

ISHARES GOLD TRUST
Form 10-Q
November 08, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2012

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission file number: 001-32418

iShares[®] Gold Trust

(Exact name of registrant as specified in its charter)

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New York
(State or other jurisdiction of
incorporation or organization)

81-6124036
(I.R.S. Employer
Identification No.)

c/o BlackRock Asset Management International Inc.

400 Howard Street

San Francisco, California 94105

Attn: Product Management Team

iShares® Product Research & Development

(Address of principal executive offices)

(415) 670-2000

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****iShares® Gold Trust****Balance Sheets**

At September 30, 2012 (Unaudited) and December 31, 2011

(Dollar amounts in \$000 s)	September 30, 2012	December 31, 2011
ASSETS		
Current assets		
Gold bullion inventory (fair value of \$11,480,802 and \$8,418,739, respectively)	\$ 8,298,576	\$ 6,629,203
Payable for capital Shares redeemed		(57,101)
Receivable for capital Shares sold	70,867	
TOTAL ASSETS	\$ 8,369,443	\$ 6,572,102
LIABILITIES, REDEEMABLE CAPITAL SHARES AND SHAREHOLDERS EQUITY (DEFICIT)		
Current liabilities		
Sponsor s fees payable	\$ 2,229	\$ 1,938
Total liabilities	2,229	1,938
Commitments and contingent liabilities (Note 5)		
Redeemable capital Shares, no par value, unlimited amount authorized (at redemption value) 664,100,000 issued and outstanding at September 30, 2012 and 563,850,000 issued and outstanding at December 31, 2011	11,478,573	8,416,801
Shareholders equity (deficit)	(3,111,359)	(1,846,637)
TOTAL LIABILITIES, REDEEMABLE CAPITAL SHARES AND SHAREHOLDERS EQUITY (DEFICIT)	\$ 8,369,443	\$ 6,572,102

See notes to financial statements.

Table of Contents**iShares® Gold Trust****Income Statements (Unaudited)**

For the three and nine months ended September 30, 2012 and 2011

(Dollar amounts in \$000 s, except for per Share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue				
Proceeds from sales of gold to pay expenses	\$ 5,909	\$ 4,991	\$ 17,733	\$ 11,981
Cost of gold sold to pay expenses	(4,547)	(3,372)	(13,209)	(8,197)
Gain on sales of gold to pay expenses	1,362	1,619	4,524	3,784
Gain on gold distributed for the redemption of Shares	43,854	120,642	141,068	250,316
Total gain on sales and distributions of gold	45,216	122,261	145,592	254,100
Expenses				
Sponsor s fees	(6,251)	(5,539)	(18,024)	(12,888)
Total expenses	(6,251)	(5,539)	(18,024)	(12,888)
NET INCOME	\$ 38,965	\$ 116,722	\$ 127,568	\$ 241,212
Net income per Share	\$ 0.06	\$ 0.22	\$ 0.21	\$ 0.53
Weighted-average Shares outstanding	619,476,630	529,401,087	599,737,774	456,297,619
<i>See notes to financial statements.</i>				

Table of Contents**iShares® Gold Trust****Statements of Changes in Shareholders' Equity (Deficit)**

For the nine months ended September 30, 2012 (Unaudited)

and the year ended December 31, 2011

(Dollar amounts in \$000 s)	Nine Months Ended September 30, 2012	Year Ended December 31, 2011
Shareholders' equity (deficit) beginning of period	\$ (1,846,637)	\$ (1,748,981)
Net income	127,568	258,847
Adjustment of redeemable capital Shares to redemption value	(1,392,290)	(356,503)
Shareholders' equity (deficit) end of period	\$ (3,111,359)	\$ (1,846,637)

See notes to financial statements.

Table of Contents**iShares® Gold Trust****Statements of Cash Flows (Unaudited)**

For the nine months ended September 30, 2012 and 2011

	Nine Months Ended September 30,	
	2012	2011
(Dollar amounts in \$000 s)		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Proceeds from sales of gold	\$ 17,733	\$ 11,981
Expenses Sponsor s fees paid	(17,733)	(11,981)
Net cash provided by operating activities		
Increase (decrease) in cash		
Cash, beginning of period		
Cash, end of period	\$	\$
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income	\$ 127,568	\$ 241,212
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on gold distributed for the redemption of Shares	(141,068)	(250,316)
Cost of gold sold to pay expenses	13,209	8,197
Increase in Sponsor s fees payable	291	907
Net cash provided by operating activities	\$	\$
Supplemental disclosure of non-cash information:		
Carrying value of gold received for creation of Shares	\$ 2,302,662	\$ 3,139,985
Carrying value of gold distributed for redemption of Shares, at average cost	\$ (492,112)	\$ (569,456)
<i>See notes to financial statements.</i>		

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iShares® Gold Trust

Notes to Financial Statements (Unaudited)

September 30, 2012

1 - Organization

The iShares® Gold Trust (the Trust) was organized on January 21, 2005 as a New York trust. Prior to September 2, 2010, the Trust was known as iShares® COMEX® Gold Trust. The trustee is The Bank of New York Mellon (the Trustee), which is responsible for the day to day administration of the Trust. As of the date of this filing, the Trust's sponsor is BlackRock Asset Management International Inc. (the Sponsor), a Delaware corporation; however, on September 14, 2012, the Trust announced that, subject to certain conditions, it expects iShares Delaware Trust Sponsor LLC, a Delaware limited liability company, to become sponsor of the Trust. The Trust is governed by the Second Amended and Restated Depositary Trust Agreement dated as of September 2, 2010 (as amended, the Trust Agreement). The Trust issues units of beneficial interest (or Shares) representing fractional undivided beneficial interests in its net assets.

The objective of the Trust is for the value of its Shares to reflect, at any given time, the price of gold owned by the Trust at that time, less the Trust's expenses and liabilities. The Trust is designed to provide a vehicle for investors to own interests in gold bullion.

The accompanying unaudited financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with the instructions for Form 10-Q and the rules and regulations of the U.S. Securities and Exchange Commission (the SEC). In the opinion of management, all material adjustments, consisting only of normal recurring adjustments, considered necessary for a fair statement of the interim period financial statements have been made. Interim period results are not necessarily indicative of results for a full-year period. These financial statements and the notes thereto should be read in conjunction with the Trust's financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2011 as filed with the SEC on February 29, 2012.

The Trust is not an investment company registered under the Investment Company Act of 1940, as amended.

2 - Summary of Significant Accounting Policies

A. Basis of Accounting

The following is a summary of significant accounting policies consistently followed by the Trust in the preparation of its financial statements in conformity with U.S. GAAP. The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and these differences could be material.

B. Gold Bullion

JPMorgan Chase Bank N.A., London branch (the Custodian), is responsible for the safekeeping of gold bullion owned by the Trust.

For financial statement purposes, the gold bullion held by the Trust is valued at the lower of cost or market, using the average cost method. Should the market value of the gold bullion held be lower than its average cost during the interim periods, an adjustment (market value reserve) to cost may be recorded by the Trust to reflect market value. At the end of the Trust's fiscal year, management will make a determination on whether the reserve is recovered or whether the cost basis of gold should be written down. Gain or loss on sales of gold bullion is calculated on a trade date basis. Fair value of the gold bullion is based on the price of gold fixed in the afternoon of each working day (London time) by the London Gold Market Fixing Ltd. (London PM Fix). If there is no announced London PM Fix on a business day, the Trustee is authorized to use the most recently announced price fixed by the London Gold Market Fixing Ltd. in the morning (London time) of the day the valuation takes place (such price, the London AM Fix).

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The following table summarizes activity in gold bullion for the three months ended September 30, 2012 (all balances in 000 s):

	Ounces	Average Cost	Fair Value	Realized Gain (Loss)
Beginning balance	5,819.2	\$ 7,228,945	\$ 9,302,094	\$
Gold contributed	775.9	1,303,832	1,303,832	
Gold distributed	(127.1)	(158,787)	(202,641)	43,854
Gold sold	(3.6)	(4,547)	(5,909)	1,362
Adjustment for realized gain			45,216	
Adjustment for unrealized gain on gold bullion			1,038,210	
Ending balance	6,464.4	\$ 8,369,443	\$ 11,480,802	\$ 45,216

The following table summarizes activity in gold bullion for the nine months ended September 30, 2012 (all balances in 000 s):

	Ounces	Average Cost	Fair Value	Realized Gain (Loss)
Beginning balance	5,498.8	\$ 6,572,102	\$ 8,418,739	\$
Gold contributed	1,374.2	2,302,662	2,302,662	
Gold distributed	(397.9)	(492,112)	(633,180)	141,068
Gold sold	(10.7)	(13,209)	(17,733)	4,524
Adjustment for realized gain			145,592	
Adjustment for unrealized gain on gold bullion			1,264,722	

Cost of sales - services	1,378	21,763	6,880	49,888
Lease operating costs	65,199	-	135,573	-
Selling, general and administrative expense	270,060	127,713	695,259	333,738
Depreciation - services	15,332	35,868	30,842	71,736
Depletion and amortization – oil and gas	20,735	-	39,646	-
Accretion expense	520	-	1,015	-
(Gain) Loss on disposal of equipment	-	-	1,315	-
Total operating expenses	373,224	185,344	910,530	455,362
Operating Loss	(236,681)	(185,344)	(667,460)	(455,362)
Other income (expense):				
Other income	-	2,073	-	2,073
Interest income	-	-	-	17
Interest expense	(254,300)	(23,332)	(368,075)	(46,557)
Total other income (expense)	(254,300)	(21,259)	(368,075)	(44,467)
Loss from continuing operations	(490,981)	(206,603)	(1,035,535)	(499,829)
Income (Loss) from discontinued operations	-	4,419	(3,686)	9,474
Net Loss	\$(490,981)	\$(202,184)	\$(1,039,221)	\$(490,355)

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Preferred dividends	59,836	59,178	119,014	119,014
Net loss attributable to common shareholders	\$(550,817)	\$(261,362)	\$(1,158,235)	\$(609,369)
Net income (loss) per common share – Basic:				
Continuing operations	\$(0.01)	\$0.00	\$(0.02)	\$(0.01)
Discontinued operations	-	-	-	-
Net income (loss)	\$(0.01)	\$0.00	\$(0.02)	\$(0.01)
Net income (loss) per common share – Diluted:				
Continuing operations	\$(0.01)	\$0.00	\$(0.02)	\$(0.01)
Discontinued operations	-	-	-	-
Net income (loss)	\$(0.01)	\$0.00	\$(0.02)	\$(0.01)
Weighted average common shares outstanding-				
Basic	71,425,905	61,909,238	70,687,599	61,881,105
Diluted	71,425,905	61,909,238	70,687,599	61,881,105

See accompanying notes to unaudited consolidated financial statements.

