
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934

DATE OF REPORT: March 2, 2011

DATE OF EARLIEST EVENT REPORTED: February 24, 2011

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)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

ITEM 1.01 ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT.

In January 2011, Blast Energy Services, Inc. (the "Company", "Blast", "we" or "us") entered into the Farmout Agreement by and between Blast, Solimar Energy LLC and Neon Energy Corporation (the "Farmout Agreement") pursuant to which Blast agreed to pay 66-2/3 percent (66.67%) of the costs to drill and complete an initial planned well (the "Test Well") in the Gujarral Hills Field, located in the San Joaquin basin of central California (the "Project"). After the drilling of the Test Well, Blast will earn a 50% working interest, with a net revenue interest of 38% in the entire Project's acreage position and will be expected to participate and contribute at 50% on all costs toward any additional wells that may be drilled in the Project.

The estimated gross cost to drill the Test Well to its approximate total depth of 10,500 feet is approximately \$2.5 million (with \$1.95 million attributable to drilling the well and \$0.55 million attributable to completion and production testing). Under the terms of the Farmout Agreement, Blast will pay approximately \$1.54 million of this cost, of which \$100,000 has previously been advanced and \$1.4 million was paid through the funding of the First Note, described below. If the Test Well is successful, Blast will then pay its 66-2/3% promoted share toward the additional costs needed to bring the Test Well into production. Blast intends to pay such completion costs through proceeds received on the Second Note, described below. After the initial Test Well is drilled, whether successful or not, Blast will participate in future drilling activities within the Project at a 50% working interest (subject to the Investor's rights under the Royalty Payment Letter and Trident's rights below).

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"). 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 (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.

Purchase Agreement

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.

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

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

First Note

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

The proceeds from the First Note were used by Blast (i) to repay in full the indebtedness owed to Sun Resources Texas, Inc. under an outstanding promissory note (as described in greater detail in the Form 8-K/A filed by Blast on December 7, 2010); (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 anticipates using the proceeds from the execution of the additional Senior Secured Promissory Note in the amount of \$411,000 (the "Second Note"). The Second Note will have substantially similar terms as the First Note.

Guaranty and Security Agreement

The repayment of the amounts loaned to Blast by the Investor under the First Note and agreed to be loaned pursuant to the terms of the Purchase Agreement under 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 \$1,120,000 principal amount of the Secured Promissory Note owed by Blast to Berg McAfee to the repayment of the Loans and the Investor's security interest granted pursuant to the Security Agreement.

Stock Purchase Agreement

As additional security for the repayment of the Loans, and pursuant to a Stock Purchase Agreement, Blast sold to the Investor one (1) share of its newly designated Series B Preferred Stock (described in greater detail below under "Item 5.03 Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year"), 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.

Royalty Payment Letter

As additional consideration for the Investor agreeing to make the Loans, Blast agreed pursuant to a Royalty Payment Letter (the "Royalty Payment Letter"), to pay the Investor 30% of all amounts earned (the "Royalty") by Blast under the Test Well; provided however, that should the Test Well achieve an initial production average equal to or greater than 400 barrels of oil equivalent per day for the period commencing on the first day on which the Test Well is at full production and ending on the 30th day thereafter Blast's obligation under the Royalty Payment Letter is limited to 30% of Blast's earnings on only 400,000 gross barrels of production, from such wells (which may or may not include the Test Well) as Blast may determine in its sole discretion. Amounts earned by Blast in connection with the Test Well are deemed to include, without limitation, amounts earned from the sale, assignment, transfer or other disposition by Blast of any interest in the Test Well.

Placement Agreement

In November 2010, Blast entered into a non-exclusive Placement Agent Agreement with Trident Partners Ltd. ("Trident" and the "Placement Agreement"). Pursuant to the Placement Agreement, Trident agreed to assist Blast in raising capital in a private offering. In consideration for such assistance, Blast agreed to grant to certain principals of Trident fully vested warrants, exercisable for one year from the date of the agreement, to purchase up to 750,000 shares of Blast's common stock at an exercise price of \$0.01 per share. Additionally, Blast agreed to provide Trident a cash fee of 10% of the proceeds received from the sale of any equity or equity-linked securities to any party introduced by Trident (each an "Investor"); warrants to purchase shares of common stock equal to 10% of the total number of shares of common stock sold or granted in connection with any funding (on similar terms as the Placement Warrants); and Blast agreed to grant Trident a net revenue interest equal to 10% of any interest Blast provided to any Investors in any closing (the "Placement Fees"). The requirement to pay the Placement Fees in connection with any subsequent investment by an Investor continues in effect for 12 months following the expiration of the Placement Agreement, which Placement Agreement had a term of three months.

The descriptions of the various Closing documents described above are qualified in all respects by the actual terms, conditions and provisions of such documents, which are included as exhibits to this Report.

ITEM 2.03 CREATION OF A DIRECT FINANCIAL OBLIGATION OR AN OBLIGATION UNDER AN OFF-BALANCE SHEET ARRANGEMENT OF A REGISTRANT.

At the Closing, Blast delivered to the Investor the First Note in the amount of \$2,111,111 and the Investor agreed to loan an aggregate of \$2,522,111 in Notes pursuant to the terms of the Purchase Agreement, described above.

ITEM 3.02 UNREGISTERED SALES OF EQUITY SECURITIES.

In November 2010, in connection with Blast's entry into the Placement Agreement, Blast granted certain affiliates of Trident, warrants, exercisable for one year from the date of the agreement, to purchase up to 750,000 shares of Blast's common stock at an exercise price of \$0.01 per share. In January 2011, the holders of the Trident Warrant exercised Warrants to purchase 600,000 shares of common stock and purchased 600,000 shares of Blast's restricted common stock in consideration for \$6,000.

In February 2011, Blast entered into the Purchase Agreement and delivered to the Investor the First Note (as described above).

In February 2011, Blast sold to the Investor one (1) share of Series B Preferred Stock (described and defined below) in connection with and pursuant to the Stock Purchase Agreement (described above).

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

ITEM 5.03 AMENDMENTS TO ARTICLES OF INCORPORATION OR BYLAWS; CHANGE IN FISCAL YEAR.

On February 2, 2011, Blast's Board of Directors approved the filing of a Certificate of Designations of Blast's Series B Preferred Stock (the "Designation"), which Designation was filed with the Secretary of State of Texas on February 3, 2011. The Designation provides for the designation of one (1) share of Series B Preferred Stock, which was subsequently issued to the Investor in connection with the Closing (described above)(the "Series B Preferred Stock"). The Series B Preferred Stock has a value of \$100; has no rights to dividends; has a liquidation preference of \$100; is redeemable by Blast at any time for \$100 in the event the Loans are repaid in full; and has the right to vote one (1) share on all shareholder matters; provided that the Series B Preferred Stock also has the right to 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.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

<u>Exhibit No.</u>	<u>Description</u>
3.1*	Certificate of Designation of Blast's Series B Preferred Stock
10.1*	Note Purchase Agreement
10.2*	Senior Secured Promissory Note (First Tranche)
10.3*	Guaranty
10.4*	Security Agreement
10.5*	Stock Purchase Agreement
10.6*	Royalty Payment Letter
10.7*	Subordination and Intercreditor Agreement
10.8*	Placement Agent Agreement

* Filed herewith.

SIGNATURES

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

Blast Energy Services, Inc.

By: /s/ Michael L. Peterson
Michael L. Peterson
Interim President and CEO

Date: March 2, 2011

Form 426
(Revised 1/06)
Return in duplicate to:
Secretary of State
P.O. Box 13697
Austin, TX 78711-3697
512 463-5555
FAX: 512/463-5709
Filing Fee: \$15



**Resolution Relating to a
Series of Shares**

Entity Information

The name of the corporation is:
Blast Energy Services, Inc.

State the name of the entity as currently shown in the records of the secretary of state.

The file number issued to the filing entity by the secretary of state is:

0800949748

Copy of Resolution

(Please check only one box.)

- A copy of a resolution establishing and designating a series of shares is attached.
- A copy of a resolution increasing or decreasing the number of shares in an established series is attached.
- A copy of a resolution deleting an established series is attached.
- A copy of a resolution amending an established series is attached.

Adoption of Resolution

The resolution was adopted by all necessary action on the part of the corporation on:

02/02/11

mm/dd/yyyy

Effectiveness of Filing (Select either A,B, or C.)

- A. This document becomes effective when the document is filed by the secretary of state.
- B. This document becomes effective at a later date, which is not more than ninety (90) days from the date of signing. The delayed effective date is: _____

C. This document takes effect upon the occurrence of a future event or fact, other than the passage of time. The 90th day after the date of signing is: _____

The following event or fact will cause the document to take effect in the manner described below:

Execution

The undersigned signs this document subject to the penalties imposed by law for the submission of a materially false or fraudulent instrument.

Date: 02/02/2011

/s/ John MacDonald
CFO
Signature and title of authorized officer

**CERTIFICATE OF DESIGNATIONS
OF
BLAST ENERGY SERVICES, INC.
ESTABLISHING THE DESIGNATIONS, PREFERENCES,
LIMITATIONS AND RELATIVE RIGHTS OF ITS
SERIES B PREFERRED STOCK**

Pursuant to Section 21.155 of the Texas Business Organizations Code, Blast Energy Services, Inc., a Company organized and existing under the State of Texas (the "**Company**"),

DOES HEREBY CERTIFY that pursuant to the authority conferred upon the Board of Directors by the Certificate of Incorporation of the Company, and pursuant to Section 21.155 of the Texas Business Organizations Code, the Board of Directors, by unanimous consent of all members of the Board of Directors on February 2, 2011, duly adopted a resolution providing for the issuance of a series of One (1) share of Series B Preferred Stock, which resolution is and reads as follows:

RESOLVED, that pursuant to the authority expressly granted to and invested in the Board of Directors by the provisions of the Certificate of Incorporation of the Company, a series of the preferred stock, par value \$0.001 per share, of the Company be, and it hereby is, established; and

FURTHER RESOLVED, that the series of preferred stock of the Company be, and it hereby is, given the distinctive designation of "**Series B Preferred Stock**"; and

FURTHER RESOLVED, that the Series B Preferred Stock shall consist of One (1) share; and

FURTHER RESOLVED, that the Series B Preferred Stock shall have the powers and preferences, and the relative, participating, optional and other rights, and the qualifications, limitations, and restrictions thereon set forth below (the "**Designation**");

SECTION 1. DESIGNATION OF SERIES; RANK.

The shares of such series shall be designated as the "**Series B Preferred Stock**" and the number of shares initially constituting such series shall be One (1) share (the "**Share**"). Any stock of any class or classes of the Company, other than (a) the common stock, \$0.001 par value per share (the "**Common Stock**") of the Company; and (b) the previously designated Series A Convertible Preferred Stock of the Company (as the same may be reclassified, changed or amended from time to time), shall be deemed to rank prior to the Share upon liquidation, dissolution or winding up.

SECTION 2. STATED VALUE.

The Share shall have a stated value of \$100 and a Liquidation Preference of \$100, as described herein.

SECTION 3. DIVIDENDS.

No dividends shall be payable in respect of the Share.

SECTION 4. REDEMPTION.

(1) The Share shall not be redeemable by the Company except that it may be redeemed, at the option of the Company, for an amount equal to the Liquidation Preference upon or following the payment in full of the outstanding Senior Secured Promissory Notes (the "**Notes**") issued to **XXXXXXXXXX** pursuant to that certain Note Purchase Agreement, dated on or about February 2, 2011 between the Company and **XXXXXXXXXX**.

(2) Notice of redemption of the Series B Preferred Stock shall be sent by or on behalf of the Company, by first class mail, postage prepaid, to the holder of the Share at its address as it shall appear on the records of the Company, (i) notifying the holder of the Share of the redemption of the Share and (ii) stating the place at which the certificate evidencing the Share shall be surrendered. The Company shall act as the transfer agent for the Series B Preferred Stock.

(3) From and after the notice of redemption having been duly given, and the redemption price having been paid or irrevocably set aside for payment, the Share shall no longer be, or be deemed to be, outstanding for any purpose, and all rights, preference and powers (including voting rights and powers) of the holder of the Share shall automatically cease and terminate, except the right of the holder, upon surrender of the certificate for the Share, to receive the redemption price, provided that the Company and its Transfer Agent shall be able to rely on this Section 4(3) for all purposes, and shall be able to take whatever action necessary to cancel the Share, upon payment of the redemption price, regardless of whether the holder of the Share surrenders the physical certificate evidencing such Share or not.

SECTION 5. VOTING.

The Share of Series B Preferred Stock shall have the same voting rights as those accruing to the Common Stock and shall have the right to vote one share of Series B Preferred Stock for each Share held by the holders of Series B Preferred Stock, on all matters which come before a vote of the Common Stock holders; except:

(1) As required by law; and provided that

(2) The affirmative vote or written consent of the holder of the Share, voting separately as a class, given in person or by proxy, shall be necessary for authorizing, approving, effecting or validating any of the following actions of the Company:

- (i) filing or consenting to the filing of any bankruptcy, insolvency or reorganization case or proceeding on behalf of the Company, or any of its subsidiaries; instituting any proceedings under any applicable insolvency law or otherwise seek relief under any laws relating to the relief from debts or the protection of debtors generally on behalf of the Company or any of its subsidiaries;
- (ii) seeking or consenting to the appointment of a receiver, liquidator, assignee, trustee, sequestrator, custodian or any similar official for the Company or any of its subsidiaries or a substantial portion of the properties of the Company or any of its subsidiaries;
- (iii) making any assignment for the benefit of creditors of the Company or any of its subsidiaries;
- (iv) increasing or decreasing (other than by redemption or liquidation) the total number of authorized shares of Series B Preferred Stock;
- (v) effecting an exchange, reclassification, or cancellation of all or a part of the Series B Preferred Stock, excluding stock splits affecting the Company's Common Stock and preferred stock;
- (vi) effecting an exchange, or creating a right of exchange, of all or part of the shares of another class of shares into shares of Series B Preferred Stock; or

(vii) altering or changing the rights, preferences or privileges of the shares of Series B Preferred Stock so as to affect adversely the shares of such series, including the rights set forth in this Designation.

SECTION 6. LIQUIDATION RIGHTS.

(1) Upon the dissolution, liquidation or winding up of the Company, the holder of the Share shall be entitled to receive and to be paid out of the assets of the Company available for distribution to its stockholders, before any payment or distribution shall be made on the Common Stock of the Company or on any other class of stock ranking junior to the Series B Preferred Stock upon liquidation, the amount of \$100, and no more (the "**Liquidation Preference**").

(2) After the payment to the holder of the Share of the full preferential amount provided for in this Section 5, the holder of the Share as such shall have no right or claim to any of the remaining assets of the Company

SECTION 7. NO ADDITIONAL RIGHTS.

Except as required by law and except as provided in the Certificate of Incorporation, the Series B Preferred Stock shall not be entitled to any rights, powers or preferences.

SECTION 8. PREEMPTIVE RIGHTS. Holders of Series B Preferred Stock and holders of Common Stock shall not be entitled to any preemptive, subscription or similar rights in respect to any securities of the Company, except as specifically set forth herein or in any other document agreed to by the Company.

SECTION 9. REPORTS. The Company shall mail to all holders of Series B Preferred Stock those reports, proxy statements and other materials that it mails to all of its holders of Common Stock.

SECTION 10. NOTICES. In addition to any other means of notice provided by law or in the Company's Bylaws, any notice required by the provisions of this Designation to be given to the holder(s) of Series B Preferred Stock shall be deemed given if deposited in the United States mail, postage prepaid, and addressed to each holder of record at such holder's address appearing on the books of the Company.

[Remainder of page left intentionally blank. Signature page follows.]

IN WITNESS WHEREOF, the Company has caused this statement to be duly executed by its Chief Financial Officer this 2nd day of February 2011.

BLAST ENERGY SERVICES, INC.

John MacDonald
JOHN MACDONALD
CHIEF FINANCIAL OFFICER

NOTE PURCHASE AGREEMENT

Dated as of February 24, 2011

ARTICLE I PURCHASE AND SALE OF NOTE		1
Section 1.1	Purchase and Sale of Note	1
Section 1.2	Closings	2
ARTICLE II REPRESENTATIONS AND WARRANTIES		2
Section 2.1	Representations and Warranties of the Company	2
Section 2.2	Representations and Warranties of the Investor	13
ARTICLE III COVENANTS		14
Section 3.1	Securities Compliance	14
Section 3.2	Registration and Listing	14
Section 3.3	Compliance with Laws	14
Section 3.4	Keeping of Records and Books of Account	14
Section 3.5	Reporting Requirements	15
Section 3.6	Other Agreements	15
Section 3.7	Use of Proceeds	15
Section 3.8	Reporting Status	16
Section 3.9	Amendments	16
Section 3.10	Distributions	16
Section 3.11	Prohibition on Liens	16
Section 3.12	Prohibition on Indebtedness	17
Section 3.13	Compliance with Transaction Documents	17
Section 3.14	Transactions with Affiliates	17
Section 3.15	No Merger or Sale of Assets; No Formation of Subsidiaries	17
Section 3.16	Payment of Taxes, Etc	18
Section 3.17	Corporate Existence	18
Section 3.18	Maintenance of Assets	18
Section 3.19	No Investments	18
Section 3.20	Acquisition of Assets	19
Section 3.21	Notices of Certain Events	19
Section 3.22	Inspection	19
Section 3.23	Material Contracts	19
Section 3.24	Insurance	19
Section 3.25	Production Report and Lease Operating Statements	20
Section 3.26	Operation and Maintenance of Properties	21
Section 3.27	Title Information	21
Section 3.28	Gas Imbalances, Take-or-Pay or Other Prepayments	21
Section 3.29	Right of First Offer; Right of First Refusal	22
Section 3.30	Warrant	23
Section 3.31	Liquidity	23
ARTICLE IV CONDITIONS		24
Section 4.1	Conditions Precedent to the Obligation of the Company to Close and to Sell the Notes at Each Closing	24

Section 4.2	Conditions Precedent to the Obligation of the Investor to Close at Each Closing	24
Section 4.3	Conditions Precedent to the Obligation of the Investor to Close at the First Tranche Closing	25
ARTICLE V CERTIFICATE LEGEND		29
Section 5.1	Legend	29
ARTICLE VI INDEMNIFICATION		29
Section 6.1	General Indemnity	29
Section 6.2	Indemnification Procedure	29
ARTICLE VII MISCELLANEOUS		30
Section 7.1	Fees and Expenses	30
Section 7.2	Specific Performance; Consent to Jurisdiction; Venue	31
Section 7.3	Entire Agreement; Amendment	31
Section 7.4	Notices	31
Section 7.5	Waivers	32
Section 7.6	Headings	33
Section 7.7	Successors and Assigns	33
Section 7.8	No Third Party Beneficiaries	33
Section 7.9	Governing Law	33
Section 7.10	Survival	33
Section 7.11	Publicity	33
Section 7.12	Counterparts	34
Section 7.13	Severability	34
Section 7.14	Further Assurances	34

EXHIBITS

Exhibit 1.1A	-	Form of First Tranche Note
Exhibit 1.1B	-	Form of Second Tranche Note
Exhibit 1.1C	-	Form of Advance Request
Exhibit 3.30	-	Form of Warrant

SCHEDULES

Schedule 2.1(c)(i)	-	Authorized Capital Stock
Schedule 2.1(c)(ii)	-	Preemptive or Other Rights
Schedule 2.1(c)(iii)	-	Contracts for Additional Shares
Schedule 2.1(c)(iv)	-	Registration and Anti-Dilution Rights
Schedule 2.1(g)	-	Subsidiaries
Schedule 2.1(h)	-	Material Adverse Effect
Schedule 2.1(i)	-	Undisclosed Liabilities
Schedule 2.1(k)	-	Indebtedness

- Schedule 2.1(m) - Litigation
- Schedule 2.1(v) - Collective Bargaining and Employment Agreements
- Schedule 2.1(x) - Certain Developments
- Schedule 2.1(aa) - Equity and Convertible Debt Issuances
- Schedule 2.1(bb) - Brokers
- Schedule 3.11 - Permitted Liens

NOTE PURCHASE AGREEMENT

This NOTE PURCHASE AGREEMENT, dated as of February 24, 2011 (this "Agreement"), is by and between BLAST ENERGY SERVICES, INC., a Texas corporation (the "Company"), and XXXXXXXXXX, a Delaware limited liability company (the "Investor").

The parties hereto agree as follows:

ARTICLE I

PURCHASE AND SALE OF NOTE

Section 1.1 Purchase and Sale of Note.

(a) Upon the following terms and conditions, the Company shall issue and sell to the Investor, and the Investor shall purchase from the Company, one or more senior secured promissory notes in an aggregate principal amount of up to \$2,522,111.11.

(b) At the First Tranche Closing (as hereafter defined), upon satisfaction of the terms and conditions set forth in [ARTICLE IV](#), the Company shall issue to the Investor a promissory note, substantially in the form of [Exhibit 1.1A](#) hereto (the "First Tranche Note"), in the aggregate principal amount of \$2,111,111.11, and the Investor shall advance, as payment in full for the First Tranche Note, the sum of \$2,111,111.11, less the amount of the original issue discount set forth below (the "First Tranche") on the date of the First Tranche Closing. The Investor is further permitted to deduct and retain from the advance made at the First Tranche Closing the fees and expenses of the Investor as permitted by [Section 7.1](#) hereto. The issuance and sale of the First Tranche Note is referred to herein as the "First Tranche Closing". The First Tranche Note shall be issued on an original issue discount basis, reflecting an unconditional non-refundable original issue discount in the amount of \$211,111.11 for the period commencing with the First Tranche Closing through the scheduled Maturity Date, as set forth in the First Tranche Note.

(c) At the Second Tranche Closing (as hereafter defined), upon satisfaction of the terms and conditions set forth in [ARTICLE IV](#) and this [Section 1.1\(c\)](#), the Company shall issue to the Investor a promissory note, substantially in the form of [Exhibit 1.1B](#) hereto (the "Second Tranche Note"; the First Tranche Note and the Second Tranche Note, collectively, the "Notes"), in the aggregate principal amount equal to the lesser of \$411,000.00 and the amount the Company is obligated to pay pursuant to the Farmout Agreement (as defined in [Section 3.7](#)) in connection with the completion of and putting into production the Gujjaral Hills Exploitation Project described in the Farmout Agreement (the "Well Project"), and the Investor shall advance, as payment in full for the Second Tranche Note such lesser amount, less an unconditional non-refundable original issue discount in an amount equal to 10% of the principal amount of the Second Tranche Note (the "Second Tranche"), provided that (i) the Investor shall have received a written request from the Company at least (5) Business Days (as defined in the Notes) prior to the requested date of such advance in the form of [Exhibit 1.1C](#) attached hereto (the "Form of Advance Request"); (ii) no Event of Default (as defined in the Notes) or event that with the passage of time or the giving of notice, or both, would become an Event of Default shall have occurred and be continuing; (iii) the Company shall have provided to the Investor evidence that the Company's interest in the Well Project purchased pursuant to the Farmout Agreement shall provide to the Company cash flow in an amount at least equal to the Second Tranche during period commencing on the date of the Second Tranche Closing and ending on the date that is 240 days thereafter; and (iv) the Company shall have satisfied such other conditions reasonably requested by the Investor. The Investor shall use commercially reasonable efforts to advance the Second Tranche within three (3) Business Days of satisfaction of the conditions immediately set forth above. The Investor is permitted to deduct and retain from the advance made at the Second Tranche Closing the fees and expenses of the Investor as permitted by [Section 7.1](#) hereto. The issuance and sale of the Second Tranche Note is referred to herein as the "Second Tranche Closing". The First Tranche Closing and the Second Tranche Closing are sometimes referred to collectively herein as the "Closings".

Section 1.2 Closings.

The First Tranche Closing under this Agreement shall take place immediately upon the execution of this Agreement by the parties hereto and the satisfaction of the conditions contained in [Section 4.2](#) and [Section 4.3](#) or on such other date as may be agreed upon in writing by the parties hereto (the "Closing Date"). The First Tranche Closing shall take place at the offices of the Investor, 152 West 57th Street, 4th Floor, New York, NY 10:00 a.m., New York time, or at some other time and location as may be agreed upon by the parties hereto. At the First Tranche Closing, the Investor shall advance the First Tranche by wire transfer of immediately available funds as directed in writing by the Company. At the Second Tranche Closing, the Investor shall advance the Second Tranche by wire transfer of immediately available funds to an account designated by the Company.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Section 2.1 Representations and Warranties of the Company.

The Company hereby represents and warrants to the Investor, as of the date hereof and the date of each Closing (as applicable) hereunder, as follows:

(a) Organization, Good Standing and Power. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Texas and has the requisite corporate power to own, lease and operate its properties and assets and to conduct its business as it is now being conducted. The Company does not have any direct or indirect Subsidiaries (as defined in [Section 2.1\(g\)](#)) or own securities of any kind in any other entity except as set forth on [Schedule 2.1\(g\)](#) hereto. The Company and each such Subsidiary is duly qualified as a foreign corporation or limited liability company to do business and is in good standing in every other jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary except for any jurisdiction(s) (alone or in the aggregate) in which the failure to be so qualified would not reasonably be expected to have a Material Adverse Effect. For the purposes of this Agreement, "Material Adverse Effect" means any material adverse effect on the business, operations, properties, prospects or financial condition of the Company and its Subsidiaries (taken together as a whole) and/or any condition, circumstance, or situation that would prohibit or otherwise materially interfere with the ability of the Company to perform any of its obligations under this Agreement or any of the other Transaction Documents (as defined in [Section 2.1\(b\)](#)).

(b) Authorization; Enforcement. The Company and the Subsidiaries (as applicable) have the requisite corporate or limited liability company power and authority to enter into and perform this Agreement, the Notes, the Security Agreement dated as of the date hereof (as amended, amended and restated, supplemented or otherwise modified from time to time, the "Security Agreement") by and among the Company, the Subsidiaries and the Investor, those certain leasehold and fee mortgages dated as of the date hereof (as amended, amended and restated, supplemented or otherwise modified from time to time, collectively, the "Mortgages") by and between the Company and the Investor, the Officer's Certificate to be delivered by the Company, dated as of the Closing Date (the "Officer's Certificate"), [the Patent Security Agreement dated as of the date hereof (as amended, amended and restated, supplemented or otherwise modified from time to time, the "Patent Security Agreement") by and between the Company and the Investor,] a letter agreement dated as of the date hereof (as amended, amended and restated, supplemented or otherwise modified from time to time, collectively, the "Royalty Payment Agreement") by and between the Company and the Investor pursuant to which the Company agrees to pay to the Investor 31% of the net cash flow earned by the Company from the Well Project, and the guaranty dated as of the date hereof (as amended, amended and restated, supplemented or otherwise modified from time to time, the "Guaranty"; this Agreement, the Notes, the Security Agreement, the Mortgages, the Patent Security Agreement, the Royalty Payment Agreement and the Guaranty, collectively, the "Transaction Documents") to be delivered by each of the Subsidiaries to the Investor, and to issue and sell the Notes in accordance with the terms hereof. The execution, delivery and performance of the Transaction Documents by the Company and the Subsidiaries and the consummation of the transactions contemplated thereby have been duly and validly authorized by all necessary corporate or limited liability company action, and no further consent or authorization of the Company, its Board of Directors, manager, stockholders or any other third party is required. When executed and delivered by the Company and the Subsidiaries, each of the Transaction Documents shall constitute a valid and binding obligation of the Company and the Subsidiaries enforceable against the Company and the Subsidiaries 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) Capitalization. The authorized capital stock and the issued and outstanding shares of capital stock of the Company as of the Closing Date is set forth on Schedule 2.1(c)(i) hereto. All of the outstanding shares of the Common Stock and any other outstanding security of the Company have been duly and validly authorized. Except as set forth on Schedule 2.1(c)(ii) hereto, no shares of Common Stock or any other security of the Company are entitled to preemptive rights or registration rights and there are no outstanding options, warrants, scrip, rights to subscribe to, call or commitments of any character whatsoever relating to, or securities or rights convertible into, any shares of capital stock of the Company. Furthermore, except as set forth on Schedule 2.1(c)(iii) hereto, there are no contracts, commitments, understandings, or arrangements by which the Company is or may become bound to issue additional shares of the capital stock of the Company or options, securities or rights convertible into shares of capital stock of the Company. Except as set forth on Schedule 2.1(c)(iv) hereto, the Company is not a party to or bound by any agreement or understanding granting registration or anti-dilution rights to any person with respect to any of its equity or debt securities. The Company is not a party to, and it has no knowledge of, any agreement or understanding restricting the voting or transfer of any shares of the capital stock of the Company.

(d) Issuance of Securities. The Notes have been duly authorized by all necessary corporate action and, when paid for or issued in accordance with the terms hereof, the Notes shall be validly issued and outstanding, free and clear of all liens, encumbrances and rights of refusal of any kind.

(e) No Conflicts. The execution, delivery and performance of the Transaction Documents by the Company and the Subsidiaries, the performance by the Company of its obligations under the Notes and the consummation by the Company and the Subsidiaries of the transactions contemplated hereby and thereby, and the issuance of the Notes as contemplated hereby, do not and will not (i) violate or conflict with any provision of the Company's Articles of Incorporation (the "Articles of Incorporation") or Bylaws (the "Bylaws"), each as amended to date, or any Subsidiary's comparable charter documents, (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, mortgage, deed of trust, indenture, note, bond, license, lease agreement, instrument or obligation to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries' respective properties or assets are bound, (iii) result in a violation of any federal, state, local or foreign statute, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations) applicable to the Company or any of its Subsidiaries or by which any property or asset of the Company or any of its Subsidiaries are bound or affected, or (iv) create or impose a lien, mortgage, security interest, charge or encumbrance of any nature on any property or asset of the Company or its Subsidiaries under any agreement or any commitment to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound or by which any of their respective properties or assets are bound, except, in all cases, for such conflicts, defaults, terminations, amendments, acceleration, cancellations and violations as would not, individually or in the aggregate, have a Material Adverse Effect (other than violations pursuant to clauses (i) or (iii) (with respect to federal and state securities laws)). Neither the Company nor any of its Subsidiaries is required under federal, state, foreign or local law, rule or regulation to obtain any consent, authorization or order of, or make any filing or registration with, any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, in order for it to execute, deliver or perform any of its obligations under the Transaction Documents or issue and sell the Notes in accordance with the terms hereof (other than any filings, consents and approvals that may be required to be made by the Company under applicable state and federal securities laws, rules or regulations (which if required, shall be filed on a timely basis) and filings to perfect liens or security interests granted to the Investor pursuant to the Transaction Documents). The business of the Company and its Subsidiaries is not being conducted in violation of any laws, ordinances or regulations of any governmental entity, except for such violations that would not reasonably be expected to have a Material Adverse Effect.

(f) Commission Documents, Financial Statements. The Common Stock of the Company is registered pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Company has timely filed all reports, schedules, forms, statements and other documents required to be filed by it with the Securities and Exchange Commission (the "Commission") pursuant to the reporting requirements of the Exchange Act (all of the foregoing including filings incorporated by reference therein being referred to herein as the "Commission Documents"). Each Commission Document complied in all material respects with the requirements of the Exchange Act and the rules and regulations of the Commission promulgated thereunder and other federal, state and local laws, rules and regulations applicable to such documents, and the Commission Documents did not, as of their respective filing dates, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. As of their respective dates, the financial statements of the Company included in the Commission Documents complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the Commission or other applicable rules and regulations with respect thereto. Such financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") applied on a consistent basis during the periods involved (except (i) as may be otherwise indicated in such financial statements or the notes thereto or (ii) in the case of unaudited interim statements, to the extent they may not include footnotes or may be condensed or summary statements), and fairly present in all material respects the financial position of the Company and its Subsidiaries as of the dates thereof and the results of operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments).

