is made subject to the terms and provisions herein and further subject to the following Development Agreements and/or terms and conditions:

1. That certain Development Agreement dated September 3, 2013 by and between Blacksands Petroleum-Texas LLC, NRG Assets Management, LLC and Adwar Drilling Fund II, L.P., as amended by that certain First Amendment to Development Agreement, dated January 30, 2014, and that certain Second Amendment to Development Agreement, dated effective as of March 31, 2014; and
2. That certain Joint Operating Development Agreement dated September 3, 2013, by and between NRG Assets Management, LLC, as Operator, and Adwar Drilling Fund II, L.P., as Non-Operator, as amended; and
3. Unless provided otherwise, all recording references in the Exhibits hereto are to the official real property records of the county in which the Assigned Interests are located; and
4. This Assignment binds and inures to the benefit of Assignor and Assignee and their respective successors and assigns; and
5. This Assignment may be executed in any number of counterparts, and each such counterpart shall be deemed to be an original and all of which together shall constitute one and the same instrument.

TO HAVE AND TO HOLD same unto Assignee, together with all and singular rights and appurtenances thereto in any way belonging, unto Assignee, its successors and assigns, forever and Assignor hereby binds itself, its heirs, successors and assigns, to warrant and forever defend all and singular rights in the Leases unto Assignee, its successors and assigns, against every person whomsoever lawfully claiming or to claim the same or any part thereof, by, through and under Assignor, but not otherwise.

IN WITNESS HEREOF, this instrument is executed effective this _____ day of _____, 201____, but made effective as of the first day of _____, 201____.

ASSIGNOR:

ApClark, LLC,
a Delaware limited liability company

Name:

Title:

STATE OF _____
COUNTY OF _____

This instrument was acknowledged before me on the ___ day of _____, 2014, by _____, _____, of ApClark, LLC, a Delaware limited liability company, on behalf of said company.

Notary Public, State of _____

EXHIBIT “K”

Attached to and made a part of the Development Agreement dated September 3, 2013
between Blacksands TX, NRG and Adwar Drilling Fund II, L.P.

JOA to be attached

PARTICIPATION AND DEVELOPMENT AGREEMENT

BETWEEN

APCLARK, LLC

AND

ADWAR DRILLING FUND III, L.P.

Dated August 9, 2014

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A. Exhibits

Exhibit A	(Joint Operating Agreement)
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Exhibit C	(Form Wellbore Assignment)
Exhibit D	(Form of Leasehold Assignment)
Exhibit E	(Anticipated Well Locations)
Exhibit F	(AFE for Livestock 18-3)
Exhibit G	(AFE for BVR 5-2)
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Exhibit I	(Insurance Requirements)

B. Schedules

Schedule 1.1	(Contracts)
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Schedule 1.3	(Permitted Encumbrances)
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Schedule 4.3	(Taxes and Assessments)
Schedule 4.4	(Compliance with Laws)
Schedule 4.6(a)	(APC Working Interests and Net Revenue Interests)

PARTICIPATION AND DEVELOPMENT AGREEMENT

THIS PARTICIPATION AND DEVELOPMENT AGREEMENT (this “*Agreement*”) is effective as of this 9th day of August, 2014 (the “*Effective Date*”), by and between ApClark, LLC, a Delaware limited liability company (“*APC*”), and Adwar Drilling Fund III, L.P., a Nevada limited partnership (“*Participant*”). APC and Participant are sometimes referred to collectively as the “*Parties*” and individually as a “*Party*”. Capitalized terms used herein shall have the meaning ascribed to them in Article 1 of this Agreement.

RECITALS:

WHEREAS, APC owns a Working Interest in the Leases and contemplates drilling one or more Development Wells on some or all of the Leases identified on Exhibit B to this Agreement; and

WHEREAS, Participant desires to acquire from APC a Participation Interest in an amount to be defined herein in the Acquired Assets associated with the Development Wells in which Participant participates under the terms and conditions provided in this Agreement; and

WHEREAS, Participant anticipates investing up to \$7,500,000.00 in Participation Contributions for up to 50% of APC’s interest in the Acquired Assets associated with the Development Wells in which Participant Participates; and

WHEREAS, APC desires to assign to Participant a Participation Interest in the Acquired Assets associated with those Development Wells in which Participant participates under the terms and conditions provided in this Agreement.

NOW, THEREFORE, in consideration of the premises and of the mutual promises, representations, warranties, covenants, conditions and agreements contained herein, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE 1 DEFINITIONS

“*AFE*” means, as to each Development Well, an “authorization for expenditure” containing a written description and good faith cost estimate at the time the AFE is submitted with respect to a proposed activity or

operation accompanying a proposal for such activity or operation as contemplated by this Agreement or the Joint Operating Agreement governing such Development Well, as the case may be.

“Affiliate” means, as to either Party, any corporation or other entity that directly or indirectly controls or is controlled by one of the Parties, or any corporation or other entity that is directly or indirectly controlled by the same entity that controls one of the Parties, the concept of “control” meaning the ownership of more than 50% of the voting stock or other voting interests of such corporation or other entity.

“Agreement” shall have the meaning ascribed to it in the preamble to this Agreement.

“APC” means ApClark LLC, a limited liability company organized under the laws of Delaware.

“Acquired Assets” means, as to each Participation Well, Participant’s Participation Interest in and to (a) the Participation Well, (b) the Designated Acreage associated with such Participation Well, (c) the Hydrocarbons associated with such Participation Well, (d) the Contracts associated with such Participation Well, and (e) the Data associated with such Participation Well, collectively.

“Assignment” shall have the meaning ascribed to it in Section 2.2(a) of this Agreement, and shall expressly exclude Leasehold Assignments.

“Business Day” means any day other than a Saturday, a Sunday, or a day on which banks are closed for business in Houston, Texas, United States.

“Claim” shall have the meaning ascribed to it in Section 9.2(b) of this Agreement.

“Claim Notice” shall have the meaning ascribed to it in Section 9.2(b) of this Agreement.

“Code” means the United States Internal Revenue Code of 1986, as amended.

“Consent” means, as to each individual Participation Well, any necessary consent or approval by a third party to effectuate and consummate an Assignment to Participant of the Participation Interest in the Acquired Assets associated with such Participation Well, including but not limited to any waiver or consent to the Assignment from any other parties holding a right of preemption, right of first refusal or similar right.

“Contracts” means those contracts identified on Schedule 1.1 to this Agreement to the extent, and only to the extent, such contracts govern or are otherwise applicable to a Participation Well; provided, however, that any rights or obligations with respect to such Contracts assigned and assumed pursuant to this Agreement shall be limited to those rights and obligations pertaining solely to the Participation Well governed by such Contract and Participant’s Participation Interest therein and shall not include any rights or obligations with respect to such Contracts retained by APC.

“Damages” shall have the meaning ascribed to it in Section 9.1(c) of this Agreement.

“Data” means, subject to any restrictions on APC’s disclosure of same, the following operational files and records directly relating to the Participation Wells: lease files, unit files, lease contract files, well files and geological data, including hardcopies (but excluding all other records, including, but not limited to, corporate records, legal files, computer programs, general tax records, samples, test data and interpretive, proprietary or confidential data, information or documents).

“Designated Acreage” means the designated acreage around a Development Well that is maintained under the Lease or Leases applicable to such Development Well after the expiration of the primary term of such Lease or Leases, upon expiration of any extension or renewal of such Lease or Leases, or after cessation of operations as provided in

such Lease or Leases (whichever occurs last), by production of oil, gas or other liquid hydrocarbons on the leased premises.

“Development Well” means, with respect to each Lease, any well proposed and actually drilled on such Lease, and any and all substitute wells therefor (and including any Mechanical Sidetracks in such well or its substitutes) where such first well fails to reach Objective Depth.

“Drilling Costs” means the total costs associated with drilling a Development Well on a Lease until such Development Well reaches Objective Depth and has been completed, including, but not limited to, (a) location preparation, (b) lease, land and legal title work, (c) in-house administrative and technical costs and actual drilling costs until such point as the Development Well has been drilled to the Objective Depth and the hole has been logged by conventional methods and all tests, if any, including formation tests and sidewall cores have been completed, and (d) the completion of the Development Well, which shall include the cementing of production casing, perforation and stimulation of the objective zones and the installation of all surface facilities and flow lines/pipelines required to produce the Development Well. The costs associated with Drilling Costs shall also include (i) in the event the Development Well is unable to reach Objective Depth and a substitute well is proposed according to the Joint Operating Agreement, any and all costs incurred with respect to such substitute well and (ii) any and all costs relating to the temporary or permanent plugging and abandonment of the Development Well or substitute well, notwithstanding that such costs may be incurred after the Development Well or substitute well reaches Objective Depth. However, if a Development Well or substitute well is completed as a producer or is used as an injector well, the costs associated with Drilling Operations shall not include the costs of permanently plugging and abandoning such well.

“Drilling Operations” means, with respect to each Development Well, all operations under the applicable Joint Operating Agreement that are conducted prior to completion. “Drilling Operations” shall include those operations relating to the temporary or permanent plugging and abandonment of a Development Well. However, if a well is completed as a producer or is used as an injector well, the operations relating to the permanent plugging and abandonment of such well shall not be “Drilling Operations”.

“Effective Date” shall have the meaning ascribed to it in the preamble to this Agreement, on which this Agreement becomes effective.

“Excluded Assets” shall mean the following:

- (a) All licensed seismic data and all seismic data which may be subject to a seismic agreement including, but not limited to, proprietary reprocessed seismic data;
- (b) Contracts, agreements and instruments (other than a Lease) the transfer of which is absolutely prohibited or is subject to payment of a fee or other consideration by an agreement with a Person other than an Affiliate of APC, or by applicable Laws, and for which no consent to transfer has been received or for which Participant has not agreed, or does not agree, in writing to pay the fee or other consideration, as applicable;
- (c) Permits and other appurtenances the transfer of which is absolutely prohibited or is subject to payment of a fee or other consideration by an agreement with a Person other than an Affiliate of APC, or by applicable Laws, and for which no consent to transfer has been received or for which Participant has not agreed, or does not agree, in writing to pay the fee or other consideration, as applicable, not including, environmental permits;
- (d) All claims against insurers and other third parties pending on or prior to the Effective Date;
- (e) The contracts and software used for both the Participation Wells and other assets of APC and/or its Affiliates;
- (f) Any Tax refund (whether by payment, credit, offset or otherwise, and together with any interest thereon) in respect of any Taxes for which APC is liable for payment;
- (g) Claims against insurers under policies held by APC or its Affiliates; and
- (h) any other assets, contracts or rights described on Schedule 1.2.

“Force Majeure” means any flood, storm, hurricane, or other act of God; fire; environmental catastrophe; war; act of terrorism; civil disturbance; labor dispute, strike, or lockout; or any other event or cause, whether similar or dissimilar, that is reasonably beyond the control of the Party claiming the existence of such event or cause.

“Governmental Authority” means any national or state government and/or government of any political subdivision, and departments, courts, commissions, boards, bureaus, ministries, agencies or other instrumentalities of any of them.

“Hydrocarbons” means all of the oil, liquid hydrocarbons, gas, and any and all other liquid or gaseous hydrocarbons, as well as their respective constituent products (including, without limitation, condensate, casinghead gas, distillate and natural gas liquids), and, to the extent useful for the exploration for and production of the foregoing, any other minerals produced in association therewith (including, without limitation, elemental sulfur, helium, carbon dioxide and other non-hydrocarbon substances produced in association with any of the above-described items) produced from or allocated to the Wells and the Developed Acreage after the Effective Date.