BLAST ENERGY SERVICES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2011 and 2010
(unaudited)

	2011	2010
Cash Flows From Operating Activities:		
Net loss	\$(1,039,220)	\$(490,355)
(Income) loss from discontinued operations	3,686	(9,474)
Loss from continuing operations	\$(1,035,535)	\$(499,829)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	30,842	71,736
Depletion and impairment – oil and gas	39,646	-
Accretion of asset retirement obligation	1,015	-
Amortization of debt discount	146,184	-
Amortization of deferred financing costs	89,530	-
Option and warrant expense	216,675	5,516
(Gain)/Loss on disposition of equipment	1,315	-
Changes in:		
Accounts receivable	58,160	(3,140)
Prepaid expenses and other current assets	48,912	22,809
Accounts payable	36,858	49,996
Accrued expenses	167,986	76,042
Accrued expenses – related party	47,745	45,024
Deferred revenue	-	4,124
Net Cash Used In Continuing Operating Activities	(150,666)	(227,722)
Net Cash Provided By (Used In) Discontinued Operating Activities -	(3,686)	9,474
Net Cash Used In Operating Activities	(154,352)	(218,248)
Cash Flows From Investing Activities:		
Proceeds from sale of fixed assets	11,200	-
Cash paid for oil and gas properties	(1,890,489)	-
Net Cash Used In Investing Activities	(1,879,289)	-
Cash Flows From Financing Activities:		
Payments on short term debt	(305,423)	(20,278)
Borrowings on short-term debt	2,253,009	-
Cash paid for deferred financing costs	(135,548)	-
Restricted cash	(100,000)	-
Proceeds from exercise of warrants	7,500	-
Net Cash Provided By (Used In) Financing Activities	1,719,538	(20,278)
Net change in cash	(314,103)	(238,526)
Cash at beginning of period	373,470	261,164
Cash at end of period	\$59,367	\$22,638
Cash paid for:		
Interest	\$63,599	\$1,533

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Income taxes	-	-
Non-Cash Transactions:		
Prepaid insurance financed with note payable	65,373	69,735
Common stock issued for accrued liabilities	249,000	14,800

See accompanying notes to unaudited consolidated financial statements.

BLAST ENERGY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited interim financial statements of Blast Energy Services, Inc. (“Blast” or the “Company”), have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and the rules of the Securities and Exchange Commission (“SEC”) and should be read in conjunction with the audited financial statements and notes thereto contained in Blast’s latest Annual Report filed with the SEC on Form 10-K. 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 financial statements that would substantially duplicate disclosures contained in the audited financial statements for the most recent fiscal year, as reported in the Form 10-K, have been omitted.

Blast’s consolidated financial statements include the accounts of Blast and its wholly-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

NOTE 2 – DESCRIPTION OF BUSINESS

Blast Energy Services, Inc. (“Blast” or the “Company”) is seeking to become an independent oil and gas producer with additional revenue potential from its applied fluid jetting (“AFJ”) technology. Blast plans to grow operations, initially through the acquisition of oil producing properties, and then eventually through the acquisition of oil and gas properties where its applied fluid jetting process could be used to increase field production volumes and, therefore, the value of the properties in which it owns an interest.

During 2010, Blast’s management chose to change the direction of the Company away from solely trying to commercialize the AFJ process, to also attempting to generate operating capital from investing in oil producing properties. Moving forward, Blast hopes to acquire properties where the AFJ Process can be applied on wells in which Blast owns an interest. As a part of this shift in strategy, in September 2010, with an effective date of October 1, 2010, Blast closed on the acquisition of oil and gas interests in the North Sugar Valley Field located in Matagorda County, Texas. In February 2011, Blast entered into a farmout agreement with Solimar Energy LLC, to participate in a drilling program in Fresno County, California. Both investments are further described below. Blast also determined that the Satellite Services business was no longer a crucial part of Blast’s future business plan and this business unit was sold in December 2010.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reclassifications. Certain amounts in the consolidated financial statements of prior periods have been reclassified to conform to the current presentation for comparative purposes.

Use of Estimates in Financial Statement Preparation. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as certain financial statement disclosures. While management believes that the estimates and assumptions used in the preparation of the financial statements are appropriate, actual results could differ from these estimates. Significant estimates include those with respect to the amount of recoverable oil and gas reserves, the fair value of financial instruments, oil and gas depletion, asset retirement obligations and stock based compensation.

Fair Value of Financial Instruments. The carrying amount of Blast's cash, accounts receivables, accounts payables, and accrued expenses approximates their estimated fair values due to the short-term maturities of those financial instruments. Management believes the fair value of the promissory notes entered into connection with the funding arrangement for the Gujarral Hills Exploitation Project approximates the fair value due to the short-term nature of the instruments.

Cash Equivalents. Blast considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Revenue Recognition. All revenue is recognized when persuasive evidence of an arrangement exists, the service or sale is complete, the price is fixed or determinable and collectability is reasonably assured. Revenue is derived from the sale of crude oil and down hole services. Revenue from crude oil sales is recognized when the crude oil is delivered to the purchaser and collectability is reasonably assured. Revenue from services is recognized when the service is delivered or completed and collection is reasonable assured. If collection is uncertain, revenue is recognized when cash is collected. We recognize reimbursements received from third parties for out-of-pocket expenses incurred as service revenues and account for out-of-pocket expenses as direct costs of services.

Oil and Gas Properties, Full Cost Method. Blast uses the full cost method of accounting for oil and gas producing activities. Costs to acquire mineral interests in oil and gas properties, to drill and equip exploratory wells used to find proved reserves, and to drill and equip development wells, including directly related overhead costs, and related asset retirement costs are capitalized.

Under this method, all costs, including internal costs directly related to acquisition, exploration and development activities, if any, are capitalized as oil and gas property costs on a field by field basis. Sales of oil and gas properties or interests therein are credited against capitalized costs in the full cost pool. Properties not subject to amortization consist of exploration and development costs which are evaluated on a property-by-property basis. Amortization of these unproved property costs begins when the properties become proved or their values become impaired. Blast will assess the probability of realization of unproved properties, if any, on at least an annual basis or when there has been an indication that impairment in value may have occurred. Impairment of unproved properties is assessed based on management's intention with regard to future exploration and development of individually significant properties and the ability of Blast to obtain funds to finance such exploration and development. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized. Costs of oil and gas properties will be amortized using the units of production method.

Ceiling Test. In applying the full cost method, Blast performs an impairment test (ceiling test) at each reporting date, whereby the carrying value of oil and gas property and equipment is compared to the "estimated present value" of its proved reserves, discounted at a 10% interest rate of future net revenues based on current operating conditions at the end of the period and the average, first day of the month price received for oil and gas production over the preceding 12 month period, plus the cost of properties not being amortized, plus the lower of cost or fair market value of unproved properties included in costs being amortized, less the income tax effects related to book and tax basis differences of the properties. As of June 30, 2011, the application of the ceiling test resulted in no charge to impairment expense.

Accounting for Asset Retirement Obligations. If a reasonable estimate of the fair value of an obligation to perform site reclamation, dismantle facilities or plug and abandon wells can be made, Blast will record a liability (an asset retirement obligation or ARO) on its consolidated balance sheet and capitalize the present value of the asset retirement cost in oil and gas properties in the period in which the retirement obligation is incurred. In general, the amount of an ARO and the costs capitalized will be equal to the estimated future cost to satisfy the abandonment obligation assuming the normal operation of the asset, using current prices that are escalated by an assumed inflation factor up to the estimated settlement date, which is then discounted back to the date that the abandonment obligation was incurred using an assumed cost of funds for Blast. After recording these amounts, the ARO will be accreted to its future estimated value using the same assumed cost of funds and the capitalized costs are depreciated on a unit-of-production basis within the related full cost pool. Both the accretion and the depreciation will be included in depreciation, depletion and amortization expense on our consolidated statements of operations.

Allowance for Doubtful Accounts. Blast does not require collateral from its customers with respect to accounts receivable, but performs periodic credit evaluations of such customer's financial condition. Blast determines any required allowance by considering a number of factors including length of time accounts receivable are past due and

Blast's previous loss history. Blast provides reserves for accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. As of June 30, 2011 and December 31, 2010, Blast determined that no allowance for doubtful accounts was required. During the six months ended June 30, 2011, Blast recognized bad debt expense of \$3,686 related to a dated receivable balance from its discontinued satellite business determined to be uncollectible.

Earnings or Loss Per Share. Basic earnings per share equal net earnings or loss divided by weighted average shares outstanding during the period. Diluted earnings per share include the impact on dilution from all contingently issuable shares, including options, warrants and convertible securities. The common stock equivalents from contingent shares are determined by the treasury stock method. Blast incurred a net loss for the six month periods ended June 30, 2011 and 2010 and therefore, basic and diluted earnings per share for those periods are the same as all potential common equivalent shares would be anti-dilutive. At June 30, 2010, all outstanding options, warrants and convertible securities had exercise prices or conversion rates that were in excess of Blast's common share price at the end of the period.

For the three and six months ended June 30, 2011, using the treasury stock method, outstanding warrants with exercise prices below the period end market price of Blast's stock would have increased dilutive shares outstanding by 1,819,319 and 1,801,145 common shares, respectively.