(g) Subsidiaries. Schedule 2.1(g) hereto sets forth each Subsidiary of the Company, showing the jurisdiction of its incorporation or organization and showing the percentage of each person's ownership of the outstanding stock or other interests of such Subsidiary. For the purposes of this Agreement, "Subsidiary" shall mean any corporation or other entity of which at least 50% of the securities or other ownership interest having ordinary voting power (absolutely or contingently) for the election of directors or other persons performing similar functions are at the time owned directly or indirectly by the Company and/or any of its other Subsidiaries. All of the outstanding shares of capital stock of each Subsidiary have been duly authorized and validly issued, and are fully paid and nonassessable. There are no outstanding preemptive, conversion or other rights, options, warrants or agreements granted or issued by or binding upon any Subsidiary for the purchase or acquisition of any shares of capital stock of any Subsidiary or any other securities convertible into, exchangeable for or evidencing the rights to subscribe for any shares of such capital stock. Neither the Company nor any Subsidiary is subject to any obligation (contingent or otherwise) to repurchase or otherwise acquire or retire any shares of the capital stock of any Subsidiary or any convertible securities, rights, warrants or options of the type described in the preceding sentence except as set forth on Schedule 2.1(g) hereto. Neither the Company nor any Subsidiary is party to, nor has any knowledge of, any agreement restricting the voting or transfer of any shares of the capital stock of any Subsidiary. Each subsidiary is duly organized, validly existing and in good standing under the laws of the jurisdictions set forth on Schedule 2.1(g) and has the requisite corporate or other power to own, lease and operate its properties and assets and to conduct its business as it is now being conducted.

(h) No Material Adverse Change. Except as set forth on Schedule 2.1(h) hereto, since September 30, 2010, the Company has not experienced or suffered any Material Adverse Effect.

(i) No Undisclosed Liabilities. Except as set forth on Schedule 2.1(i) hereto, since September 30, 2010, neither the Company nor any of its Subsidiaries has incurred any liabilities, obligations, claims or losses (whether liquidated or unliquidated, secured or unsecured, absolute, accrued, contingent or otherwise) other than those incurred in the ordinary course of the Company's or its Subsidiaries respective businesses or which, individually or in the aggregate, are not reasonably likely to have a Material Adverse Effect.

(j) No Undisclosed Events or Circumstances. Since September 30, 2010, no event or circumstance has occurred or exists with respect to the Company or its Subsidiaries or their respective businesses, properties, prospects, operations or financial condition, which, under applicable law, rule or regulation, requires public disclosure or announcement by the Company but which has not been so publicly announced or disclosed.

(k) Indebtedness. Schedule 2.1(k) hereto sets forth as of the date hereof all outstanding secured and unsecured Indebtedness of the Company or any Subsidiary, or for which the Company or any Subsidiary has commitments. For the purposes of this Agreement, "Indebtedness" shall mean, with respect to any Person, (a) all obligations for borrowed money, (b) all obligations evidenced by bonds, debentures, notes, or other similar instruments and all reimbursement or other obligations in respect of letters of credit, bankers acceptances, current swap agreements, interest rate hedging agreements (including, without limitation, interest rate and commodity hedging agreements), or other financial products, (c) all capital lease obligations, (d) all obligations or liabilities secured by a lien or encumbrance on any asset of such Person, irrespective of whether such obligation or liability is assumed, (e) all obligations for the deferred purchase price of assets, together with trade debt and other accounts payable that exceed \$50,000 in the aggregate in any fiscal year, (f) all synthetic leases, (g) all obligations with respect to redeemable stock and redemption or repurchase obligations under any capital stock or other equity securities issued by such Person, (h) all reimbursement obligations and other liabilities of such Person with respect to surety bonds (whether bid, performance or otherwise), letters of credit, banker's acceptances, drafts or similar documents or instruments issued for such Person's account, (i) indebtedness of any partnership or joint venture in which such Person is a general partner or a joint venturer to the extent such Person is liable therefore as a result of such Person's ownership interest in such entity, except to the extent that the terms of such indebtedness expressly provide that such Person is not liable therefore or such Person has no liability therefore as a matter of law, (j) trade debt and other account payables which remain unpaid more than sixty (60) days past the invoice date, and (k) any obligation guaranteeing or intended to guarantee (whether directly or indirectly guaranteed, endorsed, co-made, discounted or sold with recourse) any of the foregoing obligations of any other Person; provided, however, Indebtedness shall not include (I) usual and customary trade debt and other accounts payable incurred in the ordinary course of business less than sixty (60) days past the invoice date and (II) endorsements for collection or deposit in the ordinary course of business. Neither the Company nor any Subsidiary is in default with respect to any Indebtedness. "Person" means any individual, sole proprietorship, joint venture, partnership, corporation, limited liability company, association, joint-stock company, unincorporated organization, cooperative, trust, estate, governmental entity or any other entity of any kind or nature whatsoever.

(l) Title to Assets. Each of the Company and the Subsidiaries has good and valid title to all of its real and personal property reflected in the Commission Documents, free and clear of any mortgages, pledges, charges, liens, security interests or other encumbrances, except for those indicated on Schedule 3.11 hereto. Any leases of the Company and each of its Subsidiaries are valid and subsisting and in full force and effect. Pursuant to, and upon execution and delivery of, the Security Agreement [and the Patent Security Agreement], the Company and its Subsidiaries shall have granted to the Investor a perfected, first priority security interest in substantially all of the assets of the Company and the Subsidiaries.

(m) Actions Pending. There is no action, suit, claim, investigation, arbitration, alternate dispute resolution proceeding or other proceeding pending or, to the knowledge of the Company, threatened against the Company or any Subsidiary which questions the validity of this Agreement or any of the other Transaction Documents or any of the transactions contemplated hereby or thereby or any action taken or to be taken pursuant hereto or thereto. Except as set forth on Schedule 2.1(m) hereto, there is no action, suit, claim, investigation, arbitration, alternate dispute resolution proceeding or other proceeding pending or, to the knowledge of the Company, threatened against or involving the Company, any Subsidiary or any of their respective properties or assets, which individually or in the aggregate, would reasonably be expected, if adversely determined, to have a Material Adverse Effect. There are no outstanding orders, judgments, injunctions, awards or decrees of any court, arbitrator or governmental or regulatory body against the Company or any Subsidiary or any officers or directors of the Company or Subsidiary in their capacities as such, which individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

(n) Compliance with Law. The business of the Company and the Subsidiaries has been and is presently being conducted in accordance with all applicable federal, state and local governmental laws, rules, regulations and ordinances, except such that, individually or in the aggregate, the noncompliance therewith could not reasonably be expected to have a Material Adverse Effect. The Company and each of its Subsidiaries have all franchises, permits, licenses, consents and other governmental or regulatory authorizations and approvals necessary for the conduct of its business as now being conducted by it unless the failure to possess such franchises, permits, licenses, consents and other governmental or regulatory authorizations and approvals, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

(o) Taxes. The Company and each of the Subsidiaries has accurately prepared and filed (or validly extended) all federal, state and other tax returns required by law to be filed by it, has paid or made provisions for the payment of all taxes shown to be due and all additional assessments, and adequate provisions have been and are reflected in the financial statements of the Company and the Subsidiaries for all current taxes and other charges to which the Company or any Subsidiary is subject and which are not currently due and payable. None of the federal income tax returns of the Company or any Subsidiary have been audited by the Internal Revenue Service. The Company has no knowledge of any additional assessments, adjustments or contingent tax liability (whether federal or state) of any nature whatsoever, whether pending or threatened against the Company or any Subsidiary for any period, nor of any basis for any such assessment, adjustment or contingency.

(p) Disclosure. To the Company's knowledge, neither this Agreement or the Schedules hereto nor any other documents, certificates or instruments furnished to the Investor by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by this Agreement, taken together as a whole, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein or therein, in the light of the circumstances under which they were made herein or therein, not misleading.

(q) Environmental Compliance. Except as would not reasonably be expected to have a Material Adverse Effect, the Company and each of its Subsidiaries have obtained all approvals, authorization, certificates, consents, licenses, orders and permits or other similar authorizations of all governmental authorities, or from any other person, that are required under any Environmental Laws. "Environmental Laws" shall mean all applicable laws relating to the protection of the environment including, without limitation, all requirements pertaining to reporting, licensing, permitting, controlling, investigating or remediating emissions, discharges, releases or threatened releases of hazardous substances, chemical substances, pollutants, contaminants or toxic substances, materials or wastes, whether solid, liquid or gaseous in nature, into the air, surface water, groundwater or land, or relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of hazardous substances, chemical substances, pollutants, contaminants or toxic substances, material or wastes, whether solid, liquid or gaseous in nature. Except as would not reasonably be expected to have a Material Adverse Effect, the Company has all necessary governmental approvals required under all Environmental Laws as necessary for the Company's business or the business of any of its Subsidiaries. The Company and each of its Subsidiaries are also in compliance with all other limitations, restrictions, conditions, standards, requirements, schedules and timetables required or imposed under all Environmental Laws. Except for such instances as would not individually or in the aggregate have a Material Adverse Effect, there are no past or present events, conditions, circumstances, incidents, actions or omissions relating to or in any way affecting the Company or its Subsidiaries that violate or may violate any Environmental Law after the Closing Date or that may give rise to any environmental liability, or otherwise form the basis of any claim, action, demand, suit, proceeding, hearing, study or investigation (i) under any Environmental Law, or (ii) based on or related to the manufacture, processing, distribution, use, treatment, storage (including without limitation underground storage tanks), disposal, transport or handling, or the emission, discharge, release or threatened release of any hazardous substance.

(r) **Books and Records; Internal Accounting Controls.** The records and documents of the Company and its Subsidiaries accurately reflect in all material respects the information relating to the business of the Company and its Subsidiaries, the location and collection of their assets, and the nature of all transactions giving rise to the obligations or accounts receivable of the Company or any Subsidiary. The Company is in material compliance with all provisions of the Sarbanes-Oxley Act of 2002 which are applicable to it as of the Closing Date. The Company and its Subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The Company has established disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Company and designed such disclosure controls and procedures to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. The Company's certifying officers have evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by the Company's most recently filed periodic report under the Exchange Act (such date, the "Evaluation Date"). The Company presented in its most recently filed periodic report under the Exchange Act the conclusions of the certifying officers about the effectiveness of the disclosure controls and procedures based on their evaluations as of the Evaluation Date. Since the Evaluation Date, there have been no changes in the Company's internal control over financial reporting (as such term is defined in the Exchange Act) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

(s) **Material Agreements.** Except as would not reasonably be expected to have a Material Adverse Effect, the Company and each of its Subsidiaries have performed all obligations required to be performed by them to date under any written or oral contract, instrument, agreement, commitment, obligation, plan or arrangement, filed or required to be filed with the Commission or any other material contract, material instrument, material agreement, material commitment, material obligation, material plan or material arrangement to which the Company or any Subsidiary is a party or by which the Company's or any Subsidiary's properties or assets are bound (the "Material Agreements"). Neither the Company nor any of its Subsidiaries has received any notice of default under any Material Agreement, which has not been waived or cured. Neither the Company nor any of its Subsidiaries is currently in default under any Material Agreement now in effect.

(t) Transactions with Affiliates. There are no loans, leases, agreements, contracts, royalty agreements, management contracts or arrangements or other continuing transactions between (a) the Company, any Subsidiary or any of their respective customers or suppliers on the one hand, and (b) on the other hand, any officer, employee, consultant or director of the Company, or any of its Subsidiaries, or any person owning at least 5% of the outstanding capital stock of the Company or any Subsidiary or any member of the immediate family of such officer, employee, consultant, director or stockholder or any corporation or other entity controlled by such officer, employee, consultant, director or stockholder, or a member of the immediate family of such officer, employee, consultant, director or stockholder which, in each case, is required to be disclosed in the Commission Documents or in the Company's most recently filed definitive proxy statement on Schedule 14A, that is not so disclosed in the Commission Documents or in such proxy statement.

(u) Securities Act of 1933. The Company has complied and will comply with all applicable federal and state securities laws in connection with the offer, issuance and sale of the Notes hereunder. Neither the Company nor anyone acting on its behalf, directly or indirectly, has or will sell, offer to sell or solicit offers to buy any of the Notes or similar securities to, or solicit offers with respect thereto from, or enter into any negotiations relating thereto with, any person, or has taken or will take any action so as to bring the issuance and sale of any of the Notes under the registration provisions of the Securities Act and applicable state securities laws, and neither the Company nor any of its affiliates, nor any person acting on its or their behalf, has engaged in any form of general solicitation or general advertising (within the meaning of Regulation D under the Securities Act) in connection with the offer or sale of any of the Notes. The Company is not, and has not been for a period of more than 12 months prior to the date of the issuance of any Notes, an issuer identified in Rule 144(i)(1) under the Securities Act. Neither the Company, nor any of its directors, officers or controlling persons, has taken or will, in violation of applicable law, take, any action designed to or that might reasonably be expected to cause or result in, or which has constituted, stabilization or manipulation of the price of the Common Stock to facilitate the sale or resale of the securities issued or issuable in connection with the transactions contemplated hereunder.

(v) Employees. Neither the Company nor any Subsidiary has any collective bargaining arrangements or agreements covering any of its employees, except as set forth on Schedule 2.1(v) hereto. Except as set forth on Schedule 2.1(v) hereto, neither the Company nor any Subsidiary has any employment contract, agreement regarding proprietary information, non-competition agreement, non-solicitation agreement, confidentiality agreement, or any other similar contract or restrictive covenant, relating to the right of any officer, employee or consultant to be employed or engaged by the Company or such Subsidiary required to be disclosed in the Commission Documents that is not so disclosed. No officer, consultant or key employee of the Company or any Subsidiary whose termination, either individually or in the aggregate, would be reasonably likely to have a Material Adverse Effect, has terminated or, to the knowledge of the Company, has any present intention of terminating his or her employment or engagement with the Company or any Subsidiary.

(w) Intellectual Property. The Company and each of the Subsidiaries owns, or possesses the rights to use, all patents (and any patentable improvements thereof), trademarks, service marks, trade names, domain names, copyrights and websites (or copyrightable derivative works thereof), and intellectual property rights relating thereto (to any of the foregoing list, whether or not registered), licenses and authorizations which are necessary for the conduct of its business as now conducted without infringement or any conflict with the rights of others.

(x) Absence of Certain Developments. Except as set forth on Schedule 2.1(x) hereto, since September 30, 2010, neither the Company nor any Subsidiary has:

(i) issued any stock, bonds or other corporate securities or any right, options or warrants with respect thereto;

(ii) borrowed any amount in excess of \$50,000 or incurred or become subject to any other liabilities in excess of \$50,000 (absolute or contingent) except current liabilities incurred in the ordinary course of business which are comparable in nature and amount to the current liabilities incurred in the ordinary course of business during the comparable portion of its prior fiscal year, as adjusted to reflect the current nature and volume of the business of the Company and its Subsidiaries;

(iii) discharged or satisfied any lien or encumbrance in excess of \$50,000 or paid any obligation or liability (absolute or contingent) in excess of \$50,000, other than current liabilities paid in the ordinary course of business;

(iv) declared or made any payment or distribution of cash or other property to stockholders with respect to its stock, or purchased or redeemed, or made any agreements so to purchase or redeem, any shares of its capital stock, in each case in excess of \$25,000 individually or \$50,000 in the aggregate;

(v) sold, assigned or transferred any other tangible assets, or canceled any debts or claims, in each case in excess of \$50,000, except in the ordinary course of business;

(vi) sold, assigned or transferred any patent rights, trademarks, trade names, copyrights, trade secrets or other intangible assets or intellectual property rights in excess of \$50,000, or disclosed any proprietary confidential information to any person except to customers in the ordinary course of business or pursuant to nondisclosure agreements;

(vii) suffered any material losses or waived any rights of material value, whether or not in the ordinary course of business, or suffered the loss of any material amount of prospective business;

- (viii) made any changes in employee compensation except in the ordinary course of business and consistent with past practices;
- (ix) made capital expenditures or commitments therefor that aggregate in excess of \$50,000;
- (x) entered into any material transaction, whether or not in the ordinary course of business;
- (xi) made charitable contributions or pledges in excess of \$5,000;
- (xii) suffered any material damage, destruction or casualty loss, whether or not covered by insurance;
- (xiii) experienced any material problems with labor or management in connection with the terms and conditions of their employment; or
- (xiv) entered into an agreement, written or otherwise, to take any of the foregoing actions.

(y) Public Utility Holding Company Act and Investment Company Act Status. The Company is not a “holding company” or a “public utility company” as such terms are defined in the Public Utility Holding Company Act of 1935, as amended. The Company is not, and as a result of and immediately upon either Closing will not be, an “investment company” or a company “controlled” by an “investment company,” within the meaning of the Investment Company Act of 1940, as amended.

(z) ERISA. No liability to the Pension Benefit Guaranty Corporation has been incurred with respect to any Plan by the Company or any of its Subsidiaries which is or would be materially adverse to the Company and its Subsidiaries. The execution and delivery of this Agreement and the issuance and sale of the Notes will not involve any transaction which is subject to the prohibitions of Section 406 of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) or in connection with which a tax could be imposed pursuant to Section 4975 of the Internal Revenue Code of 1986, as amended. As used in this [Section 2.1\(z\)](#), the term “Plan” shall mean an “employee pension benefit plan” (as defined in Section 3 of ERISA) which is or has been established or maintained, or to which contributions are or have been made, by the Company or any Subsidiary or by any trade or business, whether or not incorporated, which, together with the Company or any Subsidiary, is under common control, as described in Section 414(b) or (c) of the Code.

(aa) No Integrated Offering. Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has directly or indirectly made any offers or sales of any security or solicited any offers to buy any security under circumstances that would cause the offering of the Notes pursuant to this Agreement to be integrated with prior offerings by the Company for purposes of the Securities Act which would prevent the Company from selling the Notes pursuant to Regulation D and Rule 506 thereof under the Securities Act, or any applicable exchange-related stockholder approval provisions, nor will the Company or any of its affiliates or subsidiaries take any action or steps that would cause the offering of the Notes to be integrated with other offerings. The Company does not have any registration statement pending before the Commission or currently under the Commission’s review and, except as set forth on [Schedule 2.1 \(aa\)](#), since September 30, 2010 the Company has not offered or sold any of its equity securities or debt securities convertible into shares of Common Stock.

(bb) Broker's Fees. Except to the extent set forth on Schedule 2.1(bb) hereto, neither the Company nor any Subsidiary has any obligation to any Person in respect of any finder's, broker's, investment banking or other similar fee in connection with any of the transactions contemplated under the Transaction Documents.

(cc) Foreign Asset Control Regulations, etc. Neither the purchase of the Notes by the Investor nor any use of the proceeds thereof will violate the Trading with the Enemy Act, as amended, or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto. None of the Company or the Subsidiaries (i) is a Person described or designated in the Specially Designated Nationals and Blocked Persons List of the Office of Foreign Assets Control or in Section 1 of the Anti-Terrorism Order or (ii) engages in any dealings or transactions with any such Person. The Company and the Subsidiaries are in compliance, in all material respects, with the USA Patriot Act. No proceeds of the purchase of the Notes by the Investor will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended, assuming in all cases that such Act applies to the Company or the Subsidiaries.

Section 2.2 Representations and Warranties of the Investor.

The Investor hereby represents and warrants to the Company as of the date hereof and as of the date of each Closing that the Investor is purchasing the Notes solely for its own account and not with a view to or for sale in connection with distribution. The Investor does not have a present intention to sell any of the Notes, nor a present arrangement (whether or not legally binding) or intention to effect any distribution of any of the Notes to or through any Person; provided, however, that by making the representations herein, the Investor does not agree to hold the Notes for any minimum or other specific term and reserves the right to dispose of the Notes at any time in accordance with Federal and state securities laws applicable to such disposition. The Investor further represents and warrants to the Company as of the date hereof and as of the date of each Closing that (i) the Investor has such knowledge and experience in financial and business matters that the Investor is capable of evaluating the merits and risks of the proposed investment in the Notes; (ii) the Investor understands that the Notes may not be sold, transferred or otherwise disposed of by it without registration under the Securities Act and any applicable state securities laws, or an exemption therefrom, and that in the absence of an effective registration statement covering such securities or an available exemption from registration, the Investor may be required to hold such securities indefinitely; and (iii) the Investor is an "accredited investor" within the meaning of Regulation D promulgated under the Securities Act.

ARTICLE III

COVENANTS

The Company covenants with the Investor as follows, which covenants are for the benefit of the Investor and its assignees. Unless otherwise set forth in the covenants in this [ARTICLE III](#), such covenants shall survive each of the Closings hereunder until the Notes are paid in full and the Investor has no obligation (contingent or otherwise) to advance funds hereunder.

Section 3.1 Securities Compliance.

The Company shall notify the Commission in accordance with its rules and regulations, of the transactions contemplated by any of the Transaction Documents and shall take all other necessary action and proceedings as may be required and permitted by applicable law, rule and regulation, for the legal and valid issuance of the Notes to the Investor or subsequent holders.

Section 3.2 Registration and Listing.

The Company shall cause its Common Stock to continue to be registered under Sections 12(b) or 12(g) of the Exchange Act, to comply in all respects with its reporting and filing obligations under the Exchange Act and to not take any action or file any document (whether or not permitted by the Securities Act or the rules promulgated thereunder) to terminate or suspend such registration or to terminate or suspend its reporting and filing obligations under the Exchange Act or Securities Act. The Company will take all action necessary to continue the listing or trading of its Common Stock on the OTC Bulletin Board, the New York Stock Exchange, the NYSE Alternext Exchange, the Nasdaq Capital Markets, the Nasdaq Global Markets, or the Nasdaq Global Select Market. Upon the request of the Investor, the Company shall deliver to the Investor a written certification of a duly authorized officer as to whether it has complied with such requirements.

Section 3.3 Compliance with Laws.

The Company shall comply in all material respects, and cause each Subsidiary to comply in all material respects, with all applicable laws, rules, regulations and orders of any governmental authority, including without limitation, all securities law, rules and regulations and timely make all filings required by any such laws, rules and regulations..

Section 3.4 Keeping of Records and Books of Account.

The Company shall keep and cause each Subsidiary to keep adequate records and books of account, in which complete entries will be made in accordance with GAAP consistently applied, reflecting all financial transactions of the Company and its Subsidiaries, and in which, for each fiscal year, all proper reserves for depreciation, depletion, obsolescence, amortization, taxes, bad debts and other purposes in connection with its business shall be made. Upon request of Investor, the Company shall furnish to Investor any and all books and records or any other information reasonably requested by Investor relating to the financial condition to the Company, the technology of the Company or otherwise.

Section 3.5 Reporting Requirements.

The Company shall furnish the following to the Investor so long as the Investor shall be obligated hereunder to purchase the Notes or shall beneficially own Securities:

- (a) Quarterly Reports filed with the Commission on Form 10-Q as soon as practical after the document is or would have been required to be filed with the Commission;
- (b) Annual Reports filed with the Commission on Form 10-K as soon as practical after the document is or would have been required to be filed with the Commission;
- (c) Current Reports filed with the Commission on Form 8-K as soon as practical after the document is or would have been required to be filed with the Commission;
- (d) Copies of any other filings filed or required to be filed with the Commission as soon as practical after the document is or would have been required to be filed with the Commission;
- (e) Copies of all notices, information and proxy statements in connection with any meetings that are, in each case, provided to holders of shares of Common Stock, contemporaneously with the delivery of such notices or information to such holders of Common Stock; and
- (f) Within five (5) Business Days of Investor's request, copies of any other reports, information or filings reasonably requested by the Investor from time to time.

Section 3.6 Other Agreements.

The Company shall not enter into any agreement in which the terms of such agreement would restrict or impair the right or ability to perform of the Company under any Transaction Document.

Section 3.7 Use of Proceeds.

The proceeds from the sale of the Notes hereunder shall be used by the Company (i) to repay indebtedness to Sun Resources Texas, Inc. ("Sun Resources") in the principal amount of \$260,000.00, together with all interest accrued thereon; (ii) to purchase from Solimar Energy LLC ("Solimar") and Neon Energy Corporation ("Neon") a fifty percent interest in that certain lease identified in that certain Gujarral Hills Farmout Agreement (as amended, amended and restated, supplemented or otherwise modified from time to time, the "Farmout Agreement") among the Company, Solimar and Neon for a purchase price not to exceed \$1,400,000.00; and (iii) to pay fees and expenses incurred in connection with the transactions contemplated by this Agreement and the other Transaction Documents. In no event shall the proceeds be used to redeem any Common Stock or securities convertible, exercisable or exchangeable into Common Stock or to settle any outstanding litigation.

Section 3.8 Reporting Status.

The Company shall timely file all reports required to be filed with the Commission pursuant to the Exchange Act, and the Company shall not terminate its status as an issuer required to file reports under the Exchange Act even if the Exchange Act or the rules and regulations thereunder would permit such termination. The Company shall promptly disclose on Form 8-K the occurrence of any Material Adverse Effect or any event that could reasonably be expected to cause a Material Adverse Effect.

Section 3.9 Amendments.

The Company shall not amend or waive any provision of its Articles of Incorporation or Bylaws in any way that would adversely affect exercise or other rights of the holder of the Notes.

Section 3.10 Distributions.

The Company agrees that it shall not, and shall not permit any Subsidiary to, (i) declare or pay any dividends or make any distributions (by reduction of capital or otherwise) to any holder(s) of Common Stock or other equity security of the Company or any Subsidiary (or security convertible into or exercisable for Common Stock) or set aside or otherwise deposit or invest any sums for such purpose, or (ii) redeem, retire, defease, purchase or otherwise acquire for value, directly or indirectly, any Common Stock or other equity security of the Company or any Subsidiary or set aside or otherwise deposit or invest any sums for such purpose.

Section 3.11 Prohibition on Liens.

The Company shall not, and shall not permit its Subsidiaries to, enter into, create, incur, assume, suffer or permit to exist any lien, security interest, mortgage, pledge, charge, claim or other encumbrance of any kind (collectively, "Liens") on or with respect to any of its assets, now owned or hereafter acquired or any interest therein or any income or profits therefrom, or file or permit the filing of, or permit to remain in effect any financing statement or other similar notice of any Lien with respect to such assets, other than Permitted Encumbrances. "Permitted Encumbrances" means the individual and collective reference to the following: (a) Liens for taxes, assessments and other governmental charges or levies not yet due or Liens for taxes, assessments and other governmental charges or levies being contested in good faith and by appropriate proceedings for which adequate reserves (in the good faith judgment of the management of the Company) have been established in accordance with GAAP; (b) Liens imposed by law which were incurred in the ordinary course of the Company's business, such as carriers', warehousemen's and mechanics' Liens, statutory landlords' Liens, and other similar Liens arising in the ordinary course of the Company's business, and which (x) do not individually or in the aggregate materially detract from the value of such property or assets or materially impair the use thereof in the operation of the business of the Company and its consolidated Subsidiaries or (y) are being contested in good faith by appropriate proceedings, which proceedings have the effect of preventing for the foreseeable future the forfeiture or sale of the property or asset subject to such Lien; (c) the Liens set forth in Schedule 3.11 hereto in effect on the date hereof; and (d) the Liens of Investor set forth in the Transactions Documents.

Section 3.12 Prohibition on Indebtedness.

The Company shall not, and shall not permit any Subsidiary to, enter into, create, incur, assume, suffer, become or be liable for in any manner with respect to, or permit to exist, any Indebtedness, or guarantee, assume, endorse or otherwise become responsible for (directly or indirectly), any Indebtedness, performance, obligations or dividends of any other Person, other than (i) Indebtedness existing on the date hereof and disclosed in [Schedule 2.1\(k\)](#) to this Agreement, (ii) Indebtedness in favor of the Investor and (iii) Indebtedness that is subordinate to the obligations of the Company to the Investor under the Notes and the other Transactions Documents pursuant to a subordination agreement in form and substance reasonably acceptable to the Investor.

Section 3.13 Compliance with Transaction Documents.

The Company shall, and shall cause its Subsidiaries to, comply with their respective obligations under the Notes and the other Transaction Documents.

Section 3.14 Transactions with Affiliates.

The Company shall not, and shall not permit its Subsidiaries to, directly or indirectly, (i) purchase, acquire or lease any property from, or sell, transfer or lease any property to any officer, director, agent, employee or any Affiliate of the Company or any Subsidiary, or (ii) make any payments of management, consulting or other fees for management or similar services, or of any Indebtedness owing to any officer, director, agent, employee, or other Affiliate of Company or any Subsidiary, including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director, agent or such employee or, to the knowledge of the Company, any entity in which any officer, director, agent or any such employee has a substantial interest or is an officer, director, trustee or partner, other than (i) for payment of reasonable salary for services actually rendered, as approved by the Board of Directors of the Company as fair and reasonable in all respects to the Company or the applicable Subsidiary and upon terms no less favorable to the Company or such Subsidiary that the Company or such Subsidiary would obtain in a comparable arm's length transaction with an unaffiliated person, and (ii) reimbursement for expenses incurred on behalf of the Company in the ordinary course of and pursuant to the reasonable requirements of the business or any Subsidiary.

Section 3.15 No Merger or Sale of Assets; No Formation of Subsidiaries.

The Company shall not, and shall not permit any Subsidiary to, directly or indirectly, (i) merge into or with or consolidate with any other Person (other than into the Company or a Subsidiary of the Company) or permit any other Person (other than the Company or a Subsidiary of the Company) to merge into or with or consolidate with it, provided that if any such consolidation or merger involves the Company, then the Company must be the survivor of such consolidation or merger; (ii) sell, issue, assign, lease, license, transfer, abandon or otherwise dispose of any or all of its assets (other than inventory in the ordinary course of business); (iii) in any way or manner alter its organizational structure or effect a change of entity (except as expressly permitted in this Agreement); (iv) form or create any subsidiary or become a partner in any partnership or joint venture, or make any acquisition of any interest in any Person or acquire substantially all of the assets of any Person, other than pursuant to the Farmout Agreement; (v) wind up, liquidate or, subject to the proviso in [Section 3.17](#) below, dissolve or (vi) agree to do any of the foregoing.

Section 3.16 Payment of Taxes, Etc.

The Company shall, and shall cause each of its Subsidiaries to, promptly pay and discharge, or cause to be paid and discharged, when due and payable, all lawful taxes, assessments and governmental charges or levies imposed upon the income, profits, property or business of the Company and the Subsidiaries; provided, however, that any such tax, assessment, charge or levy need not be paid if the validity thereof shall currently be contested in good faith by appropriate proceedings and if the Company or such Subsidiaries shall have set aside on its books adequate reserves with respect thereto, and provided, further, that the Company and such Subsidiaries will pay all such taxes, assessments, charges or levies forthwith upon the commencement of proceedings to foreclose any lien which may have attached as security therefor.

Section 3.17 Corporate Existence.

The Company shall, and shall cause each of its Subsidiaries to, maintain in full force and effect its corporate existence, rights and franchises and all licenses and other rights to use property owned or possessed by it and reasonably deemed to be necessary to the conduct of its business; provided, however, that the Company may dissolve or cause one or more of its Subsidiaries to merge or consolidate with the Company or any of its other Subsidiaries, provided that if any such consolidation or merger involves the Company, then the Company must be the survivor of such consolidation or merger.

Section 3.18 Maintenance of Assets.

The Company shall, and shall cause its Subsidiaries to, keep its properties in good repair, working order and condition, reasonable wear and tear excepted, and from time to time make all necessary and proper repairs, renewals, replacements, additions and improvements thereto.

Section 3.19 No Investments.

The Company shall not, and shall not permit any Subsidiary to, make or suffer to exist any Investments or commitments therefor, other than Investments made in the ordinary course of business and investments existing on the Closing Date by the Company in the Subsidiaries. "Investment" means, with respect to any Person, (i) all investments (by capital contribution or otherwise) in any other Person, (ii) any extension of credit, loan or advance, or (iii) any purchase or repurchase of stock or other ownership interest, indebtedness or all or a substantial part of the assets or property of any Person, bonds, notes, debentures or other securities, or otherwise, and whether existing on the date of this Agreement or thereafter made, but such term shall not include the cash surrender value of life insurance policies on the lives of officers or employees, excluding amounts due from customers for services or products delivered or sold in the ordinary course of business.