“Indemnified Person” shall have the meaning ascribed to it in Section 9.2(a) of this Agreement.

“Indemnifying Person” shall have the meaning ascribed to it in Section 9.2(a) of this Agreement.

“Joint Operating Agreement” means that certain Model Form Operating Agreement, dated as of August 1, 2007, by and between Westerly Exploration, Inc. and Lucas Energy, Inc. as predecessors in interest to the Parties, a copy of which is attached to this Agreement as Exhibit A, as such agreement may be amended, restated or otherwise modified from time to time.

“Knowledge” means, unless otherwise modified, the awareness, knowledge, information and belief that personnel who have managerial or supervisory responsibilities related to the Assets or circumstances that are the subject matter of the representation or warranty actually possess or, as persons of ordinary prudence, are reasonably expected to possess.

“Laws” means all laws, common law, statutes, rules, regulations, ordinances, orders, decrees, requirements, judgments and codes of Governmental Authorities.

“Lease” means each oil and gas lease or portion thereof identified on Exhibit B.

“Leasehold Assignment” shall have the meaning ascribed to it in Section 2.2(b) of this Agreement.

“Leasehold Interest” means, as to each Lease on which a Participation Well is drilled, Participant’s Participation Interest share of the undivided leasehold interest in and to the Designated Acreage for such Lease as calculated pursuant to Section 2.1(d) of this Agreement.

“Material Contract” means any Contract that can reasonably be expected to (A) generate annual gross revenue for the owner of the Assets or (B) require annual expenditures chargeable to the owner of the Assets, in excess of \$50,000.00, and which is not terminable by either party at will (without penalty) on 90 days notice or less.

“Mechanical Sidetrack” means an operation to directionally control or intentionally deviate a well where such intentional well deviation is done to straighten the hole, drill around junk, or to overcome other mechanical difficulties.

“Net Revenue Interest” means the interest in and to all production of hydrocarbons produced, saved or sold from or allocated to any Participation Well after deduction of the lessor’s royalty and subject to all Permitted Encumbrances, if any.

“Objective Depth” shall mean, for each Development Well, the minimum depth of (i) the total footage to be drilled or (ii) the penetration by the drill bit of a depth sufficient to test the deepest target formation or interval at the

bottomhole location specified in the AFE or documents related to the AFE for that well, whichever is the shallower depth.

“Participant” means Adwar Drilling Fund III, L.P., a Nevada limited partnership.

“Participation Contribution” means any and all monies invested by Participant under this Agreement for purposes of paying Drilling Costs for the Participation Wells in return for the Participation Interest in the Acquired Assets, which amount shall be no less than \$1,000,000.00 in the aggregate. The Parties acknowledge that Participant anticipates its Participation Contribution may be up to \$7,500,000.00.

“Participation Interest” means, as to each Participation Well, (a) the undivided working interest in and to the wellbore and Designated Acreage earned by Participant, and (b) the interest earned by Participant in all other Acquired Assets associated with such Participation Well, which interests shall be expressed as a percentage and calculated pursuant to Section 2.1(d) of this Agreement.

“Participation Well” means each Development Well spudded on a Lease on or before December 31, 2014.

“Party” or “Parties” shall have the meaning ascribed in the preamble to this Agreement.

“Permits” means permits, licenses, registrations, and authorizations issued, granted, or provided by Governmental Authorities, including Permits issued under applicable Laws.

“Permitted Encumbrances” means, as to each Lease:

(a) Those encumbrances listed on Schedule 1.3, including any applicable overriding royalty interest,

(b) The Contracts,

(c) Encumbrances that arise by operation of law in the ordinary course of business,

(d) The agreements or other encumbrances recorded or filed with an applicable Governmental Authority as of the Effective Date, and

(e) The Joint Operating Agreement and any joint operating agreement, unit operating agreement, unit agreement, or similar agreement entered into by APC and a third party, including PIE, prior to the Effective Date.

“Person” means any individual, corporation, partnership, limited liability company, trust, estate, Governmental Authority or any other entity.

“PIE” means PIE Operating, LLC, a Nevada limited liability company.

“Tax” means all taxes, assessments, levies or imposts, including any foreign, federal, state or local income tax, surtax, remittance tax, presumptive tax, net worth tax, special contribution, drilling tax, production tax, pipeline transportation tax, freehold mineral tax, value added tax, withholding tax, gross receipts tax, windfall profits tax, profits tax, severance tax, personal property tax, real property tax, sales tax, goods and services tax, service tax, transfer tax, use tax, excise tax, premium tax, stamp tax, motor vehicle tax, entertainment tax, insurance tax, capital stock tax, franchise tax, occupation tax, payroll tax, employment tax, unemployment tax, disability tax, alternative or add-on minimum tax and estimated tax, imposed by a Governmental Authority together with any interest, fine, penalty, addition to tax, or additional amount imposed thereon.

“Technical Reasons” means APC’s determination, provided in writing to Participant, that the drilling of a Development Well on a Lease is (a) prevented by Force Majeure (including the failure to obtain governmental

consents or permits) or (b) not justifiable given APC's reasonable technical, commercial and economic evaluation of the Lease based on the following:

- (a) APC's assessment of the estimated risked reserves and commodity price forecast;
- (b) APC's estimated cost and risk of Drilling Operations;
- (c) APC's expected appraisal and development cost, risk and timeline in a success case;
- (d) the commercial status of the Lease, including failure of title to the Leases constituting the Prospect or the size of APC's Working Interest therein; and
- (e) such other technical, commercial or economic considerations as a reasonable and prudent lessee and operator would take into account in drilling of a Development Well under similar circumstances;

provided, however, under no circumstances shall "Technical Reasons" include a decision by APC not to allocate budget funds for the drilling of a Development Well in circumstances where APC has concluded that the drilling of a Development Well is justifiable in light of the factors set forth above.

"Term" means the time between the Effective Date and the later to occur of (a) December 31, 2014 and (b) the date the last Participation Well is completed and the Drilling Costs for all Participation Wells is computed.

"Transfer Taxes" means any liability, obligation or commitment for sales, use, excise, real property transfer, gross receipts, goods and services, registration, capital, documentary, stamp or transfer Taxes, recording fees and similar Taxes and fees incurred and imposed upon, or with respect to, the property transfers or other transactions contemplated hereby, but excluding, for the avoidance of any doubt, any Tax on net income, capital gains Tax or any similar Tax.

"United States" means the United States of America.

"Upfront Monies" shall mean, as to each Participation Well, \$10,000.00, which amount shall be paid by Participant to APC for APC's account and which amount shall not be considered a Participation Contribution under this Agreement.

"Working Interest" means the interest in and to a Lease that is burdened with the obligation to bear and pay costs and expenses of maintenance, development and operations on or in connection with such Lease, but without regard to the effect of any royalties, overriding royalties, production payments, net profits interests and other similar burdens upon, measured by or payable out of production therefrom.

ARTICLE 2 **PARTICIPATION**

Section 2.1 Participation.

- (a) APC shall use commercially reasonable best efforts (subject to APC's financial capabilities and rights under the Joint Operating Agreement) to commence, or cause to be commenced, Drilling Operations on at least three Development Wells located on one or more of the Leases on or before December 31, 2014. The locations for such wells are set forth on Exhibit E hereto and the initial AFE's for such wells are set forth on Exhibit F, Exhibit G, and Exhibit H, respectively.
- (b) Subject to Section 2.1(c) of this Agreement, Participant shall participate in any and all Participation Wells as provided in Section 2.1(d) of this Agreement. APC shall have the right to allocate the Participation Contribution to Drilling Costs of the Participation Wells as deemed necessary and proper by APC in its sole discretion; provided, however, that Participant's Participation Interest in such Participation Wells shall not be determined by actual allocation of the Participation Contribution to the respective Participation Wells, but shall be determined as provided in Section 2.1(d).

- (c) Subject to the terms and conditions of this Agreement, on or before December 31, 2014, Participant shall (i) pay to APC the Upfront Monies and (ii) deposit (by wire transfer) the Participation Contribution into a segregated account to be identified by APC on or before the Effective Date. In the event Participant fails to deposit the funds required under this Section 2.1(c) on or before December 31, 2014, this Agreement shall immediately terminate without the necessity of any Party taking any further action or providing any notice with respect to such termination and the representations, warranties, obligations and other covenants set forth in this Agreement shall be null and void, *ab initio*, unless otherwise agreed, in writing, by the Parties.
- (d) Participant's Participation Interest in the Acquired Assets shall be determined within 10 Business Days after the last Participation Well has been drilled to Objective Depth and Drilling Costs have been calculated for all Participation Wells. As to each Participation Well and the Acquired Assets associated with such Participation Well, Participant's Participation Interest shall be determined as follows:
 - (i) FIRST, the percentage of APC's Working Interest share of the Drilling Costs for all the Participation Wells actually paid by Participant shall be determined by dividing Participant's Participation Contribution by the aggregate amount of APC's Working Interest share of Drilling Costs for all Participation Wells; provided, however, that any Participation Contribution amounts in excess of two-thirds of APC's Working Interest share of the Drilling Costs for all the Participation Wells shall be returned to Participant and shall not be used to determine Participant's Working Interest in the Acquired Assets.
 - (ii) SECOND, Participant's "one-third for one-quarter" promoted interest shall be determined on an aggregate basis by multiplying the quotient derived under (i) above by .75, with such product being expressed as a percentage.
 - (iii) THIRD, Participant's Working Interest in each Participation Well shall be determined, on a well by well basis, by multiplying the product derived under (ii) above by APC's Working Interest in each Participation Well.

The above calculation may be expressed (as to each Participation Well and the Acquired Assets relating to such Participation Well) as an equation as follows:

APC's WI (.75 x Total Participation Contribution/Total APC WI share of Drilling Costs for all Participation Wells) = Participant's WI

- (e) All Drilling Operations on a Participation Well shall be governed by the Joint Operating Agreement or such other joint operating agreement between APC and PIE or other non-affiliate third party as may govern Drilling Operations on such Participation Well at the time such Drilling Operations are conducted.
- (f) Participant shall be entitled to receive, on a timely basis, and APC covenants to provide to Participant, copies of all reports pertaining to a Participation Well that are received by APC pursuant to the terms of the Joint Operating Agreement or such other operating agreement as may exist, from time to time, governing Drilling Operations on a Lease. APC shall provide such reports to Participant within 2 Business Days after APC's receipt of such reports. Further, APC shall, as Participant's cost and expense, assist Participant in providing additional information and reports to Participant's general partners from time to time as necessary; provided, however, that such assistance shall not be unduly burdensome to APC or disrupt APC's normal business operations.

Section 2.2 Assignment of Interest.

- (a) Within 10 Business Days after the determination of Participant's Participation Interest in the Participation Wells under Section 2.1(d) of this Agreement, Participant shall receive (and APC and Participant shall thereafter execute, acknowledge, deliver between them, and record) an assignment of Participant's Participation Interest in the Acquired Assets (excluding the Designated Acreage) associated with each

Participation Well, effective as of the Effective Date (as to each Participation Well, an “**Assignment**”). Any Assignment made by APC to Participant under this Section 2.2(a) shall be without warranty of title except by, through and under APC, shall be subject to Permitted Encumbrances, and shall be in the form of Exhibit C of this Agreement.