New Accounting Pronouncements. We have adopted recently issued accounting pronouncements and have determined that they have no material effect on our financial position, results of operations, or cash flow. We do not expect any recently issued but not yet adopted accounting pronouncements to have a material effect on our financial position, results of operations or cash flow.

NOTE 4 – GOING CONCERN

Blast had an unrestricted cash balance of approximately \$59,000, current assets of approximately \$1.8 million and stockholders' equity of approximately \$0.9 million as of June 30, 2011. Blast had a loss from continuing operations of approximately \$1 million for the six months ended June 30, 2011 and an accumulated deficit at June 30, 2011 of approximately \$75 million. The consolidated financial statements do not include any adjustments that might be necessary if Blast is unable to continue as a going concern. These conditions create uncertainty as to Blast's ability to continue as a going concern. Management is trying to grow the existing businesses but may need to raise additional capital through sales of common stock or convertible instruments, as well as obtain financing from third parties.

NOTE 5 - EQUIPMENT

Equipment consists of the following:

Description	Life	June 30, 2011	December 31, 2010
Computer equipment	3 years	\$ 14,188	\$ 14,188
Tractor	4 years	15,518	36,975
Service Trailer	5 years	4,784	4,784
AFJ Rig	10 years	1,166,215	1,166,215
Equipment		1,200,705	1,222,162
Less:			
Accumulated depreciation		(319,205)	(297,304)
Impairment		(454,082)	(454,082)
Equipment, net		\$ 427,418	\$ 470,776

NOTE 6 – OIL AND GAS PROPERTIES

North Sugar Valley Field

On September 23, 2010, Blast Energy Services, Inc. (“Blast”) closed on a sales agreement with Sun Resources Texas, Inc., a privately-held company based in Longview, Texas (“Sun”), to acquire Sun’s oil and gas interests in the North Sugar Valley Field located in Matagorda County, Texas (the “Field”). The effective date of the sale was October 1, 2010. Under the terms of the agreement Sun will continue to act as Operator of the properties. Sun has retained a 1% working interest in the wells.

Under the terms of the agreement, Blast paid \$1.2 million in a combination of cash, common stock and the issuance of a promissory note payable for Sun’s approximately 65% working interest (revenue interest of approximately 50%) in three wells in the Field currently producing a total of approximately 43 gross barrels of oil per day from the Gravier Sand formation.

Under the terms of the sales agreement with Sun, Blast (i) made a cash payment of \$600,000; (ii) issued an interest free promissory note for \$300,000 payable at a rate of \$10,000 per month commencing October 31, 2010, with the final balance payable in full on or before October 8, 2011; and (iii) issued to the shareholders of Sun 6,000,000 shares of restricted common stock of Blast with a value of \$300,000 based upon the \$0.05 per share closing market price of Blast's common stock on the day the agreement was signed. The following table summarizes the consideration paid by Blast and the assets acquired at October 1, 2010:

	October 1, 2010
Purchase price	
Cash	\$600,000
Non-interest bearing promissory note (discounted at 8%)	281,098
Common shares issued valued at \$0.05 per share	300,000
Total purchase price	\$1,181,098
Fair value of oil and gas assets acquired	\$1,181,098

Blast allocated 100% of the purchase price to the proved oil and gas properties acquired from Sun based upon the estimated fair value of those properties, which was calculated using estimated future cash flows from the proved reserves (as determined by a third party reservoir engineer and using NYMEX strip prices as of the acquisition date of October 1, 2010), reduced for estimated future operating costs and discounted at Blast's estimated weighted average cost of capital as of the acquisition date of approximately 18%.

Blast funded the initial cash portion of this acquisition from a portion of the \$1.4 million in funds, net of attorney's fees, received from Quicksilver Resources in connection with the Compromise Settlement and Release Agreement entered into with Quicksilver in September 2008 as described in Note 11.

In February 2011, the promissory note was paid in full from proceeds of a lending arrangement described in Note 7 below. For the six months ended June 30, 2011, Blast recognized the balance of the unamortized discount of \$14,028 as interest expense.

Unaudited Pro forma Information

The following (unaudited) pro forma consolidated results of operations have been prepared as if the acquisition of the Sugar Valley oil and gas assets had occurred on January 1, 2010:

	2010	
	Three months ended June 30	Six months ended June 30
Revenues	\$111,826	\$229,243
Net Loss	\$(150,081)	\$(376,714)
Net loss per share – basic and diluted	\$(0.00)	\$(0.01)

Weighted average shares 61,909,23861,881,105
outstanding

Guijarral Hills Exploitation Project

In February 2011, Blast entered into a farmout agreement with Solimar Energy LLC (“Solimar”), which provided Blast the right to participate in a field extension drilling project to exploit an undeveloped acreage position in the Guijarral Hills Field located in the San Joaquin basin of central California. Solimar is a wholly-owned subsidiary of Solimar Energy Limited, a publicly-traded company on the Australia Stock Exchange based in Melbourne, Australia.

Under the terms of the agreement with Solimar, Blast will participate in the Guijarral Hills project on a promoted basis of 66-2/3 percent (%) of the costs to drill and complete the initial planned exploratory well. After the drilling of the initial well, Blast will earn a 50% working interest, with net revenue interest of 38% in the entire project’s acreage position and will be required to contribute on an equal heads up basis (i.e., 50% of all costs) on any additional wells that may be drilled in the project.

In March 2011, the Solimar Energy 76-3 well in the Gujarral Hills Field reached its total drilling depth of 10,550 feet. In May 2011, Solimar commenced completion operations, by perforating and flow testing three potentially hydrocarbon bearing sands encountered in the drilling process. However, the zones tested did not result in an oil producing well. Solimar and Blast are currently evaluating further potential testing to be done in the well, including an evaluation of a large interval of Kreyhegan Shale that was encountered while drilling.

The Farmout Agreement and subsequent participation in the Solimar Energy 76-3 well is reported in the balance sheet under "Unproven oil and gas properties."

NOTE 7 – NOTES PAYABLE – RELATED PARTY AND OTHER

Related Party Transactions

Promissory Note with Clyde Berg

On May 19, 2011, Blast entered into a \$100,000 promissory note with Clyde Berg, a major shareholder. The note carries a 25% interest rate, has a one-year term and Blast's performance under the note is guaranteed by Eric McAfee, another affiliate of Berg McAfee Companies, LLC. The proceeds from this note were used to partially cover the cost of testing operations on the Solimar 76-33 well.

Interest payable under this note (reflected as Accrued expenses – related party in the accompanying balance sheet) is \$2,945 at June 30, 2011.

AFJ Note

On July 15, 2005, Blast entered into an agreement to develop its initial applied jetting rig with Berg McAfee Companies, LLC ("BMC"). The arrangement involves two loans for a total of \$1 million to fund the completion of the initial rig and sharing in the expected rig revenues for a ten-year period. Under the terms of the loan agreement with BMC, cash revenues will be shared on the basis of allocating 90% to Blast and 10% to BMC for a ten-year period following repayment. After ten years, Blast will receive all of the revenue from the rig. BMC also has the option to fund an additional three rigs under these commercial terms.

In 2008, BMC extended the term for the \$1 million Note secured on the Applied Fluid Jetting rig for three years. The revised Note was issued for \$1.12 million, including accumulated interest, and carries an 8% interest rate and was convertible into common stock at \$0.20 per share.

On January 5, 2011, Blast and BMC agreed to (a) enter into Amendment No. 1 to the February 27, 2008 Promissory Note, pursuant to which the Company owes BMC, \$1.12 million (the "Amended Note"); and (b) to amend the terms of the Company's Series A Convertible Preferred Stock (the "Preferred Stock") to provide for a reduction in the conversion price of such Preferred Stock from \$0.50 per share to \$0.20 per share (the "Amendment").

The Amended Note revised and amended the terms of the original note, entered into between the Company and BMC on February 27, 2008, to extend the maturity date of such note from February 27, 2011, to February 27, 2013; to increase the amount of notice the Company is required to provide BMC in the event the Company desires to prepay the note from five (5) days to thirty (30) days; to subordinate the security for such note to the Company's obligations due to and in connection with the drilling and completion of the Gujarral Hills development project and the payoff of the Company's \$300,000 promissory note due to Sun Resources Texas, Inc.; and to provide BMC the right to convert the amount outstanding under the note into shares of the Company's common stock at a reduced rate of \$0.08 per share, rather than \$0.20 per share as provided for in the original note agreement.

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The Company evaluated the terms of the Amended Note and determined that, due to the change in the common stock conversion rate, the original note had been extinguished and consequently, the Amended Note would be recorded at its current fair value. Based upon the new common stock conversion rate, which was equivalent to the Company's closing stock price at January 5, 2011, the Company determined that the Amended Note had a fair value of \$1,120,000, based upon the value of the Company's common stock the Amended Note could be converted into at the date of the amendment. Therefore, no gain or loss was recognized.

Interest payable under this note (reflected as Accrued expenses – related party in the accompanying balance sheet) is \$300,197 at June 30, 2011.

Third Party Transactions

Promissory Note - North Sugar Valley Field

Under the terms of the sales agreement with Sun, Blast issued an interest free promissory note for \$300,000 payable at a rate of \$10,000 per month commencing October 31, 2010, with the final balance payable in full on or before October 8, 2011. The promissory note is secured by a lien against the North Sugar Valley Field.

As the promissory note is noninterest bearing, Blast discounted the promissory note to its estimated net present value using an 8% interest rate, which Blast believes is representative of its incremental cost of borrowing given the secured nature of the promissory note. The resulting discount of \$18,902 was to be amortized using the effective interest rate method over the term of the promissory note.

In February 2011, this note was paid in full from proceeds of a lending arrangement described below. For the six months ended June 30, 2011, Blast recognized the balance of the unamortized discount at the time of repayment of \$14,028 as interest expense.

Lending Arrangement

On February 24, 2011 (the "Closing"), Blast entered into a Note Purchase Agreement (the "Purchase Agreement") and related agreements (as described below) with a Third Party (the "Investor") to fund its Gujarral Hills project and to repay the Sun promissory note. Pursuant to the Purchase Agreement, Blast agreed with the Investor to enter into Secured Promissory Notes in the aggregate principal amount of \$2,522,111 (the "Notes"), with a Senior Secured Promissory Note in the amount of \$2,111,111 (the "First Note") delivered to the Investor at the Closing and a second Note delivered in April 2011 in the amount of \$411,000.