Section 3.20 Acquisition of Assets.

In the event the Company or any Subsidiary acquires any assets or other properties, without limiting or impairing the limitations set forth in [Section 3.19](#) above, such assets or properties shall constitute a part of the Collateral (as defined in the Security Agreement) and the Company shall take all action necessary to perfect the Investor's security interest in such assets or properties.

Section 3.21 Notices of Certain Events.

The Company shall promptly notify the Investor of any event or events that have had or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Company.

Section 3.22 Inspection.

The Company, upon reasonable notice, shall permit Investor and its duly authorized representatives or agents to visit any of the Company's properties and inspect any of its assets or books and records, to examine and make copies of its books and records and to discuss its affairs, finances, technology and accounts with, and to be advised as to the same by, its officers and employees at such reasonable times and intervals as Investor may designate.

Section 3.23 Material Contracts.

The Company shall, and shall cause each of its Subsidiaries to, comply with and perform all obligations required to be performed by them to date under any Material Agreement. The Company shall not, and shall not permit any Subsidiary to, amend, supplement or otherwise modify the Farmout Agreement, that certain Compromise Settlement and Release Agreement dated as of September 17, 2008 among the Company, Eagle Domestic Drilling Operations LLC and Quicksilver Resources, Inc. or the Sugar Valley Agreement (as defined in [Section 4.3\(s\)](#)).

Section 3.24 Insurance.

The Company shall, and will cause each Subsidiary to:

(a) have (i) all insurance policies sufficient for the compliance by each of them with all material governmental requirements and all Material Agreements and (ii) insurance coverage in at least amounts and against such risk (including, without limitation, public liability) that are usually insured against by companies similarly situated and engaged in the same or a similar business for the assets and operations of the Company and the Subsidiaries. The Company shall deliver (or cause to be delivered) copies of all such policies to the Investor with an endorsement naming the Investor as a lender loss payee (under a satisfactory the Investor's lender loss payable endorsement) or additional insured, as appropriate. Each policy of insurance or endorsement shall contain a clause requiring the insurer to give not less than 30 days prior written notice to the Investor in the event of cancellation of the policy for any reason whatsoever; and

(b) give to the Investor prompt notice of any loss of the Company or any Subsidiary exceeding \$25,000 covered by such insurance. So long as no Event of Default (as defined in the Notes) has occurred and is continuing, the Company or such Subsidiary shall have the exclusive right to adjust any losses payable under any such insurance policies which are less than \$25,000. Following the occurrence and during the continuation of an Event of Default, or in the case of any losses payable under such insurance exceeding \$25,000, the Investor shall have the right to adjust any losses payable under any such insurance policies, without any liability to the Company and the Subsidiaries whatsoever in respect of such adjustments except for the liability of the Investor for its gross negligence or willful misconduct. Any monies received as payment for any loss under any insurance policy mentioned above (other than liability insurance policies) or as payment of any award or compensation for condemnation or taking by eminent domain, shall be paid over to the Investor to be applied at the option of the Investor either to the prepayment (or held as cash collateral for) of the amounts outstanding under the Notes or to be disbursed to Company or such Subsidiary under staged payment terms satisfactory to the Investor for application to the cost of repairs, replacements, or restorations; provided, however, that, with respect to any such monies in an aggregate amount during any 12 consecutive month period not in excess of \$50,000, so long as (i) no Event of Default shall have occurred and be continuing, (ii) the Company or the Subsidiary shall have given the Investor prior written notice of the Company's or such Subsidiary's intention to apply such monies to the costs of repairs, replacement, or restoration of the property which is the subject of the loss, destruction, or taking by condemnation, (iii) the monies are held in a cash collateral account in which the Investor has a perfected first-priority security interest, and (iv) the Company or the Subsidiaries complete such repairs, replacements, or restoration within 180 days after the initial receipt of such monies, the Company and the Subsidiaries shall have the option to apply such monies to the costs of repairs, replacement, or restoration of the property which is the subject of the loss, destruction, or taking by condemnation unless and to the extent that such applicable period shall have expired without such repairs, replacements, or restoration being made, in which case, any amounts remaining in the cash collateral account shall be paid to the Investor and applied (or held as collateral) as set forth above.

Section 3.25 Production Report and Lease Operating Statements.

Within 40 days after the end of each production month (unless for gas, then within 60 days after the end of each production month), (i) a report setting forth, for each calendar month during the then current fiscal year to date, the volume of production and sales attributable to production (and the prices at which such sales were made and the revenues derived from such sales) for each such calendar month from the Company's and each Subsidiary's Oil and Gas Properties, and setting forth the related ad valorem, severance and production taxes and lease operating expenses attributable thereto and incurred for each such calendar month, and internet access to the Company, real time reports of sales of production, and (ii) a statement from the "first purchaser" setting forth the volumes of hydrocarbons sold, the price received and Company's or the Subsidiaries' share of the proceeds.

Section 3.26 Operation and Maintenance of Properties.

The Company, at its own expense, shall, and shall cause each Subsidiary to:

(a) operate its Oil and Gas Properties and other material properties or, in the case of non-operated properties, use its reasonable best efforts to, cause such Oil and Gas Properties and other material properties to be operated in a careful and efficient manner, as would an ordinarily prudent operator under the same or similar circumstances, in accordance with the practices of the industry and in compliance with all applicable contracts and agreements and in compliance with all governmental requirements, including, without limitation, applicable pro ration requirements and Environmental Laws, and all applicable laws, rules and regulations of every other governmental authority from time to time constituted to regulate the development and operation of its Oil and Gas Properties and the production and sale of Hydrocarbons and other minerals therefrom and the plugging of wells and such other obligations as contemplated by any of the Transaction Documents, except, in each case, where the failure to comply could not reasonably be expected to have a Material Adverse Effect;

(b) keep and maintain all property material to the conduct of its business in good working order and condition, ordinary wear and tear excepted preserve, maintain and keep in good repair, working order and efficiency (ordinary wear and tear excepted) all of its material Oil and Gas Properties and other material properties, including, without limitation, all equipment, machinery and facilities;

(c) promptly pay and discharge, or make reasonable and customary efforts to cause to be paid and discharged, all delay rentals, royalties, expenses and indebtedness accruing under the leases of whatever type or kind or other agreements affecting or pertaining to its Oil and Gas Properties and will do all other things necessary to keep unimpaired their rights with respect thereto and prevent any forfeiture thereof or default thereunder;

(d) promptly perform or make reasonable and customary efforts to cause to be performed, in accordance with industry standards, the obligations required by each and all of the assignments, deeds, leases, sub-leases, contracts and agreements affecting its interests in its Oil and Gas Properties and other material properties; and

(e) to the extent none of the Company or the Subsidiaries is the operator of any property, the Company shall use reasonable efforts to cause the operator to comply with this [Section 3.26](#).

Section 3.27 Title Information.

Upon request of the Investor (at its sole discretion), the Company will deliver or caused to be delivered title information in form and substance acceptable to the Investor covering Oil and Gas Properties, now owned or hereafter acquired.

Section 3.28 Gas Imbalances, Take-or-Pay or Other Prepayments.

The Company shall not, and shall not permit any Subsidiary to, allow gas imbalances, take-or-pay or other prepayments with respect to the Oil and Gas Properties of the Company or any Subsidiary that would require the Company or such Subsidiary to deliver Hydrocarbons at some future time without then or thereafter receiving full payment therefor to exceed one half billion cubic feet of gas in the aggregate.

Section 3.29 Right of First Offer; Right of First Refusal.

(a) If the Company or any Subsidiary shall desire to raise new capital by the issuance of any Indebtedness or equity interests (i) during the period commencing on the date of this Agreement and ending on the date that is one year after the last maturity date of any of the Notes or (ii) for so long as the Company is paying royalties to the Investor pursuant to the Royalty Payment Agreement (as defined in [Section 2.1\(b\)](#) hereof), then the Company or such Subsidiary shall notify the Investor thereof in writing (an "Offer Notice") and the Investor shall, not later than five (5) Business Days after its receipt of such Offer Notice, present to the Company or such Subsidiary in writing the terms and conditions pursuant to which the Investor will purchase such Indebtedness or equity interests (the "Offer Proposal"). If the Company or such Subsidiary and the Investor are not able to agree on the terms of the issuance of such Indebtedness or equity interests within five (5) Business Days after the delivery of such Offer Proposal, the Company or such Subsidiary shall be permitted to negotiate with unaffiliated third parties for the issuance of such Indebtedness or equity securities. If the Company or such Subsidiary and the Investor are able to agree on the terms of the issuance of such Indebtedness or equity interests, then the Company or such Subsidiary and the Investor shall consummate such transaction within twenty (20) Business Days thereafter.

(b) If the Company or such Subsidiary has complied with the requirements set forth in [Section 3.29\(a\)](#), in the event that the Company or such Subsidiary and the Investor do not agree on the terms of the issuance of such Indebtedness or equity interests or the Investor elects not to make an Offer Proposal within the time period set forth in [Section 3.29\(a\)](#), the Company or such Subsidiary may, for a period ninety (90) days (the "Offer Period"), attempt to identify an unaffiliated third party to provide such new capital to the Company or such Subsidiary (a "Third Party Investor"); provided, however, that the terms and conditions offered to any Third Party Investor shall be no more favorable to the Third Party Investor than the terms set forth in the Offer Proposal. In the event that the Company or such Subsidiary identify a Third Party Investor during the Offer Period, the Company or such Subsidiary shall give to the Investor a written notice of the Company's or such Subsidiary's intention to enter into a transaction with a Third Party Investor (a "Notice of Intent") stating the terms and conditions of such transaction (which terms shall comply with the proviso of the immediately preceding sentence); provided, that if the Company provides evidence reasonably satisfactory to the Investor that such Third Party Investor is not an affiliate of the Company or any of the Company's Subsidiaries, then the Company shall not be required to provide to the Investor the name of such Third Party Investor. The Company or such Subsidiary shall attach to the Notice of Intent a duplicate original of the offer from the Third Party Investor, and the Notice of Intent shall include evidence demonstrating the Third Party Investor's capability to consummate such transaction and the nature of the offer. The Investor shall then have the option to purchase, at the price and on the terms set forth in the Notice of Intent, the Indebtedness or equity interests offered thereby. The Investor may accept such offer by delivering written notice to the Company or such Subsidiary not later than five (5) Business Days after the Investor's receipt of the Notice of Intent. If the Investor does not elect to accept such offer within the time period set forth herein, the Company or such Subsidiary may consummate the transaction with the Third Party Investor, upon terms, including price, which are no more favorable to the Third Party Investor than those specified in the Notice of Intent. The closing of any purchase of Indebtedness or equity interests by a Third Party Investor must take place within twenty (20) Business Days of the expiration of the Investor's option to accept such offer under this [Section 3.29\(b\)](#) and, if the closing relates in whole or in part to the purchase of Indebtedness that will not be subordinate to the obligations of the Company to the Investor under the Notes and the other Transaction Documents pursuant to a subordination agreement in form and substance acceptable to the Investor, the proceeds of thereof are sufficient to pay in full the obligations of the Company to the Investor under the Notes.

Section 3.30 Warrant.

If the Well Project fails to achieve an initial production average of at least 350 barrels of oil equivalent per day for the period commencing on the first day on which the Well Project is at full production (it being understood that full production shall be measured as the highest production the Well Project achieves within the first 60 days following the date the Well Project begins producing) and ending on the 30th day thereafter, the Company shall issue to the Investor a common stock purchase warrant, in substantially the form attached hereto as Exhibit 3.30, to purchase 12,000,000 shares of common stock, par value \$0.001 per share, of the Company (the "Common Stock"), as shall be appropriately adjusted for any stock split, stock dividend or similar transaction, at the exercise price and upon the terms and conditions set forth therein. The Investor agrees not to buy, sell, sell short (each a "Stock Transaction") or advise any person to make any Stock Transaction in the Company's common stock in the open market during the period beginning ten (10) Trading Days (as defined in the Warrants) prior to the pricing of the Warrants and ending on the date such Warrants are priced (as described therein).

Section 3.31 Liquidity.

The Company shall maintain at all time not less than the lesser of (i) \$100,000 and (ii) \$100,000 minus Additional Expenses (as defined below) approved by the Investor and paid to the Company (the lesser of in amounts in clauses (i) and (ii), the "Minimum Balance") on deposit in an account with respect to which the Investor has a first priority perfected security interest (the "Liquidity Account"). On the first Business Day of each month, if after the payment of all amount due under the Notes on such first Business Day the amount on deposit in the Liquidity Account exceeds the Minimum Deposit, then the Investor shall cause to be paid to the Company from the Liquidity Account such excess. For purposes of this Agreement, "Additional Expenses" shall mean an amount, not to exceed \$80,000 in one or more draws in the aggregate, requested by the Company in writing (such writing to include satisfactory evidence to the Investor of the Company's need for such amount and such other information as the Investor may reasonably request) for the payment of the Company's obligations under the Farmout Agreement. If the Investor approves any Additional Expenses, then the Investor shall cause to be paid to the Company from the Liquidity Account the amount of such approved Additional Expenses.

ARTICLE IV
CONDITIONS

Section 4.1 Conditions Precedent to the Obligation of the Company to Close and to Sell the Notes at Each Closing.

The obligation hereunder of the Company to close and issue and sell the Notes to the Investor at each Closing is subject to the satisfaction or waiver, at or before such Closing of the conditions set forth below. These conditions are for the Company's sole benefit and may be waived by the Company at any time in its sole discretion.

(a) No Injunction. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction which prohibits the consummation of any of the transactions contemplated by this Agreement.

(b) Delivery of Note Amount. The Investor shall have advanced the funds as payment for the purchase price of the applicable Notes on the date of such Closing.

(c) Delivery of Transaction Documents. The Transaction Documents to which the Investor is a party shall have been duly executed and delivered by the Investor to the Company.

Section 4.2 Conditions Precedent to the Obligation of the Investor to Close at Each Closing.

The obligation hereunder of the Investor to purchase the Notes and consummate the transactions contemplated by this Agreement is subject to the satisfaction or waiver, at or before each Closing, of each of the conditions set forth below. These conditions are for the Investor's sole benefit and may be waived by the Investor at any time in its sole discretion.

(a) Accuracy of Representations and Warranties. Each of the representations and warranties of the Company and the Subsidiaries in this Agreement and the other Transaction Documents shall be true and correct in all material respects as of the date of the Closing, except for representations and warranties that speak as of a particular date, which shall be true and correct in all material respects as of such date.

(b) Event of Default. No Event of Default (as defined in the Notes) shall have occurred and be continuing.

(c) Performance. The Company and each Subsidiary shall have performed, satisfied and complied in all material respects with all covenants, agreements and conditions required by this Agreement and the other Transaction Documents to be performed, satisfied or complied with by the Company and each Subsidiary at or prior to the date of the applicable Closing.

(d) No Suspension, Etc. At any time prior to the First Tranche Closing and the Second Tranche Closing, as applicable, trading in the Common Stock shall not have been suspended by the Commission or OTC Bulletin Board Market, and, at any time prior to the Closing Date, trading in securities generally as reported by Bloomberg Financial Markets (“Bloomberg”) shall not have been suspended or limited, or minimum prices shall not have been established on securities whose trades are reported by Bloomberg, or on the OTC Bulletin Board Market, nor shall a banking moratorium have been declared either by the United States or New York State authorities, nor shall there have occurred any material outbreak or escalation of hostilities or other national or international calamity or crisis of such magnitude in its effect on, or any material adverse change in any financial market which, in each case, in the judgment of the Investor, makes it impracticable or inadvisable to purchase the Notes.

(e) No Injunction. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction which prohibits the consummation of any of the transactions contemplated by this Agreement.

(f) No Proceedings or Litigation. No action, suit or proceeding before any arbitrator or any governmental authority shall have been commenced, and no investigation by any governmental authority shall have been threatened, against the Company or any Subsidiary, or any of the officers, directors or affiliates of the Company or any Subsidiary seeking to restrain, prevent or change the transactions contemplated by this Agreement, or seeking damages in connection with such transactions.

(g) Notes. The Company shall have delivered to the Investor the applicable Note.

(h) Material Adverse Effect. No Material Adverse Effect shall have occurred since September 30, 2010.

(i) Payment of Investor’s Expenses. The Company shall have paid the fees and expenses described in [Section 7.1](#) of this Agreement.

Section 4.3 Conditions Precedent to the Obligation of the Investor to Close at the First Tranche Closing.

In addition to the conditions set forth in [Section 4.2](#), the obligation hereunder of the Investor to purchase the First Tranche Note and consummate the transactions contemplated by this Agreement is subject to the satisfaction or waiver, at or before the First Tranche Closing, of each of the conditions set forth below. These conditions are for the Investor’s sole benefit and may be waived by the Investor at any time in its sole discretion

(a) Opinion of Counsel. The Investor shall have received an opinion of counsel to the Company, dated the date of the Closing, reasonably acceptable to counsel to the Investor.

(b) Notes and Transaction Documents. The Company shall have delivered to the Investor the First Tranche Note, and the Company and the Subsidiaries shall have duly executed and delivered the other Transaction Documents to the Investor, and the Investor shall have received such title information as the Investor may require, satisfactory to the Investor, setting forth the status of title to the Company's interest in any Oil and Gas Property owned by Company or any Subsidiary which is subject to the Liens existing or to exist under the terms of the Security Agreement or the Mortgages. For the purposes of this Agreement, "Oil and Gas Properties" means (a) all rights, titles, interests and estates now or hereafter acquired directly or indirectly through ownership in other entities or otherwise in and to oil and gas leases, oil, gas and mineral leases, or other liquid or gaseous hydrocarbon leases, mineral fee interests, overriding royalty and royalty interests, net profit interests and production payment interests, including any reserved or residual interests of whatever nature (the "Hydrocarbon Interests"); (b) any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible, including, without limitation, cash, securities, accounts and contract rights (the "Properties") now or hereafter pooled or unitized with Hydrocarbon Interests; (c) all presently existing or future unitization, pooling agreements and declarations of pooled units and the units created thereby (including without limitation all units created under orders, regulations and rules of any governmental authority) which may affect all or any portion of the Hydrocarbon Interests; (d) all operating agreements, contracts and other agreements, including production sharing contracts and agreements, which relate to any of the Hydrocarbon Interests or the production, sale, purchase, exchange or processing of oil, gas, casing head gas, drip gasoline, natural gasoline, condensate, distillate, liquid hydrocarbons, gaseous hydrocarbons and all products refined or separated therefrom ("Hydrocarbons") from or attributable to such Hydrocarbon Interests; (e) all Hydrocarbons in and under and which may be produced and saved or attributable to the Hydrocarbon Interests, including all oil in tanks, and all rents, issues, profits, proceeds, products, revenues and other incomes from or attributable to the Hydrocarbon Interests; (f) all tenements, hereditaments, appurtenances and Properties in any manner appertaining, belonging, affixed or incidental to the Hydrocarbon Interests and (g) all Properties, rights, titles, interests and estates described or referred to above, including any and all Property, real or personal, now owned or hereinafter acquired and situated upon, used, held for use or useful in connection with the operating, working or development of any of such Hydrocarbon Interests or Property and including any and all oil wells, gas wells, injection wells, disposal wells or other wells, buildings, structures, fuel separators, liquid extraction plants, plant compressors, pumps, pumping units, field gathering systems, tanks and tank batteries, fixtures, valves, fittings, machinery and parts, engines, boilers, meters, apparatus, equipment, appliances, tools, implements, cables, wires, towers, casing, tubing and rods, surface leases, rights-of-way, easements and servitudes together with all additions, substitutions, replacements, accessions and attachments to any and all of the foregoing.

(c) Deposit Account Control Agreement. The Investor shall have received Deposit Account Control Agreements for each deposit account of the Company and the Subsidiaries, which shall be in form and substance satisfactory to the Investor in its sole discretion.

(d) Good Standing Certificates, etc. The Investor shall have received certificates of the appropriate governmental agencies with respect to the existence, qualification and good standing of the Company and the Subsidiaries.

(e) Secretary's Certificate. The Company and the Subsidiaries shall have delivered to the Investor secretary's certificates, dated as of the Closing, as to (i) the resolutions approving the transactions contemplated hereby and by the Transaction Documents, (ii) the respective organizational documents of the Company and the Subsidiaries, each as in effect at the Closing, and (iii) the authority and incumbency of the officers of the Company and the Subsidiaries executing the Transaction Documents and any other documents required to be executed or delivered in connection therewith.

(f) Officer's Certificate. On the date of the Closing, the Company shall have delivered to the Investor a certificate signed by an executive officer on behalf of the Company, dated as of the date of the Closing, confirming the accuracy of the Company's representations, warranties and covenants as of such date and confirming the compliance by the Company with the conditions precedent set forth in this [Section 4.2](#) as of the date of such Closing.

(g) Material Adverse Effect. No Material Adverse Effect shall have occurred since September 30, 2010.

(h) Due Diligence. The Company shall have permitted Investor to make such inspections as the Investor deems reasonably appropriate and the Investor is satisfied, in its reasonable discretion, with the results thereof. Such audits and inspections by the Investor shall not affect any of the representations and warranties made by the Company in this Agreement and shall not, under any circumstances constitute a waiver of the Investor's indemnification rights under [ARTICLE VI](#) hereof, or otherwise relieve the Company of any liability thereunder.

(i) Payment of Investor's Expenses. The Company shall have paid the fees and expenses described in [Section 7.1](#) of this Agreement.

(j) UCC Financing Statements; Mortgages. On or prior to the date of the Closing, the Company and the Subsidiaries shall have filed (or authorized the filing of) all UCC and similar financing statements and all Mortgages, each in form and substance satisfactory to the Investor, at the appropriate offices to create a valid and perfected first priority security interest in the Collateral (as defined in the Security Agreement).

(k) Consents. The Company shall have obtained all consents, approvals, or waivers from all governmental authorities, third parties and Company security holders necessary (i) for the execution, delivery and performance of this Agreement and the Transaction Documents and the transactions contemplated hereby and thereby and (ii) to not trigger any preemptive rights, rights of first refusal, put or call rights or obligations, anti-dilution rights or similar rights that any holder of the Company's securities may have with respect to the execution, delivery and performance of this Agreement and each of the Transaction Documents and all transactions contemplated hereby and thereby, all without material cost or other adverse consequences to the Company.

(l) Payoff Letter. A letter, in form and substance satisfactory to the Investor, from Sun Resources setting forth the amount necessary to repay in full all of the obligations of the Company owing to Sun Resources and obtain a release of all of the Liens existing in favor of Sun Resources in and to the properties and assets of the Company, together with termination statements and other documentation evidencing the termination by Sun Resources of its Liens in and to the properties and assets of the Company.

(m) Farmout Agreement. The Investor shall have received a copy of the Farmout Agreement executed by the Company, Solimar and Neon, which shall be (i) in form and substance satisfactory to the Investor, and shall provide, among other things, that payments thereunder to be made to the Company shall be paid to an account designated by the Investor and (ii) certified by an executive officer of the Company as being in full force and effect.

(n) Insurance. The Investor shall have received a certificate of insurance coverage for Company and the Subsidiaries (or other evidence of insurance coverage acceptable to the Investor) showing that Company and the Subsidiaries are carrying insurance in accordance with [Section 3.24](#) hereof.

(o) Operating Agreements. The Investor shall have received copies of the operating agreements for the Oil and Gas Properties which are part of the Collateral (as defined in the Security Agreement) and, with respect to each operating agreement, the operator party thereto shall agree to pay to an account designated by the Investor all amounts due to the Company or any Subsidiary under such operating agreement.

(p) Environmental Condition. The Investor shall have received all reports and notices concerning the environmental condition of the Oil and Gas Properties available to Company and shall be satisfied with the environmental condition thereof.

(q) Subordination Agreement. The Investor shall have received a subordination agreement dated as of the Closing Date among the Investor, the Company and Berg McAfee Companies, LLC ("Berg McAfee"), in form and substance satisfactory to the Investor, pursuant to which all Indebtedness of the Company owing Berg McAfee and Berg McAfee's security interest in any assets of the Company shall be subordinated to the Notes and the Investor's security interest in such assets.

(r) Preferred Shares. The Company shall have issued to the Investor one share of the Company's Series B Preferred Stock pursuant to that certain Stock Purchase Agreement, dated as of the date hereof, between the Company and the Investor, such Series B Preferred Stock and such Stock Purchase Agreement to be in form and substance satisfactory to Investor.

(s) Sun Resources Agreement. The Investor shall have received an amendment to the Agreement to Purchase Sugar Valley Interest, dated September 9, 2010, as so amended and as otherwise amended to the date hereof (the "Sugar Valley Agreement"), between the Company and Sun Resources, such amendment to be in form and substance satisfactory to the Investor.

ARTICLE V
CERTIFICATE LEGEND

Section 5.1 Legend.

Each certificate representing the Notes and the Warrants shall be stamped or otherwise imprinted with a legend substantially in the following form (in addition to any legend required by applicable state securities or "blue sky" laws):

THE SECURITIES REPRESENTED BY THIS CERTIFICATE (THE "SECURITIES") 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.

ARTICLE VI
INDEMNIFICATION

Section 6.1 General Indemnity.

The Company agrees to indemnify and hold harmless the Investor (and its directors, officers, members, partners, affiliates, agents, successors and assigns) from and against any and all losses, liabilities, deficiencies, costs, damages and expenses (including, without limitation, reasonable attorneys' fees, charges and disbursements) incurred by the Investor as a result of any inaccuracy in or breach of the representations, warranties or covenants made by the Company herein.

Section 6.2 Indemnification Procedure.

Any party entitled to indemnification under this [ARTICLE VI](#) (an “indemnified party”) will give written notice to the indemnifying party of any matter giving rise to a claim for indemnification; provided that the failure of any party entitled to indemnification hereunder to give notice as provided herein shall not relieve the indemnifying party of its obligations under this [ARTICLE VI](#) except to the extent that the indemnifying party is actually prejudiced by such failure to give notice. In case any such action, proceeding or claim is brought against an indemnified party in respect of which indemnification is sought hereunder, the indemnifying party shall be entitled to participate in and, unless in the reasonable judgment of the indemnifying party a conflict of interest between it and the indemnified party exists with respect to such action, proceeding or claim, to assume the defense thereof with counsel reasonably satisfactory to the indemnified party. In the event that the indemnifying party advises an indemnified party that it will contest such a claim for indemnification hereunder, or fails, within thirty (30) days of receipt of any indemnification notice to notify, in writing, such person of its election to defend, settle or compromise, at its sole cost and expense, any action, proceeding or claim (or discontinues its defense at any time after it commences such defense), then the indemnified party may, at its option, defend, settle or otherwise compromise or pay such action or claim. In any event, unless and until the indemnifying party elects in writing to assume and does so assume the defense of any such claim, proceeding or action, the indemnified party’s costs and expenses arising out of the defense, settlement or compromise of any such action, claim or proceeding shall be losses subject to indemnification hereunder. The indemnified party shall cooperate fully with the indemnifying party in connection with any negotiation or defense of any such action or claim by the indemnifying party and shall furnish to the indemnifying party all information reasonably available to the indemnified party which relates to such action or claim. The indemnifying party shall keep the indemnified party fully apprised at all times as to the status of the defense or any settlement negotiations with respect thereto. If the indemnifying party elects to defend any such action or claim, then the indemnified party shall be entitled to participate in such defense with counsel of its choice at its sole cost and expense. The indemnifying party shall not be liable for any settlement of any action, claim or proceeding effected without its prior written consent. Notwithstanding anything in this [ARTICLE VI](#) to the contrary, the indemnifying party shall not, without the indemnified party’s prior written consent, settle or compromise any claim or consent to entry of any judgment in respect thereof which imposes any future obligation on the indemnified party or which does not include, as an unconditional term thereof, the giving by the claimant or the plaintiff to the indemnified party of a release from all liability in respect of such claim. The indemnification obligations to defend the indemnified party required by this [ARTICLE VI](#) shall be made by periodic payments of the amount thereof during the course of investigation or defense, as and when bills are received or expense, loss, damage or liability is incurred, so long as the indemnified party shall refund such moneys if it is ultimately determined by a court of competent jurisdiction that such party was not entitled to indemnification. The indemnity agreements contained herein shall be in addition to (a) any cause of action or similar rights of the indemnified party against the indemnifying party or others, and (b) any liabilities the indemnifying party may be subject to pursuant to the law.

ARTICLE VII

MISCELLANEOUS

Section 7.1 Fees and Expenses.

The Company shall pay the costs, fees and expenses of the Investor incurred in connection with the transactions contemplated by the Transaction Documents, including reasonable diligence and legal fees and expenses and the costs, fees and expenses associated with title information, recordation or perfection of the Collateral (as defined in the Security Agreement). The Investor confirms and acknowledges that prior to the date of this Agreement the Company has paid to the Investor \$[40,000] to be applied to such legal fees and expenses. In addition, the Company shall pay all reasonable fees and expenses incurred by the Investor in connection with the administration and enforcement of this Agreement or any of the other Transaction Documents, including, without limitation, all reasonable attorneys’ fees and expenses.

Section 7.2 Specific Performance; Consent to Jurisdiction; Venue.

(a) The Company and the Investor acknowledge and agree that irreparable damage would occur in the event that any of the provisions of this Agreement or the other Transaction Documents were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent or cure breaches of the provisions of this Agreement or the other Transaction Documents and to enforce specifically the terms and provisions hereof or thereof, this being in addition to any other remedy to which any of them may be entitled by law or equity.

(b) The parties agree that venue for any dispute arising under this Agreement will lie exclusively in the state or federal courts located in New York County, New York, and the parties irrevocably waive any right to raise *forum non conveniens* or any other argument that New York is not the proper venue. The parties irrevocably consent to personal jurisdiction in the state and federal courts of the state of New York. The Company and the Investor consent to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing in this Section 7.2 shall affect or limit any right to serve process in any other manner permitted by law. The parties hereby waive all rights to a trial by jury.

Section 7.3 Entire Agreement; Amendment.

This Agreement and the Transaction Documents contain the entire understanding and agreement of the parties with respect to the matters covered hereby and, except as specifically set forth herein or in the other Transaction Documents, neither the Company nor the Investor make any representation, warranty, covenant or undertaking with respect to such matters, and they supersede all prior understandings and agreements with respect to said subject matter, all of which are merged herein. No provision of this Agreement may be waived or amended other than by a written instrument signed by the Company and the Investor. Any amendment or waiver effected in accordance with this [Section 7.3](#) shall be binding upon the Investor (and its assigns) and the Company.

Section 7.4 Notices.

Any notice, demand, request, waiver or other communication required or permitted to be given hereunder shall be in writing and shall be effective (a) upon hand delivery by telecopy or facsimile at the address or number designated below (if delivered on a Business Day during normal business hours where such notice is to be received), or the first Business Day following such delivery (if delivered other than on a Business Day during normal business hours where such notice is to be received) or (b) on the second Business Day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be:

If to the Company: 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 copies 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

If to the Investor: XXXXXXXXX

with copies to: XXXXXXXXX

Any party hereto may from time to time change its address for notices by giving written notice of such changed address to the other party hereto.

Section 7.5 Waivers.

No waiver by either party of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of any party to exercise any right hereunder in any manner impair the exercise of any such right accruing to it thereafter.

Section 7.6 Headings.

The article, section and subsection headings in this Agreement are for convenience only and shall not constitute a part of this Agreement for any other purpose and shall not be deemed to limit or affect any of the provisions hereof.

Section 7.7 Successors and Assigns.