(b) Within 10 Business Days after the determination of Participant’s Participation Interest in the Participation Wells under Section 2.1(d) of this Agreement, Participant’s managing general partner, Adwar Drilling Partners, LLC, a Nevada limited liability company (“**Adwar LLC**”), shall receive (and APC, Participant and Adwar LLC shall thereafter execute, acknowledge, deliver between them, and record) an assignment of the Leasehold Interest in and to each Participation Well, effective as of the Effective Date (as to the Leasehold Interest associated with each Participation Well, the “**Leasehold Assignment**”). Any Leasehold Assignment made by APC to Adwar LLC under this Section 2.2(c) shall be without warranty of title except by, through and under APC, shall be subject to Permitted Encumbrances, and shall be in the form of Exhibit D of this Agreement.

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(c) Any and all revenue actually received by APC on account of Participant’s Participation Interest in the Participation Wells prior to the Assignment of such Participation Interest pursuant to Section 2.2(a) of this Agreement shall be held in trust by APC for the benefit of Participant. Within 10 Business Days after the Assignment of the Participation Interest, APC shall provide to Participant an accounting of all such revenues and shall transfer such monies to Participant by wire transfer to an account to be designated by Participant.

Section 2.3 Joint Operating Agreement.

(a) For each Participation Well, Participant shall, simultaneously with the execution of the relevant Assignment, ratify and join the Joint Operating Agreement and such other joint operating agreement between APC and a non-affiliated third party, including PIE, governing such Participation Well that may be in effect at the time of Assignment. In the event Adwar LLC is required to ratify and join any such agreement on account of the Leasehold Assignment, Participant shall cause Adwar LLC to execute such ratification and joinder.

(b) If, as between the Parties, there is any conflict between the terms of this Agreement and the Joint Operating Agreement, the terms of this Agreement shall prevail. The Parties acknowledge that APC’s right to assign to Participant a Participation Interest in some or all of the Acquired Assets may be subject to third party consent rights under the Joint Operating Agreement or such other operating agreement as may exist, from time to time, governing Drilling Operations on a Lease on which a Participation Well is drilled. APC shall use best efforts to acquire all such consents; provided, however, that in the event such third party consents cannot be obtained by APC, APC shall hold Participant’s Participation Interest in those Acquired Assets that may not be Assigned (due to the failure of a third party to provide the required consent) for the benefit of Participant, but Participant may not be a party to the Joint Operating Agreement or such other operating agreement as may exist, from time to time, governing Drilling Operations on a Lease on which a Participation Well is drilled and may not have rights thereunder, except through APC.

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ARTICLE 3 **ASSIGNMENTS SUBJECT TO RIGHTS OF THIRD PARTIES**

Section 3.1 Consents to Assignment and Preferential Rights to Purchase. Where necessary to effectuate any Assignment or Leasehold Assignment, as to each Participation Well, APC shall prepare and send timely (a) notices to the holders of any required consents to assignment requesting consents to the transactions contemplated by this Agreement and (b) notices to the holders of any applicable preferential rights to purchase or similar rights in compliance with the terms of such rights and requesting waivers of such rights. The Parties shall use commercially reasonable efforts to cause such Consents to assignment and waivers of preferential rights to purchase or similar

rights (or the exercise thereof) to be obtained and delivered in a timely fashion. Notwithstanding the immediately preceding sentence, APC shall not be required to make payments or undertake obligations to or for the benefit of the holders of such rights in order to obtain the required consents and waivers, provided however, APC shall confer with Participant if such payments or obligations are requested by the holders of such rights before APC rejects any such requests or demands. Participant shall cooperate with APC in seeking to obtain such Consents to assignment and waivers of preferential rights. APC shall not be in default of this Agreement if any consents or waivers are not obtained under this Section 3.1, and Participant shall have no recourse against APC if such consents or waivers are not obtained, except as expressly provided in this Agreement. Schedule 3.1 sets forth all parties APC that, to APC's actual knowledge, have consent rights with respect to the Acquired Assets.

Section 3.2 Asset Obligations. At the time Participant receives an Assignment or Leasehold Assignment with respect to its Participating Interest in the Acquired Assets, Participant (with respect to Participant's Participation Interest) shall assume (a) all applicable covenants, duties and obligations with respect to the Acquired Assets and the Permitted Encumbrances relating to the relevant Participation Well, irrespective of when such covenants, duties, and obligations or Permitted Encumbrances may have arisen or may arise, and (b) any and all liabilities (including, without limitation, any tort liabilities and environmental liabilities) relating to the Acquired Assets arising after the date of Assignment.

ARTICLE 4 **REPRESENTATIONS AND WARRANTIES OF APC**

Subject to the provisions of this Article 4, and the other terms and conditions of this Agreement, APC represents and warrants to Participant the matters set out in Section 4.1 through Section 4.8.

Section 4.1. Existence and Authority.

(a) Existence and Qualification. APC is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware.

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(b) Power. APC has the corporate power to enter into and perform this Agreement (and all documents required to be executed and delivered by APC pursuant to this Agreement) and to consummate the transactions contemplated by this Agreement (and such documents).

(c) Authorization and Enforceability. The execution, delivery and performance of this Agreement (and all documents required to be executed and delivered by APC pursuant to this Agreement), and the consummation of the transactions contemplated hereby and thereby, have been duly and validly authorized by all necessary corporate action on the part of APC. This Agreement has been duly executed and delivered by APC (and all documents required to be executed and delivered by APC pursuant to this Agreement shall be duly executed and delivered by APC) and this Agreement constitutes the valid and binding obligations of APC, enforceable in accordance with its terms except as such enforceability may be limited by applicable bankruptcy or other similar Laws affecting the rights and remedies of creditors generally as well as to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(d) No Conflicts. The execution, delivery and performance of this Agreement by APC, and the consummation of the transactions contemplated by this Agreement shall not (i) violate any provision of the certificate of formation or operating Agreement of APC, (ii) result in default (with due notice or lapse of time or both) or the creation of any lien or encumbrance or give rise to any right of termination, cancellation or acceleration under any material note, bond, mortgage, indenture, or other financing instrument to which APC is a party or by which it is bound, (iii) violate any judgment, order, ruling, or decree applicable to APC as a party in interest, or (iv) violate any Laws applicable to APC.

(e) Adequate Capitalization. APC has available sufficient funds to perform its obligations under this Agreement and the Joint Operating Agreement and has acquired, and will continue to carry for the Term, insurance in a form and amount that is reasonably acceptable to Participant and, at a minimum, in the amounts and coverage or policy types set forth on Exhibit J to this Agreement.

Section 4.2 Litigation. Except as disclosed on Schedule 4.2, as of the Effective Date, there are no actions, suits or proceedings pending or threatened in writing, before any Governmental Authority or arbitrator against APC or any of its Affiliates, which are reasonably likely to impair or delay materially APC's ability to perform its obligations under this Agreement.

Section 4.3 Taxes and Assessments. Except as disclosed on Schedule 4.3, as of the Execution Date:

- (a) APC has not received written notice of any pending claim against it (which remains outstanding) from any applicable taxing authority for assessment of Taxes with respect to the Leases;
- (b) There are no Tax liens with respect to the Leases except for liens for Taxes not yet due and payable.

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Section 4.4 Compliance with Laws. Except as disclosed on Schedule 4.4, to APC's Knowledge, as of the Effective Date, APC's ownership and operation of the Assets is in material compliance with all applicable Laws.

Section 4.5 Contracts. As of the Effective Date, to APC's Knowledge, (a) APC has not given notice of a material breach under a Material Contract, and (b) APC is not in material default under any Material Contract except as disclosed on Schedule 4.5.

Section 4.6 Representations Regarding Leases.

- (a) To APC's Knowledge, Schedule 4.6(a) provides a true and correct statement, as of the Effective Date, of (i) the Working Interest of APC in the Leases and (ii) the Net Revenue Interest of APC in the Leases, as such interests exist as of the Effective Date.
- (b) APC warrants and shall defend title to any Assignment against the claims of any Person claiming any right, title or interest in or to any portion of any Acquired Asset (including any Leasehold Interest) by, through or under APC, but not otherwise.

Section 4.7 Liability for Brokers' Fees. Participant shall not directly or indirectly have any responsibility, liability or expense, as a result of undertakings or agreements of APC prior to the Effective Date, for brokerage fees, finder's fees, agent's commissions or other similar forms of compensation to an intermediary in connection with the negotiation, execution or delivery of this Agreement or any agreement or transaction contemplated hereby.

Section 4.8 Limitations.

(a) Except as and to the extent expressly set forth in this Agreement, including its Exhibits, (i) APC makes no representations or warranties, express or implied, and (ii) APC expressly disclaims all liability and responsibility for any representation, warranty, statement or information made or communicated (orally or in writing) to Participant or any of Participant's Affiliates, employees, agents, consultants or representatives (including, without limitation, any opinion, information, projection or advice that may have been provided to Participant by any officer, director, employee, agent, consultant, representative or advisor of APC or any of APC's Affiliates).

(b) EXCEPT AS EXPRESSLY REPRESENTED OR OTHERWISE MADE SUBJECT IN this AGREEMENT OR THE DOCUMENTS EXECUTED PURSUANT TO THIS AGREEMENT, WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, APC MAKES NO AND EXPRESSLY DISCLAIMS ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO (I) TITLE TO ANY OF THE ACQUIRED ASSETS, EXCEPT BY, THROUGH AND UNDER APC, (II) THE CONTENTS, CHARACTER OR NATURE OF ANY DESCRIPTIVE MEMORANDUM, OR ANY REPORT OF ANY PETROLEUM ENGINEERING CONSULTANT, OR ANY GEOLOGICAL OR SEISMIC DATA OR INTERPRETATION, RELATING TO THE ACQUIRED ASSETS, (III) THE QUANTITY, QUALITY OR RECOVERABILITY OF PETROLEUM SUBSTANCES IN OR FROM THE ACQUIRED ASSETS, (IV) ANY ESTIMATES OF THE VALUE OF THE ACQUIRED ASSETS OR FUTURE REVENUES GENERATED BY THE ACQUIRED ASSETS, (V) INFRINGEMENT OF ANY INTELLECTUAL PROPERTY RIGHT, OR (VI) ANY OTHER MATERIALS OR INFORMATION THAT MAY HAVE BEEN MADE AVAILABLE OR COMMUNICATED TO PARTICIPANT OR ITS AFFILIATES, OR ITS OR

THEIR EMPLOYEES, AGENTS, CONSULTANTS, REPRESENTATIVES OR ADVISORS IN CONNECTION WITH THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY DISCUSSION OR PRESENTATION RELATING THERETO, IT BEING EXPRESSLY UNDERSTOOD AND AGREED BY THE PARTIES HERETO THE ASSETS THAT MAY BE ASSIGNED PURSUANT HERETO SHALL BE TRANSFERRED "AS IS, WHERE IS," WITH ALL FAULTS AND DEFECTS.

(c) A matter scheduled as an exception for any representation shall be deemed to be an exception to all representations for which it is relevant.

ARTICLE 5 **REPRESENTATIONS AND WARRANTIES OF PARTICIPANT**

Subject to the provisions of this Article 5, and the other terms and conditions of this Agreement, Participant represents and warrants to APC the matters set out in Section 5.1 through Section 5.9:

Section 5.1 Existence and Qualification. Participant is a limited partnership organized, validly existing, and in good standing under the Laws of Nevada.

Section 5.2 Power. Participant has the corporate power to enter into and perform its obligations under this Agreement (and all documents required to be executed and delivered by Participant pursuant to this Agreement) and to consummate the transactions contemplated by this Agreement (and such documents).

