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, 2011

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

For the transition period from ______ to ______

000-53725
(Commission file number)

Blast Energy Services, Inc.
(Exact name of registrant as specified in its charter)

Texas **(State or other jurisdiction of incorporation or organization)**	**22-3755993** **(IRS Employer Identification No.)**

14550 Torrey Chase Blvd, Suite 330
Houston, Texas 77014
(Address of principal executive offices)

(281) 453-2888
(Issuer's telephone number)

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, and 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** ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.

Yes ☐ **No** ☒

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes ☒ **No** ☐

As of November 14, 2011, 71,425,905 shares of the registrant's common stock, $0.001 par value per share, were outstanding, including 1,150,000 approved but unissued shares arising from the class action settlement from 2005.

Blast Energy Services, Inc.

For the Nine Months Ended September 30, 2011

INDEX

PART I – FINANCIAL INFORMATION		**Page**
Item 1.	Financial Statements	
	Unaudited Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010	F-1
	Unaudited Consolidated Statements of Operations For the Three and Nine Months Ended September 30, 2011 and 2010	F-2
	Unaudited Consolidated Statements of Cash Flows For the Nine Months Ended September 30, 2011 and 2010	F-3
	Notes to Unaudited Consolidated Financial Statements	F-4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	22
Item 4.	Controls and Procedures	22
PART II – OTHER INFORMATION		
Item 1.	Legal Proceedings	23
Item 1A.	Risk Factors	23
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	24
Item 3.	Defaults Upon Senior Securities	24
Item 4.	(Removed and Reserved)	24
Item 5.	Other Information	24
Item 6.	Exhibits	24
Signatures		27

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

BLAST ENERGY SERVICES, INC.
CONSOLIDATED BALANCE SHEETS
(unaudited)

	September 30, 2011	December 31, 2010
Assets		
Current Assets:		
Cash	$ 38,786	$ 373,470
Restricted cash	100,000	0
Accounts receivable, net	3,894	19,466
Prepaid and other assets	89,748	36,203
Other current receivable	0	1,440,000
Total Current Assets	232,428	1,869,139
Non-Current Assets:		
Oil and gas properties – full cost method		
Proved oil and gas properties, subject to amortization	1,191,396	1,191,488
Unproved oil and gas properties, not subject to amortization	2,302,489	0
Less: accumulated depletion and impairment	(129,892)	(69,432)
Total oil and gas properties, net	3,363,993	1,122,056
Equipment, net of accumulated depreciation and impairment of $782,420 and $751,386	412,085	470,776
Option on oil and gas properties	0	100,000
Assets from discontinued operations – held for sale	0	65,626
Total Assets	$ 4,008,506	$ 3,627,597
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 111,993	$ 29,575
Accrued expenses	858,921	447,173
Accrued expenses – related party	331,775	255,397
Note payable – related party	106,150	0
Note payable – other	22,004	4,400
Note payables – other, net of discount of $65,873 and $14,028	1,209,194	255,972
Total Current Liabilities	2,640,037	992,517
Long-Term Liabilities:		
Notes payable – related party	1,120,000	1,120,000
Asset retirement obligations	12,340	10,862
Total Liabilities	3,772,377	2,123,379
Stockholders' Equity:		
Preferred stock, $0.001 par value, 20,000,000 shares authorized:		
Series A - 6,000,000 shares issued and outstanding	6,000	6,000
Series B – zero shares issued and outstanding	0	0
Common stock, $0.001 par value, 180,000,000 shares authorized; 71,425,905 and 67,909,238 shares issued and outstanding	71,426	67,909
Additional paid-in capital	75,962,396	75,492,738
Accumulated deficit	(75,803,693)	(74,062,429)
Total Stockholders' Equity	236,129	1,504,218
Total Liabilities and Stockholders' Equity	$ 4,008,506	$ 3,627,597

See accompanying notes to unaudited consolidated financial statements.

BLAST ENERGY SERVICES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Nine Months Ended September 30, 2011 and 2010
(unaudited)

	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2010
Revenue:	$ 95,942	$ 0	$ 339,011	$ 0
Operating Expenses:				
Cost of sales - services	989	27,634	7,869	77,523
Lease operating costs	65,385	-	200,957	-
Selling, general and administrative expense	181,449	147,027	876,709	480,764
Depreciation - services	15,332	31,993	46,174	103,729
Depletion and amortization – oil and gas	20,814	0	60,460	0
Accretion expense	555	0	1,570	0
(Gain) Loss on disposal of equipment	(3,900)	(3,667)	(2,585)	(3,667)
Total operating expenses	280,624	202,987	1,191,154	658,349
Operating Loss	(184,682)	(202,987)	(852,143)	(658,349)
Other income (expense):				
Other income	0	84	0	2,158
Interest income	0	0	0	16
Interest expense	(517,359)	(23,716)	(885,434)	(70,273)
Total other income (expense)	(517,359)	(23,632)	(885,434)	(68,099)
Loss from continuing operations	(702,041)	(226,619)	(1,737,577)	(726,448)
Income (Loss) from discontinued operations	0	(5,235)	(3,686)	4,240
Net Loss	$ (702,041)	$ (231,854)	$ (1,741,263)	$ (722,208)
Preferred dividends	60,493	60,493	179,507	179,507
Net loss attributable to common shareholders	$ (762,534)	$ (292,347)	$ (1,920,770)	$ (901,715)
Net income (loss) per common share – Basic:				
Continuing operations	$ (0.01)	$ (0.00)	$ (0.02)	$ (0.01)
Discontinued operations	0.00	0.00	0.00	0.00
Net 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	0.00	0.00	0.00	0.00
Net loss	$ (0.01)	$ (0.00)	$ (0.02)	$ (0.01)
Weighted average common shares outstanding-				
Basic	71,425,905	62,561,412	70,936,406	62,110,366
Diluted	71,425,905	62,561,412	70,936,406	62,110,366

See accompanying notes to unaudited consolidated financial statements.

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

	2011	2010
Cash Flows From Operating Activities:		
Net loss	$ (1,741,263)	$ (722,208)
(Income) loss from discontinued operations	(3,686)	4,240
Income (Loss) from continuing operations	$ (1,737,577)	$ (726,448)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	46,174	103,729
Depletion and amortization – oil and gas	60,460	0
Accretion of asset retirement obligation	1,570	0
Amortization of debt discount	317,257	348
Amortization of deferred financing costs	205,086	0
Option and warrant expense	216,675	7,328
Gain on disposition of equipment	(2,585)	(3,667)
Changes in operating assets and liabilities:		
Accounts receivable	81,198	42,655
Prepaid expenses and other current assets	60,938	52,931
Accounts payable	75,984	(16,487)
Accrued expenses	237,910	102,977
Accrued expenses – related party	76,378	67,200
Deferred revenue	0	205
Net Cash Used In Continuing Operating Activities	(360,532)	(369,229)
Net Cash Provided By (Used In) Discontinued Operating Activities -	(3,686)	1,405,314
Net Cash Used In Operating Activities	(364,218)	1,036,085
Cash Flows From Investing Activities:		
Proceeds from sale of fixed assets	15,100	45,000
Cash paid for oil and gas properties	(1,890,489)	(600,000)
Net Cash Used In Investing Activities	(1,875,389)	(555,000)
Cash Flows From Financing Activities:		
Proceeds from settlement	1,440,000	0
Payments on short-term debt	(1,563,546)	(65,487)
Borrowings on short-term debt	2,153,009	0
Borrowings on short-term debt – related party	106,150	
Cash paid for deferred financing costs	(138,190)	0
Restricted cash	(100,000)	0
Proceeds from exercise of warrants	7,500	0
Net Cash Provided By (Used In) Financing Activities	1,904,923	(65,487)
Net change in cash	(334,684)	415,598
Cash at beginning of period	373,470	261,164
Cash at end of period	$ 38,786	$ 676,762
Cash paid for:		
Interest	$ 286,714	$ 2,725
Income taxes	0	0
Non-Cash Transactions:		
Accrued additions to unproved oil and gas properties	312,000	0
Prepaid insurance financed with note payable	65,373	69,735
Common stock issued for accrued liabilities	249,000	14,800
Common stock issued for acquisition of oil and gas properties	0	300,000
Note payable issued for acquisition of oil and gas properties	0	281,098

See accompanying notes to unaudited consolidated financial statements.

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 Guijarral 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 are 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 September 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 September 30, 2011 and December 31, 2010, Blast determined that no allowance for doubtful accounts was required. During the nine months ended September 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 nine month periods ended September 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 September 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 nine months ended September 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 1,610,883 and 1,763,414 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 $39,000, current assets of approximately $0.2 million and stockholders' equity of approximately $0.2 million as of September 30, 2011. Blast had a loss from continuing operations of approximately $1.7 million for the nine months ended September 30, 2011 and an accumulated deficit at September 30, 2011 of approximately $75.8 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	September 30, 2011	December 31, 2010
Computer equipment	3 years	$ 7,988	$ 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		1,194,505	1,222,162
Less:			
Accumulated depreciation		(328,338)	(297,304)
Impairment – AFJ Rig		(454,082)	(454,082)
Equipment, net		$ 412,085	$ 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 is the 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 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 nine months ended September 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 September 30		**Nine months ended September 30**
Revenues	$	118,798	$	348,041
Net Loss	$	(190,789)	$	(623,600)
Net loss per share – basic and diluted	$	(0.00)	$	(0.01)
Weighted average shares outstanding		62,561,412		62,110,366

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 76-33 well in the Guijarral 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 76-33 well is reported in the balance sheet under "Unproved oil and gas properties, not subject to amortization."

NOTE 7 – NOTES PAYABLE – RELATED PARTY AND OTHER

Related Party Transactions

Related Party Advances
The Company was advanced $2,050 from Michael Peterson, Interim President and CEO and $2,050 each from Pat Herbert and Don Boyd, directors of the Company, for the purpose of paying the Company's Director & Officers' insurance premiums for the month of September 2011. These advances are noninterest bearing, unsecured and are due on demand.