This Agreement shall be binding upon and inure to the benefit of the parties and their successors and assigns. After the Closing, the assignment by a party to this Agreement of any rights hereunder shall not affect the obligations of such party under this Agreement. The Investor may assign the Notes and its rights under this Agreement and the other Transaction Documents and any other rights hereto and thereto without the consent of the Company, provided such assignment is not required to be registered under the Securities Act or under applicable state securities laws. Neither the Company nor any Subsidiary may assign its rights and obligations under any Transaction Document without the prior written consent of the Investor, which consent may be withheld by the Investor in its sole discretion.

Section 7.8 No Third Party Beneficiaries.

This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

Section 7.9 Governing Law.

This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York, without giving effect to any of the conflicts of law principles which would result in the application of the substantive law of another jurisdiction. This Agreement shall not be interpreted or construed with any presumption against the party causing this Agreement to be drafted.

Section 7.10 Survival.

The representations, and warranties of the Company and the Investor shall survive the execution and delivery hereof and the Closing; the agreements and covenants set forth in [ARTICLE I](#), [ARTICLE III](#), [ARTICLE V](#), [ARTICLE VI](#) and [ARTICLE VII](#) of this Agreement shall survive the execution and delivery hereof and Closing hereunder.

Section 7.11 Publicity.

The Company agrees that it will not disclose, and will not include in any public announcement, the names of the Investor without the consent of the Investor, which consent shall not be unreasonably withheld or delayed, or unless and until such disclosure is required by law, rule or applicable regulation and then only to the extent of such requirement.

Section 7.12 Counterparts.

This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and shall become effective when counterparts have been signed by each party and delivered to the other parties hereto, it being understood that all parties need not sign the same counterpart.

Section 7.13 Severability.

The provisions of this Agreement are severable and, in the event that any court of competent jurisdiction shall determine that any one or more of the provisions or part of the provisions contained in this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision or part of a provision of this Agreement and this Agreement shall be reformed and construed as if such invalid or illegal or unenforceable provision, or part of such provision, had never been contained herein, so that such provisions would be valid, legal and enforceable to the maximum extent possible.

Section 7.14 Further Assurances.

From and after the date of this Agreement, upon the request of the Investor, the Company shall execute and deliver such instruments, documents and other writings as may be reasonably necessary or desirable to confirm and carry out and to effectuate fully the intent and purposes of this Agreement and the other Transaction Documents.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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

BLAST ENERGY SERVICE INC.

By: /s/ Michael L. Peterson
Name: Michael L. Peterson
Title: Chief Executive Officer and President

XXXXXXXXXX

By: /s/ XXXXXXXXXXXX
Name: XXXXXXXXXXXX
Authorized Signatory

THE SECURITIES REPRESENTED BY THIS SENIOR SECURED PROMISSORY NOTE (THE "SECURITIES") 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.

SENIOR SECURED PROMISSORY NOTE
(FIRST TRANCHE)

Dated: February 24, 2011

\$2,111,111.11

For value received, BLAST ENERGY SERVICES INC., a corporation organized under the laws of the State of Texas (the "Maker" or the "Company"), hereby promises to pay to the order of a XXXXXXXXXX, a Delaware limited liability company, with an address at 152 West 57th Street, 4th Floor, New York, NY 10019 (together with its successors, representatives, and assigns, the "Holder"), in accordance with the terms hereinafter provided, the principal amount of \$2,111,111.11 hereunder, together with interest and all other obligations outstanding hereunder.

All payments under or pursuant to this Senior Secured Promissory Note (this "Note") shall be made in United States Dollars in immediately available funds to the Holder at the address of the Holder first set forth above or at such other place as the Holder may designate from time to time in writing to the Maker or by wire transfer of funds to the Holder's account, instructions for which are attached hereto as Exhibit A. The outstanding principal balance of this Note shall be due and payable on the earlier of (i) February 2, 2012 and (ii) the date all obligations and indebtedness hereunder are accelerated in accordance with Section 2.2 hereof (the "Maturity Date").

ARTICLE I

TERMS OF NOTE

Section 1.1 Purchase Agreement. This Note has been executed and delivered pursuant to the Note Purchase Agreement dated as of February 24, 2011 (as amended, amended and restated, supplemented or otherwise modified from time to time, the "Purchase Agreement"), by and among the Maker and the Holder (as an Investor). Capitalized terms used and not otherwise defined herein shall have the meanings set forth for such terms in the Purchase Agreement.

Section 1.2 Interest. Interest on the outstanding principal amount of this Note shall accrue, in arrears, at a rate of ten percent (10%) per annum and shall be payable on the first Business Day of each month, commencing on March 1, 2011 and on the Maturity Date. Furthermore, upon the occurrence and during the continuance of an Event of Default (as defined below), the Maker will pay additional default rate interest to the Holder, payable on demand, at a rate equal to the lesser of two and one-half percent (2½%) per month (prorated for partial months) and the maximum applicable legal rate per annum, computed on the basis of a 360-day year of twelve (12) thirty-day months on the outstanding principal balance of this Note and on all other amounts due under this Note.

Section 1.3 Exit Fee. When this Note is repaid, in whole or in part, for any reason and at any time (whether by voluntary prepayment by the Maker, by reason of the occurrence of an Event of Default, upon maturity, or otherwise), the Maker shall pay to the Investor, as compensation for the cost of the Investor making funds available to Maker, an exit fee (the "Exit Fee") in an amount equal to 12% of the amount of such repayment or prepayment, as applicable; provided that if the average initial production from the Well Project equals or exceeds an average daily production of 350 barrels of oil equivalent per day for the period commencing on the first day on which the Well Project is at full production (it being understood that full production shall be measured as the highest production the Well Project achieves within the first 60 days following the date the Well Project begins producing) and ending on the 30th day thereafter, the Maker shall not be required to pay the Exit Fee on any payment made after such 30th day and the payment of such Exit Fee shall be waived for all purposes. All fees payable pursuant to this paragraph shall be deemed fully earned and non-refundable as of the Closing Date.

Section 1.4 Payment of Principal; Prepayment. The outstanding principal balance plus all outstanding interest, the Exit Fee (if required to be paid pursuant to [Section 1.3](#)) and all other amounts due and owing hereunder shall be paid in full on the Maturity Date. Any amount of principal repaid hereunder may not be reborrowed. The Maker may prepay all or any portion of the principal amount of this Note in an amount equal to the sum of (i) 100% of the amount of such principal prepayment, (ii) the Exit Fee (if required to be paid pursuant to [Section 1.3](#)) and (iii) all outstanding interest and all other amounts due and owing hereunder, upon not less than three (3) Business Days prior written notice to the Holder. This Note is further subject to mandatory prepayment at the option of the Holder as set forth in [ARTICLE III](#) hereof.

Section 1.5 Security Documents. The obligations of the Maker hereunder are secured by a continuing security interest in (i) substantially all of the assets of the Maker pursuant to the terms of the Security Agreement, the Mortgages and other collateral documents and (ii) the Maker's equity interests in the Subsidiaries pursuant to the terms of the Security Agreement.

Section 1.6 Payment on Non-Business Days. Whenever any payment to be made shall be due on a Saturday, Sunday or a public holiday under the laws of the State of New York, such payment shall be due on the next succeeding Business Day and such next succeeding day shall be included in the calculation of the amount of accrued interest payable on such date.

Section 1.7 Transfer. This Note may be transferred or sold, and may also be pledged, hypothecated or otherwise granted as security, by the Holder; provided, however, that any transfer or sale of this Note must be in compliance with any applicable securities laws.

Section 1.8 Replacement. Upon receipt of a duly executed, notarized and unsecured written statement from the Holder with respect to the loss, theft or destruction of this Note (or any replacement hereof) and a standard indemnity, or, in the case of a mutilation of this Note, upon surrender and cancellation of such Note, the Maker shall issue a new Note, of like tenor and amount, in lieu of such lost, stolen, destroyed or mutilated Note.

Section 1.9 Use of Proceeds. The Maker shall use the proceeds of this Note as set forth in the Purchase Agreement.

ARTICLE II

EVENTS OF DEFAULT; REMEDIES

Section 2.1 Events of Default. The occurrence of any of the following events shall be an "Event of Default" under this Note:

(a) any failure to make any payment of (i) the principal amount under this Note as and when the same shall be due and payable (whether on the Maturity Date or by acceleration or otherwise), or (ii) interest or any other monetary obligation under this Note by the 3rd Business Day after the same shall be due and payable (whether on the Maturity Date or by acceleration or otherwise); or

(b) the Maker or any Subsidiary shall fail to observe, perform or comply with any condition, covenant, undertaking or agreement contained in this Note or any other Transaction Document; or

(c) the suspension from listing, without subsequent listing on any one of, or the failure of the Common Stock to be listed on at least one of, the NYSE Arca Exchange, the New York Stock Exchange, Inc., the OTC Bulletin Board, the Nasdaq Capital Markets, the Nasdaq Global Market, the Nasdaq Global Select Market, or the NYSE Alternext Exchange for a period of five (5) consecutive Trading Days; or

(d) any representation or warranty made by the Maker, the Subsidiaries, or any of them, herein or in any other Transaction Document shall prove to have been false or incorrect or breached on the date as of which made; or

(e) the Maker or any Subsidiary (i) shall fail to make any payment when due under the terms of any Indebtedness for borrowed money to be paid by such Person and such failure shall continue beyond any period of grace provided with respect thereto, or (ii) shall default in the observance or performance of any other agreement, term or condition contained in any agreement (related to Indebtedness or otherwise), and the effect of such failure or default as set forth in subsections (i) or (ii), is to cause, or permit the holder or holders thereof, or any counterparty to an agreement relating to Indebtedness, to cause Indebtedness, or amounts due thereunder, in an aggregate amount of \$50,000 or more to become due prior to its stated date of maturity or the date such amount would otherwise have been due notwithstanding such default; or

(f) the Maker, the Subsidiaries or any of them, shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of itself or of all or a substantial part of its property or assets, (ii) make a general assignment for the benefit of its creditors, (iii) commence a voluntary case under the United States Bankruptcy Code (as now or hereafter in effect) or under the comparable laws of any jurisdiction (foreign or domestic), (iv) file a petition seeking to take advantage of any bankruptcy, insolvency, moratorium, reorganization or other similar law affecting the enforcement of creditors' rights generally, (v) acquiesce in writing to any petition filed against it in an involuntary case under United States Bankruptcy Code (as now or hereafter in effect) or under the comparable laws of any jurisdiction (foreign or domestic), (vi) issue a notice of bankruptcy or winding down of its operations or issue a press release regarding same, or (vii) take any action under the laws of any jurisdiction (foreign or domestic) analogous to any of the foregoing; or

(g) a proceeding or case shall be commenced in respect of the Maker, the Subsidiaries or any of them, without its application or consent, in any court of competent jurisdiction, seeking (i) the liquidation, reorganization, moratorium, dissolution, winding up, or composition or readjustment of its debts, (ii) the appointment of a trustee, receiver, custodian, liquidator or the like of the Maker, the Subsidiaries or any of them, or of all or any substantial part of the Maker or any Subsidiary, or any of the Maker's or a Subsidiary's assets or (iii) similar relief in respect of it under any law providing for the relief of debtors, and such proceeding or case described in clause (i), (ii) or (iii) shall continue undismissed, or unstayed and in effect, for a period of sixty (60) days or any order for relief shall be entered in an involuntary case under United States Bankruptcy Code (as now or hereafter in effect) or under the comparable laws of any jurisdiction (foreign or domestic) against the Maker, the Subsidiaries or any of them, or action under the laws of any jurisdiction (foreign or domestic) analogous to any of the foregoing shall be taken with respect to the Maker, the Subsidiaries or any of them, and shall continue undismissed, or unstayed and in effect for a period of sixty (60) days; or

(h) a judgment or judgments in the aggregate amount exceeding \$50,000 is/are entered against the Maker, the Subsidiaries or any of them, and not dismissed or discharged within twenty (20) days following the entry thereof; or

(i) the Maker, the Subsidiaries or any of them, shall cease to actively conduct its business operations for a period of five (5) consecutive Business Days; or

(j) any material portion of the properties or assets of the Maker, the Subsidiaries or any of them, is seized by any governmental authority; or

(k) the Maker, the Subsidiaries or any of them, are indicted for the commission of any criminal activity; or

(l) any payment required to be made to the Maker or any Subsidiary pursuant to any Material Agreement, including without limitation, the Farmout Agreement or any operating agreement with respect to Oil and Gas Properties that are part of the Collateral, or from any obligor with respect to any other Collateral shall not be made directly to an account designated by the Investor.

Section 2.2 Remedies Upon An Event of Default. If an Event of Default shall have occurred and shall be continuing, the Holder may at any time at its option (a) declare the entire unpaid principal balance of this Note, together with all interest accrued hereon, plus the Exit Fee (if required to be paid pursuant to Section 1.3) and other fees and expenses, due and payable, and thereupon, the same shall be accelerated and so due and payable, without presentment, demand, protest, or notice, all of which are hereby expressly unconditionally and irrevocably waived by the Maker; provided, however, that upon the occurrence of an Event of Default described in Section 2.1(f) or Section 2.1(g) above, the outstanding principal balance and accrued interest hereunder, plus the Exit Fee (if required to be paid pursuant to Section 1.3) and other fees and expenses, shall be immediately and automatically due and payable, and/or (b) exercise or otherwise enforce any one or more of the Holder's rights, powers, privileges, remedies and interests under this Note, the Purchase Agreement, the Security Agreement, the Mortgages or other Transaction Document or applicable law. No course of delay on the part of the Holder shall operate as a waiver thereof or otherwise prejudice the right of the Holder. No remedy conferred hereby shall be exclusive of any other remedy referred to herein or now or hereafter available at law, in equity, by statute or otherwise. Upon the occurrence and during the continuance of an Event of Default, all amounts payable under this Note shall bear interest at the default rate set forth in Section 1.2 hereof.

ARTICLE III

PREPAYMENT

Section 3.1 Prepayment.

(a) Prepayment Option Upon Major Transaction. In addition to all other rights of the Holder contained herein, simultaneous with the occurrence of any Major Transaction (as defined below), the Holder shall have the right, at the Holder's option, to require the Maker to prepay this Note in cash at a price equal to the sum of (i) one hundred percent (100%) of the aggregate principal amount of this Note plus all accrued and unpaid interest (if any), plus (ii) the Exit Fee (if required to be paid pursuant to Section 1.3) plus (iii) all other fees, costs, expenses, liquidated damages or other amounts (if any) owing in respect of this Note and the other Transaction Documents (the "Major Transaction Prepayment Price").

(b) Major Transaction. A "Major Transaction" shall be deemed to have occurred at such time as any of the following events:

(i) the consolidation, merger or other business combination of the Maker with or into another Person (other than (A) pursuant to a migratory merger effected solely for the purpose of changing the jurisdiction of incorporation of the Maker or (B) a consolidation, merger or other business combination in which holders of the Maker's voting power immediately prior to the transaction continue after the transaction to hold, directly or indirectly, the voting power of the surviving entity or entities necessary to elect a majority of the members of the board of directors (or their equivalent if other than a corporation) of such entity or entities);

(ii) the sale or transfer of more than fifty percent (50%) of the Maker's assets (based on the fair market value as determined in good faith by the Maker's Board of Directors) other than inventory in the ordinary course of business in one or a related series of transactions;

(iii) closing of a purchase, tender or exchange offer made to the holders of more than fifty percent (50%) of the outstanding shares of Common Stock in which more than fifty percent (50%) of the outstanding shares of Common Stock were tendered and accepted; or

(iv) the issuance by the Maker in one or more related or unrelated transactions of any shares, Options (other than Options granted to employees and consultants pursuant to any employee stock benefit, option, purchase or similar plan approved by the Company's Board of Directors), warrants (other than the Warrants), interests, participations, or other equivalents (regardless of how designated) of the Maker, whether voting or nonvoting, including Common Stock, preferred stock or any other "equity security" (as such term is defined in Rule 3a11-1 of the General Rules and Regulations promulgated by the Commission under the Exchange Act) or any equity contribution in received by the Company, which in the aggregate results in Net Cash Proceeds in excess of \$500,000.

(c) Mechanics of Prepayment at Option of Holder Upon Major Transaction. No sooner than fifteen (15) days nor later than ten (10) days prior to the consummation of a Major Transaction, but not prior to the public announcement of such Major Transaction, the Maker shall deliver written notice thereof via facsimile and overnight courier ("Notice of Major Transaction") to the Holder of this Note. At any time after receipt of a Notice of Major Transaction (or, in the event a Notice of Major Transaction is not delivered at least ten (10) days prior to a Major Transaction, at any time within ten (10) days prior to a Major Transaction), the Holder of this Note may require the Maker to prepay, effective immediately prior to the consummation of such Major Transaction, this Note by delivering written notice thereof via facsimile and overnight courier ("Notice of Prepayment at Option of the Holder Upon Major Transaction") to the Maker, which Notice of Prepayment at Option of Holder Upon Major Transaction shall indicate the applicable Major Transaction Prepayment Price, as calculated pursuant to [Section 3.1\(a\)](#) above.

(d) Payment of Prepayment Price. Upon the Maker's receipt of a Notice(s) of Prepayment at Option of Holder Upon Major Transaction from the Holder of this Note, the Maker shall immediately notify the Holder of this Note by facsimile of the Maker's receipt of such Notice(s) of Prepayment at Option of Holder Upon Major Transaction and the Maker shall deliver the Major Transaction Prepayment Price immediately prior to or contemporaneous with the consummation of the Major Transaction. If the Maker shall fail to prepay this Note submitted for prepayment (other than pursuant to a dispute as to the arithmetic calculation of the Major Transaction Prepayment Price) immediately prior to or contemporaneous with the consummation of the Major Transaction, in addition to any remedy the Holder of this Note may have under this Note and the Purchase Agreement, the Major Transaction Prepayment Price payable in respect of this Note not prepaid shall bear interest at the rate of two and one-half percent (2½%) per month (prorated for partial months) until paid in full.

Section 3.2 Mandatory Prepayments. The Maker shall prepay this Note in an amount equal to the sum of (i) the lesser of (a) \$1,440,000 minus the sum the Exit Fee (if required to be paid pursuant to Section 1.3) and all outstanding interest and all other amounts due and owing hereunder and (b) the principal amount of this Note, (ii) the Exit Fee (if required to be paid pursuant to Section 1.3) and (iii) all outstanding interest and all other amounts due and owing hereunder.

ARTICLE IV

MISCELLANEOUS

Section 4.1 Notices. Any notice, demand, request, waiver or other communication required or permitted to be given hereunder shall be in writing and shall be effective (a) upon hand delivery, teletype or facsimile at the address or number designated in the Purchase Agreement (if delivered on a Business Day during normal business hours where such notice is to be received), or the first Business Day following such delivery (if delivered other than on a Business Day during normal business hours where such notice is to be received) or (b) on the second Business Day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur.

Section 4.2 Governing Law. This Note shall be governed by and construed in accordance with the internal laws of the State of New York, without giving effect to any of the conflicts of law principles which would result in the application of the substantive law of another jurisdiction. This Note shall not be interpreted or construed with any presumption against the party causing this Note to be drafted.

Section 4.3 Headings. Article and section headings in this Note are included herein for purposes of convenience of reference only and shall not constitute a part of this Note for any other purpose.

Section 4.4 Remedies, Characterizations, Other Obligations, Breaches and Injunctive Relief. The remedies provided in this Note shall be cumulative and in addition to all other remedies available under this Note, at law or in equity (including, without limitation, a decree of specific performance and/or other injunctive relief), no remedy contained herein shall be deemed a waiver of compliance with the provisions giving rise to such remedy and nothing herein shall limit a holder's right to pursue actual damages for any failure by the Maker to comply with the terms of this Note. Amounts set forth or provided for herein with respect to payments, conversion and the like (and the computation thereof) shall be the amounts to be received by the holder thereof and shall not, except as expressly provided herein, be subject to any other obligation of the Maker (or the performance thereof). The Maker acknowledges that a breach by it of its obligations hereunder will cause irreparable and material harm to the Holder and that the remedy at law for any such breach may be inadequate. Therefore the Maker agrees that, in the event of any such breach or threatened breach, the Holder shall be entitled, in addition to all other available rights and remedies, at law or in equity, to seek and obtain such equitable relief, including but not limited to an injunction restraining any such breach or threatened breach, without the necessity of showing economic loss and without any bond or other security being required.

Section 4.5 Enforcement Expenses. The Maker agrees to pay all costs and expenses incurred from time to time by the Holder with respect to any modification, consent or waiver of the provisions of this Note or the Transaction Documents and any enforcement of this Note and the Transaction Documents, including, without limitation, reasonable attorneys' fees and expenses.

Section 4.6 Amendments.

(a) This Note may not be modified or amended in any manner except in writing executed by the Maker and the Holder.

(b) To the extent that amendments to this Note are required in connection with the filing of a listing application with the American Stock Exchange in connection with the transactions contemplated hereby, the Maker and the Holder shall cooperate in good faith to reach mutually acceptable resolutions with regard to such amendments, without penalty; provided that the Holder has, in its sole discretion, determined such amendments to be advisable.

Section 4.7 Compliance with Securities Laws.

(a) The Holder of this Note acknowledges that this Note is 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 shall not offer, sell or otherwise dispose of this Note except in accordance with applicable law.

(b) The Holder is an "accredited investor" (as defined in Rule 501 of Regulation D under the Securities Act), and such Holder has such experience in business and financial matters that it is capable of evaluating the merits and risks of an investment in the Securities. The Holder is not required to be registered as a broker-dealer under Section 15 of the Exchange Act and it is not a broker-dealer. The Holder acknowledges that an investment in the Securities is speculative and involves a high degree of risk.

Section 4.8 Consent to Jurisdiction. Each of the Maker and the Holder (i) hereby irrevocably submits to the exclusive jurisdiction of the United States District Court sitting in the Southern District of New York and the courts of the State of New York located in New York county for the purposes of any suit, action or proceeding arising out of or relating to this Note and (ii) hereby waives, and agrees not to assert in any such suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of such court, that the suit, action or proceeding is brought in an inconvenient forum or that the venue of the suit, action or proceeding is improper. Each of the Maker and the Holder consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address in effect for notices to it under the Purchase Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing in this Section 3.8 shall affect or limit any right to serve process in any other manner permitted by law.

Section 4.9 Binding Effect. This Note shall be binding upon, inure to the benefit of and be enforceable by the Maker, the Holder and their respective successors and permitted assigns. The Maker shall not delegate or transfer this Note or any obligations or undertakings contained in this Note.

Section 4.10 Failure or Indulgence Not Waiver. No failure or delay on the part of the Holder in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege.

Section 4.11 Maker Waivers: Dispute Resolution.

(a) Except as otherwise specifically provided herein, the Maker and all others that may become liable for all or any part of the obligations evidenced by this Note, hereby waive presentment, demand, notice of nonpayment, protest and all other demands' and notices in connection with the delivery, acceptance, performance and enforcement of this Note, and do hereby consent to any number of renewals or extensions of the time or payment hereof and agree that any such renewals or extensions may be made without notice to any such persons and without affecting their liability herein and do further consent to the release of any person liable hereon, all without affecting the liability of the other persons, firms or Maker liable for the payment of this Note, AND DO HEREBY WAIVE TRIAL BY JURY.

(b) No delay or omission on the part of the Holder in exercising its rights under this Note, or course of conduct relating hereto, shall operate as a waiver of such rights or any other right of the Holder, nor shall any waiver by the Holder of any such right or rights on any one occasion be deemed a waiver of the same right or rights on any future occasion.

(c) THE MAKER ACKNOWLEDGES THAT THE TRANSACTION OF WHICH THIS NOTE IS A PART IS A COMMERCIAL TRANSACTION, AND TO THE EXTENT ALLOWED BY APPLICABLE LAW, HEREBY WAIVES ITS RIGHT TO NOTICE AND HEARING WITH RESPECT TO ANY PREJUDGMENT REMEDY WHICH THE HOLDER OR ITS SUCCESSORS OR ASSIGNS MAY DESIRE TO USE.

Section 4.12 Definitions. Capitalized terms used herein and not defined shall have the meanings set forth in the Purchase Agreement. For the purposes hereof, the following terms shall have the following meanings:

“Business Day” (whether or not capitalized) shall mean any day banking transactions can be conducted in New York City, NY, USA and does not include any day which is a federal or state holiday in such location.

“Common Stock” means shares of common stock, par value \$0.001 per share, of the Company.

“Person” means an individual or a corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or political subdivision thereof) or other entity of any kind.

“Trading Day” means (a) a day on which the Common Stock is traded on the New York Stock Exchange, NYSE Arca Exchange, the New York Stock Exchange, Inc., the OTC Bulletin Board, the Nasdaq Capital Markets, the Nasdaq Global Market, the Nasdaq Global Select Market, or the NYSE Alternext Exchange or other registered national securities exchange, or (b) if the Common Stock is not traded on the OTC Bulletin Board or a registered national securities exchange, 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.

[Signature appears on following page]

IN WITNESS WHEREOF, the Maker has caused this Note to be duly executed by its duly authorized officer as of the date first above indicated.

BLAST ENERGY SERVICES INC

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

[SIGNATURE PAGE TO SENIOR SECURED PROMISSORY NOTE]
S-1

EXHIBIT A
WIRE INSTRUCTIONS

Wire instructions for XXXXXXXXX

Account Number
Account Name
Receiving Bank Name:
Receiving Bank ABA Number:
Attention:
Reference:

GUARANTY

This **GUARANTY** (the "Guaranty"), dated as of February 24, 2011, is executed and delivered by Eagle Domestic Drilling Operations LLC ("Eagle"), and Blast AFJ, Inc. ("Blast AFJ"; Eagle and Blast AFJ, collectively, the "Guarantors" and each, individually, a "Guarantor") in favor of XXXXXXXXXX, in its capacity as the Investor under the Purchase Agreement (as defined below) and as Secured Party under the Security Agreement (as defined below) (in such capacities, and together with its successors, transferees and assigns, the "Secured Party").

WITNESSETH:

WHEREAS, each Guarantor is a wholly owned subsidiary of Blast Energy Services, Inc. (the "Issuer"); and

WHEREAS, in accordance with that certain Note Purchase Agreement of even date herewith (as amended, amended and restated, supplemented or otherwise modified from time to time, the "Purchase Agreement") between the Issuer and the Secured Party, the Secured Party has agreed to purchase notes from the Issuer in an amount up to \$2,522,111.11 (the "Loan"); and

WHEREAS, in order to induce the Secured Party to enter into the Purchase Agreement and to extend the Loan to Issuer pursuant to the Purchase Agreement, and in consideration thereof, each Guarantor has agreed to jointly and severally guaranty the Guaranteed Obligations (as defined below) and execute and deliver this Guaranty; and

WHEREAS, the aforesaid Loan will be beneficial to the Guarantors inasmuch as the proceeds of the Loan to the Issuer will indirectly benefit the Guarantors.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by Guarantors, Guarantors hereby agree as follows:

1. **Guaranty of Payment and Performance.** Each Guarantor hereby jointly and severally, irrevocably and unconditionally guarantees to the Secured Party the full and punctual payment when due (whether at maturity, pursuant to a mandatory prepayment requirement, by acceleration or otherwise and whether for principal, interest (including all interest that accrues after the commencement of any Insolvency Proceeding (as defined in the Security Agreement) irrespective of whether a claim therefor is allowed in such case or proceeding), fees, expenses or otherwise), and the performance, of all liabilities, agreements and other obligations of the Issuer to the Secured Party, in each case, whether direct or indirect, absolute or contingent, due or to become due, secured or unsecured, now existing or hereafter arising or acquired (whether by way of discount, letter of credit, lease, loan, overdraft or otherwise), including without limitation all Obligations (as defined in the Security Agreement) and any other obligations under the Purchase Agreement, the Notes and other Transaction Documents (collectively, the "Guaranteed Obligations"). This Guaranty is an absolute, unconditional and continuing guaranty of the full and punctual payment and performance of the Guaranteed Obligations and not of their collectibility only and is in no way conditioned upon any requirement that the Secured Party first attempts to collect any of the Guaranteed Obligations from the Issuer or resort to any security or other means of obtaining their payment. Should the Issuer default in the payment or performance of any of the Guaranteed Obligations, the obligations of each Guarantor hereunder shall become immediately due and payable to the Secured Party, without demand or notice of any nature, all of which are expressly waived by the Guarantors. Payments by the Guarantors hereunder may be required by the Secured Parties on any number of occasions.

2. Guarantors' Agreement to Pay. Each Guarantor further agrees, as the principal obligor and not as a guarantor only, to pay to the Secured Party, on demand, all costs and expenses (including court costs and reasonable legal expenses) incurred or expended by the Secured Party in connection with enforcement of this Guaranty, together with interest on amounts recoverable under this Guaranty from the time such amounts become due under this Guaranty until payment, at the rate per annum equal to the default rate set forth in the Notes; provided that if such interest exceeds the maximum amount permitted to be paid under applicable law, then such interest shall be reduced to such maximum permitted amount.

3. Unlimited Guaranty; Covenant. The liability of each Guarantor hereunder shall be unlimited to the extent of the Guaranteed Obligations and the other obligations of the Guarantors hereunder (including, without limitation, under Section 2 above).

4. Waivers by Guarantors; Secured Party's Freedom to Act. Each Guarantor agrees that the Guaranteed Obligations will be paid and performed strictly in accordance with their terms regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of the Secured Party with respect thereto. Each Guarantor waives presentment, demand, protest, notice of acceptance, notice of Guaranteed Obligations incurred and all other notices of any kind, all defenses which may be available to the Issuer by virtue of any valuation, stay, moratorium law or other similar law now or hereafter in effect, any right to require the marshalling of assets of the Issuer, and all suretyship defenses generally. Without limiting the generality of the foregoing, each Guarantor agrees to the provisions of any instrument evidencing, securing or otherwise executed in connection with any Obligation and agrees that the obligations of each Guarantor hereunder shall not be released or discharged, in whole or in part, or otherwise affected by (i) the failure of any Secured Party to assert any claim or demand or to enforce any right or remedy against the Issuer; (ii) any extensions, renewals, increases, restatements, replacements, settlements or compromises of any Obligation; (iii) any rescissions, forbearances, waivers, amendments or modifications of any of the terms or provisions of any agreement evidencing, securing or otherwise executed in connection with any Obligation; (iv) the substitution or release of any entity primarily or secondarily liable for any Obligation or of any property or asset subject to a Lien in favor of Secured Party; (v) the adequacy of any rights Secured Party may have against any collateral or other means of obtaining repayment of the Guaranteed Obligations; (vi) the impairment of any collateral securing the Guaranteed Obligations, including without limitation the failure to perfect or preserve any rights Secured Party might have in such collateral or the substitution, exchange, surrender, release, loss or destruction of any such collateral; or (vii) any other act or omission which might in any manner or to any extent vary the risk of such Guarantor or otherwise operate as a release or discharge of Issuer or any other guarantor, all of which may be done without notice to such Guarantor.

5. Unenforceability of Obligations Against Issuer. If for any reason the Issuer has no legal existence or is under no legal obligation to discharge any of the Guaranteed Obligations, or if any of the Guaranteed Obligations have become irrecoverable from the Issuer by operation of law or for any other reason, this Guaranty shall nevertheless be binding on each Guarantor to the same extent as if such Guarantor at all times had been the principal obligor on all such Guaranteed Obligations. In the event that acceleration of the time for payment of the Guaranteed Obligations is stayed upon the insolvency, bankruptcy or reorganization of the Issuer, or for any other reason, all such amounts otherwise subject to acceleration under the terms of any agreement evidencing, securing or otherwise executed in connection with any Obligation shall be immediately due and payable by the Guarantors.