Section 5.3 Authorization and Enforceability. The execution, delivery and performance of this Agreement (and all documents required to be executed and delivered by Participant pursuant to this Agreement), and the consummation of the transactions contemplated hereby and thereby, have been duly and validly authorized by all necessary corporate action on the part of Participant. This Agreement has been duly executed and delivered by Participant (and all documents required to be executed and delivered by Participant pursuant to this Agreement will be duly executed and delivered by Participant) and this Agreement constitutes the valid and binding obligations of Participant, enforceable in accordance with its terms except as such enforceability may be limited by applicable bankruptcy or other similar laws affecting the rights and remedies of creditors generally as well as to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.4 No Conflicts. The execution, delivery and performance of this Agreement by Participant, and the consummation of the transactions contemplated by this Agreement, will not (a) violate any provision of the certificate of limited partnership or partnership agreement (or other governing instruments) of Participant, (b) result in a material default (with due notice or lapse of time or both) or the creation of any lien or encumbrance or give rise to any right of termination, cancellation or acceleration under any material note, bond, mortgage, indenture, or other financing instrument to which Participant is a party or by which it is bound, (c) violate any judgment, order, ruling, or regulation applicable to Participant as a party in interest or (d) violate any Law applicable to Participant.

Section 5.5 Litigation. There are no actions, suits or proceedings pending, or to Participant's Knowledge, threatened in writing before any Governmental Authority or arbitrator against Participant or any Affiliate of Participant which are reasonably likely to impair or delay materially Participant's ability to perform its obligations under this Agreement.

Section 5.6 Investment Intent. Participant is acquiring the Acquired Assets for its own account and not with a view to their sale or distribution in violation of the Securities Act of 1933, as amended, the rules and regulations thereunder, any applicable state blue sky laws, or any other applicable securities Laws.

Section 5.7 Independent Investigation. Participant is (or its advisors are) experienced and knowledgeable in the oil and gas business and aware of the risks of that business. Participant acknowledges and affirms that (a) it has completed its independent investigation, verification, analysis and evaluation of the Assets and (b) it has made all

such reviews of the Assets that it deems required for its execution and delivery of this Agreement. Except for the representations and warranties expressly made by APC in this Agreement, Participant acknowledges that there are no representations or warranties, express or implied, as to the financial condition, liabilities, operations, business or prospects of the Acquired Assets and that in making its decision to enter into this Agreement and to consummate the transactions contemplated hereby, Participant has relied solely upon its own independent investigation, verification, analysis and evaluation.

Section 5.8 Liability for Brokers' Fees. APC shall not directly or indirectly have any responsibility, liability or expense, as a result of undertakings or agreements of Participant, for brokerage fees, finder's fees, agent's commissions or other similar forms of compensation to an intermediary in connection with the negotiation, execution or delivery of this Agreement or any agreement or transaction contemplated hereby.

Section 5.9 Participant as Investor. The Parties acknowledge that Participant intends to raise capital for purposes of funding the Participation Contribution. Participant represents and warrants that all efforts engaged in, or to be engaged in, to raise such capital shall be in accordance with all applicable Laws. Participant further represents and warrants that Participant is, or will be at the time a Participation Contribution is made under this Agreement, an "accredited investor" as such term is defined in Regulation D of the Securities Act of 1933, as amended.

ARTICLE 6 COVENANTS OF THE PARTIES

Section 6.1 Access. APC will give Participant and its representatives access to the Acquired Assets and access to and the right to copy, at Participant's expense, certain records in APC's possession, for the purpose of conducting a confirmatory review of the Acquired Assets, but only to the extent that APC may do so (a) consistent with the limitations provided in this Agreement, (b) without violating applicable Laws, and (c) without violating any obligations to any third Person and to the extent that APC has authority to grant such access without breaching any restriction binding on APC. Such access by Participant shall be limited to APC's normal business hours, and Participant's investigation shall be conducted in a manner that minimizes interference with the business of APC. Participant's right of access shall not entitle Participant to conduct intrusive testing or sampling, as may be determined by APC in its sole judgment.

Section 6.2 Indemnity Regarding Access. Participant agrees to indemnify, defend and hold harmless APC, its Affiliates, the other owners of interests in the Assets, and all such Persons' directors, officers, employees, agents and representatives from and against any and all claims, liabilities, losses, costs and expenses (including court costs and reasonable attorneys' fees), including claims, liabilities, losses, costs and expenses attributable to personal injury, death, or property damage, arising out of or relating to access to the Acquired Assets by Participant, its Affiliates, or its or their directors, officers, employees, agents or representatives, even if caused in whole or in part by the negligence (whether sole, joint or concurrent), strict liability or other legal fault of any indemnified Person.

Section 6.3 Further Assurances. After the Effective Date, APC and Participant each agrees to take such further actions and to execute, acknowledge and deliver all such further documents as are reasonably requested by the other for carrying out the purposes of this Agreement or of any document delivered pursuant to this Agreement.

Section 6.4 Confidentiality. All commercial, economic, geological, geophysical, engineering and other technical information and data related to the Acquired Assets (the "***Confidential Information***") obtained by (a) Participant, Participant's Affiliates, and its/their representatives (the "***Participant Group***") from APC relating to or in connection with this Agreement or (b) APC, APC's Affiliates, and its/their representatives (the "***APC Group***") from Participant relating to or in connection with this Agreement shall constitute proprietary and confidential information and shall be held in the strictest confidence and shall be used only for the purpose of exercising or fulfilling the receiving Party's rights and obligations under this Agreement. The receiving Party shall keep, save, and hold as confidential all such Confidential Information made available to it and not disclose or reveal any such Confidential Information to any individual or entity not a party hereto without the disclosing Party's prior written consent. In the event of any breach of the provisions of this Section 6.4, the receiving Party agrees to defend, indemnify and hold the disclosing Party harmless from and against any and all claims, liabilities, losses or damages, made against or incurred by the disclosing Party or its Affiliates (including attorneys' fees and costs of litigation) resulting from such breach. In addition, the receiving Party acknowledges that the disclosing Party or its Affiliates may be irreparably

damaged and the disclosing Party or its Affiliates shall be entitled to all equitable remedies available at law including, but not limited to, injunctive relief, specific performance, and monetary damages. The confidentiality obligations provided for under this Section 6.4 shall continue in full force and effect from the Effective Date until 2 years after the expiration of the Term; however, the confidentiality obligations under this Section 6.4 shall be in addition to and not in substitution of any confidentiality obligations contained in any other agreements to which Participant and APC are parties, including the Joint Operating Agreement. Notwithstanding the foregoing, nothing in this Section 6.4 shall prohibit a receiving Party from disclosing “Confidential Information” (i) to its Affiliates, (ii) where Confidential Information is required to be furnished in compliance with applicable Law or regulations, or pursuant to any legal proceedings or because of any order of any court binding upon a receiving Party, (iii) to attorneys engaged by a receiving Party, where disclosure of such information and data is essential to such attorneys’ work for the receiving Party in relation to this Agreement, or (iv) where, through no fault of the receiving Party, the Confidential Information is or becomes a part of the public domain.

ARTICLE 7 **CONDITIONS TO ASSIGNMENT OF ACQUIRED ASSETS**

Section 7.1 Conditions of APC to Assignment of Acquired Assets. The obligation of APC to consummate an Assignment of the Acquired Assets (including the Leasehold Interests) is subject, at the option of APC, to the reasonable satisfaction on or prior to such Assignment of each of the following conditions:

- (a) Representations. The representations and warranties of Participant set forth in Article 5 shall be true and correct in all material respects as of the date of this Agreement and at the time of each Assignment;
- (b) Performance. Participant shall have performed and observed, in all material respects when due, all covenants and agreements to be performed or observed by it under this Agreement prior to or at the time of each Assignment;
- (c) No Action. At the time of each Assignment, no injunction, order or award restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated by such Assignment, or granting substantial damages in connection therewith, shall have been issued and remain in force, and no suit, action, or other proceeding (excluding any such matter initiated by APC or any of APC Affiliates) shall be pending before any Governmental Authority or body of competent jurisdiction seeking to enjoin or restrain or otherwise prohibit the consummation of such Assignment or recover substantial damages from APC or any Affiliate of APC resulting therefrom;
- (d) Third Party Consents. All Consents required for the transfer of the relevant Acquired Assets shall have been obtained; and
- (e) Governmental Consents. All material consents and approvals of any Governmental Authority required for the transfer of the Acquired Assets as contemplated under this Agreement, except consents and approvals of assignments by Governmental Authorities that are customarily obtained after a transaction’s closing, shall have been granted, or the necessary waiting period shall have expired, or early termination of the waiting period shall have been granted.

ARTICLE 8 **TAX MATTERS**

Section 8.1 Liability for Taxes. Notwithstanding any provisions herein, the rights and liabilities hereunder are several and not joint or collective and each Party shall be responsible only for its share of the costs and liabilities incurred as provided hereunder. This Agreement and the operations hereunder shall not constitute a tax partnership.

ARTICLE 9 **INDEMNIFICATION; LIMITATIONS**

Section 9.1 Indemnification.

(a) From and after the Effective Date, Participant shall indemnify, defend and hold harmless APC and its Affiliates from and against all Damages incurred or suffered by APC or any of APC's Affiliates:

(i) caused by or arising out of or resulting from Participant's breach of any of Participant's covenants or agreements contained in Article 6, or

(ii) caused by or arising out of or resulting from any breach of any representation or warranty made by Participant contained in Article 5 of this Agreement, **EVEN IF SUCH DAMAGES ARE CAUSED IN WHOLE OR IN PART BY THE ORDINARY, BUT NOT GROSS, NEGLIGENCE (WHETHER SOLE, JOINT OR CONCURRENT), STRICT LIABILITY OR OTHER LEGAL FAULT OF ANY INDEMNIFIED PERSON**, but excepting in each case Damages against which APC would be required to indemnify Participant under Section 9.1(b) at the time the Claim Notice is presented by Participant.

(b) From and after the Effective Date, APC shall indemnify, defend and hold harmless Participant and its Affiliates against and from all Damages incurred or suffered by Participant or any of Participant's Affiliates:

(i) caused by or arising out of or resulting from APC's breach of any of APC's covenants or agreements contained in Article 6, or

(ii) caused by or arising out of or resulting from any breach of any representation or warranty made by APC contained in Article 4 of this Agreement, **EVEN IF SUCH DAMAGES ARE CAUSED IN WHOLE OR IN PART BY THE ORDINARY, BUT NOT GROSS, NEGLIGENCE (WHETHER SOLE, JOINT OR CONCURRENT), STRICT LIABILITY OR OTHER LEGAL FAULT OF ANY INDEMNIFIED PERSON**, but excepting in each case Damages against which Participant would be required to indemnify APC under Section 9.1(a) at the time the Claim Notice is presented by APC.

(c) "**Damages**," for purposes of this Article 9, shall mean the amount of any actual liability, loss, cost, expense, claim, penalty, fine, award or judgment incurred or suffered by any Indemnified Person arising out of or resulting from the indemnified matter, whether attributable to personal injury or death, property damage, contract claims, torts or otherwise, including reasonable fees and expenses of attorneys, consultants, accountants or other agents and experts reasonably incident to matters indemnified against, and the costs of investigation and/or monitoring of such matters, and the costs of enforcement of the indemnity and any reasonable fees and expenses of attorneys in connection with such enforcement.