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 $9,178 at September 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 Guijarral 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.

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 $322,597 at September 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 nine months ended September 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 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 $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 Guijarral Hills Exploitation Project. This minimum cash balance is shown as restricted cash in the accompanying balance sheet at September 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. The Warrant was granted in October 2011. As a result of this warrant issuance and under the terms of the finder fee agreement with Trident Partners, they have earned 1,200,000 warrants under the same terms. Those warrants have not yet been issued.

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, with interest only payments due on the first day of each month beginning in March 2011, and the principal 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%.

<u>Second Note</u>
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.

<u>Guaranty and Security Agreement</u>
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.

<u>Stock Purchase Agreement</u>
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.

<u>Royalty Payment Letter</u>
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 Guijarral Hills Test Well and uncertainty around its ultimate commercial viability.

<u>First and Second Note Interest</u>
As of September 30, 2011, Blast had paid interest in the amount of $135,291 and had accrued interest payable under the First and Second Notes (reflected as Accrued expenses in the accompanying balance sheet) of $0 at September 30, 2011.

<u>Principal Payment</u>
During September 2011, using a portion of the proceeds from the $1.4 million in funds received from Quicksilver Resources as discussed further in Note 11, Blast paid a total of $1,410,000 to the Investor, which was allocated as follows:

- $1,247,044 was applied against principal amounts due the Investor under the First Note;
- $13,311 was applied against amounts due for accrued interest under the First and Second Notes; and
- $149,645 was paid to the Investor for the Exit Fee of 12% discussed above and which has been treated as additional interest expense for the three and nine months ended September 30, 2011 in the accompanying financial statements.

During the three and nine months ended September 30, 2011, Blast also recognized:

- Interest expense of $171,073 and $317,257, respectively, related to the accretion of the debt discount applicable to the First and Second Notes and the expensing of the remaining debt discount associated with the portion of the First Note that was repaid during the period.
- Interest expense of $115,556 and $205,086, respectively, for the amortization of the deferred financing costs related to the First and Second Notes and the expensing of the remaining deferred financing costs associated with the portion of the First Note that was repaid during the period.

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 September 30, 2011.

As of September 30, 2011, the aggregate and per share arrearages on the outstanding Preferred Stock were $912,658, and $0.15, 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 September 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 September 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 nine month period ended September 30, 2011, the Company recognized share-based compensation expense of $171,997. The remaining amount of unamortized options expense at September 30, 2011 is $-0-. The intrinsic value of outstanding as well as exercisable options at September 30, 2011 was $-0-.

Activity in options during the nine month period ended September 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	0	0	
Forfeited and cancelled	0	0	
Outstanding at September 30, 2011	4,358,792	$ 0.37	6.1
Exercisable at September 30, 2011	4,358,792	$ 0.37	6.1

Warrants

On February 24, 2011, Blast and a third party lender (the "Investor") entered into that certain Note Purchase Agreement which provided 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 was subsequently granted in October 2011. The Warrant has a term of two years, and provides 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 further contained various anti-dilution protections and had an exercise price equal to the weighted average of the trading price of Blast's common stock over the ten day period prior to the grant date. As a result of this issuance and under the terms of the finder fee agreement with Trident Partners, they have earned 1,200,000 warrants under the same terms. Those warrants have not yet been issued.

On October 7, 2011, Blast and the Investor amended the Warrant in exchange for certain mutual promises and covenants and for consideration of $30,000 paid by the Investor to Blast. The amendments included that the exercise price shall thereafter be $0.01 per share, and may be further reduced with the previous anti-dilutive protective provisions, but in no event shall it be greater than $0.01 per share, unless certain events occur, including the merger of Blast with an operating company (a "Merger Event"). Further, in the event a Merger Event occurs, the Investor has waived its price-based anti-dilution protection (if Blast sells its securities lower than the exercise price of the warrants) and anti-dilution protection for compensatory issuances (in amounts in excess of 7,000,000 shares of Common Stock).

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 nine month period ended September 30, 2011, the Company recognized share-based compensation expense of $44,528. The remaining amount of unamortized warrant expense at September 30, 2011 was $-0-. The intrinsic value of outstanding as well as exercisable warrants at September 30, 2011 was $78,204.

Activity in warrants during the nine months ended September 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	12,245,089	$ 0.84	
Granted	400,000	0.01	
Exercised	(750,000)	0.01	
Expired	(2,000,000)	0.10	
Forfeited and cancelled	0	0	
Outstanding at September 30, 2011	9,895,089	$ 0.98	1.8
Exercisable at September 30, 2011	9,895,089	$ 0.98	1.8

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 and final amount due from Quicksilver of $2 million ($1.44 million net of associated legal fees) was paid in September 2011, the third anniversary date of the execution of the settlement.

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 September 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.

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 nine months ended September 30, 2011 and 2010, respectively:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Oil and Gas Production	$ 95,942	$ 0	$ 339,011	$ 0
Down-hole Solutions	0	0	0	0
Total Revenue	$ 95,942	$ 0	$ 339,011	$ 0
Oil and Gas Production	$ 65,385	$ 0	$ 200,957	$ 0
Down-hole Solutions	989	27,634	7,869	77,523
Corporate	214,250	175,353	982,328	580,826
Total Costs of Goods Sold	$ 280,624	$ 202,987	$ 1,191,154	$ 658,349
Oil and Gas Production	$ 30,557	$ 0	$ 138,054	$ 0
Down-hole Solutions	(989)	(27,634)	(7,869)	(77,523)
Corporate	(214,250)	(175,353)	(982,328)	(580,826)
Operating Loss	$ (184,682)	$ (202,987)	$ (852,143)	$ (658,349)

NOTE 13 – DISCONTINUED OPERATIONS

On December 30, 2010, Blast entered into an Asset Purchase Agreement with GlobaLogix, Inc. ("GlobaLogix" 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 GlobaLogix in consideration for (a) $50,000; and (b) GlobaLogix agreeing to assume any and all liabilities, obligations and rights associated with the Satellite Contracts. Additionally, GlobaLogix 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 GlobaLogix in connection with the Satellite Communications services in the United States or attempt to solicit any employees from GlobaLogix 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 nine months ended September 30, 2011 and 2010 is as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues	$ 0	$ 31,535	$ 0	$ 185,561
Operating Expenses:				
Cost of sales	0	35,162	0	175,268
Selling, general and administrative	0	1,608	0	6,053
Bad debts expense	0	-	3,686	0
Total operating expenses	0	36,770	(3,686)	181,321
Net income (loss) from discontinued operations	$ 0	$ (5,235)	$ (3,686)	$ 4,240

At September 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

Amended Warrant Agreement

On February 24, 2011, Blast and a third party lender (the "Investor") entered into that certain Note Purchase Agreement which provided 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 was subsequently granted in October 2011. The Warrant has a term of two years, and provides 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 further contained various anti-dilution protections and had an exercise price equal to the weighted average of the trading price of Blast's common stock over the ten day period prior to the grant date.

On October 7, 2011, Blast and the Investor amended the Warrant in exchange for certain mutual promises and covenants and for consideration of $30,000 paid by the Investor to Blast. The amendments included that the exercise price shall hereafter be $0.01 per share, and may be further reduced with the previous anti-dilutive protective provisions, but in any event shall not be greater than $0.01 per share, unless certain events occur, including the merger of Blast with an operating company (a "Merger Event"). Further, in the event a Merger Event occurs, the Investor has waived its price-based anti-dilution protection (if Blast sells its securities lower than the exercise price of the warrants) and anti-dilution protection for compensatory issuances (in amounts in excess of 7,000,000 shares of Common Stock). The amended Warrant is now considered issued and exercisable as of October 7, 2011.

Blast evaluated subsequent events through the date the financial statements were issued, and there were no other 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 September 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. The Company may also consider potential merger opportunities with other oil and gas operators.

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 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 76-33 well in the Guijarral 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 Guijarral 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.

Comparison of the Three Months Ended September 30, 2011 with the Three Months Ended September 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 September 30, 2010. Oil and Gas Properties revenues were $96,000 for the three months ended September 30, 2011. Lease operating costs for Oil and Gas Properties were $65,000. The gross profit from Oil and Gas Properties was $31,000.

Down-hole Solutions. There were no down-hole Solutions' revenues for the three months ended September 30, 2011 or 2010. The loss from Down-hole Solutions decreased by $27,000 to $1,000 for the three months ended September 30, 2011 compared to a loss of $28,000 for the three months ended September 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 $17,000 to $15,000 for the three months ended September 30, 2011 as compared to $32,000 for the three months ended September 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 September 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 $34,000 to $181,000 for the three months ended September 30, 2011 compared to $147,000 for the three months ended September 30, 2010. The increase was primarily due to the allocation of payroll to G&A that was previously allocated to other business segments in 2010.

	For the Three Months Ended September 30,		
(in thousands)	2011	2010	Increase (Decrease)
Payroll and related costs	$ 83	$ 53	$ 30
Option and warrant expense	0	2	(2)
Legal fees & settlements	4	18	(14)
External services	61	39	22
Insurance	20	21	(1)
Travel & entertainment	6	3	3
Office rent, communications, misc.	7	11	(4)
	$ 181	$ 147	$ 34

Interest Expense. Interest expense was $517,000 for the three months ended September 30, 2011 compared with $24,000 for the three months ended September 30, 2010, an increase of $493,000 from the prior period. This increase is primarily due to interest incurred on the new lending arrangement that closed in February 2011, the accretion and amortization of the related debt discount and deferred financing costs, the expensing of the portion of the debt discount and deferred financing costs associated with the principal payment during the 2011 period as well as the Exit Fee associated with a principal payment of $149,645.

Loss From Continuing Operations. The loss from continuing operations increased by $475,000 to $702,000 for the three months ended September 30, 2011 compared to a loss from continuing operations of $227,000 for the three months ended September 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 September 30, 2011.