6. Subrogation; Subordination. Until the payment and performance in full of all Guaranteed Obligations, no Guarantor shall exercise any rights against the Issuer arising as a result of payment by such Guarantor hereunder, by way of subrogation or otherwise, (the Secured Party having no duty or obligation to take any action at any time to protect or preserve any right of subrogation) and will not prove any claim in competition with Secured Party or its affiliates in respect of any payment hereunder in bankruptcy or insolvency proceedings of any nature; no Guarantor will claim any set-off or counterclaim against the Issuer in respect of any liability of such Guarantor to the Issuer; and each Guarantor waives any benefit of and any right to participate in any collateral which may be held by Secured Party. The payment of any amounts due with respect to any indebtedness of the Issuer now or hereafter held by any Guarantor is hereby subordinated to the prior payment in full of the Guaranteed Obligations. Each Guarantor agrees that after the occurrence of any default in the payment or performance of the Guaranteed Obligations, after the expiration of any applicable grace period, if any, it will not demand, sue for or otherwise attempt to collect after such time any such indebtedness of the Issuer to such Guarantor until the Guaranteed Obligations shall have been paid in full. If, notwithstanding the foregoing sentence, any Guarantor shall collect, enforce or receive any amounts in respect of such indebtedness, such amounts shall be collected, enforced and received by such Guarantor as trustee for the Secured Party and be paid over to the Secured Party on account of the Guaranteed Obligations without affecting in any manner the liability of the Guarantors under the other provisions of this Guaranty.

7. Further Assurances. Each Guarantor agrees to do all such things and execute all such documents, as the Secured Party may consider reasonably necessary or desirable to give full effect to this Guaranty and to perfect and preserve the rights and powers of the Secured Party hereunder.

8. Termination; Reinstatement. This Guaranty shall remain in full force and effect until the Guaranteed Obligations are paid in full and not subject to any recapture or preference in bankruptcy or similar proceedings. This Guaranty shall continue to be effective or be reinstated if at any time any payment made or value received with respect to an Obligation is rescinded or must otherwise be returned by Secured Party upon the insolvency, bankruptcy or reorganization of the Issuer, or otherwise, all as though such payment had not been made or value received.

9. Successors and Assigns. This Guaranty shall be jointly and severally binding upon each Guarantor, its respective successors and assigns, and shall inure to the benefit of and be enforceable by the Secured Party and its successors, transferees and assigns. The Secured Party may assign or otherwise transfer any agreement or any note held by it evidencing, securing or otherwise executed in connection with the Guaranteed Obligations, or sell participations in any interest therein, to any other person or entity, and such other person or entity shall thereupon become vested, to the extent set forth in the agreement evidencing such assignment, transfer or participation, with all the rights in respect thereof granted to the Secured Party herein.

10. Amendments and Waivers. No amendment or waiver of any provision of this Guaranty or consent to any departure by any Guarantor therefrom shall be effective unless the same shall be in writing and signed by the Secured Party. No failure on the part of the Secured Party to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right.

11. Notices. All notices and other communications called for hereunder shall be made in writing and, unless otherwise specifically provided herein, shall be deemed to have been duly made or given when delivered by hand or mailed first class mail postage prepaid or, in the case of telegraphic or telexed notice, when transmitted, answer back received, addressed as follows: if to the Guarantors, at the address set forth in the Purchase Agreement for the Issuer, and if to the Secured Party, at the address set forth in the Purchase Agreement.

12. Governing Law; Consent to Jurisdiction. This Guaranty shall be governed by, and construed in accordance with, the laws of the State of New York without reference to its conflicts of laws provisions. Each Guarantor agrees that any suit for the enforcement of this Guaranty may be brought in the courts of the State of New York or any federal court sitting therein and consents to the non-exclusive jurisdiction of such court and to service of process in any such suit being made upon such Guarantor by mail at the address specified in Section 11 hereof. Each Guarantor hereby waives any objection that it may now or hereafter have to the venue of any such suit or any such court or that such suit was brought in an inconvenient court. Any enforcement action relating to this Guaranty may be brought by motion for summary judgment in lieu of a complaint pursuant to Section 3213 of the New York Civil Practice Law and Rules.

13. WAIVER OF JURY TRIAL. EACH GUARANTOR AND, BY ITS ACCEPTANCE OF THIS GUARANTY, THE SECURED PARTY, HEREBY WAIVES TRIAL BY JURY IN ANY LITIGATION IN ANY COURT WITH RESPECT TO, IN CONNECTION WITH, OR ARISING OUT OF: (A) THIS GUARANTY OR ANY OTHER INSTRUMENT OR DOCUMENT DELIVERED IN CONNECTION WITH THE OBLIGATIONS; (B) THE VALIDITY, INTERPRETATION, COLLECTION OR ENFORCEMENT THEREOF; OR (C) ANY OTHER CLAIM OR DISPUTE HOWEVER ARISING BETWEEN ANY GUARANTOR AND THE SECURED PARTY.

14. Certain References. All pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, neuter, singular or plural, as the identity of the person, persons, entity or entities may require. The terms "herein", "hereof" or "hereunder" or similar terms used in this Guaranty refer to this entire Guaranty and not only to the particular provision in which the term is used. Capitalized Terms used but not defined herein shall have the meaning ascribed to such terms in the Purchase Agreement.

15. Miscellaneous. This Guaranty, together with the Security Agreement executed and delivered by the Guarantors as of the date hereof to the Secured Parties (the "Security Agreement"), constitutes the entire agreement of the Guarantors with respect to the matters set forth herein. The rights and remedies herein provided are cumulative and not exclusive of any remedies provided by law or any other agreement, and this Guaranty shall be in addition to any other guaranty of the Obligations. The invalidity or unenforceability of any one or more sections of this Guaranty shall not affect the validity or enforceability of its remaining provisions. Captions are for the ease of reference only and shall not affect the meaning of the relevant provisions. The meanings of all defined terms used in this Guaranty shall be equally applicable to the singular and plural, masculine, feminine and generic forms of the terms defined.

IN WITNESS WHEREOF, each Guarantor has caused this Guaranty to be executed and delivered as of the date appearing in the introductory paragraph of this Guaranty.

EAGLE DOMESTIC DRILLING OPERATIONS LLC

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

BLAST AFJ, INC.

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

SECURITY AGREEMENT

This **SECURITY AGREEMENT** (this "Agreement"), dated as of February 24, 2011, among the Grantor(s) listed on the signature pages hereof and those additional entities that hereafter become parties hereto by executing the form of Supplement attached hereto as Annex 1 (collectively, jointly and severally, the "Grantors" and each, individually, a "Grantor"), and XXXXXXXXX (together with its successors and assigns, the "Secured Party").

WITNESSETH:

WHEREAS, the Secured Party is the holder of that certain Senior Secured Promissory Note bearing even date herewith in the principal amount of \$2,250,000 (together with any and all promissory notes issued by Blast Energy Services, Inc. (the "Company") after the date hereof pursuant to the Purchase Agreement (as defined below), collectively and each individually, the "Note") issued or to be issued by the Company pursuant to the terms of the Note Purchase Agreement dated as of the date hereof (as amended, amended and restated, supplemented, or otherwise modified from time to time, the "Purchase Agreement") by and between the Company and the Secured Party, and

WHEREAS, pursuant to the terms and conditions of the Purchase Agreement, the Secured Party has agreed to extend loans to the Company, repayment of which is evidenced by the Note, and

WHEREAS, in order to induce Secured Party to enter into the Purchase Agreement and other Transaction Documents and to extend the loans pursuant to the Purchase Agreement, each of Eagle Domestic Drilling Operations LLC ("Eagle"), and Blast AFJ, Inc. ("Blast AFJ"; Eagle and Blast AFJ, collectively, the "Guarantors" and each, individually, a "Guarantor") have agreed to jointly and severally guaranty the obligations of the Company to the Secured Party pursuant to that certain Guaranty dated as of the date hereof (as amended, amended and restated, supplemented, or otherwise modified from time to time, the "Guaranty") executed by the Guarantors in favor of the Secured Party, and

WHEREAS, in order to induce Secured Party to enter into the Purchase Agreement and other Transaction Documents and to extend the loans pursuant to the Purchase Agreement, the Grantors have agreed to execute and deliver to the Secured Party this Agreement and other collateral documents and to grant the Secured Party a continuing security interest in and to the Collateral in order to secure the prompt and complete payment, observance and performance of, among other things, the Secured Obligations, and

NOW, THEREFORE, for and in consideration of the recitals made above and other good and valuable consideration, the receipt, sufficiency and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. Defined Terms. All capitalized terms used herein (including in the preamble and recitals hereof) without definition shall have the meanings ascribed thereto in the Note, or if not expressly defined in the Note, then in the Purchase Agreement. Any terms used in this Agreement that are defined in the Code (whether or not capitalized) shall be construed and defined as set forth in the Code unless otherwise defined herein or in Note or the Purchase Agreement; provided, however, that if the Code is used to define any term used herein and if such term is defined differently in different Articles of the Code, the definition of such term contained in Article 9 of the Code shall govern. In addition to those terms defined elsewhere in this Agreement, as used in this Agreement, the following terms shall have the following meanings:

(a) "Account" means an account (as that term is defined in the Code).

(b) "Account Debtor" means an account debtor (as that term is defined in the Code).

(c) "Books" means books and records (including each Grantor's Records indicating, summarizing, or evidencing such Grantor's assets (including the Collateral) or liabilities, each Grantor's Records relating to such Grantor's business operations or financial condition, and each Grantor's goods or General Intangibles related to such information).

(d) "Chattel Paper" means chattel paper (as that term is defined in the Code) and includes tangible chattel paper and electronic chattel paper.

(e) "Closing Date" has the meaning specified therefor in the Purchase Agreement.

(f) "Code" means the New York Uniform Commercial Code, as in effect from time to time; provided, however, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection, priority, or remedies with respect to Secured Party's Liens on any Collateral is governed by the Uniform Commercial Code as enacted and in effect in a jurisdiction other than the State of New York, the term "Code" shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions thereof relating to such attachment, perfection, priority, or remedies.

(g) "Collateral" has the meaning specified therefor in Section 2.

(h) "Commercial Tort Claims" means commercial tort claims (as that term is defined in the Code), and includes those commercial tort claims listed on Schedule 10 attached hereto.

(i) "Company" has the meaning specified therefor in the recitals to this Agreement.

(j) "Copyrights" means copyrights and copyright registrations, and also includes (i) the copyright registrations and applications listed on Schedule 2 attached hereto and made a part hereof (as the same may be amended or modified from time to time), (ii) all extensions or renewals thereof, (iii) all income, royalties, damage awards and payments now and hereafter due or payable under and with respect thereto, including payments under all licenses entered into in connection therewith and damages and payments for past or future infringements thereof, (iv) the right to sue for past, present and future infringements thereof, and (v) all of each Grantor's rights corresponding thereto throughout the world.

(k) "Deposit Account" means a deposit account (as that term is defined in the Code).

(l) "Equipment" means equipment (as that term is defined in the Code).

(m) "Event of Default" has the meaning specified therefor in the Note.

(n) "General Intangibles" means general intangibles (as that term is defined in the Code), and, in any event, includes payment intangibles, contract rights, rights to payment, rights arising under common law, statutes, or regulations, choses or things in action, goodwill (including the goodwill associated with any Trademark), Patents, Trademarks, Copyrights, URLs and domain names, industrial designs and other Intellectual Property or rights therein or applications therefor, whether under license or otherwise, programs, programming materials, blueprints, drawings, purchase orders, customer lists, monies due or recoverable from pension funds, route lists, rights to payment and other rights under any royalty or licensing agreements, including Intellectual Property Licenses, infringement claims, computer programs, information contained on computer disks or tapes, software, literature, reports, catalogs, pension plan refunds, pension plan refund claims, insurance premium rebates, tax refunds, and tax refund claims, interests in a partnership or limited liability company which do not constitute a security under Article 8 of the Code, and any other personal property other than Commercial Tort Claims, money, Accounts, Chattel Paper, Deposit Accounts, goods, Investment Related Property, Negotiable Collateral, and oil, gas, or other minerals before extraction.

(o) "Governmental Authority" means any federal, state, local, or other governmental or administrative body, instrumentality, board, department, or agency or any court, tribunal, administrative hearing body, arbitration panel, commission, or other similar dispute-resolving panel or body.

(p) "Grantor" and "Grantors" have the meanings specified therefor in the recitals to this Agreement.

(q) "Guarantor" has the meaning specified therefor in the recitals to this Agreement.

(r) "Guaranty" has the meaning specified therefor in the recitals to this Agreement.

(s) "Insolvency Proceeding" means any proceeding commenced by or against any Person under any provision of title 11 of the United States Code, as in effect from time to time, or under any other state or federal bankruptcy or insolvency law, assignments for the benefit of creditors, formal or informal moratoria, compositions, extensions generally with creditors, or proceedings seeking reorganization, arrangement or other similar relief.

(t) "Intellectual Property" means Patents, Copyrights, Trademarks, the goodwill associated with such Trademarks, trade secrets and confidential and proprietary customer lists, and Intellectual Property Licenses.

(u) "Intellectual Property Licenses" means rights under or interests in any patent, trademark, copyright or other intellectual property, including software license agreements with any other party, whether the applicable Grantor is a licensee or licensor under any such license agreement, including the license agreements listed on Schedule 3 attached hereto and made a part hereof.

(v) "Inventory" means inventory (as that term is defined in the Code).

(w) "Investment Related Property" means (i) investment property (as that term is defined in the Code), and (ii) all of the following (regardless of whether classified as investment property under the Code): all Pledged Interests and Pledged Operating Agreements.

(x) "Negotiable Collateral" means letters of credit, letter-of-credit rights, instruments, promissory notes, drafts, and documents.

(y) "Obligations" means all of the liabilities and obligations (primary, secondary, direct, contingent, sole, joint or several) due or to become due, or that are now or may be hereafter contracted or acquired, or owing, of any Grantor to the Secured Party under this Agreement, the Note, the Purchase Agreement, the Guaranty, the other Transaction Documents, and any other instruments, agreements or other documents executed and/or delivered in connection herewith or therewith, in each case, whether now or hereafter existing, voluntary or involuntary, direct or indirect, absolute or contingent, liquidated or unliquidated, whether or not jointly owed with others, and whether or not from time to time decreased or extinguished and later increased, created or incurred, and all or any portion of such obligations or liabilities that are paid, to the extent all or any part of such payment is avoided or recovered directly or indirectly from the Secured Party as a preference, fraudulent transfer or otherwise as such obligations may be amended, supplemented, converted, extended or modified from time to time. Without limiting the generality of the foregoing, the term "Obligations" shall include, without limitation: (i) principal of, and interest on, the Note and the loans extended pursuant thereto (including any interest that accrues after the commencement of an Insolvency Proceeding regardless of whether allowed or allowable in whole or in part as a claim in such Insolvency Proceeding); (ii) any and all other fees, legal fees and other expenses, indemnities, costs, obligations and liabilities of the Grantors from time to time under or in connection with this Agreement, the Note, the Purchase Agreement, the Guaranty, the other Transaction Documents, and any other instruments, agreements or other documents executed and/or delivered in connection herewith or therewith; (iii) payment of the Major Transaction Prepayment Price (as defined in the Note), and (iv) all amounts in respect of the foregoing that would be payable but for the fact that the obligations to pay such amounts are unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving any Grantor. Any reference in this Agreement or in the Transaction Documents to the Obligations shall include all or any portion thereof and any extensions, modifications, renewals or alterations thereof, both prior and subsequent to any Insolvency Proceeding.

(z) "Organizational Documents" means, with respect to each Grantor, the documents by which such Grantor was organized (such as a certificate of incorporation, certificate of limited partnership or articles of organization, and including, without limitation, any certificates of designation for preferred stock or other forms of preferred equity) and which relate to the internal governance of such Grantor (such as bylaws, a partnership agreement or an operating, limited liability or members agreement).

(aa) "Patents" means patents and patent applications, and also includes (i) the patents and patent applications listed on Schedule 4 attached hereto and made a part hereof (as the same may be amended or modified from time to time), (ii) all divisions, continuations, continuations-in-part, reissues and extensions thereof, (iii) all income, royalties, damage awards and payments now and hereafter due or payable under and with respect thereto, including payments under all licenses entered into in connection therewith and damages and payments for past or future infringements thereof, (iv) the right to sue for past, present and future infringements thereof, and (v) all of each Grantor's rights corresponding thereto throughout the world.

(bb) "Patent Security Agreement" means each Patent Security Agreement among Grantors, or any of them, and Secured Party in substantially the form of Exhibit A attached hereto, pursuant to which Grantors have granted to Secured Party a security interest in all their respective Patents.

(cc) "Permitted Encumbrances" has the meaning specified therefor in the Purchase Agreement.

(dd) "Person" has the meaning specified therefor in the Purchase Agreement.

(ee) "Pledged Companies" means, each Person listed on Schedule 5 hereto as a "Pledged Company", together with each other Person, all or a portion of whose Stock, is acquired or otherwise owned by a Grantor after the Closing Date.

(ff) "Pledged Interests" means all of each Grantor's right, title and interest in and to all of the Stock now or hereafter owned by such Grantor, regardless of class or designation, including all substitutions therefor and replacements thereof, all proceeds thereof and all rights relating thereto, also including any certificates representing the Stock, the right to receive any certificates representing any of the Stock, all warrants, options, share appreciation rights and other rights, contractual or otherwise, in respect thereof, and the right to receive dividends, distributions of income, profits, surplus, or other compensation by way of income or liquidating distributions, in cash or in kind, and cash, instruments, and other property from time to time received, receivable, or otherwise distributed in respect of or in addition to, in substitution of, on account of, or in exchange for any or all of the foregoing.

(gg) "Pledged Interests Addendum" means a Pledged Interests Addendum substantially in the form of Exhibit B to this Agreement.

(hh) "Pledged Operating Agreements" means all of each Grantor's rights, powers, and remedies under the limited liability company operating agreements of each of the Pledged Companies that are limited liability companies.

(ii) "Proceeds" has the meaning specified therefor in Section 2.

(jj) "Purchase Agreement" has the meaning specified therefor in the recitals to this Agreement.

(kk) "Real Property" means any estates or interests in real property, including Oil and Gas Properties, now owned or hereafter acquired by any Grantor and the improvements thereto.

(ll) "Records" means information that is inscribed on a tangible medium or which is stored in an electronic or other medium and is retrievable in perceivable form.

(mm) "Security Interest" has the meaning specified therefor in Section 2.

(nn) "Secured Obligations" means each and all of the following: (a) all of the present and future obligations of Grantors arising from this Agreement, the Note, the Purchase Agreement, the Guaranty or the other Transaction Documents, and (b) all Obligations of the Company or any Guarantor, including, in the case of each of clauses (a) and (b), reasonable attorneys fees and expenses and any interest, fees, or expenses that accrue after the filing of an Insolvency Proceeding, regardless of whether allowed or allowable in whole or in part as a claim in any Insolvency Proceeding.

(oo) "Secured Party's Liens" means the Liens granted by the Grantors to Secured Party under the Transaction Documents.

(pp) "Securities Account" means a securities account (as that term is defined in the Code).

(qq) "Stock" means all shares, options, warrants, interests, participations, or other equivalents (regardless of how designated) of or in a Person, whether voting or nonvoting, including common stock, preferred stock, or any other "equity security" (as such term is defined in Rule 3a11-1 of the General Rules and Regulations promulgated by the Commission under the Exchange Act).

(rr) "Supporting Obligations" means supporting obligations (as such term is defined in the Code).

(ss) "Trademarks" means trademarks, trade names, trademark applications, service marks, service mark applications, and also includes (i) the registered or applied for trade names, trademarks, trademark applications, service marks, and service mark applications listed on Schedule 6 attached hereto and made a part hereof (as the same may be amended or modified from time to time), and (ii) all renewals thereof, (iii) all income, royalties, damage awards and payments now and hereafter due or payable under and with respect thereto, including payments under all licenses entered into in connection therewith and damages and payments for past or future (A) infringements and dilutions thereof and (B) injury to the goodwill associated therewith, (iv) the right to sue for past, present and future (A) infringements and dilutions thereof and (B) injury to the goodwill associated therewith, (v) the goodwill of each Grantor's business symbolized by the foregoing or connected therewith, and (v) all of each Grantor's rights corresponding thereto throughout the world.

(tt) "Transaction Documents" has the meaning specified therefor in the Purchase Agreement.

(uu) "URL" means "uniform resource locator," an internet web address.

2. Grant of Security. Each Grantor hereby unconditionally grants, assigns, and pledges to Secured Party a continuing security interest (herein referred to as the "Security Interest") in all personal property, tangible or intangible, of such Grantor whether now owned or hereafter acquired or arising and wherever located, including such Grantor's right, title, and interest in and to the following, whether now owned or hereafter acquired or arising and wherever located (the "Collateral"):

- (a) all of such Grantor's Accounts;
- (b) all of such Grantor's Books;
- (c) all of such Grantor's Chattel Paper;
- (d) all of such Grantor's Deposit Accounts;
- (e) all of such Grantor's Equipment and fixtures;
- (f) all of such Grantor's General Intangibles;
- (g) all of such Grantor's Inventory;
- (h) all of such Grantor's Investment Related Property;
- (i) all of such Grantor's Negotiable Collateral;
- (j) all of such Grantor's rights in respect of Supporting Obligations;
- (k) all of such Grantor's Commercial Tort Claims;
- (l) all of such Grantor's money, cash equivalents, or other assets of each such Grantor that now or hereafter come into the possession, custody, or control of Secured Party;

(m) all of the proceeds and products, whether tangible or intangible, of any of the foregoing, including proceeds of insurance or Commercial Tort Claims covering or relating to any or all of the foregoing, and any and all Accounts, Books, Chattel Paper, Deposit Accounts, Equipment, General Intangibles, Inventory, Investment Related Property, Negotiable Collateral, Supporting Obligations, money, or other tangible or intangible property resulting from the sale, lease, license, exchange, collection, or other disposition of any of the foregoing, the proceeds of any award in condemnation with respect to any of the foregoing, any rebates or refunds, whether for taxes or otherwise, and all proceeds of any such proceeds, or any portion thereof or interest therein, and the proceeds thereof, and all proceeds of any loss of, damage to, or destruction of the above, whether insured or not insured, and, to the extent not otherwise included, any indemnity, warranty, or guaranty payable by reason of loss or damage to, or otherwise with respect to any of the foregoing (the "Proceeds"). Without limiting the generality of the foregoing, the term "Proceeds" includes whatever is receivable or received when Investment Related Property or proceeds are sold, exchanged, collected, or otherwise disposed of, whether such disposition is voluntary or involuntary, and includes proceeds of any indemnity or guaranty payable to any Grantor or Secured Party from time to time with respect to any of the Investment Related Property.

3. Security for Obligations. This Agreement and the Security Interest created hereby secures the payment and performance of the Secured Obligations, whether now existing or arising hereafter. Without limiting the generality of the foregoing, this Agreement secures the payment of all amounts which constitute part of the Secured Obligations and would be owed by Grantors, or any of them, to Secured Party but for the fact that they are unenforceable or not allowable due to the existence of an Insolvency Proceeding involving any Grantor.

4. Grantors Remain Liable. Anything herein to the contrary notwithstanding, (a) each of the Grantors shall remain liable under the contracts and agreements included in the Collateral, including the Pledged Operating Agreements, to perform all of the duties and obligations thereunder to the same extent as if this Agreement had not been executed, (b) the exercise by Secured Party of any of the rights hereunder shall not release any Grantor from any of its duties or obligations under such contracts and agreements included in the Collateral, and (c) Secured Party shall not have any obligation or liability under such contracts and agreements included in the Collateral by reason of this Agreement, nor shall Secured Party be obligated to perform any of the obligations or duties of any Grantors thereunder or to take any action to collect or enforce any claim for payment assigned hereunder. Until an Event of Default shall occur and be continuing, except as otherwise provided in this Agreement, the Note, the Purchase Agreement, or other Transaction Documents, Grantors shall have the right to possession and enjoyment of the Collateral for the purpose of conducting the ordinary course of their respective businesses, subject to and upon the terms hereof and of the Note, the Purchase Agreement and the other Transaction Documents. Without limiting the generality of the foregoing, it is the intention of the parties hereto that record and beneficial ownership of the Pledged Interests, including all voting, consensual, and dividend rights, shall remain in the applicable Grantor until Secured Party, after the occurrence and during the continuance of an Event of Default, shall exercise its voting, consensual, or dividend rights with respect to the Pledged Interests pursuant to Section 15 hereof.

5. Representations and Warranties. Each Grantor hereby represents and warrants as follows:

(a) The exact legal name, jurisdiction of incorporation, organization or formation, organizational identification number, if any, and chief executive officer of each of the Grantors is set forth on Schedule 1 attached hereto. No Grantor has trade names except as set forth on Schedule 1 attached hereto. No Grantor has used any name other than that as set forth on Schedule 1 for the preceding five years. No entity has merged into any Grantor or been acquired by any Grantor within the past five years except as set forth on Schedule 1.

(b) Schedule 7 attached hereto sets forth all Real Property owned or leased by Grantors as of the Closing Date.

(c) As of the Closing Date, no Grantor has any interest in, or title to, any Patents except as set forth on Schedule 4, or material Copyrights, Intellectual Property Licenses, or Trademarks except as set forth on Schedules 2, 3, and 6, respectively, attached hereto. This Agreement is effective to create a valid and continuing Lien on such Copyrights, Intellectual Property Licenses, Patents and Trademarks and, upon filing of the Patent Security Agreement with the United States Patent and Trademark Office, and the filing of appropriate financing statements in the jurisdictions listed on Schedule 8 hereto, all action necessary or desirable to protect and perfect the Security Interest in the United States in and to each Grantor's Patents, Trademarks, Copyrights or Intellectual Property Licenses has been taken and such perfected Security Interest is enforceable as such as against any and all creditors of and purchasers from any Grantor. No Grantor has any interest in any material Copyright that is necessary in connection with the operation of such Grantor's business, except for those Copyrights identified on Schedule 2 attached hereto which have been registered with the United States Copyright Office.

(d) Each Grantor has the requisite corporate, partnership, limited liability company or other power and authority to enter into this Agreement and the other Transaction Documents to which it is a party and otherwise to carry out its obligations hereunder. The execution, delivery and performance by each Grantor of this Agreement and the filings contemplated herein and the other Transaction Documents to which it is a party have been duly authorized by all necessary action on the part of such Grantor and no further action is required by such Grantor. This Agreement and the other Transaction Documents to which it is a party has been duly executed by each Grantor. This Agreement and the other Transaction Documents to which it is a party constitutes the legal, valid and binding obligation of each Grantor, enforceable against such Grantor in accordance with its terms except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization and similar laws of general application relating to or affecting the rights and remedies of creditors and by general principles of equity.

(e) No written claim has been received by any Grantor that any Collateral or any Grantor's use of any Collateral violates the rights of any third party. There has been no adverse decision to any Grantor's claim of ownership rights in or exclusive rights to use the Collateral in any jurisdiction or to such Grantor's right to keep and maintain such Collateral in full force and effect, and there is no proceeding involving said rights pending or, to the best knowledge of such Grantor, threatened before any court, judicial body, administrative or regulatory agency, arbitrator or other governmental authority.

(f) Each Grantor shall at all times maintain its books of account and records relating to the Collateral at its principal place of business (except when temporarily kept at the offices of its attorneys or accountants) and its Collateral at the locations set forth on Schedule 7 attached hereto and may not relocate such books of account and records or tangible Collateral unless it delivers to Secured Party at least thirty (30) days prior to such relocation (i) written notice of such relocation and the new location thereof (which must be within the United States) and (ii) evidence that appropriate financing statements under the Code and other necessary documents have been filed and recorded and other steps have been taken to perfect the Security Interests to create in favor of Secured Party, subject to Permitted Encumbrances, a valid, perfected and continuing perfected first priority lien in the Collateral.

(g) The execution, delivery and performance of this Agreement and the other Transaction Documents to which it is a party by each Grantor do not (i) violate any of the provisions of the Organizational Documents of any Grantor or any judgment, decree, order or award of any court, governmental body or arbitrator or any applicable law, rule or regulation applicable to any Grantor or (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing such Grantor's debt or otherwise) or other understanding to which any Grantor is a party or by which any property or asset of any Grantor is bound or affected, except, in all cases, for such conflicts, defaults, terminations, amendments, acceleration, cancellations and violations as would not, individually or in the aggregate, have a Material Adverse Effect. If any, all required consents (including, without limitation, from stockholders or creditors of the Grantor) necessary for the Grantor to enter into and perform its obligations hereunder have been obtained.

(h) This Agreement creates a valid security interest in the Collateral of each of Grantors, to the extent a security interest therein can be created under the Code, securing the payment of the Secured Obligations. Except to the extent a security interest in the Collateral cannot be perfected by the filing of a financing statement under the Code, all filings and other actions necessary or desirable to perfect and protect such security interest have been duly taken or will have been taken upon the filing of financing statements listing each applicable Grantor, as a debtor, and Secured Party, as secured party, in the jurisdictions listed next to such Grantor's name on Schedule 8 attached hereto. Upon the making of such filings, Secured Party shall have, subject to Permitted Encumbrances, a first priority perfected security interest in the Collateral of each Grantor to the extent such security interest can be perfected by the filing of a financing statement. All action by any Grantor necessary to protect and perfect such security interest on each item of Collateral has been duly taken.

(i) Except for the Security Interest created hereby, each Grantor is and will at all times be the sole holder of record and the legal and beneficial owner, free and clear of all Liens other than Permitted Encumbrances, of the Pledged Interests indicated on Schedule 5 as being owned by such Grantor and, when acquired by such Grantor, any Pledged Interests acquired after the Closing Date; (ii) all of the Pledged Interests are duly authorized, validly issued, fully paid and nonassessable and the Pledged Interests constitute or will constitute the percentage of the issued and outstanding Stock of the Pledged Companies of such Grantor identified on Schedule 5 hereto as supplemented or modified by any Pledged Interests Addendum or any Supplement to this Agreement; (iii) such Grantor has the right and requisite authority to pledge the Investment Related Property pledged by such Grantor to Secured Party as provided herein; (iv) all actions necessary or desirable to perfect, establish, subject to Permitted Encumbrances, the first priority of, or otherwise protect, Secured Party's Liens in the Investment Related Collateral, and the proceeds thereof, have been duly taken, (A) upon the execution and delivery of this Agreement, (B) upon the taking of possession by Secured Party or its representative of any certificates constituting the Pledged Interests, to the extent such Pledged Interests are represented by certificates, together with undated powers endorsed in blank by the applicable Grantor; (C) upon the filing of financing statements in the applicable jurisdiction set forth on Schedule 8 attached hereto for such Grantor with respect to the Pledged Interests of such Grantor that are not represented by certificates, and (D) with respect to any Securities Accounts or Deposit Accounts, upon the delivery of account control agreements with respect thereto; and (v) each Grantor has delivered to and deposited with Secured Party (or, with respect to any Pledged Interests created or obtained after the Closing Date, will deliver and deposit in accordance with Sections 6(a) and 8 hereof) all certificates representing the Pledged Interests owned by such Grantor to the extent such Pledged Interests are represented by certificates, and undated powers endorsed in blank with respect to such certificates. None of the Pledged Interests owned or held by such Grantor has been issued or transferred in violation of any securities registration, securities disclosure, or similar laws of any jurisdiction to which such issuance or transfer may be subject.

(j) No consent, approval, authorization, or other order or other action by, and no notice to or filing with, any Governmental Authority or any other Person is required (i) for the grant of a Security Interest by such Grantor in and to the Collateral pursuant to this Agreement or for the execution, delivery, or performance of this Agreement and the other Transaction Documents to which it is a party by such Grantor, or (ii) for the exercise by Secured Party of the voting or other rights provided for in this Agreement or any other Transaction Document with respect to the Investment Related Property or the remedies in respect of the Collateral pursuant to this Agreement or any other Transaction Document, except as may be required in connection with such disposition of Investment Related Property by laws affecting the offering and sale of securities generally.

(k) Schedule 9 attached hereto sets forth all motor vehicles owned by Grantors as of the Closing Date, by model, model year and vehicle identification number ("VIN").