(d) The indemnity to which each Party is entitled under this Section 9.1 shall be for the benefit of and extend to such Party's current and former Affiliates and its and their respective directors, officers, employees, and agents. Any claim for indemnity under this Section 9.1 by any such Affiliate, director, officer, employee or agent must be brought and administered by the applicable Party to this Agreement. No Indemnified Person other than APC and Participant shall have any rights against either APC or Participant under the terms of this Section 9.1 except as may be exercised on its behalf by Participant or APC, as applicable, pursuant to this Section 9.1(d). Each of APC and Participant may elect to exercise or not exercise indemnification rights under this Section 9.1(d) on behalf of the other Indemnified Persons affiliated with it in its sole discretion and shall have no liability to any such other Indemnified Person for any action or inaction under this Section 9.1(d).

Section 9.2 Indemnification Actions. All claims for indemnification under Section 6.2 or Section 9.1 shall be asserted and resolved as follows:

(a) For purposes of this Article 9, the term "**Indemnifying Person**" when used in connection with particular Damages shall mean the Person having an obligation to indemnify another Person or Persons with respect to such Damages pursuant to this Article 9, and the term "**Indemnified Person**" when used in connection with particular Damages shall mean a Person having the right to be indemnified with respect to such Damages pursuant to this Article 9 (including, for the avoidance of doubt, those Persons identified in Section 9.1(d)).

(b) To make a claim for indemnification under Section 9.1, an Indemnified Person shall notify the Indemnifying Person of its claim, including the specific details of and specific basis under this Agreement for its claim (the “**Claim Notice**”). In the event that the claim for indemnification is based upon a claim by a third Person against the Indemnified Person (a “**Claim**”), the Indemnified Person shall provide its Claim Notice promptly after the Indemnified Person has actual knowledge of the Claim and shall enclose a copy of all papers (if any) served with respect to the Claim; provided that the failure of any Indemnified Person to give notice of a Claim as provided in this Section 9.2 shall not relieve the Indemnifying Person of its obligations under Section 9.1 except to the extent such failure results in insufficient time being available to permit the Indemnifying Person to effectively defend against the Claim or otherwise prejudices the Indemnifying Person’s ability to defend against the Claim. In the event that the claim for indemnification is based upon an inaccuracy or breach of a representation, warranty, or agreement, the Claim Notice shall specify the representation, warranty, or agreement that is claimed to have been inaccurate or breached.

(c) In the case of a claim for indemnification based upon a Claim, the Indemnifying Person shall have 30 days from its receipt of the Claim Notice to notify the Indemnified Person whether it admits or denies its obligation to defend the Indemnified Person against such Claim under this Article 9. If the Indemnifying Person does not notify the Indemnified Person within such 30 day period regarding whether the Indemnifying Person admits or denies its obligation to defend the Indemnified Person, it shall be conclusively deemed obligated to provide such indemnification hereunder. The Indemnified Person is authorized, prior to and during such 30 day period, to file any motion, answer or other pleading that it shall deem necessary or appropriate to protect its interests or those of the Indemnifying Person and that is not prejudicial to the Indemnifying Person.

(d) If the Indemnifying Person accepts the obligation to indemnify the Indemnified Person, it shall have the right and obligation to diligently defend, at its sole cost and expense, the Claim. The Indemnifying Person shall have full control of such defense and proceedings, including any compromise or settlement thereof. If requested by the Indemnifying Person, the Indemnified Person agrees to cooperate in contesting any Claim which the Indemnifying Person elects to contest (provided, however, that the Indemnified Person shall not be required to bring any counterclaim or cross-complaint against any Person). The Indemnified Person may participate in, but not control, any defense or settlement of any Claim controlled by the Indemnifying Person pursuant to this Section 9.2(d). An Indemnifying Person shall not, without the written consent of the Indemnified Person, settle any Claim or consent to the entry of any judgment with respect thereto that (i) does not result in a final resolution of the Indemnified Person’s liability with respect to the Claim (including, in the case of a settlement, an unconditional written release of the Indemnified Person from all further liability in respect of such Claim) or (ii) may materially and adversely affect the Indemnified Person (other than as a result of money damages covered by the indemnity).

(e) If the Indemnifying Person does not accept its obligation to indemnify the Indemnified Person or accepts its obligation but fails to diligently defend or settle the Claim, then the Indemnified Person shall have the right to defend against the Claim (at the sole cost and expense of the Indemnifying Person, if the Indemnified Person is entitled to indemnification hereunder), with counsel of the Indemnified Person’s choosing, subject to the right of the Indemnifying Person to accept its obligation to indemnify the Indemnified Person and assume the defense of the Claim at any time prior to settlement or final determination thereof. If the Indemnifying Person has not yet accepted its obligation to indemnify the Indemnified Person, the Indemnified Person shall send written notice to the Indemnifying Person of any proposed settlement and the Indemnifying Person shall have the option for 10 days following receipt of such notice to (i) admit in writing its obligation for indemnification with respect to such Claim and (ii) if its obligation is so admitted, assume the defense of the Claim, including the power to reject the proposed settlement. If the Indemnified Person settles any Claim over the objection of the Indemnifying Person after the Indemnifying Person has timely admitted its obligation for indemnification in writing and assumed the defense of the Claim, the Indemnified Person shall be deemed to have waived any right to indemnity therefor.

(f) In the case of a claim for indemnification not based upon a Claim, the Indemnifying Person shall have 30 days from its receipt of the Claim Notice to (i) cure the Damages complained of, (ii) admit its obligation to provide indemnification with respect to such Damages or (iii) dispute the claim for such Damages. If the Indemnifying Person does not notify the Indemnified Person within such 30 day period that it has cured the Damages or that it disputes the claim for such Damages, the Indemnifying Person shall be conclusively deemed obligated to provide indemnification hereunder.

ARTICLE 10 **MISCELLANEOUS**

Section 10.1 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original instrument, but all such counterparts together shall constitute but one agreement.

Section 10.2 Notices. All notices that are required or may be given pursuant to this Agreement shall be sufficient in all respects if given in writing, in English and delivered personally, by facsimile, by electronic mail, or by recognized courier service, as follows:

If to APC: APCLARK LLC:

ApClark LLC
800 Bering, Suite 250
Houston, Texas 70577
Attn: Rhonda B. Rosen

With courtesy copies to:

Stutzman, Bromberg, Esserman & Plifka, P.C.
2323 Bryan Street, Suite 2200
Dallas, Texas 75201
Attn: Richard E. Wallach

If to Participant: ADWAR DRILLING FUND III, L.P.

Adwar Drilling Fund III, L.P.
c/o Adwar Drilling Partners, LLC
3753 Howard Hughes Pkwy., Second Floor, Suite 314
Las Vegas, Nevada 89169
Attn: Anthony Demint

With courtesy copies to:

DeMint Law, PLLC
Attn: Anthony N. DeMint, Esq.
3753 Howard Hughes Pkwy., Second Floor, Suite 314
Las Vegas, Nevada 89169

Either Party may change its address for notice in the United States by notice to the other in the manner set forth above. All notices shall be deemed to have been duly given at the time of receipt by the Party to which such notice is addressed.

Section 10.3 Transfer Taxes. Notwithstanding anything to the contrary in Article 8, Participant shall bear any Transfer Taxes incurred and imposed upon, or with respect to, the property transfers or other transactions contemplated hereby. Should APC or any Affiliate of APC pay prior to the Effective Date, or should APC or any continuing Affiliate of APC pay after the Effective Date, any amount for which Participant is liable under this Section 10.3, Participant shall, promptly following receipt of APC's invoice, reimburse the amount paid. If such transfers or transactions are exempt from any Transfer Taxes upon the filing of an appropriate certificate or other evidence of exemption, Participant shall timely furnish to APC such certificate or evidence. The Parties and their respective Affiliates shall cooperate in order to take all necessary steps to claim any such exemption, reduction and refund of any Transfer Taxes hereunder. Notwithstanding anything to the contrary herein, APC shall be liable for any

liability, loss, cost, expense, claim, award or judgment relating to Transfer Taxes to the extent resulting solely from or increased solely by the actions or omissions of APC or its Affiliates.

Section 10.4 Expenses. All expenses incurred by APC in connection with or related to the authorization, preparation or execution of this Agreement, and the Exhibits and Schedules hereto and thereto, and all other matters related to this Agreement and the transactions contemplated hereby, including without limitation, all fees and expenses of counsel, accountants and financial advisers employed by APC, shall be borne solely and entirely by APC, and all such expenses incurred by Participant shall be borne solely and entirely by Participant.

Section 10.5 Captions. The captions in this Agreement are for convenience only and shall not be considered a part of or affect the construction or interpretation of any provision of this Agreement.

Section 10.6 Waivers. Any failure by any Party to comply with any of its obligations, agreements or conditions herein contained may be waived by the Party to whom such compliance is owed by an instrument signed by the Party to whom compliance is owed and expressly identified as a waiver, but not in any other manner. No waiver of, or consent to a change in, any of the provisions of this Agreement shall be deemed or shall constitute a waiver of, or consent to a change in, other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.

Section 10.7 Assignment. No Party shall assign or otherwise transfer all or any part of this Agreement to any Person that does not constitute an Affiliate of such Party, nor shall any Party delegate any of its rights or duties hereunder to any Person that does not constitute an Affiliate of such Party, without the prior written consent of the other Party, which shall not be unreasonably withheld, and any transfer or delegation made without such consent shall be void. Either Party may assign or delegate any of its rights or duties hereunder to an Affiliate without the prior written consent of the other Party; however, such delegating Party shall remain liable for any breach of a duty it delegates to an Affiliate. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and assigns.

Section 10.8 Entire Agreement. This Agreement and the documents to be executed hereunder and the Exhibits and Schedules attached hereto constitute the entire agreement among the Parties pertaining to the subject matter hereof, and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, of the Parties pertaining to the subject matter hereof.

Section 10.9 Amendment. This Agreement may be amended or modified only by an agreement in writing signed by APC and Participant and expressly identified as an amendment or modification.

Section 10.10 No Third-Person Beneficiaries. Nothing in this Agreement shall entitle any Person other than Participant and APC to any claim, cause of action, remedy or right of any kind, except the rights expressly provided to the Persons described in Section 6.3 and Section 9.2(d).

Section 10.11 References. In this Agreement:

- (a) References to any gender includes a reference to all other genders;
- (b) References to the singular includes the plural, and vice versa;
- (c) Reference to any Article or Section means an Article or Section of this Agreement;
- (d) Reference to any Exhibit or Schedule means an Exhibit or Schedule to this Agreement, all of which are incorporated into and made a part of this Agreement;
- (e) Unless expressly provided to the contrary, “hereunder”, “hereof”, “herein” and words of similar import are references to this Agreement as a whole and not any particular Section or other provision of this Agreement;
- (f) References to “\$” or “dollars” means United States dollars; and

(g) "Include" and "including" shall mean include or including without limiting the generality of the description preceding such term.

Section 10.12 Construction. Participant is capable of making such investigation, inspection, review and evaluation of the Acquired Assets as a prudent Participant would deem appropriate under the circumstances, including with respect to all matters relating to the Acquired Assets, their value, operation and suitability. Each of APC and Participant has had the opportunity to exercise business discretion in relation to the negotiation of the details of the transaction contemplated hereby. This Agreement is the result of arm's-length negotiations from equal bargaining positions. No consideration shall be given or presumption made, on the basis of who drafted this Agreement or any particular provision thereof.