Loss From Discontinued Operations. Loss from discontinued operations was $-0- for the three months ended September 30, 2011 compared to a loss from discontinued operations of $5,000 for the three months ended September 30, 2010.

Net Loss. Net loss increased by $470,000 to a net loss of $702,000 for the three months ended September 30, 2011 compared to a net loss of $232,000 for the three months ended September 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 Nine Months Ended September 30, 2011 with the Nine Months Ended September 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 nine months ended September 30, 2010. Oil and Gas Properties revenues were $339,000 for the nine months ended September 30, 2011. Lease operating costs for Oil and Gas Properties were $201,000. The gross profit from Oil and Gas Properties was $138,000.

Down-hole Solutions. There were no down-hole Solutions' revenues for the nine months ended September 30, 2011 or 2010. The loss from Down-hole Solutions decreased by $70,000 to $8,000 for the nine months ended September 30, 2011 compared to a loss of $78,000 for the nine months ended September 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 $58,000 to $46,000 for the nine months ended September 30, 2011 as compared to $104,000 for the nine months ended September 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 $60,000 for the nine months ended September 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 $396,000 to $877,000 for the nine months ended September 30, 2011 compared to $481,000 for the nine months ended September 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.

	For the Nine Months Ended September 30,		
(in thousands)	2011	2010	Increase (Decrease)
Payroll and related costs	$ 306	$ 148	$ 158
Option and warrant expense	217	7	210
Legal fees & settlements	26	59	(33)
External services	229	175	54
Insurance	54	56	(2)
Travel & entertainment	18	10	8
Office rent, communications, misc.	27	26	1
	$ 877	$ 481	$ 396

Interest Expense. Interest expense was $885,000 for the nine months ended September 30, 2011 compared with $70,000 for the nine months ended September 30, 2010 an increase of $815,000 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, the expensing of the portion of the debt discount and deferred financing costs associated with the principal payment during the 2011 period as well as the Exit Fee associated with a principal payment of $149,645.

Loss From Continuing Operations. The loss from continuing operations increased by $1,012,000 to $1,738,000 for the nine months ended September 30, 2011 compared to a loss from continuing operations of $726,000 for the nine months ended September 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 nine months ended September 30, 2011 compared to income from discontinued operations of $4,000 for the nine months ended September 30, 2010.

Net Loss. Net loss increased by $1,019,000 to a net loss of $1,741,000 for the nine months ended September 30, 2011 compared to a net loss of $722,000 for the nine months ended September 30, 2010. This increase is primarily due to the stock compensation expense associated with the granting of warrants in September 2011 and higher interest expense on the new lending arrangement that closed in February 2011, offset by the revenues generated during the nine months ended September 30, 2011.

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 September 30, 2011, we had unrestricted cash of approximately $39,000.

Blast had total current assets of $232,000 as of September 30, 2011, including cash of $39,000 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 September 30, 2011 of $4.0 million compared to total assets of $3.6 million as of December 31, 2010. Included in total assets as of September 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 $3.8 million as of September 30, 2011, including current liabilities of $2.6 million, compared to total liabilities of $2.1 million as of December 31, 2010, including current liabilities of $1.0 million.

Blast had a working capital deficit of $2.4 million, total stockholders' equity of $0.2 million and a total accumulated deficit of $75.8 million as of September 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 $1.7 million for the nine months ended September 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 September 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 $364,000 for the nine months ended September 30, 2011 which was mainly due to $1.7 million of loss from continuing operations, partially offset by $217,000 of option and warrant expense, changes in $81,000 of accounts receivable, $238,000 of accrued expenses and $317,000 of amortization of debt discount and $205,000 of amortization of financing costs.

Cash Flows from Investing Activities. Blast had net cash used in investing activities of $1.9 million for the nine months ended September 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 $1.9 million for the nine months ended September 30, 2011 which was mainly due to borrowings on short-term debt of 2,153,000, in connection with amounts borrowed under the First Note and Second Note and proceeds from the settlement in connection with amounts we received from the Quicksilver litigation of $1.4 million, partially offset by payments on short-term debt of $1.6 million, payments for deferred financing costs of $138,000, and restricted cash of $100,000.

Recent Accounting Pronouncements

For the period ended September 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 September 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 September 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 and final amount due from Quicksilver of $2 million ($1.44 million net of associated legal fees) was paid in September 2011.

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

Other than as described below, 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.

We Have Been Contacted In Connection With Various Merger And Acquisition Opportunities, Have Entered Into A Non-Binding Term Sheet And May Enter Into A Merger, Acquisition Or Similar Transaction In The Future.

We have been contacted by parties seeking to merge in us and/or acquire us and our securities. We have no definitive agreements in place to merge with or acquire or be acquired by any entity or individual; however, we did enter into a non-binding term sheet with a third party in October 2011, which, if consummated, would result in a change of control and business focus of the Company, provided that no definitive agreements have been entered into to date in connection with such term sheet. In the event that we do enter into and/or consummate a transaction, merger and/or acquisition with a separate entity or individual(s) in the future, our majority shareholders will likely change and new shares of common or preferred stock could be issued resulting in substantial dilution to our then current shareholders. As a result, our new majority shareholders will likely change the composition of our Board of Directors and replace our current management. The new management will likely change our business focus and we can make no assurances that our new management will be able to properly manage our direction or that this change in our business focus will be successful. If we do enter into a transaction, merger or acquisition, and our new management fails to properly manage and direct our operations, we may be forced to scale back or abandon our operations, which will cause the value of our common stock to decline or become worthless. Additionally, as a result of any transaction we may take on significant additional debt or liabilities and/or take on the obligations of any entities or individuals we enter into transactions with. As described above, other than the non-binding term sheet, we have not entered into any definitive agreements or understandings as of the date of this filing in connection with a change of control or business combination. We plan to file a Form 8-K disclosing the material terms of any definitive agreements or understandings we enter into in the future in connection with the term sheet, a change in control, merger or acquisition.

In The Event We Enter Into A Merger Or Acquisition Transaction In The Future And We Are Unable To Close Such Transaction, We May Be Unable To Continue Our Business Operations Without Significant Additional Funding.

In the event we enter into a merger or acquisition agreement in the future, including, but not limited to the transactions contemplated by our October 2011 non-binding term sheet, we will be forced to expend significant resources and funding in anticipation of such merger or acquisition transaction, which funding may not be available on favorable terms, if at all. In the event we move forward with and expend resources on a merger or acquisition transaction in the future and such transaction is ultimately not consummated, we may not have sufficient resources to continue our business plan or prepare and file our quarterly and annual reports and may be forced to cease filing reports with the Securities and Exchange Commission or seek bankruptcy protection. As a result, our securities may become devalued or worthless.

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

On February 24, 2011, Blast and a third party lender (the "Investor") entered into that certain Note Purchase Agreement which provided 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 was subsequently granted in October 2011. The Warrant has a term of two years, and provides 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 further contained various anti-dilution protections and had an exercise price equal to the weighted average of the trading price of Blast's common stock over the ten day period prior to the grant date.

On October 7, 2011, Blast and the Investor amended the Warrant in exchange for certain mutual promises and covenants and for consideration of $30,000 paid by the Investor to Blast. The amendments included that the exercise price shall thereafter be $0.01 per share, and may be further reduced with the previous anti-dilutive protective provisions, but in no event shall it be greater than $0.01 per share, unless certain events occur, including the merger of Blast with an operating company (a "Merger Event"). Further, in the event a Merger Event occurs, the Investor has waived its price-based anti-dilution protection (if Blast sells its securities lower than the exercise price of the warrants) and anti-dilution protection for compensatory issuances (in amounts in excess of 7,000,000 shares of Common Stock).

Blast claims an exemption from registration afforded by Section 4(2) of the Securities Act of 1933, as amended (the "Act") for the above grant since the transaction involving such grant did not involve a public offering, the recipient 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 Filed August 22, 2011 with the SEC, Form 10-Q
Exhibit 10.14	Placement Agent Agreement – Second Amendment Filed August 22, 2011 with the SEC, Form 10-Q
Exhibit 10.15*	Warrant Agreement
Exhibit 10.16*	First Amendment to Warrant
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
Exhibit 101.LAB **	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE **	XBRL Taxonomy Extension Presentation Linkbase Document

---

* 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.

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: November 14, 2011	By:	/s/ Michael L. Peterson Michael L. Peterson Interim President and CEO (Principal Executive Officer)
Date: November 14, 2011	By:	/s/ John MacDonald John MacDonald Chief Financial Officer (Principal Accounting Officer)

Exhibit 10.15

THIS WARRANT AND THE SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE SECURITIES LAWS AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS REGISTERED UNDER THE SECURITIES ACT AND UNDER APPLICABLE STATE SECURITIES LAWS OR UNLESS BLAST ENERGY SERVICES, INC. SHALL HAVE RECEIVED AN OPINION OF COUNSEL THAT REGISTRATION OF SUCH SECURITIES UNDER THE SECURITIES ACT AND UNDER THE PROVISIONS OF APPLICABLE STATE SECURITIES LAWS IS NOT REQUIRED.

WARRANT TO PURCHASE

SHARES OF COMMON STOCK

OF

BLAST ENERGY SERVICES, INC.

Expires February 2, 2013

No.: W-1 Number of Shares: 12,000,000
Date of Issuance: February 2, 2011

FOR VALUE RECEIVED, subject to the provisions hereinafter set forth, the undersigned, Blast Energy Services, Inc., a Texas corporation (together with its successors and assigns, the "Issuer"), hereby certifies that XXXXXXX or its registered assigns is entitled to subscribe for and purchase, during the period specified in this Warrant, up to Twelve Million (12,000,000) shares (subject to adjustment as hereinafter provided) of the duly authorized, validly issued, fully paid and non-assessable Common Stock of the Issuer, at an exercise price per share equal to the Warrant Price then in effect, subject, however, to the provisions and upon the terms and conditions hereinafter set forth. Capitalized terms used in this Warrant and not otherwise defined herein shall have the respective meanings specified in Section 9 hereof.