Pursuant to the Purchase Agreement, Blast agreed to undertake certain requirements and to certain restrictions while the Notes are outstanding. These requirements and restrictions, among other things, include:

- to continue to file reports with the Securities and Exchange Commission (the "Commission");
 - not pay any dividends, make any distributions or redeem any securities;
- not permit any liens on any of its assets (other than those already approved by the Investor) or incur any additional liabilities (unless subordinated to amounts owed to the Investor);
 - not enter into any merger, sale or acquisition agreements; and,
- maintain a minimum cash bank balance of \$100,000, with some flexibility as it relates to funding costs for the Test Well to be drilled as part of the Gujarral Hills Exploitation Project. This minimum cash balance is shown as restricted cash in the accompanying balance sheet at June 30, 2011.

Additionally, Blast granted the Investor a right of first refusal to provide Blast with additional funding on such terms and conditions as Blast may receive from third parties, until the later of (a) one year from the date that the Notes are repaid in full; or (b) such time as Blast ceases paying a Royalty to the Investor pursuant to the Royalty Agreement (described below).

Blast also agreed that if the Test Well fails to achieve an initial production average of at least 350 barrels of oil equivalent per day for the 30-day period commencing on the first day on which the Test Well is at full production, Blast would issue to the Investor a common stock purchase warrant to purchase up to 12,000,000 shares of Blast's common stock (the "Warrant"). The Warrant will have a term of two years, and provide for cashless exercise rights in the event the shares of common stock issuable upon exercise of the Warrant are not registered with the Commission. The Warrant will also contain certain anti-dilution provisions and will have an exercise price, in the event it is granted, equal to the weighted average of the trading price of Blast's common stock over the ten day period prior to the grant date.

First Note

Blast delivered to the Investor the First Note in the amount of \$2,111,111 at the Closing. Blast paid an original issue discount to the Investor on the First Note of 10%, or \$211,111 (the “Original Issue Discount”). The First Note accrues interest at the rate of ten percent (10%) per annum, payable on the first day of each month beginning in March 2011, and has a maturity date of February 24, 2012. Blast also agreed to pay the Investor an exit fee at such time as the First Note is paid in full of twelve percent (12%) of the amount of such repayment (the “Exit Fee”). However, this Exit Fee will be waived by the Investor if the Test Well achieves an initial production average of at least 350 barrels of oil equivalent per day for the 30-day period commencing on the first day on which the Test Well is at full production.

The proceeds from the First Note were used by Blast (i) to repay in full the remaining indebtedness of \$250,000 owed to Sun under the then outstanding promissory note described above; (ii) to fund Blast's portion of the Test Well under the terms of the Farmout Agreement; and (iii) to pay fees and expenses incurred in connection with the Closing, including the payment of the Original Issue Discount and reimbursement of legal fees incurred by the Investor in connection with the Closing.

Blast reimbursed the Investor a total of \$116,891 for legal fees incurred, which has been treated as an additional discount against the First Note to be amortized over its term. Blast also paid \$218,473 in legal and finders fees associated with the lending arrangement, which has been recorded as deferred financing costs to be amortized over the term of the First Note. Net proceeds to Blast after the original issue discount, reimbursement of the lender's legal fees and Blast's own expenses were approximately \$1.6 million with an effective interest rate of approximately 36%.

Second Note

Blast delivered the Investor the Second Note in the amount of \$411,000 on April 5, 2011. Blast paid an original issue discount to the Investor on the Second Note of 10% or \$41,100. The Second Note has substantially similar terms to the First Note. The proceeds from the Second Note were used by Blast to fund Blast's portion of the completion and testing costs of the Test Well under the terms of the Farmout Agreement.

First and Second Note Interest

As of June 30, 2011, Blast had paid interest in the amount of \$62,690 and had accrued interest payable under the First and Second Notes (reflected as Accrued expenses in the accompanying balance sheet) of \$21,017 at June 30, 2011. During the three and six months ended June 30, 2011, Blast recognized additional interest expense of \$98,686 and \$132,156, respectively, related to the accretion of the debt discount applicable to the First and Second Notes. During the three and six months ended June 30, 2011, Blast also recognized interest expense of \$67,237 and \$89,530, respectively, for the amortization of the deferred financing costs related to the First and Second Notes.

Guaranty and Security Agreement

The repayment of the amounts loaned to Blast by the Investor under the First Note and the Second Note (the "Loans") was guaranteed by Blast's wholly-owned subsidiaries Eagle Domestic Drilling Operations LLC ("Eagle") and Blast AFJ, Inc. ("Blast AFJ"). Additionally, Blast, Eagle and Blast AFJ each entered into a Security Agreement in favor of the Investor, pursuant to which such parties provided the Investor a first prior security interest in all of their tangible and intangible assets, including equipment, intellectual property and personal and real property as collateral to secure the repayment of the Loans (the "Security Agreement"). Additionally, Berg McAfee Companies, LLC ("Berg McAfee") agreed, pursuant to its entry into a Subordination and Intercreditor Agreement with Blast, to subordinate the repayment of the \$1.12 million principal amount of the Secured Promissory Note owed by Blast to Berg McAfee to the repayment of the Loans and the Investor's security interest granted pursuant to the Security Agreement.

Stock Purchase Agreement

As additional security for the repayment of the Loans, and pursuant to a Stock Purchase Agreement, Blast sold the Investor one (1) share of its newly designated Series B Preferred Stock, in consideration for \$100, which entitles the Investor to consent to and approve Blast's or any of its subsidiaries' entry into any bankruptcy proceeding, consent to the appointment of a receiver, liquidator or trustee or the assignment by Blast or any of its subsidiaries for the benefit of any creditors. Blast assigned no value to this Series B Preferred Share.

Royalty Payment Letter

As additional consideration for the Investor agreeing to make the Loans, Blast agreed pursuant to a Royalty Payment Letter (the "Royalty Payment Letter"), to pay the Investor 30% of all amounts earned (the "Royalty") by Blast under the Test Well; provided however, that should the Test Well achieve an initial production average equal to or greater than 400 barrels of oil equivalent per day for the period commencing on the first day on which the Test Well is at full

production and ending on the 30th day thereafter Blast's obligation under the Royalty Payment Letter is limited to 30% of Blast's earnings on only 400,000 gross barrels of production, from such wells (which may or may not include the Test Well) as Blast may determine in its sole discretion. Amounts earned by Blast in connection with the Test Well are deemed to include, without limitation, amounts earned from the sale, assignment, transfer or other disposition by Blast of any interest in the Test Well. Blast did not assign any value to the 30% royalty assigned to the Investor due to the lack of proved reserves associated with the Gujarral Hills Test Well and uncertainty around its ultimate commercial viability.

NOTE 8 – PREFERRED STOCK – RELATED PARTIES

Series A Convertible Preferred Stock

In January 2008, Blast sold the rights to an aggregate of two million units each consisting of four shares of Series A Convertible Preferred Stock, and one three year warrant to purchase one share of common stock with an exercise price of \$0.10 per share (the “Units”), for an aggregate of \$4 million or \$2.00 per Unit, to Clyde Berg and to McAfee Capital LLC, two parties related to Blast’s largest shareholder, Berg McAfee Companies. The shares of common stock issuable in connection with the exercise of the warrants and in connection with the conversion of the Preferred Stock were granted registration rights in connection with the sale of the Units. The proceeds from the sale of the Units were used to satisfy creditor claims of about \$2.4 million under the terms of our Second Amended Plan of Reorganization (the “Plan”) allowing Blast to emerge from Chapter 11 bankruptcy and provided working capital of \$1.6 million.

The Series A Preferred Stock (the “Preferred Stock”) accrue dividends at the rate of 8% per annum, in arrears for each month that the Preferred Stock is outstanding. Blast has the right to pay any or all of the accrued dividends at any time by providing the holders of the Preferred Stock at least five days written notice of their intent to pay such dividends. In the event Blast receives a “Cash Settlement,” defined as an aggregate total cash settlement received by Blast, net of legal fees and expenses, in connection with Blast’s litigation proceedings with Hallwood and Quicksilver in excess of \$4 million, Blast is required to pay outstanding dividends within thirty (30) days in cash or stock at the holder’s option. If the dividends are not paid within thirty (30) days of the date the Cash Settlement is received, a “Dividend Default” occurs.

The Preferred Stock and any accrued and unpaid dividends, have optional conversion rights into shares of Blast’s common stock at a conversion price of \$0.20 per share. The Preferred Stock automatically converts if Blast’s common stock trades for a period of more than twenty (20) consecutive trading days at a price greater than \$3.00 per share and if the average trading volume of Blast’s common stock exceeds 50,000 shares per day.

In October 2008, Blast redeemed two million shares of Blast’s Series A Preferred Stock held by Clyde Berg and McAfee Capital, LLC at face value of \$0.50 per share (the then conversion price of the preferred shares) and paid \$1 million to redeem the Preferred shares. In connection with the redemption, Blast cancelled one million Series A Preferred shares each held by Clyde Berg and McAfee Capital, LLC. Accordingly, six million preferred shares remain outstanding at June 30, 2011.

As of June 30, 2011, the aggregate and per share arrearages on the outstanding Preferred Stock were \$852,165, and \$0.14, respectively, which includes dividends in arrearage of \$50,630 related to the 2,000,000 preferred shares that were redeemed in October 2008.

Warrants

Blast also granted warrants to the Preferred Stockholders to purchase up to 2,000,000 shares of common stock at an exercise price of \$0.10 per share. These warrants had a three-year term and expired without being exercised in February 2011. The relative fair value of the warrants determined utilizing the Black-Scholes model was approximately \$446,000 on the date of sale. The significant assumptions used in the valuation were: the exercise price of \$0.10; the market value of Blast’s common stock on the date of issuance of \$0.29; expected volatility of 131%; risk free interest rate of 2.25%; and a term of three years. Management has evaluated the terms of the Convertible Preferred Stock and the grant of warrants in accordance with EITF 98-5 (ASC 470) and EITF 00-27 (ASC 470), and concluded that there was not a beneficial conversion feature at the date of grant.