6. Covenants. Each Grantor, jointly and severally, covenants and agrees with Secured Party that from and after the date of this Agreement and until the date of termination of this Agreement in accordance with Section 22 hereof:

(a) Possession of Collateral. In the event that any Collateral, including Proceeds, is evidenced by or consists of Negotiable Collateral, Investment Related Property, or Chattel Paper, and if and to the extent that perfection or priority of Secured Party's Security Interest is dependent on or enhanced by possession, the applicable Grantor, promptly (and in any event within one (1) Business Day) upon the request of Secured Party, shall execute such other documents and instruments as shall be reasonably requested by Secured Party or, if applicable, endorse and deliver physical possession of such Negotiable Collateral, Investment Related Property, or Chattel Paper to Secured Party or its representative, together with such undated powers endorsed in blank as shall be reasonably requested by Secured Party;

(b) Chattel Paper.

(i) Each Grantor shall take all steps reasonably necessary to grant Secured Party control of all electronic Chattel Paper in accordance with the Code and all "transferable records" as that term is defined in Section 16 of the Uniform Electronic Transaction Act and Section 201 of the federal Electronic Signatures in Global and National Commerce Act as in effect in any relevant jurisdiction;

(ii) If any Grantor retains possession of any Chattel Paper or instruments (which retention of possession shall be subject to the extent permitted hereby and by the Purchase Agreement), promptly upon the request of Secured Party, such Chattel Paper and instruments shall be marked with the following legend: "This writing and the obligations evidenced or secured hereby are subject to the Security Interest of XXXXXXXXXX";

(c) Control Agreements.

(i) Except to the extent otherwise permitted by the Purchase Agreement, each Grantor shall obtain an authenticated account control agreement (or other similar agreement) from each bank or financial institution maintaining a Deposit Account or a Securities Account for such Grantor to which the proceeds of any Collateral are to be received that Secured Party deems necessary or desirable to perfect Secured Party's Liens in such Deposit Account or Securities Account, as applicable;

(ii) Except to the extent otherwise permitted by the Purchase Agreement, each Grantor shall obtain authenticated control agreements, from each issuer of uncertificated securities, securities intermediary, or commodities intermediary issuing or holding any financial assets or commodities to or for any Grantor that Secured Party deems necessary or desirable to perfect Secured Party's Liens in such financial assets or commodities, as applicable;

(d) Letter-of-Credit Rights. Each Grantor that is or becomes the beneficiary of a letter of credit shall promptly (and in any event within two (2) Business Days after becoming a beneficiary), notify Secured Party thereof and, thereafter, upon the request by Secured Party, except with respect to documentary letters of credit received by a Grantor from customers in the ordinary course of business if no Event of Default has occurred and is continuing, enter into a tri-party agreement with Secured Party and the issuer or confirmation bank with respect to letter-of-credit rights assigning such letter-of-credit rights to Secured Party and directing all payments thereunder to a deposit account designated by Secured Party, all in form and substance reasonably satisfactory to Secured Party;

(e) Commercial Tort Claims. Each Grantor shall promptly (and in any event within two (2) Business Days of receipt thereof), notify Secured Party in writing upon incurring or otherwise obtaining a Commercial Tort Claim after the date hereof and, upon request of Secured Party, promptly amend Schedule 10 to this Agreement to describe such after-acquired Commercial Tort Claim in a manner that reasonably identifies such Commercial Tort Claim, and hereby authorizes the filing of additional financing statements or amendments to existing financing statements describing such Commercial Tort Claims, and agrees to do such other acts or things deemed necessary or desirable by Secured Party to give Secured Party, subject to Permitted Encumbrances, a first priority perfected security interest in any such Commercial Tort Claim;

(f) Government Contracts. If any Account or Chattel Paper arises out of a contract or contracts with the United States of America or any department, agency, or instrumentality thereof, Grantors shall promptly (and in any event within two (2) Business Days of the creation thereof) notify Secured Party thereof in writing and execute any instruments or take any steps reasonably required by Secured Party in order that all moneys due or to become due under such contract or contracts shall be assigned to Secured Party, and shall provide written notice thereof under the Assignment of Claims Act or other applicable law;

(g) Intellectual Property.

(i) Upon request of Secured Party, in order to facilitate filings with the United States Patent and Trademark Office, each Grantor shall execute and deliver to Secured Party one or more Patent Security Agreements to further evidence Secured Party's Liens on such Grantor's Patents, Trademarks, or Copyrights, and the General Intangibles of such Grantor relating thereto or represented thereby;

(ii) Each Grantor shall have the duty, to the extent necessary or economically desirable in the operation of such Grantor's business, (A) to promptly sue for, or take such other action with respect to, infringement, misappropriation, or dilution and to recover any and all awarded damages for such infringement, misappropriation, or dilution, (B) to prosecute diligently any trademark application or service mark application that is part of such Grantor's Trademarks pending as of the date hereof or hereafter until the termination of this Agreement, (C) to prosecute diligently any patent application that is part of such Grantor's Patents pending as of the date hereof or hereafter until the termination of this Agreement, and (D) to take all reasonable and necessary action to preserve and maintain all of such Grantor's Trademarks, Patents, Copyrights, Intellectual Property Licenses, and its rights therein, including the filing of applications for renewal, affidavits of use, affidavits of noncontestability and opposition and interference and cancellation proceedings. Each Grantor shall promptly file an application with the United States Copyright Office for any Copyright that has not been registered with the United States Copyright Office if such Copyright is necessary or economically desirable in the operation of such Grantor's business. Any expenses incurred in connection with the foregoing shall be borne by the appropriate Grantor. Each Grantor further agrees not to abandon any Trademark, Patent, Copyright, or Intellectual Property License that is necessary or economically desirable in the operation of such Grantor's business;

(iii) Grantors acknowledge and agree that Secured Party shall have no duties with respect to the Trademarks, Patents, Copyrights, or Intellectual Property Licenses. Without limiting the generality of this Section 6(g), Grantors acknowledge and agree that Secured Party shall not be under any obligation to take any steps necessary to preserve rights in the Trademarks, Patents, Copyrights, or Intellectual Property Licenses against any other Person, but Secured Party may do so at its option from and after the occurrence and during the continuance of an Event of Default, and all expenses incurred in connection therewith (including reasonable fees and expenses of attorneys and other professionals) shall be for the sole account of the Company and Guarantors and shall be chargeable to the Company and Guarantors;

(iv) In no event shall any Grantor, either itself or through any agent, employee, licensee, or designee, file an application for the registration of any Patent, Trademark, or Copyright with the United States Patent and Trademark Office, the United States Copyright Office or any similar office or agency without giving Secured Party prompt (and in any event within ten (10) Business Days) written notice thereof. Promptly upon any such filing, each Grantor shall comply with Section 6(g)(i) hereof;

(h) Investment Related Property.

(i) If any Grantor shall receive or become entitled to receive any Pledged Interests after the Closing Date, it shall promptly (and in any event within five (5) Business Days of receipt thereof) deliver to Secured Party a duly executed Pledged Interests Addendum identifying such Pledged Interests;

(ii) Upon the occurrence and during the continuance of an Event of Default, all sums of money and property paid or distributed in respect of the Investment Related Property which are received by any Grantor shall be held by the Grantors in trust for the benefit of Secured Party segregated from such Grantor's other property, and such Grantor shall deliver it forthwith to Secured Party in the exact form received;

(iii) Each Grantor shall promptly deliver to Secured Party a copy of each notice or other communication received by it in respect of any Pledged Interests;

(iv) No Grantor shall make or consent to any amendment or other modification or waiver with respect to any Pledged Interests or Pledged Operating Agreement, or enter into any agreement or permit to exist any restriction with respect to any Pledged Interests other than pursuant to the Transaction Documents;

(v) Each Grantor agrees that it will cooperate with Secured Party in obtaining all necessary approvals and making all necessary filings under federal, state, local, or foreign law in connection with the Security Interest on the Investment Related Property or any sale or transfer thereof;

(vi) As to all limited liability company interests issued under any Pledged Operating Agreement, each Grantor hereby represents, warrants and covenants that the Pledged Interests issued pursuant to such agreement (A) are not and shall not be dealt in or traded on securities exchanges or in securities markets, (B) do not and will not constitute investment company securities, and (C) are not and will not be held by such Grantor in a securities account. In addition, none of the Pledged Operating Agreements or any other agreements governing any of the Pledged Interests issued under any Pledged Operating Agreement provide or shall provide that such Pledged Interests are securities governed by Article 8 of the Uniform Commercial Code as in effect in any relevant jurisdiction;

(i) Real Property; Fixtures. Each Grantor covenants and agrees that upon the acquisition of any fee interest in Real Property it will promptly (and in any event within two (2) Business Days of acquisition) notify Secured Party of the acquisition of such Real Property and will grant to Secured Party a first priority Mortgage on each fee interest in Real Property now or hereafter owned by such Grantor and shall deliver such other documentation and opinions, in form and substance satisfactory to Secured Party, in connection with the grant of such Mortgage as Secured Party shall request in its reasonable credit judgment, including title insurance policies, financing statements, fixture filings and environmental audits and such Grantor shall pay all recording costs, intangible taxes and other fees and costs (including reasonable attorneys fees and expenses) incurred in connection therewith. Each Grantor acknowledges and agrees that, to the extent permitted by applicable law, all of the Collateral shall remain personal property regardless of the manner of its attachment or affixation to real property.

(j) Transfers and Other Liens. Except as otherwise expressly permitted hereby or by the Purchase Agreement, Grantors shall not (i) sell, assign (by operation of law or otherwise) or otherwise dispose of, or grant any option with respect to, any of the Collateral, or (ii) create or permit to exist any Lien upon or with respect to any of the Collateral of any of Grantors, except for Permitted Encumbrances. The inclusion of Proceeds in the Collateral shall not be deemed to constitute Secured Party's consent to any sale or other disposition of any of the Collateral except as expressly permitted in this Agreement, the Purchase Agreement or the other Transaction Documents;

(k) Other Actions as to Any and All Collateral. Each Grantor shall promptly (and in any event, within 5 Business Days of acquiring or obtaining such Collateral) notify Secured Party in writing upon (i) acquiring or otherwise obtaining any Collateral after the date hereof consisting of Trademarks, Patents, Copyrights, Intellectual Property Licenses, Investment Related Property, Chattel Paper (electronic, tangible or otherwise), documents (as defined in Article 9 of the Code), promissory notes (as defined in the Code, or instruments (as defined in the Code) or (ii) any amount payable under or in connection with any of the Collateral being or becoming evidenced after the date hereof by any Chattel Paper, documents, promissory notes, or instruments and, in each such case upon the request of Secured Party, promptly execute such other documents, or if applicable, deliver such Chattel Paper, other documents or certificates evidencing any Investment Related Property and do such other acts or things deemed reasonably necessary or desirable by Secured Party to protect Secured Party's Liens therein;

(l) Motor Vehicles. Upon request of Secured Party, with respect to all motor vehicles owned by any Grantor, Grantor shall deliver to Secured Party, a certificate of title for all such motor vehicles and shall cause those title certificates to be filed (with the Secured Party's Liens noted thereon) in the appropriate state motor vehicle filing office; and

(m) Insurance. The Grantors shall maintain with financially sound and reputable insurers, insurance with respect to the Collateral, including Collateral hereafter acquired, against loss or damage of the kinds and in the amounts customarily insured against by entities of established reputation having similar properties similarly situated and in such amounts as are customarily carried under similar circumstances by other such entities and otherwise as is prudent for entities engaged in similar businesses but in any event sufficient to cover the full replacement cost thereof. The Grantors shall cause each insurance policy issued in connection herewith to provide, and the insurer issuing such policy to certify to Secured Party that (a) Secured Party will be named as lender loss payee (mortgagee, as applicable) and additional insured under each such insurance policy; (b) if such insurance be proposed to be cancelled or materially changed for any reason whatsoever, such insurer will promptly notify Secured Party and such cancellation or change shall not be effective as to Secured Party for at least thirty (30) days after receipt by Secured Party of such notice, unless the effect of such change is to extend or increase coverage under the policy; and (c) Secured Party will have the right (but no obligation) at its election to remedy any default in the payment of premiums within thirty (30) days of notice from the insurer of such default. If no Event of Default exists and if the proceeds arising out of any claim or series of related claims do not exceed \$25,000, loss payments in each instance will be available to the Grantors and applied by the Grantors to the repair and/or replacement of property with respect to which the loss was incurred. If no Event of Default exists and such proceeds exceed \$25,000, and after an Event of Default occurs, all proceeds then or thereafter in existence shall be paid to Secured Party (for application to the Obligations) and, if received by any Grantor, shall be held in trust for Secured Party and promptly paid over to Secured Party (for application to the Obligations) unless otherwise directed in writing by Secured Party. Copies of such policies or the related certificates, in each case, naming Secured Party as lender loss payee and additional insured shall be delivered to Secured Party at least annually and at the time any new policy of insurance is issued

(n) Inspection. The Grantors shall permit Secured Party and its representatives and agents reasonable access to inspect the Collateral during normal business hours, upon reasonable prior notice and without undue interference with the Grantors' business operations, and to make copies of records pertaining to the Collateral as may be reasonably requested by Secured Party from time to time.

7. Relation to Other Security Documents. The provisions of this Agreement shall be read and construed with the other Transaction Documents referred to below in the manner so indicated.

(a) Purchase Agreement. In the event of any conflict between any provision in this Agreement and a provision in the Purchase Agreement, such provision of the Purchase Agreement shall control.

(b) Note. In the event of any conflict between any provision in this Agreement and a provision in the Note, such provision of the Note shall control.

(c) Patent Security Agreements. The provisions of the Patent Security Agreements are supplemental to the provisions of this Agreement, and nothing contained in the Patent Security Agreements shall limit any of the rights or remedies of Secured Party hereunder.

8. Further Assurances.

(a) Each Grantor agrees that from time to time, at its own expense, such Grantor will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or that Secured Party may reasonably request, in order to perfect and protect the Security Interest granted or purported to be granted hereby or to enable Secured Party to exercise and enforce its rights and remedies hereunder with respect to any of the Collateral.

(b) Subject to Section 8(c), each Grantor authorizes the filing by Secured Party of financing or continuation statements, or amendments thereto, and such Grantor will execute and deliver to Secured Party such other instruments or notices, as may be necessary or as Secured Party may reasonably request, in order to perfect and preserve the Security Interest granted or purported to be granted hereby.

(c) Each Grantor authorizes Secured Party at any time and from time to time to file, transmit, or communicate, as applicable, financing statements and amendments (i) describing the Collateral as "all personal property of debtor" or "all assets of debtor" or words of similar effect, (ii) describing the Collateral as being of equal or lesser scope or with greater detail, or (iii) that contain any information required by part 5 of Article 9 of the Code for the sufficiency or filing office acceptance. Each Grantor also hereby ratifies any and all financing statements or amendments previously filed by Secured Party in any jurisdiction.

(d) Each Grantor acknowledges that it is not authorized to file any financing statement or amendment or termination statement with respect to any financing statement filed in connection with this Agreement without the prior written consent of Secured Party, subject to such Grantor's rights under Section 9-509(d)(2) of the Code.

9. Secured Party's Right to Perform Contracts, Exercise Rights, etc. Upon the occurrence and during the continuance of an Event of Default, Secured Party (or its designee) (a) may proceed to perform any and all of the obligations of any Grantor contained in any contract, lease, or other agreement and exercise any and all rights of any Grantor therein contained as fully as such Grantor itself could, (b) shall have the right to use any of Grantor's rights under Intellectual Property Licenses in connection with the enforcement of the Secured Party's rights hereunder, including the right to prepare for sale and sell any and all Inventory and Equipment now or hereafter owned by any Grantor and now or hereafter covered by such licenses, but only to the extent permitted by such licenses or the licensors thereunder or applicable law, and (c) shall have the right to request that any Stock that is pledged hereunder be registered in the name of Secured Party or any of its nominees.

10. Secured Party Appointed Attorney-in-Fact. Each Grantor hereby irrevocably appoints Secured Party its attorney-in-fact, with full authority in the place and stead of such Grantor and in the name of such Grantor or otherwise, at such time as an Event of Default has occurred and is continuing under the Note, to take any action and to execute any instrument which Secured Party may reasonably deem necessary or advisable to accomplish the purposes of this Agreement, including:

(a) to ask, demand, collect, sue for, recover, compromise, receive and give acquittance and receipts for moneys due and to become due under or in connection with the Accounts or any Supporting Obligations in connection therewith or any other Collateral of such Grantor;

(b) to receive and open all mail addressed to such Grantor and to notify postal authorities to change the address for the delivery of mail to such Grantor to that of Secured Party;

(c) to receive, indorse, and collect any drafts or other instruments, documents, Negotiable Collateral or Chattel Paper;

(d) to file any claims or take any action or institute any proceedings which Secured Party may deem necessary or desirable for the collection of any of the Collateral of such Grantor or otherwise to enforce the rights of Secured Party with respect to any of the Collateral;

(e) to repair, alter, or supply goods, if any, necessary to fulfill in whole or in part the purchase order of any Person obligated to such Grantor in respect of any Account of such Grantor;

(f) to use any labels, Patents, Trademarks, trade names, URLs, domain names, industrial designs, Copyrights, advertising matter or other industrial or intellectual property rights, in advertising for sale and selling Inventory and other Collateral and to collect any amounts due under Accounts, contracts or Negotiable Collateral of such Grantor; and

(g) Secured Party shall have the right, but shall not be obligated, to bring suit in its own name to enforce the Trademarks, Patents, Copyrights and Intellectual Property Licenses and, if Secured Party shall commence any such suit, the appropriate Grantor shall, at the request of Secured Party, do any and all lawful acts and execute any and all proper documents reasonably required by Secured Party in aid of such enforcement.

To the extent permitted by law, each Grantor hereby ratifies all that such attorney-in-fact shall lawfully do or cause to be done by virtue hereof. This power of attorney is coupled with an interest and shall be irrevocable until this Agreement is terminated.

11. Secured Party May Perform. If any of Grantors fails to perform any agreement contained herein, Secured Party may itself perform, or cause performance of, such agreement, and the reasonable expenses of Secured Party incurred in connection therewith shall be payable, jointly and severally, by Grantors.

12. Secured Party's Duties. The powers conferred on Secured Party hereunder are solely to protect Secured Party's interest in the Collateral, and shall not impose any duty upon Secured Party to exercise any such powers. Except for the safe custody of any Collateral in its actual possession and the accounting for moneys actually received by it hereunder, Secured Party shall have no duty as to any Collateral or as to the taking of any necessary steps to preserve rights against prior parties or any other rights pertaining to any Collateral. Secured Party shall be deemed to have exercised reasonable care in the custody and preservation of any Collateral in its actual possession if such Collateral is accorded treatment substantially equal to that which Secured Party accords its own property.

13. Collection of Accounts, General Intangibles and Negotiable Collateral. At any time upon the occurrence and during the continuance of an Event of Default, Secured Party or Secured Party's designee may (a) notify Account Debtors of any Grantor that the Accounts, General Intangibles, Chattel Paper or Negotiable Collateral have been assigned to Secured Party or that Secured Party has a security interest therein, and (b) collect the Accounts, General Intangibles and Negotiable Collateral directly, and any collection costs and expenses shall constitute part of such Grantor's Secured Obligations under the Transaction Documents.

14. Disposition of Pledged Interests by Secured Party. None of the Pledged Interests existing as of the date of this Agreement are, and none of the Pledged Interests hereafter acquired on the date of acquisition thereof will be, registered or qualified under the various federal or state securities laws of the United States and disposition thereof after an Event of Default may be restricted to one or more private (instead of public) sales in view of the lack of such registration. Each Grantor understands that in connection with such disposition, Secured Party may approach only a restricted number of potential purchasers and further understands that a sale under such circumstances may yield a lower price for the Pledged Interests than if the Pledged Interests were registered and qualified pursuant to federal and state securities laws and sold on the open market. Each Grantor, therefore, agrees that: (a) if Secured Party shall, pursuant to the terms of this Agreement, sell or cause the Pledged Interests or any portion thereof to be sold at a private sale, Secured Party shall have the right to rely upon the advice and opinion of any nationally recognized brokerage or investment firm (but shall not be obligated to seek such advice and the failure to do so shall not be considered in determining the commercial reasonableness of such action) as to the best manner in which to offer the Pledged Interest or any portion thereof for sale and as to the best price reasonably obtainable at the private sale thereof; and (b) such reliance shall be conclusive evidence that Secured Party has handled the disposition in a commercially reasonable manner.

15. Voting Rights.

(a) Upon the occurrence and during the continuation of an Event of Default, (i) Secured Party may, at its option, and with no prior notice to any Grantor, and in addition to all rights and remedies available to Secured Party under any other agreement, at law, in equity, or otherwise, exercise all voting rights, and all other ownership or consensual rights in respect of the Pledged Interests owned by such Grantor, but under no circumstances is Secured Party obligated by the terms of this Agreement to exercise such rights, and (ii) if Secured Party duly exercises its right to vote any of such Pledged Interests, each Grantor hereby appoints Secured Party, such Grantor's true and lawful attorney-in-fact and irrevocable proxy to vote such Pledged Interests in any manner Secured Party deems advisable for or against all matters submitted or which may be submitted to a vote of shareholders, partners or members, as the case may be. The power-of-attorney granted hereby is coupled with an interest and shall be irrevocable.

(b) For so long as any Grantor shall have the right to vote the Pledged Interests owned by it, such Grantor covenants and agrees that it will not, without the prior written consent of Secured Party, vote or take any consensual action with respect to such Pledged Interests which would materially adversely affect the rights of Secured Party or the value of the Pledged Interests.

(c) If any of the Collateral subject to this Agreement consists of nonvoting equity or ownership interests (regardless of class, designation, preference or rights) that may be converted into voting equity or ownership interests upon the occurrence of certain events (including, without limitation, upon the transfer of all or any of the other stock or assets of the issuer), it is agreed that the pledge of such equity or ownership interests pursuant to this Agreement or the enforcement of any of Secured Party's rights hereunder shall not be deemed to be the type of event which would trigger such conversion rights notwithstanding any provisions in the Organizational Documents or agreements to which the Grantor is subject or to which the Grantor is party.

16. Remedies. Upon the occurrence and during the continuance of an Event of Default:

(a) Secured Party may exercise in respect of the Collateral, in addition to other rights and remedies provided for herein, in the other Transaction Documents, or otherwise available to it, all the rights and remedies of a secured party on default under the Code or any other applicable law. Without limiting the generality of the foregoing, each Grantor expressly agrees that, in any such event, Secured Party without demand of performance or other demand, advertisement or notice of any kind (except a notice specified below of time and place of public or private sale) to or upon any of Grantors or any other Person (all and each of which demands, advertisements and notices are hereby expressly waived to the maximum extent permitted by the Code or any other applicable law), may take immediate possession of all or any portion of the Collateral and (i) require Grantors to, and each Grantor hereby agrees that it will at its own expense and upon request of Secured Party forthwith, assemble all or part of the Collateral as directed by Secured Party and make it available to Secured Party at one or more locations where such Grantor regularly maintains Inventory, and (ii) without notice except as specified below, sell or otherwise dispose of the Collateral or any part thereof in one or more parcels at public or private sale or other disposition, at any of Secured Party's offices or elsewhere, for cash, on credit, and upon such other terms as Secured Party may deem commercially reasonable. Without limiting the generality of the foregoing, Secured Party may disclaim any and all representations and warranties in connection with any such sale or other disposition. Each Grantor agrees that, to the extent notice of sale shall be required by law, at least ten (10) days notice to any of Grantors of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification and specifically such notice shall constitute a reasonable "authenticated notification of disposition" within the meaning of Section 9-611 of the Code. Secured Party shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. Secured Party may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

(b) Secured Party is hereby granted a license or other right to use, without liability for royalties or any other charge, each Grantor's labels, Patents, Copyrights, rights of use of any name, trade secrets, trade names, Trademarks, service marks and advertising matter, URLs, domain names, industrial designs, other industrial or intellectual property or any property of a similar nature, whether owned by any of Grantors or with respect to which any of Grantors have rights under license, sublicense, or other agreements, as it pertains to the Collateral, in preparing for sale, advertising for sale and selling any Collateral, and each Grantor's rights under all licenses and all franchise agreements shall inure to the benefit of Secured Party.

(c) Any cash held by Secured Party as Collateral and all cash proceeds received by Secured Party in respect of any sale of, collection from, or other realization upon all or any part of the Collateral shall be applied against the Secured Obligations in the order set forth in the Purchase Agreement. In the event the proceeds of Collateral are insufficient to satisfy all of the Secured Obligations in full, each Grantor shall remain jointly and severally liable for any such deficiency.

(d) Each Grantor hereby acknowledges that the Secured Obligations arose out of a commercial transaction, and agrees that if an Event of Default shall occur and be continuing Secured Party shall have the right to an immediate writ of possession without notice of a hearing. Secured Party shall have the right to the appointment of a receiver for the properties and assets of each of Grantors, and each Grantor hereby consents to such rights and such appointment and hereby waives any objection such Grantors may have thereto or the right to have a bond or other security posted by Secured Party.

17. Remedies Cumulative. Each right, power, and remedy of Secured Party as provided for in this Agreement or in the other Transaction Documents or now or hereafter existing at law or in equity or by statute or otherwise shall be cumulative and concurrent and shall be in addition to every other right, power, or remedy provided for in this Agreement or in the other Transaction Documents or now or hereafter existing at law or in equity or by statute or otherwise, and the exercise or beginning of the exercise by Secured Party, of any one or more of such rights, powers, or remedies shall not preclude the simultaneous or later exercise by Secured Party of any or all such other rights, powers, or remedies.

18. Marshaling. Secured Party shall not be required to marshal any present or future collateral security (including but not limited to the Collateral) for, or other assurances of payment of, the Secured Obligations or any of them or to resort to such collateral security or other assurances of payment in any particular order, and all of its rights and remedies hereunder and in respect of such collateral security and other assurances of payment shall be cumulative and in addition to all other rights and remedies, however existing or arising. To the extent that it lawfully may, each Grantor hereby agrees that it will not invoke any law relating to the marshaling of collateral which might cause delay in or impede the enforcement of Secured Party's rights and remedies under this Agreement or under any other instrument creating or evidencing any of the Secured Obligations or under which any of the Secured Obligations is outstanding or by which any of the Secured Obligations is secured or payment thereof is otherwise assured, and, to the extent that it lawfully may, each Grantor hereby irrevocably waives the benefits of all such laws.

19. Indemnity and Expenses.

(a) Each Grantor agrees to indemnify Secured Party from and against all claims, lawsuits and liabilities (including reasonable attorneys fees) growing out of or resulting from this Agreement (including enforcement of this Agreement) or any other Transaction Document to which such Grantor is a party, except claims, losses or liabilities resulting from the gross negligence or willful misconduct of the party seeking indemnification as determined by a final non-appealable order of a court of competent jurisdiction. This provision shall survive the termination of this Agreement and the repayment of the Secured Obligations.

(b) Grantors, jointly and severally, shall, upon demand, pay to Secured Party all the fees, costs, charges and expenses which Secured Party may incur in connection with (i) the administration of this Agreement, (ii) the custody, preservation, use or operation of, or, upon an Event of Default, the sale of, collection from, or other realization upon, any of the Collateral in accordance with this Agreement and the other Transaction Documents, (iii) the exercise or enforcement of any of the rights of Secured Party hereunder or (iv) the failure by any of Grantors to perform or observe any of the provisions hereof.

20. Merger, Amendments, Etc. THIS AGREEMENT, TOGETHER WITH THE OTHER TRANSACTION DOCUMENTS, REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN AGREEMENTS BETWEEN THE PARTIES. No waiver of any provision of this Agreement, and no consent to any departure by any of Grantors herefrom, shall in any event be effective unless the same shall be in writing and signed by Secured Party, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No amendment of any provision of this Agreement shall be effective unless the same shall be in writing and signed by Secured Party and each of Grantors to which such amendment applies.

21. Addresses for Notices. All notices and other communications provided for hereunder shall be given in the form and manner and delivered to Secured Party at its address specified in the Purchase Agreement, and to any of the Grantors at their respective addresses specified in the Purchase Agreement or Guaranty, as applicable, or, as to any party, at such other address as shall be designated by such party in a written notice to the other party.

22. **Continuing Security Interest: Assignments under Credit Agreement.** This Agreement shall create a continuing security interest in the Collateral and shall (a) remain in full force and effect until the Obligations have been indefeasibly paid in full in cash in accordance with the provisions of the Note and the Purchase Agreement, (b) be binding upon each of Grantors, and their respective successors and assigns, and (c) inure to the benefit of, and be enforceable by, Secured Party, and its successors, transferees and assigns. Without limiting the generality of the foregoing clause (c), Secured Party may, in accordance with the provisions of the Note and the Purchase Agreement, assign or otherwise transfer all or any portion of its rights and obligations under the Note and the Purchase Agreement to any other Person, and such other Person shall thereupon become vested with all the benefits in respect thereof granted to Secured Party herein or otherwise. Upon indefeasible payment in full in cash of the Obligations in accordance with the provisions of the Note and the Purchase Agreement, the Security Interest granted hereby shall terminate and all rights to the Collateral shall revert to Grantors or any other Person entitled thereto. At such time, Secured Party shall authorize the filing of appropriate termination statements to terminate such Security Interests. No transfer or renewal, extension, assignment, or termination of this Agreement or of the Note, the Purchase Agreement, any other Transaction Document, or any other instrument or document executed and delivered by any Grantor to Secured Party nor any additional loans made by any Lender to the Company, nor the taking of further security, nor the retaking or re-delivery of the Collateral to Grantors, or any of them, by Secured Party, shall release any of Grantors from any obligation, except a release or discharge executed in writing by Secured Party in accordance with the provisions of the Note and the Purchase Agreement. Secured Party shall not by any act, delay, omission or otherwise, be deemed to have waived any of its rights or remedies hereunder, unless such waiver is in writing and signed by Secured Party and then only to the extent therein set forth. A waiver by Secured Party of any right or remedy on any occasion shall not be construed as a bar to the exercise of any such right or remedy which Secured Party would otherwise have had on any other occasion.

23. **Governing Law.**

(a) **THE VALIDITY OF THIS AGREEMENT AND THE OTHER TRANSACTION DOCUMENTS (UNLESS EXPRESSLY PROVIDED TO THE CONTRARY IN ANOTHER TRANSACTION DOCUMENT IN RESPECT OF SUCH OTHER TRANSACTION DOCUMENT), THE CONSTRUCTION, INTERPRETATION, AND ENFORCEMENT HEREOF AND THEREOF, AND THE RIGHTS OF THE PARTIES HERETO AND THERETO WITH RESPECT TO ALL MATTERS ARISING HEREUNDER OR THEREUNDER OR RELATED HERETO OR THERETO SHALL BE DETERMINED UNDER, GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.**

(b) **THE PARTIES AGREE THAT ALL ACTIONS OR PROCEEDINGS ARISING IN CONNECTION WITH THIS AGREEMENT AND THE OTHER TRANSACTION DOCUMENTS SHALL BE TRIED AND LITIGATED ONLY IN THE STATE AND, TO THE EXTENT PERMITTED BY APPLICABLE LAW, FEDERAL COURTS LOCATED IN THE COUNTY OF NEW YORK, STATE OF NEW YORK; PROVIDED, HOWEVER, THAT ANY SUIT SEEKING ENFORCEMENT AGAINST ANY COLLATERAL OR OTHER PROPERTY MAY BE BROUGHT, AT SECURED PARTY'S OPTION, IN THE COURTS OF ANY JURISDICTION WHERE SECURED PARTY ELECTS TO BRING SUCH ACTION OR WHERE SUCH COLLATERAL OR OTHER PROPERTY MAY BE FOUND. SECURED PARTY AND EACH GRANTOR WAIVE, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW, ANY RIGHT EACH MAY HAVE TO ASSERT THE DOCTRINE OF FORUM NON CONVENIENS OR TO OBJECT TO VENUE TO THE EXTENT ANY PROCEEDING IS BROUGHT IN ACCORDANCE WITH THIS SECTION 23(b).**

(c) TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, SECURED PARTY AND EACH GRANTOR HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. SECURED PARTY AND EACH GRANTOR REPRESENT THAT EACH HAS REVIEWED THIS WAIVER AND EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. IN THE EVENT OF LITIGATION, A COPY OF THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

24. New Subsidiaries. Without impairing the limitations and restrictions of Section 3.20 of the Purchase Agreement, any new direct or indirect Subsidiary (whether by acquisition or creation) of Grantor is required to enter into this Agreement by executing and delivering in favor of Secured Party a supplement to this Agreement in the form of Annex 1 attached hereto. Upon the execution and delivery of Annex 1 by such new Subsidiary, such Subsidiary shall become a Grantor hereunder with the same force and effect as if originally named as a Grantor herein. The execution and delivery of any instrument adding an additional Grantor as a party to this Agreement shall not require the consent of any Grantor hereunder. The rights and obligations of each Grantor hereunder shall remain in full force and effect notwithstanding the addition of any new Grantor hereunder.