1. Term. The right to subscribe for and purchase shares of Warrant Stock represented hereby shall commence on February 2, 2011 and shall expire at 5:00 p.m., eastern time, on February 2, 2013 (such period being the "Term").

2. Method of Exercise Payment; Issuance of New Warrant; Transfer and Exchange.

(a) Time of Exercise. The purchase rights represented by this Warrant may be exercised in whole or in part at any time and from time to time during the Term commencing on ***[Date of Issuance]***.

(b) Method of Exercise. The Holder hereof may exercise this Warrant, in whole or in part, by the surrender of this Warrant (with the exercise form attached hereto duly executed) at the principal office of the Issuer, and by the payment to the Issuer of an amount of consideration therefor equal to the Warrant Price in effect on the date of such exercise multiplied by the number of shares of Warrant Stock with respect to which this Warrant is then being exercised, payable at such Holder's election (i) by certified or official bank check or by wire transfer to an account designated by the Issuer, (ii) by "cashless exercise" in accordance with the provisions of subsection (c) of this Section 2 (if available), or (iii) by a combination of the foregoing methods of payment selected by the Holder of this Warrant.

(c) Cashless Exercise. Notwithstanding any provisions herein to the contrary, if the Per Share Market Value of one share of Common Stock is greater than the Warrant Price (at the date of calculation as set forth below), and if a registration statement covering any portion of the issuance of the Warrant Stock that is subject to a Notice of Exercise (the "Unavailable Warrant Shares") is not available for the issuance of such Unavailable Warrant Shares, in lieu of exercising this Warrant by payment of cash, the Holder may exercise this Warrant by a cashless exercise and shall receive the number of shares of Common Stock equal to an amount (as determined below) by surrender of this Warrant at the principal office of the Issuer together with the properly endorsed Notice of Exercise in which event the Issuer shall issue to the Holder a number of shares of Common Stock computed using the following formula:

$$X = Y - \frac{(A)(Y)}{B}$$

Where X = the number of shares of Common Stock to be issued to the Holder.

Y = the number of shares of Common Stock purchasable upon exercise of all of the Warrant or, if only a portion of the Warrant is being exercised, the portion of the Warrant being exercised.

A = the Warrant Price.

B = the Per Share Market Value of one share of Common Stock.

Notwithstanding anything herein to the contrary, on the last day of the Term, this Warrant shall be automatically exercised via cashless exercise pursuant to this Section 2(c).

(d) Issuance of Stock Certificates. In the event of any exercise of the rights represented by this Warrant in accordance with and subject to the terms and conditions hereof, (i) certificates for the shares of Warrant Stock so purchased shall be dated the date of such exercise and delivered to the Holder hereof within a reasonable time, not exceeding five (5) Trading Days after such exercise (the "Delivery Date") or, if the Issuer's Securities are eligible for such manner of delivery, then at the request of the Holder, issued and delivered to the Depository Trust Company ("DTC") account on the Holder's behalf via the Deposit Withdrawal Agent Commission System ("DWAC"), within a reasonable time, not exceeding three (3) Trading Days after such exercise, and the Holder hereof shall be deemed for all purposes to be the Holder of the shares of Warrant Stock so purchased as of the date of such exercise and (ii) unless this Warrant has expired, a new Warrant representing the number of shares of Warrant Stock, if any, with respect to which this Warrant shall not then have been exercised (less any amount thereof which shall have been canceled in payment or partial payment of the Warrant Price as hereinabove provided) shall also be issued to the Holder hereof at the Issuer's expense within such time.

(e) Transferability of Warrant. Subject to Section 2(g), this Warrant may be transferred, in whole or in part, by a Holder without the consent of the Issuer, subject to applicable state and federal securities rules and regulations. If transferred pursuant to this paragraph, this Warrant may be transferred on the books of the Issuer by the Holder hereof in person or by the Holder's duly authorized attorney, upon surrender of this Warrant at the principal office of the Issuer, properly endorsed (by the Holder executing an assignment in the form attached hereto), and the Company's counsel reasonably believes that such transfer will be in compliance with state and federal securities laws, and upon payment of any necessary transfer tax or other governmental charge imposed upon such transfer. This Warrant is exchangeable at the principal office of the Issuer for Warrants for the purchase of the same aggregate number of shares of Warrant Stock, each new Warrant to represent the right to purchase such number of shares of Warrant Stock as the Holder hereof shall designate at the time of such exchange. All Warrants issued on transfers or exchanges shall be dated the Original Issue Date and shall be identical with this Warrant except as to the number of shares of Warrant Stock issuable pursuant thereto.

(f) Continuing Rights of Holder. The Issuer will, at the time of or at any time after each exercise of this Warrant, upon the request of the Holder hereof, acknowledge in writing the extent, if any, of its continuing obligation to afford to such Holder all rights to which such Holder shall continue to be entitled after such exercise in accordance with the terms of this Warrant, provided that if any such Holder shall fail to make any such request, the failure shall not affect the continuing obligation of the Issuer to afford such rights to such Holder.

(g) Compliance with Securities Laws.

(i) The Holder of this Warrant, by acceptance hereof, acknowledges that this Warrant and the shares of Warrant Stock to be issued upon exercise hereof are being acquired solely for the Holder's own account and not as a nominee for any other party, and for investment, and that the Holder will not offer, sell or otherwise dispose of this Warrant or any shares of Warrant Stock to be issued upon exercise hereof except pursuant to an effective registration statement, or an exemption from registration, under the Securities Act and any applicable state securities laws.

(ii) Except as provided in paragraph (iii) below, this Warrant and all certificates representing shares of Warrant Stock issued upon exercise hereof shall be stamped or imprinted with a legend in substantially the following form:

THIS WARRANT AND THE SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE SECURITIES LAWS AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS REGISTERED UNDER THE SECURITIES ACT AND UNDER APPLICABLE STATE SECURITIES LAWS OR UNLESS BLAST ENERGY SERVICES, INC. SHALL HAVE RECEIVED AN OPINION OF COUNSEL THAT REGISTRATION OF SUCH SECURITIES UNDER THE SECURITIES ACT AND UNDER THE PROVISIONS OF APPLICABLE STATE SECURITIES LAWS IS NOT REQUIRED.

(iii) The restrictions imposed by this subsection (g) upon the transfer of this Warrant or the shares of Warrant Stock to be purchased upon exercise hereof shall terminate (A) when such securities shall have been resold pursuant to an effective registration statement under the Securities Act, (B) upon the Issuer's receipt of an opinion of counsel, in form and substance reasonably satisfactory to the Issuer, addressed to the Issuer to the effect that such restrictions are no longer required to ensure compliance with the Securities Act and state securities laws, or (C) upon the Issuer's receipt of other evidence reasonably satisfactory to the Issuer that such registration and qualification under the Securities Act and state securities laws are not required. Whenever such restrictions shall cease and terminate as to any such securities, the Holder thereof shall be entitled to receive from the Issuer (or its transfer agent and registrar), without expense (other than applicable transfer taxes, if any), new Warrants (or, in the case of shares of Warrant Stock, new stock certificates) of like tenor not bearing the applicable legend required by paragraph (ii) above relating to the Securities Act and state securities laws.

(h) Buy In.

In addition to any other rights available to the Holder, if the Issuer fails to cause its transfer agent to transmit to the Holder a certificate or certificates representing the Warrant Stock pursuant to an exercise on or before the Delivery Date (or, in the case of any exercise of this Warrant after the six month anniversary of the Original Issue Date, any such certificate representing Warrant Stock contains any legend restricting transfer (including any legend set forth in Section 2(g)(ii) above assuming that the provisions of Rule 144 are satisfied and if after such date the Holder is required by its broker to purchase (in an open market transaction or otherwise) shares of Common Stock to deliver in satisfaction of a sale by the Holder of the Warrant Stock which the Holder anticipated receiving upon such exercise (a "Buy-In"), then the Issuer shall (1) pay in cash to the Holder the amount by which (x) the Holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (y) the amount obtained by multiplying (A) the number of shares of Warrant Stock that the Issuer was required to deliver to the Holder in connection with the exercise, (B) the price at which the sell order giving rise to such purchase obligation was executed, and (2) at the option of the Holder, either reinstate the portion of the Warrant and equivalent number of shares of Warrant Stock for which such exercise was not honored or deliver to the Holder the number of shares of Common Stock that would have been issued had the Issuer timely complied with its exercise and delivery obligations hereunder. For example, if the Holder purchases Common Stock having a total purchase price of $11,000 to cover a Buy-In with respect to an attempted exercise of shares of Common Stock with an aggregate sale price giving rise to such purchase obligation of $10,000, under clause (1) of the immediately preceding sentence the Issuer shall be required to pay the Holder $1,000. The Holder shall provide the Issuer written notice indicating the amounts payable to the Holder in respect of the Buy-In, together with applicable confirmations and other evidence reasonably requested by the Issuer. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Issuer's failure to timely deliver certificates representing shares of Common Stock upon exercise of this Warrant as required pursuant to the terms hereof.

3. Stock Fully Paid; Reservation and Listing of Shares; Covenants.

(a) Stock Fully Paid. The Issuer represents, warrants, covenants and agrees that all shares of Warrant Stock which may be issued upon the exercise of this Warrant or otherwise hereunder will, upon issuance, be duly authorized, validly issued, fully paid and non-assessable, free and clear of all liens, encumbrances and rights of refusal of any kind and the holder shall be entitled to all rights accorded to a holder of Common Stock. The Issuer further covenants and agrees that during the period within which this Warrant may be exercised, the Issuer will at all times have authorized and reserved, free of preemptive rights and other similar contractual rights of stockholders, for the purpose of the issue upon exercise of this Warrant a number of shares of Common Stock equal to at least 150% of the aggregate number of shares of Common Stock exercisable hereunder to provide for the exercise of this Warrant (without regard to limitations on exercisability set forth in Section 8).