Section 10.13 Limitation on Damages. Notwithstanding anything to the contrary contained herein, none of Participant, APC or any of their respective Affiliates shall be entitled to losses or damages consisting of or relating to: damage to a reservoir, loss of hydrocarbons, loss of lease, or loss of profits, consequential, indirect, business interruption, special, or punitive damages IN ANY WAY ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT, REGARDLESS OF WHETHER THE LEGAL THEORY OF LIABILITY FOR SUCH DAMAGES OR LOSSES ARISES IN BREACH OF CONTRACT, TORT, UNDER STATUTE OR ANY OTHER THEORY OF LEGAL LIABILITY (other than such losses or damages suffered by third Persons for which responsibility is allocated between the Parties). Each of Participant and APC, for itself and on behalf of its Affiliates, hereby expressly waives any right to such losses or damages in connection with this Agreement and the transactions contemplated hereby.

Section 10.14 Parties Not Fiduciaries. Notwithstanding APC's agreement, pursuant to Section 2.2(b), to hold revenues attributable to Participant's Participation Interest for the benefit of Participant until such time as an Assignment of such Participation Interest may be executed and delivered pursuant to Section 2.2(a), the Parties' relationship under this Agreement is contractual only, and under no circumstances shall either Party be considered or deemed to be acting as a fiduciary for the other Party.

Section 10.15 Force Majeure. If a Party is unable, wholly or in part because of a Force Majeure, to carry out its obligations under this Agreement, other than the obligation to make money payments, such Party shall give the other Party prompt written notice of the Force Majeure with full particulars about it. Effective upon the date notice is given, the obligations of the Party, in so far as they are affected by the Force Majeure, shall be suspended during, but no longer than, the continuance of the Force Majeure. Commercially reasonable efforts will be made by the Party to avoid delay or suspension of any work or acts to be performed under this Agreement. The requirement that the Force Majeure be remedied by commercially reasonable efforts shall not require a Party to settle strikes or other labor difficulties.

IN WITNESS WHEREOF, this Agreement has been signed by each of the Parties as of the date first above written.

**APCLARK, LLC,
a Delaware limited liability company**

By: _____
Name: _____
Title: _____

**ADWAR DRILLING FUND III, L.P.,
a Nevada limited partnership**

By: Adwar Drilling Partners, LLC,
its General Partner

By: Calmerica Resource Development, Inc.,
its Managing Member

By: _____
Anthony N. DeMint, President

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EXHIBIT A
JOINT OPERATING AGREEMENT

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EXHIBIT B
LEASES

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EXHIBIT C
FORM ASSIGNMENT

31

EXHIBIT D
FORM OF LEASEHOLD ASSIGNMENT

32

EXHIBIT E
ANTICIPATED WELL LOCATIONS

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EXHIBIT F

AFE FOR LIVESTOCK 18-3

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EXHIBIT G
AFE FOR BVR 5-2

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EXHIBIT H
AFE FOR CLARK 3-1

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EXHIBIT I
INSURANCE REQUIREMENTS

All such insurance as is required under that certain Model Form Operating Agreement, dated as of August 1, 2007, by and between Westerly Exploration, Inc. and Lucas Energy, Inc. as predecessors in interest to the Parties, a copy of which is attached to this Agreement as Exhibit A, as such agreement may be amended, restated or otherwise modified from time to time.

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SCHEDULE 1.1
CONTRACTS

None.

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SCHEDULE 1.2
EXCLUDED ASSETS

None.

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SCHEDULE 1.3
PERMITTED ENCUMBRANCES

None.

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SCHEDULE 3.1
CONSENTS

Any and all such consents as may be required under that certain Model Form Operating Agreement, dated as of August 1, 2007, by and between Westerly Exploration, Inc. and Lucas Energy, Inc. as predecessors in interest to the Parties, a copy of which is attached to this Agreement as Exhibit A, as such agreement may be amended, restated or otherwise modified from time to time

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SCHEDULE 4.2
LITIGATION

None.

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SCHEDULE 4.3
TAXES AND ASSESSMENTS

None.

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SCHEDULE 4.4
COMPLIANCE WITH LAWS

None.

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SCHEDULE 4.6(a)
APC WORKING INTERESTS AND NET REVENUE INTERESTS

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**BLACKSANDS PETROLEUM, INC.
OFFICER'S CERTIFICATE PURSUANT TO SECTION 302**

I, Rhonda Rosen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Blacksands Petroleum, 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(s) 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 reasonable 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 controls over financial reporting.

Date: September 15, 2014

By /s/ RHONDA ROSEN

Name: Rhonda Rosen

Title: Interim President (Principal Executive Officer)

**BLACKSANDS PETROLEUM, INC.
OFFICER'S CERTIFICATE PURSUANT TO SECTION 302**

I, Donald Giannattasio, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Blacksands Petroleum, 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(s) 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 reasonable 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 controls over financial reporting.

Date: September 15, 2014

By /s/ Donald Giannattasio

Donald Giannattasio
Chief Financial Officer

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Rhonda Rosen, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Blacksands Petroleum, Inc. on Form 10-Q for the fiscal period ended July 31, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Blacksands Petroleum, Inc.

By: /S/ RHONDA ROSEN
Date: September 15, 2014
Name: Rhonda Rosen
Title: *Interim President (Principal Executive Officer)*

I, Donald Giannattasio, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Blacksands Petroleum, Inc. on Form 10-Q for the fiscal period ended July 31, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Blacksands Petroleum, Inc.

By: /S/ DONALD GIANNATTASIO
Date: September 15, 2014
Name: Donald Giannattasio
Title: *Chief Financial Officer*

Stockholders' Equity

**9 Months Ended
Jul. 31, 2014**

Notes to Financial Statements

Note 4. Stockholders' Equity

Series B Convertible Preferred Stock

In June 2014, the Company designated 2,217,281 shares of preferred stock as non-voting Redeemable Convertible Series B Preferred Stock ("Series B Preferred") (See Note 6). Each share of Series B Preferred is entitled to a dividend of 3% payable annually through the issuance of additional Series B Preferred. Each share of Series B Preferred may be converted at the option of the holder any time on or prior to May 30, 2017 into shares of the Company's common stock at a conversion price of \$1.00 per share, which is subject to adjustment. The Company has the right to redeem the shares, in whole or in part, any time after May 30, 2017 at \$1.00 per share.

Under the terms set forth in the Certificate of Designation, the holders of Series B Preferred stock have the exclusive right, voting separately as a class, to elect one director of the Board ("Series B Director"), who must be reasonably acceptable to the Company. The Series B Director must be appointed by the holders of a majority of the issued and outstanding shares of Series B Preferred Stock. The Series B Director was appointed to the Board in June 2014.

Stock Options

A summary of the Company's stock option activity and related information is as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at November 1, 2013	1,046,333	\$ 3.13
Granted	-	-
Exercised	-	-
Cancelled	27,500	\$ 4.50
Outstanding at July 31, 2014	1,018,833	\$ 3.09
Exercisable at July 31, 2014	1,018,833	\$ 3.09

During the nine months ended July 31, 2014 and 2013, the Company recorded stock-based compensation of \$(15,980) and \$236,526, respectively, as general and administrative expenses. At July 31, 2014, the weighted average remaining life of the stock options is 6.02 years.

Warrants

A summary of the Company's warrant activity and related information is as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at November 1, 2013	2,057,268	\$ 4.50
Granted	-	-
Exercised	-	-
Expired	2,057,268	\$ 4.50
Outstanding at July 31, 2014	-	-
Exercisable at July 31, 2014	-	-

Contingencies

**9 Months Ended
Jul. 31, 2014**

Notes to Financial Statements

Note 3. Contingencies

The Company, as an owner or lessee and operator of oil and gas properties, is subject to various federal, state and local laws and regulations relating to discharge of materials into, and protection of, the environment. These laws and regulations may, among other things, impose liability on the lessee under an oil and gas lease for the cost of pollution clean-up resulting from operations and subject the lessee to liability for pollution damages. In some instances, the Company may be directed to suspend or cease operations in the affected area. The Company maintains insurance coverage, which it believes is customary in the industry, although the Company is not fully insured against all environmental risks. The Company is not aware of any environmental claims existing as of July 31, 2014, which have not been provided for, covered by insurance or otherwise have a material impact on its financial position or results of operations. There can be no assurance, however, that current regulatory requirements will not change, or past noncompliance with environmental laws will not be discovered on the Company's properties.

In June 2014, the Company received notice that it owed to PIE Holdings LP approximately \$485,000 for the completion costs related to the three new wells in the AP Clark Field. According to the Joint Operating Agreement the Company has with PIE Holdings, LP, these amounts are required to be paid within seven days of the notification that fracking activities commenced. These amounts have not been paid to date. According to the Joint Operating Agreement, the Company could be forced to give up all or a portion of its interest in these wells for non-payment. The Company has not been notified to date of any actions to be taken for the non-payment of these completion costs.

Consolidated Balance Sheets (USD \$)	Jul. 31, 2014	Oct. 31, 2013
<u>Current Assets:</u>		
<u>Cash and cash equivalents</u>	\$ 719,586	\$ 1,335,237
<u>Accounts receivable</u>	197,610	417,597
<u>Prepaid expenses</u>	12,660	
<u>Total Current Assets</u>	929,856	1,752,834
<u>Oil and gas property costs (successful efforts method of accounting)</u>		
<u>Proved, net of accumulated depletion of 7,368,699 and 6,309,607</u>	4,015,072	2,077,872
<u>Other assets</u>	50,000	50,312
<u>Total Assets</u>	4,994,928	3,881,018
<u>Current Liabilities:</u>		
<u>Note payable</u>	60,000	280,000
<u>Accounts payable</u>	478,650	523,365
<u>Accrued expenses</u>	4,011,483	3,121,900
<u>Total Current Liabilities</u>	4,550,133	3,925,265
<u>Notes Payable, net of discount of \$570,933 and \$1,329,581</u>	5,820,000	4,270,419
<u>Convertible debenture net of discount of \$1,337,497 and \$-</u>	162,503	
<u>Asset Retirement obligation</u>	48,081	649,233
<u>Total Liabilities</u>	10,580,717	8,844,917
<u>Stockholders' Deficit:</u>		
<u>Preferred stock - \$0.01 par value; 10,000,000 shares authorized:</u>		
<u>Series A - \$.001 par value, 310,000 shares authorized, nil shares issued and outstanding</u>		
<u>Series B - \$.001 par value, 2,217,281 shares authorized, 500,000 shares issued and outstanding</u>	500	
<u>Common stock - \$0.001 par value; 100,000,000 shares authorized; 17,725,610 and 17,719,360 shares issued and outstanding at July 31, 2014 and October 31, 2013, respectively</u>	17,726	17,720
<u>Additional paid-in capital</u>	25,559,704	23,726,191
<u>Accumulated deficit</u>	(31,163,719)	(28,707,810)
<u>Total Stockholders' Deficit</u>	(5,585,789)	(4,963,899)
<u>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</u>	\$ 4,994,928	\$ 3,881,018

**The Company and Summary
of Significant Accounting
Policies**

**Notes to Financial
Statements**

**Note 1. The Company and
Summary of Significant
Accounting Policies**

9 Months Ended

Jul. 31, 2014

Blacksands Petroleum, Inc. (hereinafter referred to as the "Company") was incorporated in the State of Nevada on October 12, 2004. Since August 2007, the Company has been engaged in the exploration, development, exploitation and production of oil and natural gas. The Company sells its oil and gas products primarily to domestic pipelines and refineries. Its operations are presently focused in the States of Texas and New Mexico.

The accompanying unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and rules of the Securities and Exchange Commission ("SEC"), and should be read in conjunction with the audited financial statements and notes thereto contained in annual report on Form 10-K for the year ended October 31, 2013 filed with the SEC on February 14, 2014. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the consolidated financial statements which would substantially duplicate the disclosure contained in the audited financial statements as reported in the 2013 annual report on Form 10-K have been omitted.