Series B Preferred Stock

As additional security for the repayment of the Note sold to the Investor, as described above, and pursuant to a Stock Purchase Agreement, Blast sold the Investor one (1) share of its newly designated Series B Preferred Stock, in

consideration for \$100, which entitles the Investor to consent to and approve Blast's or any of its subsidiaries entry into any bankruptcy proceeding, consent to the appointment of a receiver, liquidator or trustee or the assignment by Blast or any of its subsidiaries for the benefit of any creditors.

NOTE 9 – COMMON STOCK

In February 2011, Blast issued 750,000 shares of restricted common stock to Trident Partners in connection with the exercise of warrants originally issued in November 2010 under the terms of a placement agreement between the Company and Trident. Blast received cash proceeds of \$7,500 related to this exercise.

In February 2011, Blast issued 2,766,667 shares of restricted common stock valued at \$249,000 to certain current and retired members of the board of directors in payment of deferred board fees accrued from October 2008. Fees were converted into shares at \$0.09 per share, the closing market price of the Company's stock on February 2, 2011.

NOTE 10 – OPTIONS AND WARRANTS

Share-based Compensation:

The 2009 Stock Incentive Plan (the "Incentive Plan") authorizes the issuance of various forms of stock-based awards, including incentive or non-qualified options, restricted stock awards, performance shares and other securities as described in greater detail in the Incentive Plan, to the Company's employees, officers, directors and consultants. Options to purchase a total of 5 million shares are authorized to be issued under the Incentive Plan. As of June 30, 2011, 2 million shares have been granted under this plan.

Options

In February 2011, options to purchase an aggregate of 2 million shares were granted to certain named executives and non-executive members of the management team at an exercise price of \$0.09 per share. The options have a ten year term and vested immediately upon the date of grant. A fair value of \$169,369 was recorded using the Black-Scholes option-pricing model. Variables used in the Black-Scholes option-pricing model for the options issued during the three month period ended June 30, 2011 include (1) discount rate of 3.52%, (2) expected term of 5 years, (3) expected volatility of 369.75% and (4) zero expected dividends.

During the six month period ended June 30, 2011, the Company recognized share-based compensation expense of \$171,997. The remaining amount of unamortized options expense at June 30, 2011 is \$-0-. The intrinsic value of outstanding as well as exercisable options at June 30, 2011 was \$-0-.

Activity in options during the six month period ended June 30, 2011 and related balances outstanding as of that date are reflected below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Term (# years)
Outstanding at January 1, 2011	2,358,792	\$ 0.61	
Granted	2,000,000	0.09	
Exercised	-	-	
Forfeited and cancelled	-	-	
Outstanding at June 30, 2011	4,358,792	\$ 0.37	6.3
Exercisable at June 30, 2011	4,350,459	\$ 0.37	6.3

Warrants

In February 2011, 2,000,000 warrants with an exercise price of \$0.10 per share expired without being exercised.

On May 18, 2011, Blast agreed with Trident Partners to amend their placement agreement as it pertains to Trident's 10% share of the royalty offered to the Investor introduced to Blast by Trident. In lieu of a share in the royalty interest and as consideration for entering into the amendment, Blast agreed to grant to certain principals of Trident fully vested warrants, exercisable for two years to purchase up to 400,000 shares of Blast's common stock at an exercise price of \$0.01 per share.

The fair value of the warrants granted of \$44,528 was expensed during the three months ended June 30, 2011 and the warrants were valued using the Black-Scholes option-pricing model. Variables used in the Black-Scholes pricing model for the 400,000 warrants include: (1) discount rate of 0.42%, (2) expected term of 2 years, (3) expected volatility of 164.80% and (4) zero expected dividends. The warrants vested immediately, have an exercise price of \$0.01 per share and are exercisable for a period of two years from the grant date.

During the six month period ended June 30, 2011, the Company recognized share-based compensation expense of \$44,528. The remaining amount of unamortized warrant expense at June 30, 2011 was \$-0-. The intrinsic value of outstanding as well as exercisable warrants at June 30, 2011 was \$117,315.

Activity in warrants during the six months ended June 30, 2011 and related balances outstanding as of that date are reflected below. The intrinsic value of the exercisable warrants at June 30, 2011 was \$117,305.

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Term (# years)
Outstanding at January 1, 2011	12,245,089	\$ 0.84	
Granted	400,000	0.01	
Exercised	(750,000)	0.01	
Expired	(2,000,000)	0.10	
Forfeited and cancelled	-	-	
Outstanding at June 30, 2011	9,895,089	\$ 0.84	2.1
Exercisable at June 30, 2011	9,895,089	\$ 0.84	2.1

NOTE 11 – LITIGATION

Quicksilver Resources Lawsuit

In September 2008, Blast and Eagle Domestic Drilling Operations LLC, our wholly-owned subsidiary (“Eagle”), entered into a Compromise Settlement and Release Agreement with Quicksilver Resources, Inc. (“Quicksilver”) in the Court to resolve the pending litigation and the parties agreed to release all claims against one another and certain related parties. Quicksilver agreed to pay Eagle a total of \$10 million of which \$8 million has been received to date. The remaining amount due from Quicksilver is \$2 million (\$1.44 million net of associated legal fees) payable on or before September 2011, the third anniversary date of the execution of the settlement. The remaining amounts due from Quicksilver are shown as a current and long-term receivable in the balance sheet, net of contingent legal fees.

General

Other than the aforementioned matters, Blast is not aware of any other pending or threatened legal proceedings. The foregoing is also true with respect to each officer, director and control shareholder as well as any entity owned by any officer, director and control shareholder, over the last five years.

As part of its regular operations, Blast may become party to various pending or threatened claims, lawsuits and administrative proceedings seeking damages or other remedies concerning its’ commercial operations, products, employees and other matters. Although Blast can give no assurance about the outcome of these or any other pending legal and administrative proceedings and the effect such outcomes may have on Blast, except as described above, Blast believes that any ultimate liability resulting from the outcome of such proceedings, to the extent not otherwise provided for or covered by insurance, will not have a material adverse effect on Blast’s financial condition or results of

operations.

NOTE 12 – BUSINESS SEGMENTS

As of June 30, 2011, Blast has two reportable segments: (1) Oil and Gas Producing Properties and (2) Down-hole Solutions. A reportable segment is a business unit that has a distinct type of business based upon the type and nature of services and products offered.

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Blast evaluates performance and allocates resources based on profit or loss from operations before other income or expense and income taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. The table below reports certain financial information by reportable segment for the three months and six months ended June 30, 2011 and 2010, respectively:

	For the Three Months		For the Six Months	
	Ended		Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Revenues:				
Oil and Gas Production	\$ 136,543	\$ -	\$ 243,070	\$ -
Down-hole Solutions	-	-	-	-
Total Revenue	\$ 136,543	\$ -	\$ 243,070	\$ -
Costs of Goods Sold:				
Oil and Gas Production	\$ 65,199	\$ -	\$ 135,573	\$ -
Down-hole Solutions	1,378	21,763	6,880	49,888
Corporate	306,647	163,581	768,077	405,474
Total Costs of Goods Sold	\$ 373,224	\$ 185,344	\$ 910,530	\$ 455,362
Operating profit (loss):				
Oil and Gas Production	\$ 71,344	\$ -	\$ 107,497	\$ -
Down-hole Solutions	(1,378)	(21,763)	(6,880)	(49,888)
Corporate	(306,647)	(163,581)	(768,077)	(405,474)
Operating Loss	\$	\$	\$	\$
	(236,681)	(185,344)	(667,460)	(455,362)

NOTE 13 – DISCONTINUED OPERATIONS

On December 30, 2010, Blast entered into an Asset Purchase Agreement with GlobalLogix, Inc. (“GlobalLogix” and the “Purchase Agreement”). Pursuant to the Purchase Agreement, Blast sold all of its Satellite Communications assets, rights and interests, including all goodwill, customer and vendor contracts (collectively “Satellite Contracts”), inventory, test equipment, software and other assets associated with its Satellite Communications operations to GlobalLogix in consideration for (a) \$50,000; and (b) GlobalLogix agreeing to assume any and all liabilities, obligations and rights associated with the Satellite Contracts. Additionally, GlobalLogix agreed to offer full-time employment to one of the Company’s employees in connection with the Purchase Agreement. The \$50,000 payment was received in January 2011.

Pursuant to the Purchase Agreement, the Company also agreed not to compete with GlobalLogix in connection with the Satellite Communications services in the United States or attempt to solicit any employees from GlobalLogix for a period of one year following the closing of the Purchase Agreement.

As a result of the consummation of the Purchase Agreement, the Company no longer has any operations or assets in connection with Satellite Communications and anticipates solely focusing its efforts, resources and operations moving forward on its Down-hole Solutions and Oil and Gas Production segments.

Net income (loss) from the discontinuance of satellite operations for the three and six months ended June 30, 2011 and 2010 is as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues	\$ -	\$ 69,623	\$ -	\$ 154,025
Operating Expenses:				
Cost of sales	-	62,487	-	140,106
Selling, general and administrative	-	2,716	-	4,445
Bad debts expense	-	-	3,686	-
Total operating expenses	-	65,203	(3,686)	144,551
Net income (loss) from discontinued operations	\$ -	\$ 4,420	\$ (3,686)	\$ 9,474

At June 30, 2011, bad debt expense of \$3,686 related to a dated receivable balance from the discontinued satellite business which was determined to be uncollectible.

NOTE 15 – SUBSEQUENT EVENTS

Blast evaluated subsequent events through the date the financial statements were issued, and there were no significant events to report.

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

The following discussion of our financial condition and results of operations should be read in conjunction with the accompanying consolidated financial statements and the related footnotes thereto.