(b) Reservation. If any shares of Common Stock required to be reserved for issuance upon exercise of this Warrant or as otherwise provided hereunder require registration or qualification under any federal or state law before such shares may be so issued, the Issuer will in good faith use its best efforts as expeditiously as possible at its expense to cause such shares to be duly registered or qualified. If the Issuer shall list any shares of Common Stock on any securities exchange or market it will, at its expense, list thereon, maintain and increase when necessary such listing, of, all shares of Warrant Stock from time to time issued upon exercise of this Warrant or as otherwise provided hereunder, and, to the extent permissible under the applicable securities exchange's rules, all unissued shares of Warrant Stock which are at any time issuable hereunder, so long as any shares of Common Stock shall be so listed. The Issuer will also so list on each securities exchange or market, and will maintain such listing of, any other securities which the Holder of this Warrant shall be entitled to receive upon the exercise of this Warrant if at the time any securities of the same class shall be listed on such securities exchange or market by the Issuer.

(c) Covenants. The Issuer shall not by any action including, without limitation, amending the Certificate of Incorporation or the by-laws of the Issuer, or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of the Holder hereof against dilution (to the extent specifically provided herein) or impairment. Without limiting the generality of the foregoing, the Issuer will (i) not increase the par value of its Common Stock to exceed the then effective Warrant Price, (ii) not amend or modify any provision of the Certificate of Incorporation or by-laws of the Issuer in any manner that would adversely affect the rights of the Holders of the Warrants, (iii) take all such action as may be reasonably necessary in order that the Issuer may validly and legally issue fully paid and nonassessable shares of Common Stock, free and clear of any liens, claims, encumbrances and restrictions (other than as provided herein) upon the exercise of this Warrant, and (iv) use its best efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof as may be reasonably necessary to enable the Issuer to perform its obligations under this Warrant.

(d) Loss, Theft, Destruction of Warrants. Upon receipt of evidence satisfactory to the Issuer of the ownership of and the loss, theft, destruction or mutilation of any Warrant and, in the case of any such loss, theft or destruction, upon receipt of indemnity or security satisfactory to the Issuer or, in the case of any such mutilation, upon surrender and cancellation of such Warrant, the Issuer will make and deliver, in lieu of such lost, stolen, destroyed or mutilated Warrant, a new Warrant of like tenor and representing the right to purchase the same number of shares of Common Stock.

(e) Removal of Legends. The Issuer will provide, at the Issuer's expense, such legal opinions in the future as are reasonably necessary for the issuance and resale of the Common Stock issuable upon exercise of the Warrant pursuant to an effective registration statement, Rule 144 or an exemption from registration, if applicable. In the event that Common Stock is sold in a manner that complies with an exemption from registration, the Issuer will promptly instruct its counsel (at its expense) to issue to the transfer agent an opinion permitting removal of the legend in connection with such portion of the Warrant Shares sold.

4. Adjustment of Warrant Price and Warrant Share Number. The number of shares of Common Stock for which this Warrant is exercisable, and the price at which such shares may be purchased upon exercise of this Warrant, shall be subject to adjustment from time to time as set forth in this Section 4. The Issuer shall give the Holder notice of any event described below which requires an adjustment pursuant to this Section 4 in accordance with Section 5.

(a) Recapitalization, Reorganization, Reclassification, Consolidation, Merger or Sale.

(i) In case the Issuer after the Original Issue Date shall do any of the following (each, a "Triggering Event"): (a) consolidate with or merge into any other Person and the Issuer shall not be the continuing or surviving corporation of such consolidation or merger, or (b) permit any other Person to consolidate with or merge into the Issuer and the Issuer shall be the continuing or surviving Person but, in connection with such consolidation or merger, any Capital Stock of the Issuer shall be changed into or exchanged for Securities of any other Person or cash or any other property, or (c) transfer all or substantially all of its properties or assets to any other Person, or (d) effect a capital reorganization or reclassification of its Capital Stock, then, and in the case of each such Triggering Event, proper provision shall be made so that, upon the basis and the terms and in the manner provided in this Warrant, the Holder of this Warrant shall be entitled upon the exercise hereof at any time after the consummation of such Triggering Event, to the extent this Warrant is not exercised prior to such Triggering Event, to receive the Securities, cash and property to which such Holder would have been entitled upon the consummation of such Triggering Event if such Holder had exercised the rights represented by this Warrant (without giving effect to the limitations on exercise set forth in Section 8 hereof) immediately prior thereto (including the right to elect the type of consideration, if applicable), subject to adjustments (subsequent to such corporate action) as nearly equivalent as possible to the adjustments provided for elsewhere in this Section 4. Unless the surviving entity in any such Triggering Event is a public company under the Securities Exchange Act of 1934, the common equity securities of which are traded or quoted on a national securities exchange or the OTC Bulletin Board (a "Qualifying Entity"), the Holder, at its option, shall be permitted to require that the Issuer pay to the Holder an amount equal to the Black-Scholes value of this Warrant.

(ii) Notwithstanding anything contained in this Warrant to the contrary and so long as the surviving entity is a Qualifying Entity, the Issuer will not be deemed to have effected any Triggering Event if, prior to the consummation thereof, each Person (other than the Issuer) which may be required to deliver any Securities, cash or property upon the exercise of this Warrant as provided herein shall assume, by written instrument delivered to the Holder of this Warrant and reasonably satisfactory to the Holder, (A) the obligations of the Issuer under this Warrant (and if the Issuer shall survive the consummation of such Triggering Event, such assumption shall be in addition to, and shall not release the Issuer from, any continuing obligations of the Issuer under this Warrant) and (B) the obligation to deliver to such Holder such shares of Securities, cash or property as, in accordance with the foregoing provisions of this subsection (a), such Holder shall be entitled to receive, and such Person shall have similarly delivered to such Holder, an opinion of counsel for such Person, which shall be reasonably satisfactory to the Holder, stating that this Warrant shall thereafter continue in full force and effect and the terms hereof (including, without limitation, all of the provisions of this subsection (a)) shall be applicable to the Securities, cash or property which such Person may be required to deliver upon any exercise of this Warrant or the exercise of any rights pursuant hereto.

(b) Stock Dividends, Subdivisions and Combinations. If at any time the Issuer shall:

(i) set a record date or take a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend payable in, or other distribution of, shares of Common Stock,

(ii) subdivide its outstanding shares of Common Stock into a larger number of shares of Common Stock, or

(iii) combine its outstanding shares of Common Stock into a smaller number of shares of Common Stock,

then (1) the number of shares of Common Stock for which this Warrant is exercisable immediately after the occurrence of any such event shall be adjusted to equal the number of shares of Common Stock which a record holder of the same number of shares of Common Stock for which this Warrant is exercisable immediately prior to the occurrence of such event would own or be entitled to receive after the happening of such event (without giving effect to the limitations on exercise set forth in Section 8 hereof), and (2) the Warrant Price then in effect shall be adjusted to equal (A) the Warrant Price then in effect multiplied by the number of shares of Common Stock for which this Warrant is exercisable immediately prior to the adjustment (without giving effect to the limitations on exercise set forth in Section 8 hereof) divided by (B) the number of shares of Common Stock for which this Warrant is exercisable immediately after such adjustment (without giving effect to the limitations on exercise set forth in Section 8 hereof).

(c) Adjustment upon Issuance of shares of Common Stock. If at any time the Issuer issues or sells, or in accordance with this Section 4(c) is deemed to have issued or sold, any shares of Common Stock (including the issuance or sale of shares of Common Stock owned or held by or for the account of the Issuer) other than in connection with a Permitted Issuance, for a consideration per share (the "New Issuance Price") less than a price (the "Applicable Price") equal to the Warrant Price in effect immediately prior to such issue or sale or deemed issuance or sale (the foregoing a "Dilutive Issuance"), then immediately after such Dilutive Issuance, the Warrant Price then in effect shall be reduced to an amount equal to the New Issuance Price. Upon each such adjustment of the Warrant Price hereunder, the number of shares of Warrant Stock shall be adjusted to the number of shares of Common Stock determined by multiplying the Warrant Price in effect immediately prior to such adjustment by the number of shares of Common Stock acquirable upon exercise of this Warrant immediately prior to such adjustment and dividing the product thereof by the Warrant Price resulting from such adjustment. For purposes of determining the adjusted Warrant Price under this Section 4(c), the following shall be applicable:

(i) Issuance of Options. If the Issuer in any manner grants any options to purchase Common Stock ("Options"), other than in connection with a Permitted Issuance , and the lowest price per share for which one share of Common Stock is issuable upon the exercise of any such Option or upon conversion, exercise or exchange of any stock or securities (other than Options) directly or indirectly convertible into or exercisable or exchangeable for shares of Common Stock ("Convertible Securities") issuable upon exercise of any such Option is less than the Applicable Price, then such share of Common Stock shall be deemed to be outstanding and to have been issued and sold by the Issuer at the time of the granting or sale of such Option for such price per share. For purposes of this Section 4(c)(i), the "lowest price per share for which one share of Common Stock is issuable upon exercise of such Options or upon conversion, exercise or exchange of such Convertible Securities issuable upon exercise of any such Option" shall be equal to the sum of the lowest amounts of consideration (if any) received or receivable by the Issuer with respect to any one share of Common Stock upon the granting or sale of the Option, upon exercise of the Option and upon conversion, exercise or exchange of any Convertible Security issuable upon exercise of such Option. No further adjustment of the Warrant Price or number of shares of Warrant Stock shall be made upon the actual issuance of such shares of Common Stock or of such Convertible Securities upon the exercise of such Options or upon the actual issuance of such shares of Common Stock upon conversion, exercise or exchange of such Convertible Securities.