Oil and Gas Properties

The Company follows the successful efforts method of accounting for its oil and natural gas properties. Oil and gas properties are periodically assessed to determine whether they have been impaired. Any impairment in value of unproved properties is charged to exploration expense. The costs of unproved properties, which are determined to be productive, are transferred to prove oil and gas properties and amortized on an equivalent unit-of-production basis. Exploratory expenses, including geological and geophysical expenses and delay rentals for unevaluated oil and gas properties, are charged to expense as incurred. Exploratory drilling costs are initially capitalized as unproved property but charged to expense if and when the well is determined not to have found proved oil and gas reserves. In accordance with ASC No. 935, exploratory drilling costs are evaluated within a one-year period after the completion of drilling. For proved properties, we compare expected undiscounted future cash flows at a producing field level to the unamortized capitalized cost of the asset. If the future undiscounted cash flows, based on our estimate of future natural gas and crude oil prices, operating costs, anticipated production from proved reserves and other relevant date, are lower than the unamortized capitalized cost, the capitalized cost is reduced to fair value. Fair value is calculated by discounting the future cash flows at an appropriate risk-adjusted discount rate.

During the three months ended January 31, 2014, the Company impaired its oil and gas properties by \$2,219,813, which is reflected in the consolidated statement of operations. This impairment was the result of the additional costs incurred in the AP Clark Field related to the three wells on which the drilling was commenced in November 2013.

Subsequently, during the three months ended April 30, 2014, the Company recorded income of \$1,760,392 in connection with the transfer of some of the Company's interest in three wells to PIE Holdings, LP on which drilling commenced in November 2013. This income is included in the income statement as an operating expense.

Going Concern

As shown in the accompanying consolidated financial statements, the Company has incurred an accumulated deficit of \$31,163,719 through July 31, 2014. In addition, at July 31, 2014, the

Company had a working capital deficit of \$3,620,277, a stockholders' deficit of \$5,585,789 and cash and cash equivalents of \$719,586.

The current rate of cash usage raises substantial doubt about the Company's ability to continue as a going concern, absent the raising of additional capital, restructuring or extending the terms on its current debt and/or additional significant revenue from new oil production. The Company's financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event that the Company cannot continue in existence.

Asset Retirement Obligation**9 Months Ended
Jul. 31, 2014****Notes to Financial
Statements****Note 2. Asset Retirement
Obligation**

The following table summarizes the change in the asset retirement obligation ("ARO") for the periods ended July 31, 2014:

Beginning balance at November 1, 2013	\$ 649,233
Liabilities settled	--
Liabilities incurred through acquisition of assets	--
Liabilities settled through sale of assets	(616,800)
Accretion expense	15,648
Ending balance at July 31, 2014	<u>\$ 48,081</u>

The ARO reflects the estimated present value of the amount of dismantlement, removal, site reclamation and similar activities associated with the Company's oil and gas properties. Inherent in the fair value calculation of the ARO are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal, regulatory, environmental and political environments. To the extent future revisions to these assumptions impact the fair value of the existing ARO liability, a corresponding adjustment is made to the oil and gas property balance.

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

Jul. 31, 2014 Oct. 31, 2013

Consolidated Balance Sheets Parenthetical

<u>Accumulated Depletion</u>	\$ 7,368,699	\$ 6,309,607
<u>Notes Payable, net of discount</u>		1,329,581
<u>Convertible debenture net of discount</u>	\$ 1,337,497	
<u>Preferred stock, par value</u>	\$ 0.01	\$ 0.01
<u>Preferred stock, authorized shares</u>	10,000,000	10,000,000
<u>Series A Preferred stock, par value</u>	\$ 0.001	\$ 0.001
<u>Series A Preferred stock, authorized shares</u>	310,000	310,000
<u>Series A Preferred stock, issued shares</u>	0	0
<u>Series A Preferred stock, outstanding shares</u>	0	0
<u>Series B Preferred stock, par value</u>	0.001	0.001
<u>Series B Preferred stock, authorized shares</u>	2,217,281	2,217,281
<u>Series B Preferred stock, issued shares</u>	500,000	500,000
<u>Series B Preferred stock, outstanding shares</u>	500,000	500,000
<u>Common stock par value</u>	\$ 0.001	\$ 0.001
<u>Common stock shares authorized</u>	100,000,000	100,000,000
<u>Common stock shares issued</u>	17,725,610	17,719,360
<u>Common stock shares outstanding</u>	17,725,610	17,719,360

**The Company and Summary
of Significant Accounting
Policies (Details Narrative)
(USD \$)**

Jul. 31, 2014 Oct. 31, 2013

Company And Summary Of Significant Accounting Policies Details Narrative

<u>Accumulated deficit</u>	\$ 31,163,719	\$ 28,707,810
<u>Working capital deficit</u>	3,620,277	
<u>Stockholders' deficit</u>	5,585,789	4,963,899
<u>Cash and cash equivalents</u>	\$ 719,586	\$ 1,335,237

Document and Entity Information**9 Months Ended****Jul. 31, 2014****Sep. 12, 2014****Document And Entity Information**Entity Registrant Name BLACKSANDS PETROLEUM, INC.Entity Central Index Key 0001308137Document Type 10-QDocument Period End Date Jul. 31, 2014Amendment Flag falseCurrent Fiscal Year End Date --10-31Is Entity a Well-known Seasoned Issuer? NoIs Entity a Voluntary Filer? NoIs Entity's Reporting Status Current? YesEntity Filer Category Smaller Reporting CompanyEntity Common Stock, Shares Outstanding 18,756,199Document Fiscal Period Focus Q3Document Fiscal Year Focus 2014

**Asset Retirement Obligation
(Details) (USD \$)** **9 Months Ended
Jul. 31, 2014**

Asset Retirement Obligation Details

<u>Beginning balance</u>	\$ 649,233
<u>Liabilities settled</u>	
<u>Liabilities incurred through acquisition of assets</u>	
<u>Liabilities transferred through sale of assets</u>	(616,800)
<u>Accretion expense</u>	15,648
<u>Ending balance</u>	\$ 48,081

Consolidated Statements of Operations (Unaudited) (USD \$)	3 Months Ended		9 Months Ended	
	Jul. 31, 2014	Jul. 31, 2013	Jul. 31, 2014	Jul. 31, 2013
<u>Revenue:</u>				
<u>Oil and gas revenue</u>	\$ 465,791	\$ 467,879	\$ 1,062,491	\$ 1,303,045
<u>Expenses:</u>				
<u>Selling, general and administrative</u>	244,723	336,255	960,706	1,107,685
<u>Depreciation and depletion</u>	69,924	138,211	366,501	375,257
<u>Accretion expense</u>	1,707	8,525	15,648	31,287
<u>Lease operating expenses</u>	129,902	152,460	430,473	507,585
<u>Gain on sale of interest in CabezaCreek Field</u>			(645,323)	
<u>Gain on transfer of interest to PIE Holdings</u>			(1,760,390)	
<u>Oil and gas exploration costs</u>		220,000		220,000
<u>Impairment of oil and gas property interest</u>			2,219,813	
<u>Total expenses</u>	446,256	855,451	1,587,428	2,241,814
<u>Gain (loss) from operations</u>	19,535	(387,572)	(524,937)	(938,769)
<u>Other income and (expense):</u>				
<u>Interest expense</u>	(769,317)	(360,411)	(1,941,519)	(955,918)
<u>Other income</u>	10,547		10,547	27,763
<u>Total other income (expense)</u>	(758,770)	(360,411)	(1,930,972)	(928,155)
<u>(Loss) income before provision for income taxes</u>	(739,235)	(747,983)	(2,455,909)	(1,866,924)
<u>Provision for income taxes</u>				
<u>Net loss</u>	(739,235)	(747,983)	(2,455,909)	(1,866,924)
<u>Preferred stock Dividends</u>	2,500	50,000	2,500	150,000
<u>Deemed dividend</u>	450,000		450,000	
<u>Net (loss) income attributable to common shareholders</u>	\$ (1,191,735)	\$ (797,983)	\$ (2,908,409)	\$ (2,016,924)
<u>Loss per share attributable to common shareholders</u>				
<u>Basic</u>	\$ (0.07)	\$ (0.04)	\$ (0.16)	\$ (0.12)
<u>Diluted</u>	\$ (0.07)	\$ (0.04)	\$ (0.16)	\$ (0.12)
<u>Weighted Average Shares Outstanding</u>				
<u>Basic</u>	17,722,655	16,389,738	17,721,546	16,388,648
<u>Diluted</u>	17,722,655	16,389,738	17,721,546	16,388,648

Subsequent Events

**9 Months Ended
Jul. 31, 2014**

Notes to Financial Statements

Note 7. Subsequent Events

Amendment to Silver Bullet Notes Payable

In August 2014, the Company and Silver Bullet Property Holdings SDN BHD (“Silver Bullet”) entered into an Amendment and Exchange Agreement (the “August 2014 Amendment”). Pursuant to the August 2014 Amendment, all accrued and unpaid interest through June 30, 2014 on the outstanding notes issued to Silver Bullet, totaling \$1,052,407, was exchanged for 1,052,407 shares of the Company’s common stock. In addition, interest accrued on the notes is to be paid quarterly in arrears in shares of the Company’s common stock based upon the average common stock price for the last five trading days of the quarter. The due dates on each of the notes payable to Silver Bullet were extended to December 31, 2015.

Development Agreement with Adwar Drilling Fund III

In August 2014, ApClark, LLC, a wholly-owned subsidiary of the Company, entered into a Participation and Development Agreement with Adwar Drilling Fund III, LP. (“Adwar III”). Pursuant to the agreement, Adwar III has the right to invest up to \$7.5 million in contributions to acquire working interests of up to 50% in certain future development wells.

Subscription Agreement

**9 Months Ended
Jul. 31, 2014**

Notes to Financial Statements

Note 6. Subscription Agreement

On June 6, 2014, the Company entered into a subscription agreement with Pacific LNG Operations Ltd., a company incorporated in the British Virgin Islands (“Pacific LNG”), whereby the Company issued to Pacific LNG, in exchange for \$2,000,000, a (i) \$1,500,000 principal face amount 5% Convertible Debenture (“Debenture”) convertible into shares of Series B Preferred (Note 5) at a conversion price of \$1.00 per share, and (ii) \$500,000 in exchange for 500,000 shares of Series B Preferred.

The Debenture accrues interest at the rate of 5% per annum, payable semi-annually in arrears, and matures on June 6, 2017. Pacific LNG has the right, at any time prior to June 6, 2015, to convert the outstanding principal and interest, if any, of the Debenture into shares of Series B Preferred at a price of \$1.00 per share of Series B Preferred.

Each share of Series B Preferred has a stated value of \$1.00 (“Stated Value”) and accrues a dividend of 3% of the Stated Value per annum, which is payable in additional shares of Series B Preferred annually on December 31 in arrears. Each share of Series B Preferred may be converted at any time on or prior to May 30, 2017 into such number of shares of the Company’s common stock equal to the Stated Value divided by \$1.00 per share. The Company has the right, at any time after May 30, 2017, to redeem the Series B Preferred at a price of \$1.00 per share. Management has evaluated the Series B Preferred and its related terms and determined there are no embedded derivatives.