Forward-Looking Statements

Some of the statements contained in this report discuss future expectations, contain projections of results of operations or financial condition, or state other "forward-looking" information. The words "believe," "intend," "plan," "expect," "anticipate," "estimate," "project," "goal" and similar expressions identify such a statement was made. These statements are subject to known and unknown risks, uncertainties, and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on various factors and is derived using numerous assumptions. Factors that might cause or contribute to such a discrepancy include, but are not limited to the risks discussed in this and our other SEC filings. We do not promise to or take any responsibility to update forward-looking information to reflect actual results or changes in assumptions or other factors that could affect those statements. Future events and actual results could differ materially from those expressed in, contemplated by, or underlying such forward-looking statements.

The following discussion and analysis of our financial condition is as of June 30, 2011. Our results of operations and cash flows should be read in conjunction with our unaudited financial statements and notes thereto included elsewhere in this report and the audited financial statements and the notes thereto included in our Form 10-K for the year ended December 31, 2010.

Business Overview

Unless otherwise indicated, we use "Blast," "the Company," "we," "our" and "us" in this quarterly report to refer to the businesses of Blast Energy Services, Inc. and its wholly-owned subsidiaries, Eagle Domestic Drilling Operations LLC and Blast AFJ, Inc.

Blast is seeking to become an independent oil and gas producer with additional revenue potential from its applied fluid jetting technology. We plan to grow operations initially through the acquisition of oil producing properties (as described below) and then eventually, to acquire oil and gas properties where our applied fluid jetting process could be used to increase the field production volumes and value of the properties in which we own an interest.

Oil and Gas Properties

North Sugar Valley Field

On September 23, 2010, Blast closed on a sales agreement with Sun Resources Texas, Inc. ("Sun") a privately-held company based in Longview, Texas, to acquire Sun's oil and gas interests in the North Sugar Valley Field located in Matagorda County, Texas for a total purchase price of \$1,181,000. Under the terms of the agreement, the purchase price was paid in a combination of cash, common stock and through the issuance of a promissory note (which has since been repaid) for Sun's approximately 65% working interest (net revenue interest of approximately 50%) in three wells. The acquired wells are currently producing a total of approximately 43 gross barrels of oil per day from the Gravier Sand formation, which our year end reserve report estimates contains approximately 75,000 barrels of recoverable reserves net to the interest acquired by Blast.

The effective date of the sale was October 1, 2010. Under the terms of the agreement, Sun will continue to act as Operator of the properties. Sun has retained a 1% working interest in the wells.

Guijarral Hills Exploitation Project

In February 2011, Blast entered into a farmout agreement with Solimar Energy LLC (“Solimar”), which provided Blast the right to participate in a field extension drilling project to exploit an undeveloped acreage position in the Guijarral Hills Field located in the San Joaquin basin of central California. Solimar is a wholly-owned subsidiary of Solimar Energy Limited, a publicly-traded company on the Australia Stock Exchange based in Melbourne, Australia.

Under the terms of the agreement with Solimar, Blast will participate in the Gujarral Hills project on a promoted basis of 66-2/3 percent (%) of the costs to drill and complete the initial planned exploratory well. After the drilling of the initial well, Blast will earn a 50% working interest, with net revenue interest of 38% in the entire project's acreage position and will be required to contribute on an equal heads up basis (i.e., 50% of all costs) on any additional wells that may be drilled in the project.

In March 2011, the Solimar Energy 76-3 well in the Gujarral Hills Field Area located in Fresno County, California reached its total drilling depth of 10,550 feet.

On May 19, 2011, a completion rig moved on location to commence the flow testing program on the well. The three intervals selected to be tested have all been productive in the adjacent Gujarral Hills field. While drilling, each interval had indications that hydrocarbons were present which were also indicated on wireline logs that were run after drilling was completed. While such petro-physical analysis indicates that hydrocarbon pay is present, the flow testing program is necessary to determine whether the reservoir quality will meet commercial production rates.

The testing program involved perforating the selected interval followed by periods when the well was shut-in to measure the pressure response and to evaluate fluid properties. The test sequence involved testing the deepest interval, the Lower Gatchell, first and then working up the well to the shallower Avenal and Leda objectives.

However, none of the zones tested resulted in an oil producing well. Solimar and Blast are currently in discussions as it relates to potential further testing on the well, including an evaluation of a large interval of Kreyhegan Shale that was encountered while drilling. Blast will need to raise additional funds to participate in any further testing program and is currently exploring funding option that may include selling down their interest in the property.

Applied Fluid Jetting Technology

Over the past several years, Blast has developed a down-hole stimulation service that management believes has the potential to dramatically increase production volumes and reserves from existing or newly drilled wells. Blast has filed for a patent to protect this proprietary AFJ process.

The theory behind AFJ is both simple and extremely bold, to maximize the reservoir area contacted by the well bore, both vertically and horizontally--in order to increase production rates and improve reservoir recovery rates. Recent experience has moved the theory closer to commercial realization. Blast enters existing or new well bores to access the productive formations containing oil and natural gas. By jetting laterally into the formations, more of the reservoir is exposed to the wellbore and if successful, additional hydrocarbons are flowed to the surface. It is believed that this AFJ process can be successful in many types of sandstone and limestone/carbonate formations.

During 2009, Blast further tested the AFJ process on wells in the Austin Chalk play in Central Texas operated by Reliance Oil & Gas, Inc. ("Reliance") with some initial production success. Later Blast attempted to apply the process to third-party wells in West Texas and in Kentucky. Unfortunately, due to mechanical failures of the surface equipment we were not able to achieve any lateral jetting in the down-hole environment. Currently the AFJ rig and other support vehicles have been moved back to a storage yard in Hockley, Texas. Blast intends to restart its down-hole stimulation service line over the next few years once liquidity permits.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets,

liabilities, revenues and expenses. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our most significant judgments and estimates used in preparation of our financial statements.

Oil and Gas Properties, Full Cost Method. Blast uses the full cost method of accounting for oil and gas producing activities. Costs to acquire mineral interests in oil and gas properties, to drill and equip exploratory wells used to find proved reserves, and to drill and equip development wells, including directly related overhead costs, and related asset retirement costs are capitalized.

Under this method, all costs, including internal costs directly related to acquisition, exploration and development activities are capitalized as oil and gas property costs on a field by field basis. Sales of oil and gas properties or interests therein are credited against capitalized costs in the full cost pool. Properties not subject to amortization consist of exploration and development costs which are evaluated on a property-by-property basis. Amortization of these unproved property costs begins when the properties become proved or their values become impaired. Blast will assess the probability of realization of unproved properties, if any, on at least an annual basis or when there has been an indication that impairment in value may have occurred. Impairment of unproved properties is assessed based on management's intention with regard to future exploration and development of individually significant properties and the ability of Blast to obtain funds to finance such exploration and development. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized. Costs of oil and gas properties will be amortized using the units of production method.

Ceiling Test. In applying the full cost method, Blast performs an impairment test (ceiling test) at each reporting date commencing on December 31, 2010, whereby the carrying value of property and equipment is compared to the "estimated present value" of its proved reserves, discounted at a 10% interest rate of future net revenues based on current operating conditions at the end of the period and the average, first day of the month price received for oil and gas production over the preceding 12 month period, plus the cost of properties not being amortized, plus the lower of cost or fair market value of unproved properties included in costs being amortized, less the income tax effects related to book and tax basis differences of the properties.

Accounting for Asset Retirement Obligations. If a reasonable estimate of the fair value of an obligation to perform site reclamation, dismantle facilities or plug and abandon wells can be made, Blast will record a liability (an asset retirement obligation or "ARO") on its consolidated balance sheet and capitalize the present value of the asset retirement cost in oil and gas properties in the period in which the retirement obligation is incurred. In general, the amount of an ARO and the costs capitalized will be equal to the estimated future cost to satisfy the abandonment obligation assuming the normal operation of the asset, using current prices that are escalated by an assumed inflation factor up to the estimated settlement date, which is then discounted back to the date that the abandonment obligation was incurred using an assumed cost of funds for Blast. After recording these amounts, the ARO will be accreted to its future estimated value using the same assumed cost of funds and the capitalized costs are depreciated on a unit-of-production basis within the related full cost pool. Both the accretion and the depreciation will be included in depreciation, depletion and amortization expense on our consolidated statement of income.

Stock-Based Compensation. Pursuant to the provisions of FASB ASC 718, Compensation – Stock Compensation, which establishes accounting for equity instruments exchanged for employee service, we utilize the Black-Scholes option pricing model to estimate the fair value of employee stock option awards at the date of grant, which requires the input of highly subjective assumptions, including expected volatility and expected life. Changes in these inputs and assumptions can materially affect the measure of estimated fair value of our share-based compensation. These assumptions are subjective and generally require significant analysis and judgment to develop. When estimating fair value, some of the assumptions will be based on, or determined from, external data and other assumptions may be derived from our historical experience with stock-based payment arrangements. The appropriate weight to place on historical experience is a matter of judgment, based on relevant facts and circumstances. We estimate volatility by considering historical stock volatility. We have opted to use the simplified method for estimating expected term, which is equal to the midpoint between the vesting period and the contractual term.

Results of Operations and Financial Condition

All dollar amounts discussed in "Item 2" are rounded to the nearest \$1,000, or for larger numbers, to the nearest tenth of a million dollars. Please consult the financial statements in "Item 1" for exact dollar amounts.

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Comparison of the Three Months Ended June 30, 2011 with the Three Months Ended June 30, 2010

Oil and Gas Properties. Revenues and expenses associated with the production from Oil and Gas Properties commenced in October 2010, and as such, there were no Oil and Gas Properties revenues for the three months ended June 30, 2010. Oil and Gas Properties revenues were \$137,000 for the three months ended June 30, 2011. Lease operating costs for Oil and Gas Properties were \$65,000. The gross profit from Oil and Gas Properties was \$72,000.

Down-hole Solutions. There were no down-hole Solutions' revenues for the three months ended June 30, 2011 or 2010. The loss from Down-hole Solutions decreased by \$21,000 to \$1,000 for the three months ended June 30, 2011 compared to a loss of \$22,000 for the three months ended June 30, 2010. This decrease was due to the suspension of field testing of this technology in 2009 after unsuccessfully attempting to drill laterals on several wells.