25. Secured Party. Each reference herein to any right granted to, benefit conferred upon or power exercisable by the "Secured Party" shall be a reference to Secured Party, its successors and assigns.

26. Miscellaneous.

(a) This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement. Delivery of an executed counterpart of this Agreement by telefacsimile or other electronic method of transmission shall be equally as effective as delivery of an original executed counterpart of this Agreement. Any party delivering an executed counterpart of this Agreement by telefacsimile or other electronic method of transmission also shall deliver an original executed counterpart of this Agreement but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Agreement. The foregoing shall apply to each other Transaction Document *mutatis mutandis*.

(b) Any provision of this Agreement which is prohibited or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof in that jurisdiction or affecting the validity or enforceability of such provision in any other jurisdiction.

(c) Headings used in this Agreement are for convenience only and shall not be used in connection with the interpretation of any provision hereof.

(d) The pronouns used herein shall include, when appropriate, either gender and both singular and plural, and the grammatical construction of sentences shall conform thereto.

(e) Unless the context of this Agreement or any other Transaction Document clearly requires otherwise, references to the plural include the singular, references to the singular include the plural, the terms "includes" and "including" are not limiting, and the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or." The words "hereof," "herein," "hereby," "hereunder," and similar terms in this Agreement or any other Transaction Document refer to this Agreement or such other Transaction Document, as the case may be, as a whole and not to any particular provision of this Agreement or such other Transaction Document, as the case may be. Section, subsection, clause, schedule, and exhibit references herein are to this Agreement unless otherwise specified. Any reference in this Agreement or in any other Transaction Document to any agreement, instrument, or document shall include all alterations, amendments, changes, extensions, modifications, renewals, replacements, substitutions, joinders, and supplements, thereto and thereof, as applicable (subject to any restrictions on such alterations, amendments, changes, extensions, modifications, renewals, replacements, substitutions, joinders, and supplements set forth herein or in the other Transaction Documents). Any reference herein or in any other Transaction Document to the satisfaction or repayment in full of the Obligations shall mean the repayment in full in cash (or cash collateralization in accordance with the terms hereof) of all Obligations other than unasserted contingent indemnification Obligations. Any reference herein to any Person shall be construed to include such Person's successors and assigns. Any requirement of a writing contained herein or in any other Transaction Document shall be satisfied by the transmission of a Record and any Record so transmitted shall constitute a representation and warranty as to the accuracy and completeness of the information contained therein.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the undersigned parties hereto have executed this Agreement by and through their duly authorized officers, as of the day and year first above written.

GRANTORS:

BLAST ENERGY SERVICES, INC.

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

EAGLE DOMESTIC DRILLING OPERATIONS LLC

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

BLAST AFJ, INC.

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

SECURED PARTY:

XXXXXXXXXX

By: /s/ XXXXXXXXXXXX
Name: XXXXXXXXXXXX
Title: Authorized Signatory

[SIGNATURE PAGE TO SECURITY AGREEMENT]

SCHEDULE 1

ORGANIZATIONAL INFORMATION

Legal Name	Jurisdiction of Incorporation	Identification Number in Jurisdiction of Formation	Chief Executive Officer
Blast Energy Services, Inc.*	Texas	800949748	Michael L. Peterson
Eagle Domestic Drilling Operations LLC	Texas	800179717	Michael L. Peterson
Blast AFJ, Inc.	Delaware	4762456	Michael L. Peterson

* Blast Energy Services, Inc. is the result of a merger between Blast Energy Services, Inc. California and Blast Energy Services, Inc., Texas, which was affected solely to re-domicile the company.

SCHEDULE 2

COPYRIGHT REGISTRATIONS AND APPLICATIONS

NONE

SCHEDULE 3

INTELLECTUAL PROPERTY LICENSES

NONE

SCHEDULE 4

PATENTS AND PATENT APPLICATIONS

Patent Applicant	Application or Patent No.	Country	Issue or Filing Date	Expiration Date	Title	Owner
Blast Energy Services, Inc.	12706712	USA	February 17 2010	Patent pending	Blasting Lateral Holes from Existing Well Bores	John Adam

SCHEDULE 5

PLEGDED COMPANIES

Name of Pledgor	Name of Pledged Company	Number of Shares/Units	Class of Interests	Percentage of Class Owned	Certificate Nos.
Blast Energy Services, Inc.	Eagle Domestic Drilling Operations, LLC	100% of Membership Interest	Membership Interests	100%	Non-Certificated Shares
Blast Energy Services, Inc.	Blast AFJ, Inc.	90,000,000	Common Stock	100%	Non-Certificated Shares

SCHEDULE 6

TRADE NAMES, TRADEMARKS, TRADEMARK APPLICATIONS, SERVICE MARKS, AND SERVICE MARK APPLICATIONS

NONE

SCHEDULE 7

OWNED OR LEASED REAL PROPERTY

Address	Activity & Assets	Landlord, Warehouse or Consignee
Hockley, TX 77447	Storage of AFJ Tractor Trailer, spare engine and other down-hole equipment	Landlord
14550 Torrey Chase Blvd., Suite 330 Houston, Texas 77014	Corporate Office Location of books and records	Frontline Group
N. Sugar Valley Field Old Van Vleck Road Sugar Valley, TX 77480 Matagorda County	Non-operating interest in oil and gas leases held by the oil production from the Milberger #1 unit, the Milberger #2 well and the Oxbow #1 well.	Sun Resources Texas, Inc. (operator)

SCHEDULE 8

LIST OF UNIFORM COMMERCIAL CODE FILING JURISDICTIONS

<u>Grantor</u>	<u>Jurisdictions</u>
Blast Energy Services, Inc.	Texas and California
Eagle Domestic Drilling Operations LLC	Texas
Blast AFJ, Inc.	Delaware and Texas

SCHEDULE 9

MOTOR VEHICLES

AFJ Semi-Tractor Trailer Rig:

2000 Volvo Diesel Tractor	VIN#
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2006 Doonan Dropdeck Trailer	VIN#
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Service Trailer:

2005 Load Trail Gooseneck Trailer	VIN#
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SCHEDULE 10

COMMERCIAL TORT CLAIMS

[include specific case caption or descriptions per Official Code Comment 5 to Section 9-108 of the Code]

NONE

STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT (this "Agreement") is made this 24th day of February, 2011, by and among BLAST ENERGY SERVICES, INC., a Texas corporation (the "Company") and XXXXXXXXXX (the "Investor").

RECITALS:

WHEREAS, the parties hereto have entered into a Note Purchase Agreement dated as of the date hereof (the "Note Purchase Agreement") pursuant to which the Investor has purchased a Note in the aggregate principal amount of \$2,522,111.11 and in connection therewith the Company desires to issue and sell and the Investor desires to purchase one share of Series B Preferred Stock, par value \$0.001 per share, of the Company (the "Preferred Share")

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth herein, the parties hereby agree as follows:

SECTION 1.

ISSUANCE AND SALE OF PREFERRED STOCK

1.1. Authorization of the Share. The Company has previously authorized the issuance to the Investor on the Closing Date (as defined in the Note Purchase Agreement) of one Preferred Share. The Certificate of Designation establishing the designations, preferences, limitations and relative rights of the Series B Preferred Stock (the "Certificate") has been filed with and accepted by the Secretary of State of the State of Texas, and copy of such Certificate, certified by the Secretary of State of the State of Texas, has been delivered to the Investor.

1.2. Purchase and Sale of the Preferred Share. Upon the execution of this Agreement, and subject to the terms and conditions hereof, the Company hereby sells to the Investor and the Investor hereby purchases from the Company the Preferred Share for a purchase price of One Hundred Dollars (\$100.00).

1.3. Delivery of Preferred Share. The Company shall deliver to the Investor a certificate, registered in the name of the Investor, representing in the Preferred Share.

SECTION 2.

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company, as of the date hereof, hereby represents and warrants to the Investor as follows:

2.1. Organization; Power and Authority. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Texas and has all requisite power and authority to own, lease and operate its properties, to carry on its business as presently conducted and as proposed to be conducted and to carry out the transactions contemplated by this Agreement.

2.2. Authorization; Enforcement, No Conflicts The execution, delivery and performance by the Company of this Agreement and all agreements, documents and instruments contemplated hereby have been duly authorized by all requisite corporate action by the Company and each such agreement, document and instrument constitutes a valid and binding obligation of the Company enforceable against the Company in accordance with its terms, subject to bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or similar laws now or hereafter in effect relating to or limiting creditors' rights generally, and general principles of equity, whether such enforceability is considered in a proceeding at law or in equity. The execution, delivery and performance by the Company of this Agreement and the consummation of the transactions contemplated hereby and compliance by the Company with the provisions hereof and the issuance, sale and delivery by the Company of the Preferred Share, will not (a) violate any provision of law, statute, rule or regulation, or any ruling, writ, injunction, order, judgment or decree of any court, administrative agency or other governmental body applicable to the Company or any of its properties or assets or (b) conflict with or result in any breach of any of the terms, conditions or provisions of, or constitute (with due notice or lapse of time, or both) a default (or give rise to any right of termination, cancellation or acceleration) under, or result in the creation of any lien or encumbrance upon any of the properties or assets of the Company under the Certificate of Incorporation or By-laws, or any note, indenture, mortgage, lease agreement or other contract, agreement or instrument to which the Company is a party or by which any of its properties is bound or affected.

2.3. Issuance of the Preferred Share. The authorization, reservation, issuance, sale and delivery of the Preferred Share have been duly authorized by all requisite corporate action of the Company, and when issued, sold and delivered in accordance with this Agreement, the Preferred Share will be validly issued and outstanding, fully paid and nonassessable with no personal liability attaching to the ownership thereof, and not subject to preemptive or any other similar rights of the stockholders of the Company or others. The terms, designations, powers, preferences and relative, participating, optional and other special rights, and the qualifications, limitations and restrictions, of the Preferred Share are as stated in the Certificate.

2.4. No Consent or Approval Required. No consent of any person and no consent, approval or authorization of, or declaration to or filing with, any governmental or regulatory authority, except for compliance with state and Federal securities laws, is required for the valid authorization, execution and delivery by the Company of this Agreement or for the consummation of the transactions contemplated hereby or for the valid authorization, issuance and delivery of the Preferred Share, other than those consents, approvals, authorizations, declarations or filings which have been obtained or made, as the case may be.

SECTION 3.

REPRESENTATIONS AND WARRANTIES OF THE INVESTOR

The Investor, as of the date hereof, represents and warrants to the Company as follows:

3.1. Authorization. The Investor has full power and authority to enter into this Agreement.

3.2. Purchase Entirely for Own Account. The Preferred Share will be acquired by the Investor for investment purposes for its own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof. The Investor does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person, with respect to the Preferred Share.

3.3. Investment Experience. The Investor acknowledges that it is able to fend for itself, can bear the economic risk of its investment, and has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of the investment in the Preferred Share.

3.4. Accredited Investor. The Investor is an “accredited investor” within the meaning of Securities and Exchange Commission Rule 501 of Regulation D, as presently in effect.

3.5. Restricted Securities. The Investor understands that the Preferred Share it is purchasing is characterized as “restricted securities” under the federal securities laws inasmuch as it is being acquired from the Company in a transaction not involving a public offering and that, under such laws and applicable regulations, such Preferred Share may be resold without registration under the Securities Act only in certain limited circumstances.

SECTION 4.

MISCELLANEOUS

4.1. Further Assurances. Each of the parties hereto shall perform such further acts and execute such further documents as may reasonably be necessary to carry out and give full effect to the provisions of the Agreement and the intentions of the parties as reflected thereby.

4.2. Governing Law; Jurisdiction. This Agreement is to be governed by, and construed, interpreted, and enforced in accordance with the laws of New York without regard to conflicts of law principles. Any dispute arising under or in relation to the Agreement shall be resolved exclusively in the United States federal and state courts of the State of New York, and each of the parties hereby submits irrevocably to the exclusive jurisdiction of such court.

4.3. Binding Effect and Assignment. Except as otherwise provided herein, this Agreement shall be binding upon and inure to the benefit of the successors and assigns of the parties hereto (including transferees of Preferred Share).

4.4. Severability. Inapplicability or unenforceability of any provision of this Agreement shall not impair the operation or validity of any other provision hereof. If any provision shall be declared inapplicable or unenforceable, in any jurisdiction, such provision shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

4.5. Survival. All covenants, representations and warranties made in this Agreement shall survive the execution and delivery of this Agreement hereunder.

4.6. Entire Agreement. This Agreement constitutes the entire agreement among the parties hereto pertaining to the subject matter hereof, and supersedes all prior agreements and understandings pertaining thereto.

4.7. Amendments. No provision of this Agreement may be waived or amended other than by a written instrument signed by the parties hereto.

4.8. Counterparts. This Agreement may be executed in any number of counterparts, all of which together shall constitute one instrument. Facsimile and electronic counterpart signatures to this Agreement shall be acceptable and binding.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized representatives as of the day and year first above written.

BLAST ENERGY SERVICES, INC.

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

XXXXXXXXXX

By: /s/ XXXXXXXXXXX
Name: XXXXXXXXXXX
Title: Authorized Signatory

February 24, 2011

Blast Energy Services, Inc.
14550 Torrey Chase Blvd. Suite 330
Houston, TX 77014

Ladies and Gentlemen:

Reference is made to that certain Note Purchase Agreement, dated as of February 24, 2011 (as it may be amended, supplemented, restated or otherwise modified from time to time, the "Purchase Agreement") by and among Blast Energy Services, Inc., a Texas corporation (the "Company"), and XXXXXXXXXX, a Delaware limited liability company (the "Investor"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Purchase Agreement.

Pursuant to and in accordance with the terms and conditions of the Purchase Agreement, the Investor agreed to purchase the First Tranche Note and the Second Tranche Note from the Company. The Company and the Investor have agreed to make certain other agreements among themselves as set forth in this letter agreement (this "Agreement") in addition to and apart from those in the Purchase Agreement, but based on the extension of credit under the Purchase Agreement.

NOW, THEREFORE, in consideration of the foregoing and of the agreements herein contained and other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Payments. The Company hereby agrees that, in addition to the payments required under the Notes and the other Transaction Documents, but in consideration of the amounts advanced under the Purchase Agreement, the Company shall pay or cause to be paid to the Investor 30% of all amounts earned (prior to deduction by the Company or any other Person of any expenses, fees, costs, taxes or other amounts in connection with such amounts earned) by the Company under the Test Well (as defined in that certain Guijarral Hills Farmout Agreement (as amended, amended and restated, supplemented or otherwise modified from time to time, the "Farmout Agreement") among the Company, Solimar Energy LLC and Neon Energy Corporation) or the Substitute Well (as defined in the Farmout Agreement; the Test Well and the Substitute Well are referred to herein as the "Subject Well"); provided that if the Subject Well achieves 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 Subject Well is at full production (it being understood that full production shall be measured as the highest production the Subject Well achieves within the first 60 days following the date the Subject Well begins producing) and ending on the 30th day thereafter (the "Triggering Event"), the Company's obligation under this section shall be limited to 30% of the Company's earnings (prior to deduction by the Company or any other Person of any expenses, fees, costs, taxes or other amounts in connection with such earnings) on only 400,000 gross barrels of production (the "400,000 Barrels"), from such wells (which may or may not include the Subject Well) as the Company may determine in its sole discretion. In the event the Triggering Event occurs, this Agreement and the requirements hereunder shall automatically expire upon payment to the Investor of the fees due above in connection with such 400,000 Barrels. Each such payment shall be made to the Investor by the Company not later than one Business Day after such amount is earned under the Farmout Agreement. The parties acknowledge and agree that, for purposes of this Section 1, amounts earned by the Company under the Subject Well shall include, without limitation, amounts earned from the sale, assignment, transfer or other disposition by the Company of any interest in the Subject Well.

2. Production Report and Lease Operating Statements. Within 40 days after the end of each production month (unless for gas, then within 60 days after the end of each production month), (i) a report setting forth, for each calendar month during the then current fiscal year to date, the volume of production and sales attributable to production (and the prices at which such sales were made and the revenues derived from such sales) for each such calendar month from the Subject Well, and setting forth the related ad valorem, severance and production taxes and lease operating expenses attributable thereto and incurred for each such calendar month, and internet access to the Company, real time reports of sales of production, and (ii) a statement from the "first purchaser" setting forth the volumes of hydrocarbons sold, the price received and Company's share of the proceeds.

3. Representations and Warranties. The Company represents and warrants to the Investor that the execution and delivery by the Company of this Agreement, and all other documents, instruments and agreements executed in connection with this Agreement, and the performance by the Company of each of the transactions herein contemplated (i) are and will be within the Company's powers, (ii) have been authorized by all necessary organizational action, (iii) are not and will not be in contravention of any order of any court or other agency of government, of law or any other indenture, agreement or undertaking to which the Company is a party or by which the property of the Company is bound, or be in conflict with, result in a breach of, or constitute (with due notice and/or lapse of time) a default under any such indenture, agreement or undertaking or result in the imposition of any lien, charge or encumbrance of any nature on any of the properties of the Company and (iv) constitute the valid and binding obligation of the Company, enforceable against it in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium, receivership and similar laws affecting the enforcement of creditors' rights generally and general equitable principles.

4. Right of First Offer; Right of First Refusal. (a) If the Company or any Subsidiary shall desire to raise new capital by the issuance of any Indebtedness or equity interests (i) during the period commencing on the date of this Agreement and ending on the date that is one year after the last maturity date of any of the Notes or (ii) for so long as the Company is paying royalties to the Investor pursuant to the Royalty Payment Agreement, then the Company or such Subsidiary shall notify the Investor thereof in writing (an "Offer Notice") and the Investor shall, not later than five (5) Business Days after its receipt of such Offer Notice, present to the Company or such Subsidiary in writing the terms and conditions pursuant to which the Investor will purchase such Indebtedness or equity interests (the "Offer Proposal"). If the Company or such Subsidiary and the Investor are not able to agree on the terms of the issuance of such Indebtedness or equity interests within five (5) Business Days after the delivery of such Offer Proposal, the Company or such Subsidiary shall be permitted to negotiate with unaffiliated third parties for the issuance of such Indebtedness or equity securities. If the Company or such Subsidiary and the Investor are able to agree on the terms of the issuance of such Indebtedness or equity interests, then the Company or such Subsidiary and the Investor shall consummate such transaction within twenty (20) Business Days thereafter.

(b) If the Company or such Subsidiary has complied with the requirements set forth in 4, in the event that the Company or such Subsidiary and the Investor do not agree on the terms of the issuance of such Indebtedness or equity interests or the Investor elects not to make an Offer Proposal within the time period set forth in 4, the Company or such Subsidiary may, for a period of ninety (90) days (the "Offer Period"), attempt to identify an unaffiliated third party to provide such new capital to the Company or such Subsidiary (a "Third Party Investor"); provided, however, that the terms and conditions offered to any Third Party Investor shall be no more favorable to the Third Party Investor than the terms set forth in the Offer Proposal. In the event that the Company or such Subsidiary identify a Third Party Investor during the Offer Period, the Company or such Subsidiary shall give to the Investor a written notice of the Company's or such Subsidiary's intention to enter into a transaction with a Third Party Investor (a "Notice of Intent") stating the terms and conditions of such transaction (which terms shall comply with the proviso of the immediately preceding sentence); provided, that if the Company provides evidence reasonably satisfactory to the Investor that such Third Party Investor is not an affiliate of the Company or any of the Company's Subsidiaries, then the Company shall not be required to provide to the Investor the name of such Third Party Investor. The Company or such Subsidiary shall attach to the Notice of Intent a duplicate original of the offer from the Third Party Investor, and the Notice of Intent shall include evidence demonstrating the Third Party Investor's capability to consummate such transaction and the nature of the offer. The Investor shall then have the option to purchase, at the price and on the terms set forth in the Notice of Intent, the Indebtedness or equity interests offered thereby. The Investor may accept such offer by delivering written notice to the Company or such Subsidiary not later than five (5) Business Days after the Investor's receipt of the Notice of Intent. If the Investor does not elect to accept such offer within the time period set forth herein, the Company or such Subsidiary may consummate the transaction with the Third Party Investor, upon terms, including price, which are no more favorable to the Third Party Investor than those specified in the Notice of Intent. The closing of any purchase of Indebtedness or equity interests by a Third Party Investor must take place within twenty (20) Business Days of the expiration of the Investor's option to accept such offer under this 4 and, if the closing relates in whole or in part to the purchase of Indebtedness that will not be subordinate to the obligations of the Company to the Investor under the Notes and the other Transactions Documents pursuant to a subordination agreement in form and substance acceptable to the Investor, the proceeds of thereof are sufficient to pay in full the obligations of the Company to the Investor under the Notes.

5. Indemnification. The Company hereby agrees to indemnify the Investor from and against all losses, costs, expense, demands and damages whatsoever which the Investor may suffer or incur in respect of any claims which have or may be brought by any third party relating to this Agreement, the Transaction Documents or the transactions contemplated hereby or thereby; provided that the Company shall not be obligated to indemnify the Investor for any losses, costs, expenses, demands or damages that are determined by a final and nonappealable judgment of a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of the Investor. This indemnity shall continue in full force and effect after the termination of the Purchase Agreement, the other Transaction Documents, or this Agreement and notwithstanding the completion of the other matters referred to in this Agreement. This indemnification is in addition to and shall not limit any other indemnification agreement between Company and the Investor, and shall be included within the obligations due to the Investor under the Purchase Agreement.

6. Effectiveness. This Agreement shall be effective as of the date of this Agreement, upon the Investor's receipt of this Agreement, duly executed by Company, and shall terminate upon the payment by the Company of the amounts required to be paid pursuant to Section 1.

7. Agreement and Assignment. This Agreement may be amended, modified, waived, discharged or terminated only by a written instrument executed by Company and the Investor. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties, except that Company may not transfer, assign or delegate any of its respective rights, duties or obligations hereunder. Notwithstanding anything to the contrary herein, the Investor may assign its rights under this Agreement without the consent of the Company. No rights are intended to be created hereunder for the benefit of any third party donee, creditor or incidental beneficiary of Company.

8. Governing Law. This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of New York, without regard to the conflicts of law principles of such State.

9. Purchase Agreement. Except for the matters expressly set forth herein, the Purchase Agreement shall remain in full force and effect in accordance with its terms. This Agreement, and the definitions referenced herein, shall remain effective, notwithstanding the termination of the Purchase Agreement.

10. Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original, and such counterparts together shall constitute one and the same respective agreement. Signature by facsimile or PDF shall bind the parties hereto.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

XXXXXXXXXX

By: /s/ XXXXXXXXXXXX
Name: XXXXXXXXXXXX
Title: Authorized Signatory

Acknowledged and agreed and intending to be legally bound as of the date first noted above:

BLAST ENERGY SERVICE INC.

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

SUBORDINATION AND INTERCREDITOR AGREEMENT

THIS SUBORDINATION AND INTERCREDITOR AGREEMENT ("Agreement") (this "Agreement") is entered into as of February 24, 2011 among Blast Energy Services, Inc., a Texas corporation ("Borrower"); XXXXXXXXXX, a Delaware limited liability company ("Senior Creditor"); and Berg McAfee Companies, LLC, a California limited liability company ("Junior Creditor").

RECITALS

Junior Creditor is the holder of that certain \$1,120,000 Secured Promissory Note dated February 27, 2008, as amended by Amendment No. 1 thereto dated January 5, 2011, made by Borrower (as further amended, restated, supplemented or otherwise modified from time to time, the "Subordinated Note").

Borrower's obligations to Junior Creditor under the Subordinated Note are secured by the collateral described in that certain Security Agreement dated July 15, 2005 (as amended, restated, supplemented or otherwise modified from time to time, the "Junior Security Agreement") between Borrower and Junior Creditor.

Borrower has requested financial accommodations from Senior Creditor and as a condition to extending credit to Borrower, Senior Creditor has required the execution and delivery of this Agreement.

As an inducement for Senior Creditor to provide such financial accommodations, Junior Creditor has agreed to enter into this Agreement to provide for the subordination of the Subordinated Indebtedness (as defined below) to the Senior Indebtedness (as defined below), as more specifically set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual promises and benefits hereinafter set forth, to induce the Senior Creditor to make the loans, advances and other extensions of credit from time to time to or for the benefit of Borrower, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

AGREEMENT

1. Definitions. As used herein, the following terms shall have the meanings set forth below:

"Bankruptcy Code" is defined in Section 7(c).

“Collateral” means all present and future property and assets of Borrower wherever located and however described, together, in each case, with all proceeds thereof, all as more particularly described in the Senior Creditor Agreements.

“Distribution” means, with respect to any indebtedness, obligation or security (a) any payment or distribution of cash, securities or other property, by set-off or otherwise, on account of such indebtedness, obligation or security, (b) any redemption, purchase or other acquisition of such indebtedness, obligation or security, or (c) the granting of any lien to or for the benefit of the holders of such indebtedness, obligation or security in or upon any property or interests in property.

“Enforcement Action” means (a) the taking of any action to enforce or realize upon any lien in the Collateral, including the institution of any foreclosure proceedings or the noticing of any public or private sale or other disposition pursuant to Article 8 or Article 9 of the Uniform Commercial Code of any jurisdiction or other applicable law, (b) the exercise of any right or remedy provided to a secured creditor or otherwise on account of a lien in the Collateral under any documents, instruments, writings or agreements, applicable law, in a Proceeding or otherwise, including the election to retain any Collateral in satisfaction of a lien, (c) the taking of any action or the exercise of any right or remedy in respect of the collection on, set off against, marshaling of, or foreclosure on the Collateral or the proceeds of Collateral, (d) the sale, lease, license, or other disposition of all or any portion of the Collateral, at a private or public sale, other disposition or any other means permissible under applicable law at any time that an event of default shall have occurred which is continuing, (e) the direct debiting of any deposit accounts held by Borrower, and (f) the exercise of any other right of liquidation against any Collateral (including the exercise of any right of recoupment or set-off or any rights against Collateral obtained pursuant to or by foreclosure of a judgment lien obtained against Borrower) whether under any documents, instruments, writings or agreements, applicable law, in a Proceeding or otherwise.

“Event of Default” means an “Event of Default” as such term is defined in the Senior Creditor Agreements.

“Fully Paid and Satisfied” and “Full Payment and Satisfaction” shall mean that (i) the Senior Indebtedness has been paid in full and in cash and (ii) any agreement or commitment of the Senior Creditor to extend any financial accommodations to Borrower has been terminated.

“Junior Creditor Agreements” is defined in [Section 5\(a\)](#).

“Person” means any individual, sole proprietorship, joint venture, partnership, corporation, limited liability company, association, joint-stock company, unincorporated organization, cooperative, trust, estate, governmental entity or any other entity of any kind or nature whatsoever.

“Plan” is defined in [Section 7\(b\)](#).

“Proceeding” is defined in [Section 7\(c\)](#).

“Purchase Option Notice” is defined in [Section 6\(a\)](#).

“Purchaser” is defined in Section 6(c).

“Senior Default” means the occurrence of an Event of Default under any Senior Creditor Agreement.

“Senior Indebtedness” is used herein in its most comprehensive sense and means any and all Obligations (as such term is defined in the Senior Loan Agreement) of Borrower to Senior Creditor and Senior Creditor pursuant to the Senior Creditor Agreements.

“Senior Creditor Agreements” shall mean the Senior Financing Agreement, the Notes (as defined in the Senior Financing Agreement), the Senior Security Agreement and all other documents, instruments or agreements entered into in connection therewith by and among the Borrower and/or any guarantor of the Borrower and Senior Creditor, as all of the foregoing now exist or as hereafter may be amended, restated, supplemented or otherwise modified from time to time.

“Senior Financing Agreement” shall mean that certain Note Purchase Agreement, dated as of February __, 2011 by and between Borrower and Senior Creditor, as the same may be amended, modified, restated or supplemented from time to time.

“Subordinated Indebtedness” is used herein in its most comprehensive sense and means any and all advances, debts, obligations and liabilities of Borrower to Creditor (including, without limitation, principal, interest, fees, costs, expenses and other amounts due from time to time by Borrower to Creditor), whether incurred or created prior to, on or after the date of this Agreement, whether voluntary or involuntary and however arising, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined at any time entered into by Borrower with Creditor, and whether Borrower may be liable individually or jointly with others, or whether recovery upon such indebtedness may be or hereafter becomes unenforceable.

2. Subordination. The payment of all of the Subordinated Indebtedness is hereby expressly subordinated and deferred to the extent and in the manner hereinafter set forth, until Full Payment and Satisfaction of the Senior Indebtedness; and Junior Creditor hereby agrees that (regardless of any priority otherwise available to Junior Creditor by law or by agreement) any lien which Junior Creditor may now hold or may at any time hereafter acquire in any or all of the Collateral is, shall be and shall remain fully subordinate for all purposes to any lien that Senior Creditor may now or hereafter hold in the Collateral. The Subordinated Indebtedness and any lien securing the Subordinated Indebtedness shall continue to be subordinated to the Senior Indebtedness even if the Senior Indebtedness is deemed unsecured, under-secured, subordinated, avoided or disallowed under the Bankruptcy Code or other applicable law.

3. Distributions.

(a) Junior Creditor shall not demand, receive or accept any payment (whether of principal, interest or otherwise) or Distribution in respect of the Subordinated Indebtedness or exercise any right of or permit any setoff in respect of the Subordinated Indebtedness until all of the Senior Indebtedness has been Fully Paid and Satisfied.

(b) Should Junior Creditor receive any amounts, property, or value on account of the Subordinated Indebtedness not permitted to be paid or delivered to or received by Junior Creditor pursuant to this Agreement, Junior Creditor will receive such amounts, property, or value as trustee for Senior Creditor, and pay or deliver to Senior Creditor, immediately upon receipt thereof, any and only such amounts, property, or value which Junior Creditor may receive on account of the Subordinated Indebtedness prior to Full Payment and Satisfaction of the Senior Indebtedness.