(ii) Issuance of Convertible Securities. If the Issuer in any manner issues or sells any Convertible Securities other than in connection with a Permitted Issuance and the lowest price per share for which one share of Common Stock is issuable upon the conversion, exercise or exchange thereof is less than the Applicable Price, then such share of Common Stock shall be deemed to be outstanding and to have been issued and sold by the Issuer at the time of the issuance or sale of such Convertible Securities for such price per share. For the purposes of this Section 4(c)(ii), the "lowest price per share for which one share of Common Stock is issuable upon the conversion, exercise or exchange thereof" shall be equal to the sum of the lowest amounts of consideration (if any) received or receivable by the Issuer with respect to one share of Common Stock upon the issuance or sale of the Convertible Security and upon conversion, exercise or exchange of such Convertible Security. No further adjustment of the Warrant Price or number of shares of Warrant Stock shall be made upon the actual issuance of such shares of Common Stock upon conversion, exercise or exchange of such Convertible Securities, and if any such issue or sale of such Convertible Securities is made upon exercise of any Options for which adjustment of this Warrant has been or is to be made pursuant to other provisions of this Section 4(c), no further adjustment of the Warrant Price or number of shares of Warrant Stock shall be made by reason of such issue or sale.

(iii) Change in Option Price or Rate of Conversion. If the purchase price provided for in any Options, the additional consideration, if any, payable upon the issue, conversion, exercise or exchange of any Convertible Securities, or the rate at which any Convertible Securities are convertible into or exercisable or exchangeable for shares of Common Stock increases or decreases at any time, the Warrant Price and the number of shares of Warrant Stock in effect at the time of such increase or decrease shall be adjusted to the Warrant Price and the number of shares of Common Stock issuable upon exercise of this Warrant which would have been in effect at such time had such Options or Convertible Securities provided for such increased or decreased purchase price, additional consideration or increased or decreased conversion rate, as the case may be, at the time initially granted, issued or sold. For purposes of this Section 4(c)(iii), if the terms of any Option or Convertible Security that was outstanding as of the date of issuance of this Warrant are increased or decreased in the manner described in the immediately preceding sentence, then such Option or Convertible Security and the shares of Common Stock deemed issuable upon exercise, conversion or exchange thereof shall be deemed to have been issued as of the date of such increase or decrease. No adjustment pursuant to this Section 4(c) shall be made if such adjustment would result in an increase of the Warrant Price then in effect or a decrease in the number of shares Warrant Stock.

(iv) Calculation of Consideration Received. In case any Option is issued in connection with the issue or sale of other securities of the Issuer, together comprising one integrated transaction in which no specific consideration is allocated to such Options by the parties thereto, the Options will be deemed to have been issued for a consideration of $0.01 per share. If any shares of Common Stock, Options or Convertible Securities are issued or sold or deemed to have been issued or sold for cash, the consideration received therefor will be deemed to be the net amount received by the Issuer therefor. If any shares of Common Stock, Options or Convertible Securities are issued or sold for a consideration other than cash, the amount of such consideration received by the Issuer will be the fair value of such consideration, except where such consideration consists of securities, in which case the amount of consideration received by the Issuer will be the closing sale price of such security on the date of receipt. If any shares of Common Stock, Options or Convertible Securities are issued to the owners of the non-surviving entity in connection with any merger in which the Issuer is the surviving entity, the amount of consideration therefor will be deemed to be the fair value of such portion of the net assets and business of the non-surviving entity as is attributable to such shares of Common Stock, Options or Convertible Securities, as the case may be The fair value of any consideration other than cash or securities will be determined jointly by the Issuer and the Holders. If such parties are unable to reach agreement within ten (10) days after the occurrence of an event requiring valuation (the "Valuation Event"), the fair value of such consideration will be determined within five (5) Business Days after the tenth (10^{th}) day following the Valuation Event by an independent, reputable appraiser jointly selected by the Issuer and the Holders. The determination of such appraiser shall be final and binding upon all parties absent manifest error and the fees and expenses of such appraiser shall be borne by the Issuer.

(v) No adjustment of the Warrant Price shall be made under Section 4(c) upon the issuance of any shares of Common Stock which are issued pursuant to the exercise or conversion of any Options or Convertible Securities if any such adjustment shall previously have been made upon the issuance of such Options or Convertible Securities pursuant to this Section 4(c) or in connection with any Permitted Issuances.

(d) Certain Other Distributions. If at any time the Issuer shall set a record date or take a record of the holders of its Common Stock for the purpose of entitling them to receive any dividend or other distribution of:

(i) cash (other than a cash dividend payable out of earnings or earned surplus legally available for the payment of dividends under the laws of the jurisdiction of incorporation of the Issuer),

(ii) any evidences of its indebtedness, any shares of stock of any class or any other securities or property of any nature whatsoever (other than cash or Common Stock), or

(iii) any warrants or other rights to subscribe for or purchase any evidences of its indebtedness, any shares of stock of any class or any other securities or property of any nature whatsoever (other than cash or Common Stock),

then (1) the number of shares of Common Stock for which this Warrant is exercisable shall be adjusted to equal the product of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such adjustment (without giving effect to the limitations on exercise set forth in Section 8 hereof) multiplied by a fraction (A) the numerator of which shall be the Per Share Market Value of Common Stock at the date of taking such record and (B) the denominator of which shall be such Per Share Market Value minus the amount allocable to one share of Common Stock of any such cash so distributable and of the fair value (as determined in good faith by the Board of Directors of the Issuer and supported by an opinion from an investment banking firm reasonably acceptable to the Holder) of any and all such evidences of indebtedness, shares of stock, other securities or property or warrants or other subscription or purchase rights so distributable, and (2) the Warrant Price then in effect shall be adjusted to equal (A) the Warrant Price then in effect multiplied by the number of shares of Common Stock for which this Warrant is exercisable immediately prior to the adjustment (without giving effect to the limitations on exercise set forth in Section 8 hereof) divided by (B) the number of shares of Common Stock for which this Warrant is exercisable immediately after such adjustment (without giving effect to the limitations on exercise set forth in Section 8 hereof). A reclassification of the Common Stock (other than a change in par value, or from par value to no par value or from no par value to par value) into shares of Common Stock and shares of any other class of stock shall be deemed a distribution by the Issuer to the holders of its Common Stock of such shares of such other class of stock within the meaning of this Section 4(c) and, if the outstanding shares of Common Stock shall be changed into a larger or smaller number of shares of Common Stock as a part of such reclassification, such change shall be deemed a subdivision or combination, as the case may be, of the outstanding shares of Common Stock within the meaning of Section 4(b).

(d) Other Provisions applicable to Adjustments under this Section. The following provisions shall be applicable to the making of adjustments of the number of shares of Common Stock for which this Warrant is exercisable and the Warrant Price then in effect provided for in this Section 4:

(i) Fractional Interests. In computing adjustments under this Section 4, fractional interests in Common Stock shall be taken into account to the nearest one one-hundredth ($1/100^{th}$) of a share.

(ii) When Adjustment Not Required. If the Issuer shall take a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend or distribution or subscription or purchase rights and shall, thereafter and before the distribution to stockholders thereof, legally abandon its plan to pay or deliver such dividend, distribution, subscription or purchase rights, then thereafter no adjustment shall be required by reason of the taking of such record and any such adjustment previously made in respect thereof shall be rescinded and annulled.

(e) Form of Warrant after Adjustments. The form of this Warrant need not be changed because of any adjustments in the Warrant Price or the number and kind of securities purchasable upon exercise of this Warrant.

(f) Escrow of Property. If after any property becomes distributable pursuant to this Section 4 by reason of the taking of any record of the holders of Common Stock, but prior to the occurrence of the event for which such record is taken, and the Holder exercises this Warrant, such property shall be held in escrow for the Holder by the Issuer to be distributed to the Holder upon and to the extent that the event actually takes place, upon payment of the then current Warrant Price. Notwithstanding any other provision to the contrary herein, if the event for which such record was taken fails to occur or is rescinded, then such escrowed property shall be returned to the Issuer.

5. Notice of Adjustments. Whenever the Warrant Price or Warrant Share Number shall be adjusted pursuant to Section 4 hereof (for purposes of this Section 5, each an “adjustment”), the Issuer shall cause its Chief Financial Officer to prepare and execute a certificate setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated (including a description of the basis on which the Board made any determination hereunder), and the Warrant Price and Warrant Share Number after giving effect to such adjustment, and shall cause copies of such certificate to be delivered to the Holder of this Warrant promptly after each adjustment. Any dispute between the Issuer and the Holder of this Warrant with respect to the matters set forth in such certificate may at the option of the Holder of this Warrant be submitted to a mutually agreed accounting firm. The firm selected by the Holder and Issuer as provided in the preceding sentence shall be instructed to deliver a written opinion as to such matters to the Issuer and such Holder within thirty (30) days after submission to it of such dispute. Such opinion shall be final and binding on the parties hereto.

6. Fractional Shares. No fractional shares of Warrant Stock will be issued in connection with any exercise hereof, but in lieu of such fractional shares, the Issuer shall at its option either (a) make a cash payment therefor equal in amount to the product of the applicable fraction multiplied by the Per Share Market Value then in effect or (b) issue one whole share in lieu of such fractional share.

7. Certain Exercise Restrictions.

(a) Notwithstanding anything to the contrary set forth in this Warrant, at no time may a holder of this Warrant exercise this Warrant if the number of shares of Common Stock to be issued pursuant to such exercise would exceed, when aggregated with all other shares of Common Stock owned by such holder at such time, the number of shares of Common Stock which would result in such holder beneficially owning (as determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules thereunder) in excess of 4.99% of all of the Common Stock outstanding at such time; provided, however, that upon a holder of this Warrant providing the Issuer with sixty-one (61) days written notice (pursuant to Section 13 hereof) that such holder would like to waive this Section 8(a) with regard to any or all shares of Common Stock issuable upon exercise of this Warrant, this Section 8(a) will be of no force or effect with regard to all or a portion of the Warrant referenced in such notice; provided, further, that this Section 8(b) shall be of no further force or effect during the sixty-one (61) days immediately preceding the expiration of the term of this Warrant.