Depreciation - services. Depreciation expense decreased by \$21,000 to \$15,000 for the three months ended June 30, 2011 as compared to \$36,000 for the three months ended June 30, 2010. This decrease is primarily related to the impairment recorded to the AFJ rig carrying value in December 2010 and the sale of surplus equipment no longer needed for AFJ operations.

Depletion and amortization – oil and gas. Amortization costs of \$21,000 for the three months ended June 30, 2011 were the result of depletion on units of production basis. Since no oil and gas properties were owned in 2010, there were no amortization, depletion or impairment costs in 2010.

Selling, General and Administrative. Selling, general and administrative (“SG&A”) expenses increased by \$142,000 to \$270,000 for the three months ended June 30, 2011 compared to \$128,000 for the three months ended June 30, 2010. The increase was primarily due to the stock compensation expense associated with the granting of warrants and the allocation of payroll to G&A that was previously allocated to other business segments in 2010.

(in thousands)	For the Three Months		Increase (Decrease)
	Ended June 30, 2011	2010	
Payroll and related costs	\$ 120	\$ 47	\$ 73
Option and warrant expense	46	3	43
Legal fees & settlements	9	5	4
External services	65	56	9
Insurance	13	3	10
Travel & entertainment	5	3	2
Office rent, communications, misc.	12	11	1
	\$ 270	\$ 128	\$ 142

Interest Expense. Interest expense was \$254,000 for the three months ended June 30, 2011 compared with \$23,000 for the three months ended June 30, 2010, an increase of \$231,000 from the prior period. This increase is primarily due to interest incurred on the new lending arrangement that closed in February 2011 and the accretion and amortization of the related debt discount and deferred financing costs.

Loss From Continuing Operations. The loss from continuing operations increased by \$284,000 to \$491,000 for the three months ended June 30, 2011 compared to a loss from continuing operations of \$207,000 for the three months ended June 30, 2010. This increase is primarily due to higher interest expense on the new lending arrangement that closed in February 2011 and higher administrative expenses described, offset by the revenue generated during the three months ended June 30, 2011.

Income (Loss) From Discontinued Operations. Loss from discontinued operations was \$-0- for the three months ended June 30, 2011 compared to income from discontinued operations of \$4,000 for the three months ended June 30, 2010.

Net Loss. Net loss increased by \$289,000 to a net loss of \$491,000 for the three months ended June 30, 2011 compared to a net loss of \$202,000 for the three months ended June 30, 2010. This increase is primarily due to higher interest expense on the new lending arrangement that closed in February 2011 and higher administrative expenses described above.

Comparison of the Six Months Ended June 30, 2011 with the Six Months Ended June 30, 2010

Oil and Gas Properties. Revenues and expenses associated with the production from Oil and Gas Properties commenced in October 2010, and as such, there were no Oil and Gas Properties revenues for the six months ended June 30, 2010. Oil and Gas Properties revenues were \$243,000 for the six months ended June 30, 2011. Lease operating costs for Oil and Gas Properties were \$136,000. The gross profit from Oil and Gas Properties was \$107,000.

Down-hole Solutions. There were no down-hole Solutions' revenues for the six months ended June 30, 2011 or 2010. The loss from Down-hole Solutions decreased by \$43,000 to \$7,000 for the six months ended June 30, 2011 compared to a loss of \$50,000 for the six months ended June 30, 2010. This decrease was due to the suspension of field testing of this technology in 2009 after unsuccessfully attempting to drill laterals on several wells.

Depreciation - services. Depreciation expense decreased by \$41,000 to \$31,000 for the six months ended June 30, 2011 as compared to \$72,000 for the six months ended June 30, 2010. This decrease is primarily related to the impairment recorded to the AFJ rig carrying value in December 2010 and the sale of surplus equipment no longer needed for AFJ operations.

Depletion and amortization – oil and gas. Amortization costs of \$40,000 for the six months ended June 30, 2011 were the result of depletion on units of production basis. Since no oil and gas properties were owned in 2010, there were no depletion or impairment costs in 2010.

Selling, General and Administrative. Selling, general and administrative (“SG&A”) expenses increased by \$361,000 to \$695,000 for the six months ended June 30, 2011 compared to \$334,000 for the six months ended June 30, 2010. The increase was primarily due to the stock compensation expense associated with the granting of options and the allocation of payroll to G&A that was previously allocated to other business segments in 2010.

(in thousands)	For the Six Months		Increase (Decrease)
	Ended June 30, 2011	2010	
Payroll and related costs	\$ 222	\$ 94	\$ 128
Option and warrant expense	217	6	211
Legal fees & settlements	21	41	(20)
External services	157	136	21
Insurance	35	35	-
Travel & entertainment	12	6	6
Office rent, communications, misc.	31	16	15
	\$ 695	\$ 334	\$ 361

Interest Expense. Interest expense was \$368,000 for the six months ended June 30, 2011 compared with \$47,000 for the six months ended June 30, 2010 an increase of \$321,000 from the prior period. This increase is primarily due to interest on the new lending arrangement that closed in February 2011 and the accretion and amortization of the related debt discount and deferred financing costs.

Loss From Continuing Operations. The loss from continuing operations increased by \$536,000 to \$1,036,000 for the six months ended June 30, 2011 compared to a loss from continuing operations of \$500,000 for the six months ended June 30, 2010. This increase is primarily due to the stock compensation expense associated with the granting of options in February 2011 and higher interest expense on the new lending arrangement that closed in February 2011.

Income (Loss) From Discontinued Operations. Loss from discontinued operations was \$3,700 for the six months ended June 30, 2011 compared to income from discontinued operations of \$9,500 for the six months ended June 30, 2010.

Net Loss. Net loss increased by \$549,000 to a net loss of \$1,039,000 for the six months ended June 30, 2011 compared to a net loss of \$490,000 for the six months ended June 30, 2010. This increase is primarily due to the stock compensation expense associated with the granting of warrants in June 2011 and higher interest expense on the new lending arrangement that closed in February 2011, offset by the revenues generated during the six months ended June

30, 2011.

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Liquidity and Capital Resources

We have no current commitment from our officers and Directors or any of our shareholders to supplement our operations or provide us with financing in the future. In the future, we may be required to seek additional capital by selling debt or equity securities, selling assets or partial interests in oil and gas properties, or otherwise be required to bring cash flows in balance when we approach a condition of cash insufficiency. The sale of additional equity or debt securities, if accomplished, may result in dilution to our then shareholders. We provide no assurance that financing will be available in amounts or on terms acceptable to us, or at all. As of June 30, 2011, we had unrestricted cash of approximately \$59,000.

Blast had total current assets of \$1.8 million as of June 30, 2011, including cash of \$59,000 and restricted cash of \$100,000, compared to total current assets of \$1.9 million as of December 31, 2010, including a cash balance of \$373,000. Under the terms of the lending arrangement, Blast must keep a minimum balance of \$100,000 in a control account which is represented on the balance sheet as restricted cash.

Blast had total assets as of June 30, 2011 of \$5.3 million compared to total assets of \$3.6 million as of December 31, 2010. Included in total assets as of June 30, 2011 were \$1.2 million of proved oil and gas properties subject to amortization, and \$2.0 million of unproved oil and gas properties not subject to amortization.

Blast had total liabilities of \$4.4 million as of June 30, 2011, including current liabilities of \$3.3 million, compared to total liabilities of \$2.1 million as of December 31, 2010, including current liabilities of \$1 million.

Blast had a working capital deficit of \$1.5 million, total stockholders' equity of \$0.9 million and a total accumulated deficit of \$75.1 million as of June 30, 2011, compared to net working capital of \$0.9 million, total stockholders' equity of \$1.5 million and a total accumulated deficit of \$74.1 million as of December 31, 2010. The reduction in equity is attributable to the net loss of \$1 million for the six months ended June 30, 2011, partially offset by the issuance of common stock for the payment of deferred board fees and the granting of options to management in February 2011.

A secured \$1.12 million note with Berg McAfee Companies, LLC remains outstanding as of June 30, 2011. The note, which was extended for an additional three years from the effective date of our Second Amended Plan of Reorganization (February 27, 2008) to February 27, 2011, bears interest at 8% per annum, and contained an option to convert into shares of the Company's common stock at the rate of one share of common stock for each \$0.20 of the note outstanding. In January 2011, BMC agreed to revise and amend the terms of the note to extend the maturity date of such note from February 27, 2011, to February 27, 2013, to increase the amount of notice the Company is required to provide BMC in the event the Company desires to prepay the note from five (5) days to thirty (30) days), to subordinate the security for such note to the Company's obligations due to and in connection with the drilling and completion of the Guijarral Hills development project, and to reduce the conversion rate for amounts outstanding under the Note from \$0.20 per share of the Company's common stock to a rate of \$0.08 per share.

On February 24, 2011, Blast entered into a Note Purchase Agreement (the "Purchase Agreement") and related agreements (as described above in Note 7) with a Third Party (the "Investor") to fund its Guijarral Hills project and to repay the Sun promissory note. Pursuant to the Purchase Agreement, Blast agreed with the Investor to enter into Secured Promissory Notes in the aggregate principal amount of up to \$2,522,111, with a Senior Secured Promissory Note in the amount of \$2,111,111 (the "First Note") delivered to the Investor at the Closing and a second Note delivered in April 2011 in the amount of \$411,000.

In December 2009, Blast, through a wholly-owned Delaware subsidiary, Blast AFJ, began a private placement offering of the Series A Preferred Stock of its subsidiary corporation to “accredited” investors and “non-U.S. persons” as such terms are defined under the Securities Act of 1933, as amended. Pursuant to the offering, the subsidiary offered up to 10,000,000 shares of its Series A Preferred Stock at a purchase price of \$2.50 per share (\$25,000,000 in total). Each share of the subsidiary’s Series A Preferred Stock is convertible into one share of Blast’s common stock at any time, and automatically converts into shares of Blast’s common stock on the tenth anniversary of the issuance of the Series A Preferred Stock. The offering was in connection with the United States Citizenship and Immigration Service (“USCIS”) EB-5 Program, pursuant to which Blast AFJ was formed as a development stage fossil fuel extraction company, to manage the manufacturing and operation of well drilling units or rigs within the geographic area of a regional center designated by the USCIS pursuant to the EB-5 Immigrant Investor Program. To date, no shares of Series A Preferred Stock of Blast’s subsidiary have been sold and no funds have been raised. Blast intends to include additional disclosure regarding the offering and the business plan of its wholly-owned subsidiary at such time as any securities have been sold in the offering.