4. No Action.

(a) Junior Creditor will not, at any time prior to the Senior Indebtedness is Fully Paid and Satisfied, (i) commence any action or proceeding against Borrower to recover all or any part of the Subordinated Indebtedness, (ii) commence any action or proceeding with respect to the Collateral, (iii) join with any creditor in bringing any proceeding against Borrower under any bankruptcy, reorganization, readjustment of debt, arrangement of debt receivership, liquidation or insolvency law or statute of the federal or any state government, (iv) take possession of, sell or dispose of, or otherwise deal with, the Collateral, (v) take any Enforcement Action, (vi) exercise or enforce any other right or remedy which may be available to Junior Creditor against Borrower or with respect to the Collateral. Notwithstanding the foregoing, Junior Creditor may:

- (1) file a claim or statement of interest with respect to the Subordinated Indebtedness, provided that a Proceeding has been commenced by or against Borrower;
 - (2) take any action (not adverse to the priority status of the liens securing the Senior Indebtedness, or the rights of the Senior Creditor to exercise remedies in respect thereof) in order to create, perfect, preserve or protect its lien on any of the Collateral;
 - (3) file any necessary responsive or defensive pleadings in opposition to any motion, claim, adversary proceeding or other pleading made by any Person objecting to or otherwise seeking the disallowance of the claims for any of the Subordinated Indebtedness, including any claims secured by the Collateral, if any, in each case so long as such filing is in accordance with the terms of this Agreement;
 - (4) take any action to the extent necessary to prevent the running of any applicable statute of limitation or similar restriction on claims, or to assert a compulsory cross-claim or counterclaim against Borrower;
 - (5) take any action to seek and obtain specific performance or injunctive relief to compel Borrower to comply with (or not violate or breach) an obligation under the Junior Creditor Agreements, so long as it is not accompanied by a claim for monetary damages; and
 - (6) accelerate the Subordinated Indebtedness following the occurrence of an event of default under the Junior Creditor Agreements.
-

(b) Without limiting the generality of the foregoing, if an Event of Default has occurred and is continuing and Borrower or Senior Creditor intends to sell or otherwise dispose of any Collateral, Junior Creditor shall, upon Senior Creditor's request, execute and deliver such instruments as may reasonably be necessary to terminate and release any lien Junior Creditor has in the Collateral to be sold or otherwise disposed of, with the proceeds of any such sale to be applied as provided in [Section 7\(a\)](#). If Junior Creditor fails to execute and deliver such instruments as may be reasonably necessary to terminate and release any lien Junior Creditor has in the Collateral to be sold or otherwise disposed of, Junior Creditor shall be deemed to have released any lien it may have in such Collateral and to have authorized Senior Creditor or its agents to file partial releases with respect to such Collateral.

(c) Notwithstanding any other provision of this Agreement, Junior Creditor shall have the right to bid for or purchase the Collateral in any public or, to the extent permitted by applicable law, private sale or judicial foreclosure initiated by Senior Creditor or in any sale of the Collateral in a Proceeding (whether pursuant to Section 363 of the Bankruptcy Code or otherwise) or under other applicable law; provided, however, that a bid by Junior Creditor may not include a "credit bid" in respect of any Subordinated Indebtedness unless such bid also includes payment of cash proceeds to Senior Creditor in an amount sufficient to Fully Pay and Satisfy the Senior Indebtedness in its entirety.

5. Representations, Warranties and Covenants.

(a) Junior Creditor and Borrower represent and warrant to, and covenants with, Senior Creditor that:

(i) As of the date hereof, the principal amount of the Subordinated Indebtedness aggregates the sum of One Million One Hundred Twenty Thousand Dollars (\$1,120,000) and no more, without counterclaim, defense or offset.

(ii) The Subordinated Note and the Junior Security Agreement (the "[Junior Creditor Agreements](#)") constitute the sole instruments and agreements evidencing or governing the Subordinated Indebtedness; true and correct copies of all Junior Creditor Agreements have been provided to Senior Creditor.

(iii) Prior to the Full Payment and Satisfaction of the Senior Indebtedness, neither Borrower nor Junior Creditor shall enter into any amendment to or modification of any Junior Creditor Agreement which relates to or affects the principal amount, interest rate, payment terms, events of default or any other material covenant or agreement of Borrower thereunder or in respect thereof, without the prior written consent of Senior Creditor.

(iv) As of the date hereof, no default or event of default exists or has occurred under the Junior Creditor Agreements.

(v) Junior Creditor has taken all necessary action to execute and deliver this Agreement and is authorized to execute and deliver this Agreement.

(vi) This Agreement constitutes the legal, valid and binding obligation of Junior Creditor, enforceable in accordance with its terms, subject to applicable federal and state bankruptcy and insolvency laws affecting generally the rights of creditors.

(vii) The execution, delivery and performance of this Agreement does not contravene any law or any agreement to which Junior Creditor is a party or by which any of its properties is bound.

(viii) Junior Creditor will not contest, protest or object to, or take any action that would restrain, hinder, limit, delay, or otherwise interfere with, any Enforcement Action by Senior Creditor, or take any other action that is otherwise prohibited under this Agreement.

(ix) Junior Creditor is the holder of the Subordinated Indebtedness and has not transferred, whether absolutely or for purposes of security, all or any portion of the Subordinated Indebtedness to any Person.

(x) Junior Creditor will not assign, transfer or pledge to any other Person any of the Subordinated Indebtedness unless such Person agrees in writing to become bound by the terms of this Agreement. Junior Creditor will provide written notice to Senior Creditor in the event any of the Subordinated Indebtedness is assigned, transferred or pledged to any Person.

(b) Junior Creditor hereby agrees that, notwithstanding the provisions of the Junior Security Agreement to the contrary:

(i) Junior Creditor consents to Borrower's grant to Senior Creditor of a security interest in the Collateral and agrees that such security interest shall be permitted and shall not result in a breach of or an event of default under the Junior Creditor Agreements.

(ii) Junior Creditor consents to the filing by Senior Creditor of all Uniform Commercial Code and similar financing statements and all mortgages, each in form and substance satisfactory to Senior Creditor, at the appropriate offices to create and maintain a valid and perfected first priority security interest in the Collateral and to all other actions deemed necessary by Senior Creditor to create and maintain a valid and perfected first priority security interest in the Collateral.

(c) Senior Creditor represents and warrants to Junior Creditor that (i) the Senior Creditor is the holder of the Senior Indebtedness and liens which secure or will secure the Senior Indebtedness, (ii) it has full right, power and authority to enter into this Agreement and (iii) this Agreement constitutes the legal, valid and binding obligation of Senior Creditor, enforceable in accordance with its terms, subject to applicable federal and state bankruptcy and insolvency laws affecting generally the rights of creditors.

6. Creditor Purchase Option.

(a) In the event that (i) the Senior Indebtedness is accelerated or (ii) Senior Creditor commences an Enforcement Action following the occurrence of a Senior Default or (iii) a Proceeding has been commenced by or against Borrower, then Junior Creditor may elect to purchase all, but not less than all, of the Senior Indebtedness by delivering to Senior Creditor a notice (a "Purchase Option Notice") which states that (1) it is a Purchase Option Notice delivered pursuant to this Section 6, (2) Junior Creditor is irrevocably electing to purchase, in accordance with this Section 6, all but not less than all of the Senior Indebtedness, and (3) designates a date on which the purchase will occur.

(b) Senior Creditor may (but shall be under no obligation to Junior Creditor), at Borrower's expense, continue to exercise its rights and remedies under the Senior Creditor Agreements following receipt of a Purchase Option Notice until such time as the purchase price for the Senior Indebtedness has been received by Senior Creditor.

(c) On the date specified in the Purchase Option Notice (which shall not be less than five (5) days, nor more than ten (10) days, after Senior Creditor's receipt of the Purchase Option Notice), Senior Creditor shall sell to Junior Creditor and/or its assignee (the "Purchaser") all, but not less than all, of the Senior Indebtedness; provided, however, Senior Creditor shall not be obligated to honor the purchase option granted herein if the Purchase Option Notice is received by Senior Creditor more than sixty (60) days after the earliest to occur of the events described in clauses (i), (ii) and (iii) of Section 6(a). The Purchase Option Notice shall constitute an irrevocable binding and legally enforceable commitment on the part of Junior Creditor to purchase the Senior Indebtedness as provided in this Section 6.

(d) On the date of such purchase and sale:

(i) the Purchaser shall

(1) pay to Senior Creditor in immediately available funds as the purchase price therefor, the aggregate outstanding principal amount of all Senior Indebtedness on such date, plus interest and fees due and payable to Senior Creditor under the Senior Creditor Agreements to but excluding such date, plus all reasonable costs, expenses (including reasonable legal fees and disbursements), prepayment premium, collateral protection expenses, other reimbursement or indemnity obligations incurred under the Senior Creditor Agreements and all other amounts due and owing under the Senior Creditor Agreements,

(2) indemnify Senior Creditor in respect of any checks or other payments received by Senior Creditor that are credited to Borrower's loan balance but which are subsequently dishonored or returned for insufficient funds,

(3) at Senior Creditor's discretion provide cash collateral to Senior Creditor in an amount determined by Senior Creditor in its reasonable discretion, which cash shall be deposited to an interest bearing account maintained by Senior Creditor (any interest income with respect to which shall be paid to the Purchaser) and which amount may be applied against any checks or other payments received by Senior Creditor which are credited to Borrower's loan balance but which are subsequently dishonored or returned for insufficient funds, provided that any such cash collateral shall be returned to Purchaser on the date that occurs 45 days after the date of such purchase and sale, and

(4) will execute and deliver to Senior Creditor a waiver of all claims arising out of this Agreement and the transactions contemplated by this Section 6, other than any claims arising out of the failure of the Senior Creditor to comply with, or a breach of the representations and warranties set forth in, paragraph (ii) of this Section 6(d).

(ii) Senior Creditor shall assign and transfer to Purchaser, without recourse, warranty or representation of any kind or nature whatsoever (other than the representation and warranty that (a) Senior Creditor has the right to assign and transfer the Senior Indebtedness and (b) such assignment and transfer is made free and clear of any and all liens created by or through Senior Creditor) all of the rights, duties and obligations of Senior Creditor under the Senior Creditor Agreements; provided, however, Senior Creditor shall retain all rights to indemnification provided in the Senior Creditor Agreements for all claims and other amounts relating to periods prior to the purchase of the Senior Indebtedness pursuant to this [Section 6](#).

(e) Borrower acknowledges and agrees that upon any such assignment and transfer, Senior Creditor shall be released from their duties and obligations under the Senior Creditor Agreements.

7. Waiver and Consent; Bankruptcy.

(a) Except to the extent set forth in [Section 6](#), Senior Creditor shall have no obligation to Junior Creditor with respect to the Collateral or the Senior Indebtedness. Senior Creditor may (i) commence and pursue any Enforcement Action, (ii) exercise collection rights, (iii) take possession of, sell or dispose of, and otherwise deal with, all or any portion of the Collateral, (iv) in Senior Creditor's name or in Borrower's name, demand, sue for, collect or receive any money or property at any time payable or receivable on account of, or securing, any right to payment, or grant any extension to, make any compromise or settlement with or otherwise agree to waive, modify, amend or change the Senior Indebtedness (including collateral obligations) of any account Borrower or other obligor of Borrower; (v) prosecute, settle and receive proceeds on any insurance claims relating to the Collateral, and (vi) exercise and enforce any right or remedy available to Senior Creditor with respect to Borrower and/or the Collateral, whether available before or after the occurrence of any default under the Senior Creditor Agreements; all without consent of Junior Creditor and without notice to Junior Creditor except any notice as specifically required by law. To the extent it is legally permitted to do so, Senior Creditor shall apply the proceeds of the Collateral against the Senior Indebtedness in any order of application it deems appropriate, and to the extent there is any excess remaining after such application, then to Junior Creditor for payment of the Subordinated Indebtedness, or to any other party legally entitled to such proceeds. Junior Creditor hereby waives any and all right to require the marshalling of assets in connection with the exercise of any of the remedies permitted by applicable law or agreement.

(b) In the event of any receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization or arrangement with creditors, whether or not pursuant to bankruptcy law, the sale of all or substantially all of the assets of Borrower, dissolution, liquidation or any other marshalling of the assets or liabilities of Borrower, Junior Creditor will file all claims, proofs of claim or other instruments of similar character necessary to enforce the obligations of Borrower in respect of the Subordinated Indebtedness and will hold in trust for Senior Creditor and promptly pay over to Senior Creditor in the form received (except for the endorsement of Junior Creditor where necessary) for application to the then-existing Senior Indebtedness, any and all moneys, dividends or other assets received in any such proceedings on account of the Subordinated Indebtedness, unless and until the Senior Indebtedness has been Fully Paid and Satisfied. If Junior Creditor shall fail to file any claim, proof of claim or other instrument within ten (10) business days of the deadline for filing, Senior Creditor, as attorney-in-fact for Junior Creditor, may (but shall have no obligation to) take such action on Junior Creditor's behalf, at Borrower's expense. Junior Creditor hereby irrevocably appoints Senior Creditor, or any of its officers or employees, as the attorney-in-fact for Junior Creditor (which appointment is coupled with an interest) with the power but not the duty to execute, verify, deliver and file any claim, proof of claim or other instrument of similar character to the extent permitted by this Section 7(b), and Junior Creditor will, at Borrower's expense, execute and deliver to Senior Creditor such other and further powers-of-attorney or instruments as Senior Creditor may reasonably request in order to accomplish the foregoing. At all times, Junior Creditor shall retain the right to vote claims comprising Subordinated Indebtedness and to accept or reject any plan of partial or complete liquidation, reorganization, arrangement, composition or extension, provided, however, Junior Creditor shall not vote to accept a plan of reorganization or liquidation ("Plan") in any Proceeding, unless such Plan (i) pays Senior Creditor and Senior Creditor, in cash on the effective date of the Plan, the full amount of the Senior Indebtedness, or (ii) is acceptable to Senior Creditor in its sole and absolute discretion.

(c) If Borrower or Borrower's estate become the subject of a proceeding ("Proceeding") under Title 11 of the United States Code (11 U.S.C. § 101 *et seq.*), as amended, (the "Bankruptcy Code"), and if Senior Creditor desires to permit the use of cash collateral or to provide post-petition financing to Borrower, Junior Creditor shall not object to the same or assert that its interests are not being adequately protected and agrees that adequate notice to Junior Creditor shall have been provided if Junior Creditor receives written notice in accordance with the Bankruptcy Code. Junior Creditor waives any claim it may now or hereafter have arising out of Senior Creditor's election, in any proceeding instituted under Chapter 11 of the Bankruptcy Code, of the application of Section 1111(b)(2) of the Bankruptcy Code, and/or any borrowing or a lien under Section 364 of the Bankruptcy Code by Borrower, as debtor-in-possession. To the extent that Senior Creditor receives payments on or proceeds of Collateral which are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, state or federal law, common law, or equitable cause, then, to the extent of such payment or proceeds received, the Senior Indebtedness, or part thereof, intended to be satisfied shall be revived and continue in full force and effect as if such payments or proceeds had not been received by Senior Creditor.

8. Restrictive Legend: Transfer of Subordinated Indebtedness. Junior Creditor shall cause each Junior Creditor Agreement that now or hereafter evidences all or a portion of the Subordinated Indebtedness to be conspicuously marked as follows:

"This [agreement] [instrument] is subject to the terms of a Subordination and Intercreditor Agreement (as amended, supplemented or otherwise modified from time to time, the "Intercreditor Agreement") dated as of February __, 2011 among Blast Energy Services, Inc., a Texas corporation, XXXXXXXXXX, a Delaware limited liability company, and Berg McAfee Companies, LLC, a California limited liability company, which Intercreditor Agreement is incorporated herein by reference."

9. Continuing Effect. This Agreement shall constitute a continuing agreement of subordination. Senior Creditor may, without notice to or consent by Junior Creditor, modify any term of Senior Indebtedness in reliance upon this Agreement. Without limiting the generality of the foregoing, Senior Creditor may, at any time and from time to time until the Full Payment and Satisfaction of the Senior Indebtedness, without the consent of or notice to Junior Creditor and without incurring responsibility to Junior Creditor or impairing or releasing any of Senior Creditor's rights or any of Junior Creditor's obligations hereunder:

- (a) change the interest rate or change the amount of payment or extend the time for payment or renew or otherwise alter the terms of any Senior Indebtedness or any instrument evidencing the same in any manner;
- (b) sell, exchange, release or otherwise deal with any property at any time securing payment of Senior Indebtedness or any part thereof;
- (c) release anyone liable in any manner for the payment or collection of Senior Indebtedness or any part thereof;
- (d) exercise or refrain from exercising any right against Borrower or any other Person (including Junior Creditor); and
- (e) apply any sums received by Senior Creditor, by whomsoever paid and however realized, to Senior Indebtedness in such manner as Senior Creditor shall deem appropriate.

10. Miscellaneous Provisions.

(a) Borrower shall render to Senior Creditor upon demand, from time to time, statements of the Subordinated Indebtedness and shall give Senior Creditor access to its books for the purpose of examining the state of the accounts of Junior Creditor with Borrower.

(b) Except as set forth in this Agreement, Junior Creditor waives any and all notice of the acceptance of this Agreement or of the creation, renewal, extension or accrual, present or future, of any of the Senior Indebtedness, or of the reliance of Senior Creditor on this Agreement. Junior Creditor hereby waives all presentment for payment, protest and notice of non-payment and protest of negotiable instruments to which Junior Creditor may be a party. Junior Creditor consents that, without notice to or further assent by Junior Creditor, the liability of Borrower or of any other party for or upon the Senior Indebtedness may from time to time, in whole or in part, be renewed, extended, modified, prematured, compounded, or released by Senior Creditor, as it may deem advisable, that any of the collateral subject to Senior Creditor's security interest may, from time to time, in whole or in part, be exchanged, sold, impaired, released, declined or surrendered by Senior Creditor, as it may deem advisable, and that any deposit, balance or balances to the credit of Borrower may, from time to time, in whole or in part, be surrendered or released by Senior Creditor to Borrower, as Senior Creditor may deem advisable, all without impairing or in any way affecting the subordination contained in this Agreement.

(c) This Agreement shall be binding upon Senior Creditor, Junior Creditor, Borrower and their respective successors, endorsees, transferees and assigns, and shall inure to the benefit of, and be enforceable by, Senior Creditor and Junior Creditor and their respective successors, endorsees, transferees and assigns.

(d) An Event of Default shall have occurred under the Senior Creditor Agreements in the event of a breach by either Borrower or Junior Creditor in the performance of any of the terms of this Agreement, or if any representation or warranty of Borrower or Junior Creditor hereunder shall prove to be materially false. No failure or delay on the part of Senior Creditor in exercising any right, power or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of such right, power or remedy preclude any other right, power or remedy hereunder. No amendment, modification, termination or waiver of any provision of this Agreement nor consent to any departure therefrom, shall in any event be effective unless the same shall be in writing making explicit reference to this Agreement, shall be effective only in the specific instance and for the specific purpose for which given. No notice or demand in any case shall entitle the recipient to any other or further notice or demand in similar or other circumstances.

(e) All notices, requests and other communications pursuant to this Agreement shall be in writing and delivered by hand, overnight delivery service or telecopier (at the telecopier number set forth below) addressed to Senior Creditor or Junior Creditor (as the case may be) at its address set forth on the signature page hereof, or at such other address as any may give notice to the others as herein provided. Any notice, request or communication hereunder shall be deemed to have been given (i) in the case of delivery by overnight delivery service, one (1) day after its deposit with a reputable overnight delivery service, postage prepaid, or (ii) in the case of delivery by hand, when delivered, or (iii) in the case of delivery by telecopier, when transmitted and receipt confirmed by the sender obtaining a printed confirmation that the entire document has been properly transmitted to recipient, provided such transmission is followed by delivery of such notice, request or communication pursuant to clause (i) or (ii) above; provided, however, that notice of a change of address, telephone number or telecopier number shall be deemed to have been given only when actually received by the party to which it is addressed.

(f) If any of the provisions of this Agreement shall contravene or be held invalid under the laws of any jurisdiction, this Agreement shall be construed as if not containing such provisions and the rights, remedies, warranties, representations, covenants and provisions hereof shall be construed and enforced accordingly in such jurisdiction and shall not in any manner affect such provision in any other jurisdiction, or any other provision in this Agreement in any jurisdiction.

(g) Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part hereof for any other purpose.

(h) In all references herein to any parties, persons, entities or corporations, the use of any particular gender or the plural or singular number is intended to include the appropriate gender or number as the text of this Agreement may require.

(i) This Agreement may be executed in counterparts, each of which when so executed and delivered shall be an original, but all of which together shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page of this document by facsimile shall be effective as delivery of a manually executed counterpart of this document.

11. Governing Law; Consent to Jurisdiction; Waiver of Jury Trial.

(a) This Agreement is to be executed and delivered within the State of New York, is to be performed within the State of New York, and the parties elect that the laws of New York shall govern the construction of this Agreement and the rights, remedies, warranties, representations, covenants, and provisions hereof, without giving effect to the conflict of laws rules of the State of New York.

(b) Any legal action or proceeding with respect to this Agreement or any other document, instrument, writing or agreement related hereto, may be brought in the courts of the State of New York or of the United States for the Southern District of New York, in each case, located in New York County, and, by execution and delivery of this Agreement, each party hereby each irrevocably accept for itself in respect of its property, generally and unconditionally, the jurisdiction of the aforesaid courts. Each party hereto further irrevocably consent to the service of process out of any of the aforementioned courts and in any action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, to them at their address set forth herein, such service to become effective upon receipt thereof. Nothing contained herein shall affect the right of any party hereto to service of process in any other manner permitted by law or to commence any legal proceedings or otherwise proceed against any other party hereto in any jurisdiction.

(c) Each party hereto hereby waives any rights it may have to transfer or change the venue of any litigation brought against it by any other party hereto which is in any way related to this Agreement or any other document, instrument, writing or agreement related hereto.

(d) BECAUSE DISPUTES ARISING IN CONNECTION WITH COMPLEX FINANCIAL TRANSACTIONS ARE MOST QUICKLY AND ECONOMICALLY RESOLVED BY AN EXPERIENCED AND EXPERT PERSON AND THE PARTIES WISH APPLICABLE STATE AND FEDERAL LAWS TO APPLY (RATHER THAN ARBITRATION RULES), THE PARTIES DESIRE THAT THEIR DISPUTES BE RESOLVED BY A JUDGE APPLYING SUCH APPLICABLE LAWS. THEREFORE, TO ACHIEVE THE BEST COMBINATION OF THE BENEFITS OF THE JUDICIAL SYSTEM AND OF ARBITRATION, EACH PARTY HERETO WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT, OR PROCEEDING BROUGHT TO RESOLVE ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE, AMONG CREDITOR, BORROWER, AGENT AND/OR LENDERS, ARISING OUT OF, CONNECTED WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED AMONG THEM IN CONNECTION WITH, THIS AGREEMENT OR ANY OF THE OTHER SENIOR CREDITOR AGREEMENTS OR THE TRANSACTIONS RELATED THERETO.

(e) The provisions of this [Section 11](#) shall survive the termination of this Agreement.

[Signature pages follow]

IN WITNESS WHEREOF, each of the parties intending to be bound hereby has caused this Agreement to be executed by its duly authorized representative as of the date first above written.

BLAST ENERGY SERVICES, INC.

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

Address for notices:

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 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

[SIGNATURE PAGE TO SUBORDINATION AND INTERCREDITOR AGREEMENT]

XXXXXXXXXX

By: /s/ XXXXXXXXXXX
Name: XXXXXXXXXXX
Title: Authorized Signatory

Address for notices:

XXXXXXXXXX

With a copy to:

XXXXXXXXXX

[SIGNATURE PAGE TO SUBORDINATION AND INTERCREDITOR AGREEMENT]

BERG MCAFEE COMPANIES, LLC

By: /s/ Eric A. McAfee
Eric A. McAfee
Managing Member and President

Address for notices:

Berg McAfee Companies, LLC
2400 Stevens Creek Boulevard, Suite 700
Cupertino, California 95014
Tel:
Fax:
Attention: Eric A. McAfee

[SIGNATURE PAGE TO SUBORDINATION AND INTERCREDITOR AGREEMENT]

Trident Partners Ltd.
181 Crossways Park Drive
Woodbury, NY 11797

November 15th, 2010

Blast Energy Services, Inc
Mr. Michael Peterson
Chief Executive Officer
14550 Torrey Chase Blvd. Suite 330
Houston, TX 77014

Dear Michael:

Trident Partners Ltd ("Trident Partners" or TP) is pleased to act as the non-exclusive placement agent for Blast Energy Services, Inc. (the "Company") in connection with your proposed capital transaction. The terms of our engagement are set forth below. We look forward to working with you.

1. **The Offering.** We understand you wish to raise funds through a private placement of certain equity, equity-linked securities or debt to Institutional and Accredited Investors (the "Offering"). The Offering will be made in accordance with the exemption from the registration requirements of the Securities Act of 1933, as amended, and the rules and regulations promulgated there under (collectively, the "Act") provided by Regulation D under the Act ("Regulation D") and the qualification and registration requirements of applicable state and foreign securities or blue sky laws and regulations. You understand that TP will use reasonable efforts with respect to the marketing of the Offering and that the actual terms of the Offering will depend on market conditions, and will be subject to due diligence and negotiation between the Company and prospective investors.

In connection with TP's engagement hereunder, it shall provide the following services as appropriate;

- (a) assist the Company in formulating a marketing strategy for the Securities and the Offering and in developing procedures and a timetable therefore;
- (b) identify and contact prospective purchasers of the Securities;
- (c) advise the Company as to the strategy and tactics of negotiations with such prospective purchasers and participate in such negotiations;
- (d) advise the Company as to timing, structure and pricing of the Offering; and
- (e) provide such other investment banking services as are customary for similar transactions and as may from time to time be agreed upon by TP and the Company.

2. **Retainer**

The company shall issue 750,000 warrants to TP. The warrants shall be exercisable at (\$.01) or one penny per share and have a 1 year term.

3. **Fees and Expenses.**

Concurrently with any closing of any Offering during the Term, the Company will pay TP, or its successor and assignors, the following:

- (a) A cash fee equal to 10% of the gross proceeds received from the sale of securities from any investor introduced to the Company by TP;
- (b) Warrants to purchase a number of shares of common stock equal to 10% of the gross number of shares sold or granted at each closing. The warrants shall be exercisable at (\$.01) or one penny per share and have a 1 year term.
- (c) In the event of the Lenders and/or Investors taking a net revenue interest in the well being for a defined period of time TP would receive a net revenue interest equivalent to 10% of the Lender's and/or Investors interest.

All the above Fees, Warrants, and Expenses shall be due upon the closing of a transaction with a TP Introduced Party as defined herein, and become payable proportionately as received by the Company. As used in this Agreement, the term a "TP Introduced Party" shall only include prospective investors who: (i) are directly introduced to the Company by TP, (ii) have made an investment in the Offering which is accepted by the Company, and (iii) TP actively worked with and took the lead in the marketing process (from introduction to investment) by providing the investor with company information through calls and meetings, due-diligence materials, paperwork, etc. ("**Serviced**").

4. **Term; Tail Right;**

- (a) The term of this agreement ("Term") shall commence on the date hereof and shall continue for an initial term of three (3) months; provided, however, either party may terminate this agreement upon 10 days written notice to the other party.
 - (b) If during the twelve months following termination or expiration of this agreement ("Tail Period"), any TP Introduced party purchases securities from the Company (or enters into an agreement during the Term to purchase securities from the Company which is consummated at anytime thereafter), the Company shall pay TP upon the receipt of such funds, a cash fee and warrants in the amount that would otherwise have been payable to TP had such transaction occurred during the Term in accordance with section 3.
 - (c) In the event any TP Introduced Party invests in the Offering and then makes a subsequent investment in the Company, the Company agrees to pay TP upon the closing of such subsequent investment: (i) the highest fee percentages paid to other engaged placement agents in such offering, or (ii) if no other placement agents are engaged then a cash fee and warrants in the amount that would have otherwise have been payable to TP had such transaction occurred during the Term in accordance with Section 3.
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5 Representations, Warranties and Covenants.

(a) You hereby authorize Trident Partners to transmit to the prospective purchasers of the securities material prepared by the Company with such exhibits and supplements as may from time to time be required or appropriate (collectively "Material"). The Company represents and warrants the Material (i) will be prepared by the management of the Company and reviewed and approved by its Board of Directors; and (ii) will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein or previously made, in light of the circumstances under which they made not misleading. The Company will advise Trident Partners immediately of the occurrence of any event or any other change known to the Company which results in the Material containing an untrue statement of a material fact or omitting to state a material fact required to be stated therein or necessary to make the statements therein or previously made, in light of the circumstance under which they were made, not misleading.

(b) If requested by Trident Partners the Company will, at the closing of the Financing, furnish Trident Partners with the same favorable opinion of its outside counsel as is furnished to the investors, addressed to Trident Partners or together with a letter from such counsel that Trident Partners may rely on its opinion as if directed to Trident Partners.

7 No Conflict.

The Company represents, warrants and agrees, as of the date hereof, that: (i) neither the execution and delivery of this Agreement by the Company nor the consummation of the transactions contemplated hereby will, directly or indirectly, with or without the giving of notice or lapse of time, or both, (A) violate any provisions of the Certificate of Incorporation or By-laws of the Company or (B) violate, or be in conflict with, or constitute a default under, any agreement, lease, mortgage, debt or obligation of the Company or require the payment, any pre-payment or other penalty with respect thereto; (ii) it has all requisite power and authority to enter into and perform its obligations under this Agreement; (iii) this Agreement has been duly executed and delivered and constitutes valid and binding obligations of the Company, enforceable against the Company in accordance with their respective terms.

8 Indemnification.

Recognizing that matters of the type contemplated in this engagement sometimes result in litigation and that Trident Partner's role is advisory, the Company agrees to indemnify and hold harmless Trident Partners, its affiliates and their respective officers, directors, employees, agents and controlling persons (collectively, the "Indemnified Parties"), from and against any losses, claims, damages and liabilities (or actions, including shareholder actions, in respect thereof), joint or several, related to or arising in any manner out of any transaction, financing, proposal or any other matter (collectively, the "Matters") contemplated by or resulting from the engagement of Trident hereunder, and will promptly reimburse the Indemnified Parties for all expenses (including fees and expenses of legal counsel) as incurred in connection with the investigation of, preparation for or defense of any pending or threatened claim related to or arising in any manner out of any Matter contemplated by the engagement of Trident Partners hereunder, or any action or proceeding arising there from (collectively, "Proceedings"), whether or not such Indemnified Party is a formal party to any such Proceeding. Notwithstanding the foregoing, the Company shall not be liable in respect of any losses, claims, damages, liabilities or expenses that a court of competent jurisdiction shall have determined by final judgment resulted solely from the gross negligence, willful misconduct or illegal act of an Indemnified Party. The Company further agrees that it will not, without the prior written consent of Trident Partners, settle, compromise or consent to the entry of any judgment in any pending or threatened Proceeding in respect of which indemnification may be sought hereunder (whether or not Trident Partners or any Indemnified Party is an actual or potential party to such Proceeding), unless such settlement, compromise or consent includes an unconditional release of Trident Partners and each other Indemnified Party hereunder from all liability arising out of such Proceeding. As money damages may not be a sufficient remedy in the event of any breach or threatened breach of these provisions by the company or Trident Partners, the Company or Trident Partners may seek injunctive relief or other equitable relief in addition to any other available remedy.

This agreement shall be governed by and construed in accordance with the laws of the state of New York applicable to contracts executed and to be wholly performed therein without giving effect to its conflicts of laws principles of rules. This letter constitutes the entire understanding of the parties with respect to the subject matter hereof and may not be altered or amended except in writing signed by both parties. This Agreement shall be deemed to have been made and delivered in New York City and shall be governed as to validity, interpretation, construction, affect and in all other respects by the internal laws of the State of New York.

9. Miscellaneous.

The execution of this Agreement does not constitute a commitment by Trident Partners or the Company to consummate any transaction contemplated hereunder and does not ensure the successful placement of securities of the Company or the success of Trident Partners with respect to securing any financing on behalf of the Company. No promises or representations have been made except as expressly set forth in this agreement and the parties have not relied on any promises or representations except as expressly set forth in this agreement. Nothing contained herein should be construed as creating any fiduciary duties between the parties.

10. Entire Agreement.

This Agreement constitutes the entire Agreement between the parties and supersedes and cancels any and all prior or contemporaneous arrangements, understandings and agreements, written or oral between them relating to the subject matter hereof.

We look forward to working with you and developing a long term relationship with the Company.

Very truly yours
Trident Partners, Ltd

By: /s/ Edward Flynn
Edward Flynn

Confirmed and accepted as of
the 15th day of November, 2010

By: /s/ Michael L. Peterson
Name: Michael L. Peterson
Blast Energy Services, Inc.