In connection with the issuance of the Debenture, the Company has reported a beneficial conversion feature for the difference between the conversion price pursuant to the Debenture and the quoted price of the Company’s common stock on the date of the agreement. On the date of the agreement, a discount totaling \$1,350,000 was recorded. The unamortized discount which at July 31, 2014 was \$1,337,497, will be amortized over the remaining term of the Debenture using the effective interest method. In addition, a deemed dividend totaling \$450,000 was recorded in connection with the beneficial conversion feature associated with the conversion features in the Series B Preferred.

Stockholders' Equity (Details) (USD \$)	9 Months Ended Jul. 31, 2014
Stock Option [Member]	
Number of Shares	
<u>Beginning Balance</u>	1,046,333
<u>Granted</u>	
<u>Exercised</u>	
<u>Cancelled/Expired</u>	27,500
<u>Ending Balance</u>	1,018,833
<u>Exercisable at July 31, 2014</u>	1,018,833
Weighted Average Exercise Price	
<u>Beginning Balance</u>	\$ 3.13
<u>Granted</u>	
<u>Exercised</u>	
<u>Cancelled/Expired</u>	\$ 4.50
<u>Ending Balance</u>	\$ 3.09
<u>Exercisable at July 31, 2014</u>	\$ 3.09
Warrant [Member]	
Number of Shares	
<u>Beginning Balance</u>	2,057,268
<u>Granted</u>	
<u>Exercised</u>	
<u>Cancelled/Expired</u>	2,057,268
<u>Ending Balance</u>	
<u>Exercisable at July 31, 2014</u>	
Weighted Average Exercise Price	
<u>Beginning Balance</u>	\$ 4.50
<u>Granted</u>	
<u>Exercised</u>	
<u>Cancelled/Expired</u>	\$ 4.50
<u>Ending Balance</u>	
<u>Exercisable at July 31, 2014</u>	

Stockholders Equity (Tables)

**9 Months Ended
Jul. 31, 2014**

Stock Options Activity

A summary of the Company' s stock option activity and related information is as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at November 1, 2013	1,046,333	\$ 3.13
Granted	-	-
Exercised	-	-
Cancelled	27,500	\$ 4.50
Outstanding at July 31, 2014	1,018,833	\$ 3.09
Exercisable at July 31, 2014	1,018,833	\$ 3.09

Warrant [Member]

Stock Options Activity

A summary of the Company' s warrant activity and related information is as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at November 1, 2013	2,057,268	\$ 4.50
Granted	-	-
Exercised	-	-
Expired	2,057,268	\$ 4.50
Outstanding at July 31, 2014	-	-
Exercisable at July 31, 2014	-	-

**The Company and Summary
of Significant Accounting
Policies (Policies)**

**Company And Summary Of
Significant Accounting
Policies Policies**

Oil and Gas Properties

9 Months Ended

Jul. 31, 2014

The Company follows the successful efforts method of accounting for its oil and natural gas properties. Oil and gas properties are periodically assessed to determine whether they have been impaired. Any impairment in value of unproved properties is charged to exploration expense. The costs of unproved properties, which are determined to be productive, are transferred to prove oil and gas properties and amortized on an equivalent unit-of-production basis. Exploratory expenses, including geological and geophysical expenses and delay rentals for unevaluated oil and gas properties, are charged to expense as incurred. Exploratory drilling costs are initially capitalized as unproved property but charged to expense if and when the well is determined not to have found proved oil and gas reserves. In accordance with ASC No. 935, exploratory drilling costs are evaluated within a one-year period after the completion of drilling. For proved properties, we compare expected undiscounted future cash flows at a producing field level to the unamortized capitalized cost of the asset. If the future undiscounted cash flows, based on our estimate of future natural gas and crude oil prices, operating costs, anticipated production from proved reserves and other relevant date, are lower than the unamortized capitalized cost, the capitalized cost is reduced to fair value. Fair value is calculated by discounting the future cash flows at an appropriate risk-adjusted discount rate.

During the three months ended January 31, 2014, the Company impaired its oil and gas properties by \$2,219,813, which is reflected in the consolidated statement of operations. This impairment was the result of the additional costs incurred in the AP Clark Field related to the three wells on which the drilling was commenced in November 2013.

Subsequently, during the three months ended April 30, 2014, the Company recorded income of \$1,760,392 in connection with the transfer of some of the Company's interest in three wells to PIE Holdings, LP on which drilling commenced in November 2013. This income is included in the income statement as an operating expense.

As shown in the accompanying consolidated financial statements, the Company has incurred an accumulated deficit of \$31,163,719 through July 31, 2014. In addition, at July 31, 2014, the Company had a working capital deficit of \$3,620,277, a stockholders' deficit of \$5,585,789 and cash and cash equivalents of \$719,586.

The current rate of cash usage raises substantial doubt about the Company's ability to continue as a going concern, absent the raising of additional capital, restructuring or extending the terms on its current debt and/or additional significant revenue from new oil production. The Company's financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event that the Company cannot continue in existence.

Asset Retirement Obligation (Tables)

9 Months Ended
Jul. 31, 2014

Asset Retirement Obligation Tables

Change in the asset retirement
obligation The following table summarizes the change in the asset retirement obligation ("ARO") for the periods ended July 31, 2014:

Beginning balance at November 1, 2013	\$ 649,233
Liabilities settled	--
Liabilities incurred through acquisition of assets	--
Liabilities settled through sale of assets	(616,800)
Accretion expense	15,648
Ending balance at July 31, 2014	<u>\$ 48,081</u>

**Sale of Cabeza Creek Field
(Tables)**

**9 Months Ended
Jul. 31, 2014**

Notes to Financial Statements

Sale of Cabeza Creek Field

	<u>2014</u>	<u>2013</u>
Oil and gas revenue	\$ 1,062,491	\$ 1,149,001
Expenses		
Selling, general and administrative	1,018,271	1,107,685
Depreciation and depletion	366,501	301,620
Accretion	15,648	1,143
Lease operating expense	430,473	447,579
Impairment of oil and gas property interest	2,219,813	-
Oil and gas exploration costs	-	220,000
Total expenses	4,050,706	2,078,027
Loss from operations	(2,988,215)	(929,026)
Other income (expense)	(230,952)	(928,155)
Net loss	\$(3,219,167)	\$(1,857,181)

Sale of Cabeza Creek Field (Details) (USD \$)	3 Months Ended		9 Months Ended	
	Jul. 31, 2014	Jul. 31, 2013	Jul. 31, 2014	Jul. 31, 2013
<u>Oil and gas revenue</u>	\$ 465,791	\$ 467,879	\$ 1,062,491	\$ 1,303,045
Expenses:				
<u>Selling, general and administrative</u>	244,723	336,255	960,706	1,107,685
<u>Depreciation and depletion</u>	69,924	138,211	366,501	375,257
<u>Accretion</u>	1,707	8,525	15,648	31,287
<u>Lease operating expenses</u>	129,902	152,460	430,473	507,585
<u>Impairment of oil and gas property interest</u>			2,219,813	
<u>Oil and gas exploration costs</u>		220,000		220,000
<u>Total expenses</u>	446,256	855,451	1,587,428	2,241,814
<u>Loss from operations</u>	19,535	(387,572)	(524,937)	(938,769)
<u>Other income (expense)</u>	(758,770)	(360,411)	(1,930,972)	(928,155)
<u>Net loss</u>	(739,235)	(747,983)	(2,455,909)	(1,866,924)
Cabeza Creek Field [Member]				
<u>Oil and gas revenue</u>			1,062,491	1,149,001
Expenses:				
<u>Selling, general and administrative</u>		1,018,271		1,107,685
<u>Depreciation and depletion</u>		366,501		301,620
<u>Accretion</u>		15,648		1,143
<u>Lease operating expenses</u>		430,473		447,579
<u>Impairment of oil and gas property interest</u>			2,219,813	
<u>Oil and gas exploration costs</u>			220,000	
<u>Total expenses</u>		4,050,706		2,078,027
<u>Loss from operations</u>		(2,988,215)		(929,026)
<u>Other income (expense)</u>		(230,952)		(928,155)
<u>Net loss</u>		\$ (3,219,167)		\$ (1,857,181)

**Consolidated Statements of
Cash Flows (Unaudited)
(USD \$)**

9 Months Ended

Jul. 31, 2014 Jul. 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:

<u>Net loss</u>	\$ (2,455,909)	\$ (1,866,924)
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Adjustments to reconcile net loss to net cash provided by operating activities:

<u>Impairment of oil and gas property costs</u>	2,219,813	
<u>Equity compensation expense</u>	(15,980)	236,526
<u>Amortization of debt discount</u>	1,342,084	433,032
<u>Gain on transfer of interest to PIE Holdings</u>	(1,760,392)	
<u>Depreciation, depletion and accretion</u>	382,148	406,544
<u>Gain on sale of oil and gas properties</u>	(645,323)	

Changes in operating assets and liabilities:

<u>Accounts receivable</u>	219,987	161,185
<u>Prepaid expense and other current assets</u>	(12,660)	169,611
<u>Accounts payable</u>	(12,753)	315,562
<u>Net cash flows from operating activities</u>	(738,985)	(144,464)

CASH FLOWS FROM INVESTING ACTIVITIES

<u>Oil and gas property costs</u>	(1,926,666)	(390,401)
<u>Proceeds from the sale of Cabeza Creek</u>	50,000	
<u>Net cash flows from investing activities</u>	(1,876,666)	(390,401)

CASH FLOWS FROM FINANCING ACTIVITIES:

<u>Borrowings on debt</u>	1,500,000	
<u>Proceeds from preferred stock subscription</u>	500,000	
<u>Net cash flows from financing activities</u>	2,000,000	
<u>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	(615,651)	(534,865)
<u>CASH AND CASH EQUIVALENTS - Beginning of period</u>	1,335,237	1,160,320
<u>CASH AND CASH EQUIVALENTS - End of period</u>	719,586	625,455
<u>Cash paid for interest</u>	252,252	167,240
<u>Cash paid for income taxes</u>		

Supplemental non-cash activities:

<u>Oil and gas costs in accounts payable</u>	858,009	
<u>Discount on debt</u>	\$ 1,350,000	

Sale Of Cabeza Creek Field**9 Months Ended
Jul. 31, 2014****Notes to Financial
Statements****Note 5. Sale of Cabeza Creek
Field**

In January 2014, the Company sold its interest in all of the wells in the Cabeza Creek Field for all depths from the surface to 8,500 feet below the surface in exchange for \$50,000 and the assumption of all future liabilities associated with the plugging and abandoning of all wells in the Cabeza Creek Field (\$616,800).

The following is a summary of the pro forma information for the nine months ended July 31, 2014 and 2013 assuming the sale of the Cabeza Creek field had occurred as of the beginning of each fiscal year presented:

	2014	2013
Oil and gas revenue	\$ 1,062,491	\$ 1,149,001
Expenses		
Selling, general and administrative	1,018,271	1,107,685
Depreciation and depletion	366,501	301,620
Accretion	15,648	1,143
Lease operating expense	430,473	447,579
Impairment of oil and gas property interest	2,219,813	-
Oil and gas exploration costs	-	220,000
Total expenses	4,050,706	2,078,027
Loss from operations	(2,988,215)	(929,026)
Other income (expense)	(230,952)	(928,155)
Net loss	\$(3,219,167)	\$(1,857,181)

Stockholders' Equity (Details Narrative) (USD \$)	9 Months Ended Jul. 31, 2014	Jul. 31, 2013
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Stockholders Equity Details Narrative

Stock-based compensation expenses \$ (15,980) \$ 236,526

Weighted average remaining life of the stock options 6 years 7 days