(b) Notwithstanding anything to the contrary set forth in this Warrant, at no time may a holder of this Warrant exercise this Warrant if the number of shares of Common Stock to be issued pursuant to such exercise would exceed, when aggregated with all other shares of Common Stock owned by such holder at such time, the number of shares of Common Stock which would result in such holder beneficially owning (as determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules thereunder) in excess of 9.99% of all of the Common Stock outstanding at such time; provided, however, that upon a holder of this Warrant providing the Issuer with sixty-one (61) days written notice (pursuant to Section 13 hereof) that such holder would like to waive this Section 8(b) with regard to any or all shares of Common Stock issuable upon exercise of this Warrant, this Section 8(b) will be of no force or effect with regard to all or a portion of the Warrant referenced in such notice; provided, further, that this Section 8(b) shall be of no further force or effect during the sixty-one (61) days immediately preceding the expiration of the term of this Warrant.

8. Definitions. For the purposes of this Warrant, the following terms have the following meanings:

"Certificate of Incorporation" means the Certificate of Incorporation of the Issuer, as amended, as in effect on the Original Issue Date, and as hereafter from time to time amended, modified, supplemented or restated in accordance with the terms hereof and thereof and pursuant to applicable law.

"Board" means the Board of Directors of the Issuer.

"Business Day" means, even if not capitalized, any day banking transactions can be conducted in New York City, New York, and does not include any day which is a federal or state holiday in New York City, New York.

"Capital Stock" means and includes (i) any and all shares, interests, participations or other equivalents of or interests in (however designated) corporate stock, including, without limitation, shares of preferred or preference stock, (ii) all partnership interests (whether general or limited) in any Person which is a partnership, (iii) all membership interests or limited liability company interests in any limited liability company, and (iv) all equity or ownership interests in any Person of any other type.

"Common Stock" means the Common Stock, par value $0.001 per share, of the Issuer and any other Capital Stock into which such stock may hereafter be changed.

"Governmental Authority" means any governmental, regulatory or self-regulatory entity, department, body, official, authority, commission, board, agency or instrumentality, whether federal, state or local, and whether domestic or foreign.

"Holders" mean the Persons who shall from time to time own any Warrant. The term "Holder" means one of the Holders.

"Independent Appraiser" means a nationally recognized or major regional investment banking firm or firm of independent certified public accountants of recognized standing (which may be the firm that regularly examines the financial statements of the Issuer) that is regularly engaged in the business of appraising the Capital Stock or assets of corporations or other entities as going concerns, and which is not affiliated with either the Issuer or the Holder of any Warrant.

"Issuer" means Blast Energy Services, Inc., a Texas corporation, and its successors.

"Original Issue Date" means February 2, 2011.

"OTC Bulletin Board" means the over-the-counter electronic bulletin board.

"Permitted Issuances" means , provided such security is issued at fair market value, (a) issuances of shares of Common Stock, options, warrants, stock grants or bonus shares issued to employees, officers or directors of the Issuer pursuant to any compensatory stock option plan existing on the date hereof, as amended from time to time, or approved by the Board of Directors subsequent to the date hereof, if such grants were (or are) duly approved by a majority of the non-employee members of the Board of Directors of the Issuer or a majority of the members of a committee of non-employee directors established for such purpose and provided further that such shares of common stock or convertible securities issuable under this Section (a) shall not total more than 7,000,000 in aggregate, without the prior written consent of Holder; (b) issuances of securities upon the exercise or exchange of or conversion of any securities issued hereunder and/or securities exercisable or exchangeable for or convertible into shares of Common Stock issued and outstanding on the Original Issue Date, provided that such securities have not been amended since the Original Issue Date to increase the number of such securities or to decrease the exercise, exchange or conversion price of any such securities; (c) the issuance of 1,150,000 shares of common stock under the Issuer's previously approved class action settlement; and (d) shares of Common Stock issued in consideration for investor relations services.

"Person" means an individual, corporation, limited liability company, partnership, joint stock company, trust, unincorporated organization, joint venture, Governmental Authority or other entity of whatever nature.

"Per Share Market Value" means on any particular date (a) the weighted average trading price on any national securities exchange on which the Common Stock is listed, or, if there is no such price, the closing bid price for a share of Common Stock, either in the over-the-counter market, as reported by the OTC Bulletin Board or in the National Quotation Bureau Incorporated or similar organization or agency succeeding to its functions of reporting prices) at the close of business on such date, or (b) if the Common Stock is not then reported by the OTC Bulletin Board or the National Quotation Bureau Incorporated (or similar organization or agency succeeding to its functions of reporting prices), then the average of the "Pink Sheet" quotes for the Common Stock on such date, or (c) if the Common Stock is not then publicly traded the fair market value of a share of Common Stock on such date as determined by the Board in good faith; provided, however, that the Holder, after receipt of the determination by the Board, shall have the right to select, jointly with the Issuer, an Independent Appraiser, in which case, the fair market value shall be the determination by such Independent Appraiser; and provided, further that all determinations of the Per Share Market Value shall be appropriately adjusted for any stock dividends, stock splits or other similar transactions during the period between the date as of which such market value was required to be determined and the date it is finally determined. The determination of fair market value shall be based upon the fair market value of the Issuer determined on a going concern basis as between a willing buyer and a willing seller and taking into account all relevant factors determinative of value, and shall be final and binding on all parties. In determining the fair market value of any shares of Common Stock, no consideration shall be given to any restrictions on transfer of the Common Stock imposed by agreement or by federal or state securities laws, or to the existence or absence of, or any limitations on, voting rights.

"Purchase Agreement" means the Note Purchase Agreement dated as of February 24, 2011 among the Issuer and the Holder.

"Securities" means any debt or equity securities of the Issuer, whether now or hereafter authorized, any instrument convertible into or exchangeable for Securities or a Security, and any option, warrant or other right to purchase or acquire any Security. "Security" means one of the Securities.

"Securities Act" means the Securities Act of 1933, as amended, or any similar federal statute then in effect.

"Subsidiary" means any corporation at least 50% of whose outstanding Voting Stock, and a limited liability company at least 50% of whose membership interests, shall at the time be owned directly or indirectly by the Issuer or by one or more of its Subsidiaries.

"Term" has the meaning specified in Section 1 hereof.

"Trading Day" means (a) a day on which the Common Stock is traded on the OTC Bulletin Board, or (b) if the Common Stock is not traded on the OTC Bulletin Board, a day on which the Common Stock is quoted in the over-the-counter market as reported by the National Quotation Bureau Incorporated (or any similar organization or agency succeeding its functions of reporting prices); provided, however, that in the event that the Common Stock is not listed or quoted as set forth in (a) or (b) hereof, then Trading Day shall mean any day except Saturday, Sunday and any day which shall be a legal holiday or a day on which banking institutions in the State of New York are authorized or required by law or other government action to close.

"Voting Stock" means, as applied to the Capital Stock of any corporation, Capital Stock of any class or classes (however designated) having ordinary voting power for the election of a majority of the members of the Board of Directors (or other governing body) of such corporation, other than Capital Stock having such power only by reason of the happening of a contingency.

"Warrants" means this Warrant, and any other warrants of like tenor issued in substitution or exchange for any thereof pursuant to the provisions of Section 2(c), 2(d) or 2(e) hereof or of any of such other Warrants.

"Warrant Consideration" has the meaning specified in Section 4(i)(i) hereof.

"Warrant Price" means U.S. $***[the weighted average of the Per Share Market Value of the Common Stock over the ten (10) consecutive trading day period immediately preceding the Date of Issuance]***, as such price may be adjusted from time to time as shall result from the adjustments specified in this Warrant, including Section 4 hereto.

"Warrant Share Number" means at any time the aggregate number of shares of Warrant Stock which may at such time be purchased upon exercise of this Warrant, after giving effect to all prior adjustments and increases to such number made or required to be made under the terms hereof.

"Warrant Stock" means Common Stock issuable upon exercise of any Warrant or Warrants or otherwise issuable pursuant to any Warrant or Warrants.

9. Other Notices. In case at any time:

(A) the Issuer shall make any distributions to the holders of Common Stock; or

(B) the Issuer shall authorize the granting to all holders of its Common Stock of rights to subscribe for or purchase any shares of Capital Stock of any class or other rights; or

(C) there shall be any reclassification of the Capital Stock of the Issuer; or

(D) there shall be any capital reorganization by the Issuer; or

(E) there shall be any (i) consolidation or merger involving the Issuer or (ii) sale, transfer or other disposition of all or substantially all of the Issuer's property, assets or business (except a merger or other reorganization in which the Issuer shall be the surviving corporation and its shares of Capital Stock shall continue to be outstanding and unchanged and except a consolidation, merger, sale, transfer or other disposition involving a wholly-owned Subsidiary); or

(F) there shall be a voluntary or involuntary dissolution, liquidation or winding-up of the Issuer or any partial liquidation of the Issuer or distribution to holders of Common Stock;

then, in each of such cases, the Issuer shall give written notice to the Holder of the date on which (i) the books of the Issuer shall close or a record shall be taken for such dividend, distribution or subscription rights or (ii) such reorganization, reclassification, consolidation, merger, disposition, dissolution, liquidation or winding-up, as the case may be, shall take place. Such notice also shall specify the date as of which the holders of Common Stock of record shall participate in such dividend, distribution or subscription rights, or shall be entitled to exchange their certificates for Common Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, disposition, dissolution, liquidation or winding-up, as the case may be. Such notice shall be given at least ten (10) days prior to the action in question and not less than ten (10) days prior to the record date or the date on which the Issuer's transfer books are closed in respect thereto. The Holder shall have the right to send two (2) representatives selected by it to each meeting, who shall be permitted to attend, but not vote at, such meeting and any adjournments thereof. This Warrant entitles the Holder to receive copies of all financial and other information distributed or required to be distributed to the holders of the Common Stock.