In May 2011, Blast obtained a \$100,000 loan from Clyde Berg, who is affiliated with Berg McAfee Companies (“BMC”), the Company’s largest shareholder. The loan bears interest at the rate of 25% per annum. The loan is evidenced by a promissory note payable on May 18, 2012. The loan is guaranteed by Eric McAfee, another affiliate of BMC. The proceeds from this loan will be used to partially cover the cost of testing operations on the Solimar 76-33 well.

In addition to this note, Blast is planning to raise additional capital to cover Blast’s share of the remaining costs to continue testing the Solimar 76-33 well, or approximately \$200,000. We can provide no assurance that financing will be available in amounts or on terms acceptable to us, or at all. If we are unable to fully contribute to our share of the testing costs, then our net revenue interest in the Solimar 76-33 well may be subject to change.

Cash Flows From Operating Activities. Blast had net cash used in operating activities of approximately \$154,000 for the six months ended June 30, 2011 which was mainly due to \$1 million of loss from continuing operations, partially offset by \$217,000 of option and warrant expense, changes in \$58,000 of accounts receivable, \$168,000 of accrued expenses and \$146,000 of amortization of debt discount.

Cash Flows from Investing Activities. Blast had net cash used in investing activities of \$1,879,000 for the six months ended June 30, 2011 primarily related to cash paid for oil and gas properties and for the Solimar 76-33 well.

Cash Flows from Financing Activities. Blast had net cash provided from financing activities of \$1,720,000 for the six months ended June 30, 2011 which was mainly due to borrowings on short-term debt of 2,253,000, in connection with amounts borrowed under the First Note and Second Note, partially offset by payments on short-term debt of \$305,000, payments for deferred financing costs of \$136,000, and restricted cash of \$100,000.

Recent Accounting Pronouncements

For the period ended June 30, 2011, there were no other changes to our critical accounting policies as identified in our annual report on Form 10-K for the year ended December 31, 2010.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not Applicable.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit to the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Securities Exchange Act"), is recorded, processed, summarized, and reported within the time periods specified by the Securities and Exchange Commission's rules and forms, and that information is accumulated and communicated to our management, including our principal executive and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Our management evaluated, with the participation of our principal executive and principal financial officer, the effectiveness of our disclosure controls and procedures as of June 30, 2011, pursuant to Rule 13a-15(b) under the Securities Exchange Act. Based upon that evaluation, our principal executive and principal financial officer concluded that, as of June 30, 2011, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We will continue to evaluate the effectiveness of internal controls and procedures on an on-going basis.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

Quicksilver Resources Lawsuit

In September 2008, Blast and Eagle Domestic Drilling Operations LLC, our wholly-owned subsidiary (“Eagle”), entered into a Compromise Settlement and Release Agreement with Quicksilver Resources, Inc. (“Quicksilver”) in the Court to resolve the pending litigation and the parties agreed to release all claims against one another and certain related parties. Quicksilver agreed to pay Eagle a total of \$10 million of which \$8 million has been received to date. The remaining amount due from Quicksilver is \$2 million (\$1.44 million net of associated legal fees) payable on or before September 2011, the third anniversary date of the execution of the settlement. In the event any fees are not paid on their due date and Quicksilver’s failure to pay is not cured within ten days after written notice, then all of the remaining payments immediately become due and payable. The remaining amounts due from Quicksilver are shown as a current and long-term receivable in the balance sheet, net of contingent legal fees.

General

Other than the aforementioned matters, Blast is not aware of any other pending or threatened legal proceedings. The foregoing is also true with respect to each officer, director and control shareholder as well as any entity owned by any officer, director and control shareholder, over the last five years.

As part of its regular operations, Blast may become party to various pending or threatened claims, lawsuits and administrative proceedings seeking damages or other remedies concerning its’ commercial operations, products, employees and other matters. Although Blast can give no assurance about the outcome of these or any other pending legal and administrative proceedings and the effect such outcomes may have on Blast, except as described above, Blast believes that any ultimate liability resulting from the outcome of such proceedings, to the extent not otherwise provided for or covered by insurance, will not have a material adverse effect on Blast’s financial condition or results of operations.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in the registrant’s Form 10-K for the fiscal year ended December 31, 2010, filed with the Commission on April 12, 2011.

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

In November 2010, Blast entered into a non-exclusive Placement Agent Agreement with Trident Partners Ltd. (“Trident” and the “Placement Agreement”). Pursuant to the Placement Agreement, Trident agreed to assist Blast in raising capital in a private offering. In connection with Blast’s entry into a Placement Agreement, Blast granted certain affiliates of Trident warrants, exercisable for one year from the date of the agreement, to purchase up to 750,000 shares of Blast’s common stock at an exercise price of \$0.01 per share. In January 2011, the holders of the warrants exercised warrants to purchase 600,000 shares of common stock and purchased 600,000 shares of Blast’s restricted common stock in consideration for \$6,000. Subsequently in March 2011, the holders exercised the remaining warrants to purchase 150,000 shares of common stock and purchased 150,000 shares of Blast's restricted common stock in consideration for \$1,500.

In connection with the Placement Agreement, Blast also agreed to provide Trident a cash fee of 10% of the proceeds received from the sale of any equity or equity-linked securities to any party introduced by Trident (each an “Investor”);

warrants to purchase shares of common stock equal to 10% of the total number of shares of common stock sold or granted in connection with any funding (on similar terms as the Placement Warrants); and Blast agreed to grant Trident a net revenue interest equal to 10% of any interest Blast provided to any Investors in any closing (the “Placement Fees”). The requirement to pay the Placement Fees in connection with any subsequent investment by an Investor continues in effect for 12 months following the expiration of the Placement Agreement, which Placement Agreement had a term of three months.

In May 2011, Blast and the Placement Agent entered into an amendment to the Placement Agreement whereby Trident agreed to accept two year warrants to purchase up to 400,000 shares of the Company’s common stock at an exercise price of \$0.01 per share in lieu of the net revenue interest they were to be due pursuant to the terms of the original Placement Agreement. Furthermore, the amendment provided that in the event additional investments are made which fall under the Placement Agreement, Trident would be granted additional warrants similar to the warrants granted pursuant to the amendment, pro rata with the original amount of funding raised.

In April 2011, Blast and the Investor entered into the Second Note (as described above).

Blast claims an exemption from registration afforded by Section 4(2) of the Securities Act of 1933, as amended (the “Act”) for the above grants, issuances and sales, since the transactions involving such grants, issuances and sales did not involve a public offering, the recipients took the securities for investment and not resale, and Blast took appropriate measures to restrict transfer.

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

Item 5. Other Information.

None.

Item 6. Exhibits

Exhibit No.	Description
Exhibit 3.1	Amended and Restated Certificate of Designation of Series A Preferred Stock Filed January 13, 2011 with the SEC, Form 8-K
Exhibit 3.2	Certificate of Designation of Blast’s Series B Preferred Stock Filed March 2, 2011 with the SEC, Form 8-K
Exhibit 10.1	Asset Purchase Agreement with GlobaLogix, Inc. Filed on January 5, 2011 with the SEC, Form 8-K
Exhibit 10.2	Amendment No. 1 to 2008 Promissory Note with Berg McAfee Companies, LLC Filed on January 13, 2011 with the SEC, Form 8-K
Exhibit 10.3	Amendment No. 1 to 2008 Promissory Note with BMC Filed January 13, 2011 with the SEC, Form 8-K
Exhibit 10.4	Note Purchase Agreement Filed March 2, 2011 with the SEC, Form 8-K
Exhibit 10.5	Senior Secured Promissory Note (First Tranche) Filed March 2, 2011 with the SEC, Form 8-K

Exhibit 10.6 Senior Secured Promissory Note (Second Tranche)
Filed April 4, 2011 with the SEC, Form 10-K

Exhibit 10.7 Guaranty
Filed March 2, 2011 with the SEC, Form 8-K

Exhibit 10.8 Security Agreement
Filed March 2, 2011 with the SEC, Form 8-K

Exhibit 10.9	Stock Purchase Agreement Filed March 2, 2011 with the SEC, Form 8-K
Exhibit 10.10	Royalty Payment Letter Filed March 2, 2011 with the SEC, Form 8-K
Exhibit 10.11	Subordination and Intercreditor Agreement Filed March 2, 2011 with the SEC, Form 8-K
Exhibit 10.12	Placement Agent Agreement Filed March 2, 2011 with the SEC, Form 8-K
Exhibit 10.13*	Placement Agent Agreement – First Amendment
Exhibit 10.14*	Placement Agent Agreement – Second Amendment
Exhibit 31.1*	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101.INS** (#)	XBRL Instance Document
Exhibit 101.SCH ** (#)	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL ** (#)	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.DEF ** (#)	XBRL Taxonomy Extension Definition Linkbase Document
	XBRL Taxonomy Extension Label Linkbase Document

Exhibit
101.LAB **
(#)

Exhibit XBRL Taxonomy Extension Presentation Linkbase Document

101.PRE **
(#)

* Filed herewith

**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.

(#) To be filed by an Amendment to this Quarterly Report on Form 10-Q within 30 days of the filing date of this report pursuant to Rule 405(a)(2)(ii) of Regulation S-T.

SIGNATURES

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

Blast Energy Services, Inc.

Date: August 22, 2011

By: /s/ Michael L. Peterson
Michael L. Peterson
Interim President and CEO
(Principal Executive Officer)

Date: August 22, 2011

By: /s/ John MacDonald
John MacDonald
Chief Financial Officer
(Principal Accounting Officer)