10. Amendment and Waiver. Any term, covenant, agreement or condition in this Warrant may be amended, or compliance therewith may be waived (either generally or in a particular instance and either retroactively or prospectively), by a written instrument or written instruments executed by the Issuer and the Holder. If this Warrant shall have been transferred in part or otherwise subdivided into two or more Warrants, then any term, covenant, agreement or condition in this Warrant may be amended, or compliance therewith may be waived (either generally or in a particular instance and either retroactively or prospectively), by a written instrument or written instruments executed by the Issuer and the Holders of a majority in interest of the Warrants.

11. Governing Law. **THIS WARRANT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICTS OF LAW.**

12. Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earlier of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified for notice prior to 5:00 p.m., eastern time, on a Trading Day, (ii) the Trading Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified for notice later than 5:00 p.m., eastern time, on any date and earlier than 11:59 p.m., eastern time, on such date, (iii) the Trading Day following the date of mailing, if sent by nationally recognized overnight courier service or (iv) actual receipt by the party to whom such notice is required to be given. The addresses for such communications shall be with respect to the Holder of this Warrant or of Warrant Stock issued pursuant hereto, addressed to such Holder at its last known address or facsimile number appearing on the books of the Issuer maintained for such purposes, or with respect to the Issuer, addressed to:

Blast Energy Services, Inc.
14550 Torrey Chase Blvd. Suite 330
Houston, TX 77014
Tel: (281) 453-2885
Fax: (281) 453-2899
Attention: Andrew Wilson

with a copy (which copy shall not constitute notice to the Issuer) to:

The Loev Law Firm, PC
6300 West Loop South; Suite 280
Bellaire, Texas 77401
Tel: (713) 524-4110
Fax: (713) 524-4122
Attention: David M. Loev

Copies of notices to the Holder shall be sent to it at ***[Investor]***, c/o XXXXXXXXXXXXX, Attention: XXXXX, Tel No.: (XXX) XXX-XXXX, Fax No.: (XXX) XXX-XXXX. Any party hereto may from time to time change its address for notices by giving at least ten (10) days written notice of such changed address to the other party hereto.

13. Warrant Agent. The Issuer may, by written notice to each Holder of this Warrant, appoint an agent for the purpose of issuing shares of Warrant Stock on the exercise of this Warrant pursuant to subsection (b) of Section 2 hereof, exchanging this Warrant pursuant to subsection (d) of Section 2 hereof or replacing this Warrant pursuant to subsection (d) of Section 3 hereof, or any of the foregoing, and thereafter any such issuance, exchange or replacement, as the case may be, shall be made at such office by such agent.

14. Remedies. The Issuer stipulates that the remedies at law of the Holder of this Warrant in the event of any default or threatened default by the Issuer in the performance of or compliance with any of the terms of this Warrant are not and will not be adequate and that, to the fullest extent permitted by law, such terms may be specifically enforced by a decree for the specific performance of any agreement contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

15. Successors and Assigns. This Warrant and the rights evidenced hereby shall inure to the benefit of and be binding upon the successors and assigns of the Issuer, the Holder hereof and (to the extent provided herein) the Holders of Warrant Stock issued pursuant hereto, and shall be enforceable by any such Holder or Holder of Warrant Stock.

16. Modification and Severability. If, in any action before any court or agency legally empowered to enforce any provision contained herein, any provision hereof is found to be unenforceable, then such provision shall be deemed modified to the extent necessary to make it enforceable by such court or agency. If any such provision is not enforceable as set forth in the preceding sentence, the unenforceability of such provision shall not affect the other provisions of this Warrant, but this Warrant shall be construed as if such unenforceable provision had never been contained herein.

17. Headings. The headings of the Sections of this Warrant are for convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Issuer has executed this Warrant as of the day and year first above written.

BLAST ENERGY SERVICES, INC.

By: /s/ Michael Peterson
Name: Michael Peterson
Title: President

Exhibit 10.16

FIRST AMENDMENT TO WARRANT

THIS FIRST AMENDMENT TO WARRANT (the "**Amendment**") is executed as of this 6th day of October, 2011 by and between BLAST ENERGYSERVICES, INC., a Texas corporation ("Company"), and the XXXXXXX(the "XXXXXXX"). All capitalized terms used but not otherwise defined herein have the respective meanings given them in the Note Purchase Agreement.

W I T N E S S E T H

WHEREAS, on February 24, 2011, the Company and XXXXXXXentered into that certain NotePurchase Agreement (the "**Note Purchase Agreement**");

WHEREAS, pursuant to the Note Purchase Agreement, on February 24, 2011 the Company issued to XXXXXXX a warrant to purchase 12,000,000 shares of common stock, par value $0.001 per share of the Company (the "**Warrant**");

WHEREAS, the Company and XXXXXXX desire to amend the Warrant on the terms and for the consideration set forth herein;

NOW THEREFORE, in consideration of the premises and the mutual promises and covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and intending to be legally bound, the parties hereto agree as follows:

1. Amendments to Warrant

a. The defined term "Warrant Price" in Section 8 of the Warrant is hereby amended and restated as follows:

"Warrant Price" means "One Cent ($0.01), as such price may be adjusted from time to time as shall result from the adjustment specified in this Warrant including Section 4 hereto. Notwithstanding anything else contained in this Warrant to the contrary, including any adjustment specified in Section 4 hereto, the Warrant Price shall never be adjusted to greater than One Cent ($0.01), unless a Merger Event has occurred, in which case the provisions of Section 4(b) shall apply thereafter in determining the Warrant Price in connection with future events after the consummation of such Merger Event.

b. Section 4(b)(2) shall be amended and restated as follows:

"(2) the Warrant Price then in effect shall be adjusted to equal the lesser of (x) $0.01 and (y) (A) the Warrant Price then in effect multiplied by the number of shares of Common Stock for which this Warrant is exercisable immediately prior to the adjustment (without giving effect to the limitations on exercise set forth in Section 8 hereof) divided by (B) the number of shares of Common Stock for which this Warrant is exercisable immediately after such adjustment (without giving effect to the limitations on exercise set forth in Section 8 hereof).

However, if a Merger Event occurs (as described in Section 4(g) below), the foregoing Section 4(b)(2) shall no longer apply and the following revised Section 4(b)(2) shall apply:

(2) the Warrant Price then in effect shall be adjusted to equal (A) the Warrant Price then in effect multiplied by the number of shares of Common Stock for which this Warrant is exercisable immediately prior to the adjustment (without giving effect to the limitations on exercise set forth in Section 8 hereof) divided by (B) the number of shares of Common Stock for which this Warrant is exercisable immediately after such adjustment (without giving effect to the limitations on exercise set forth in Section 8 hereof)."

c. A new Section 4(g) shall state: "Notwithstanding the preceding sections of this Section 4, if the Company consummates a merger transaction, directly or indirectly, with XXXXXXXXXX prior to the expiration of the Term, then immediately prior to such merger (a "Merger Event"), Section 4(c) Adjustment upon Issuance of Shares of Common Stock, Section 4(d) Certain other Distributions, and Section 4(d) Other Provisions applicable to Adjustments under this Section [sic], shall be of no further force and effect, and "Permitted Issuances" defined under Section 8 hereof shall be deleted in its entirety."

d. Under the definition of "Delivery Date" in Section 2(d), the words "Five (5) Trading Days" shall be replaced with "Ten (10) Trading Days."

e. For avoidance of doubt and notwithstanding anything to the contrary, neither the Warrants, nor the Common Stock issuable upon exercise thereof, are granted any rights by the Issuerthat obligate theIssuer to register such securities pursuant to a registration statement or make available any exemption from registration under any federal or state securities laws.

2. Consideration.As consideration for the Amendment, within 3 business days of the date hereof, XXXXXXX shall pay to the Company $30,000.

3. Representations and Warranties.The Company represents and warrants to XXXXXXX that:

a. All warranties and representations made by the Company to XXXXXXX under the Transaction Documents are true and correct, in all material respects (except that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified by materiality, Material Adverse Effect or dollar thresholds in the text thereof), as to the date hereof unless they specifically relate to an earlier date in which case they shall be true and correct as of such date.

b. The Company has the requisite corporate power and authority to enter into and perform this Amendment in accordance with the terms hereof. The execution, delivery and performance of this Amendment by the Company and the consummation by it of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate action, no further consent or authorization of the Company, its Board of Directors, stockholders or any other third party is required. When executed and delivered by the Company, this Amendment shall constitute a valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, reorganization, moratorium, liquidation, conservatorship, receivership or similar laws relating to, or affecting generally the enforcement of, creditor's rights and remedies or by other equitable principles of general application.

c. No default or Event of Default has occurred, is continuing,or upon effectiveness of this Amendment will occur, under any of the Transaction Documents.

4. Limited Effect.Except as amended hereby, the Warrant shall remain in full force and effect, and the valid and binding obligation of the parties thereto. Any reference in the Warrant or herein to the "Warrant" shall mean the Warrant, as amended hereby.

5. Effective Time. This Amendment shall be deemed effective from and after due execution and delivery by each party hereto.

6. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of New York (without giving effect to conflicts of law principles) as to all matters, including validity, construction, effect, performance and remedies of and under this Amendment.

7. Counterparts. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto, have caused this First Amendment to Warrant to be duly executed and delivered as of the date first written above.

BLAST ENERGYSERVICES, INC.	XXXXXXX
By: /s/Michael Peterson	By: /s/ XXXXXXXX
Name: Michael Peterson	Name: XXXXXXX
Title: President	Title: Authorized Signatory

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Michael L. Peterson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Blast Energy Services, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: November 14, 2011

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

Exhibit 31.2

CERTIFICATION OF PRINCIPAL ACCOUNTING OFFICER

I, John MacDonald, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Blast Energy Services, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: November 14, 2011

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

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Blast Energy Services, Inc. (the "Company") for the period ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael L. Peterson, Interim President and CEO and Principal Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2011

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

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of Blast Energy Services, Inc. (the "Company") for the period ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John MacDonald, Chief Financial Officer and Principal Accounting Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2011	By:	/s/ John MacDonald John MacDonald Chief Financial Officer (Principal Accounting Officer)