BAKKEN RESOURCES INC
Form 10-Q
January 13, 2017

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015

OR

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

For the transition period from ______________ to ______________

Commission File Number: 000-50344

BAKKEN RESOURCES, INC.

(Name of small business issuer in its charter)

Nevada	**26-2973652**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

825 Great Northern Boulevard, Expedition Block, Suite 304, Helena, MT 59601
(Address of principal executive offices, including zip code)
(406) 442-9444
(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated file, an accelerated filer, or a non-accelerated file. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12-b-2 of the Exchange Act. (Check one):

Large accelerated file	[ ]	Accelerated file	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	[X]

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

The number of shares of issuer s outstanding common stock as of September 30, 2015 was 56,735,350.

EXPLANATORY NOTE

This quarterly report on Form 10-Q for the quarter ended September 31, 2015 is being filed concurrently with the quarterly reports on Forms 10-Q for the quarters ended March 31 and June 30, 2015. The Company previously filed on October 3, 2016 its annual report for the 2015 fiscal year to which these quarterly reports belong, which ended December 31, 2015. This quarterly report and those filed concurrently should be read in conjunction with our 2015 annual report on Form 10-K.

Because the Company is concurrently filing all three quarterly reports for fiscal year 2015, each such quarterly report contains an identical exhibit list, which is current as of the date of filing the Company s annual report on Form 10-K for the period ending December 31, 2015 rather than the reporting period for each such report.

BAKKEN RESOURCES, INC.
FORM 10-Q

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

BAKKEN RESOURCES, INC
CONSOLIDATED BALANCE SHEETS

	(unaudited) 30-Sep-15	*audited* 31-Dec-14
ASSETS		
CURRENT ASSETS		
Cash	$ 4,912,082	$ 6,334,092
Restricted cash	-	595,000
Accounts receivable - trade	636,728	681,158
Related party receivable	67,205	138,846
Prepaids	106,782	39,593
Other receivables	459,742	255,671
Total current assets	6,182,539	8,044,360
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of $30,410 and $22,376	4,512	8,475
UNPROVED MINERAL RIGHTS AND LEASES	772,772	300,750
Total Assets	$ 6,959,823	$ 8,353,585
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 44,308	$ 134,810
Accrued liabilities	159,725	165,108
Royalty payable to related party	94,587	-
Income tax payable	-	944,374
Total Current Liabilities	-	1,244,292
Total Liabilities	298,620	1,244,292
COMMITMENTS AND CONTINGENCIES (see Note 7)		
STOCKHOLDERS' EQUITY:		
Preferred stock, $.001 par value, 10,000,000 shares authorized, none issued or outstanding	-	-
Common stock, $.001 par value, 100,000,000 shares authorized, 56,735,350 shares issued and outstanding	56,735	56,735
Additional paid-in capital	3,510,760	3,510,760
Retained earnings	3,093,708	3,541,798
Total Stockholders' Equity	6,661,203	7,109,293
Total Liabilities and Stockholders' Equity	$ 6,959,823	$ 8,353,585

See accompanying notes to the consolidated financial statements

BAKKEN RESOURCES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	(unaudited) Three Months Ended September 30,		*(unaudited)* Nine Months Ended September 30,	
	2015	2014	2015	2014
REVENUES	$ 247,619	$ 700,957	$ 705,446	$ 1,461,322
OPERATING (INCOME) EXPENSE				
Depreciation and depletion	896	2,033	3,963	20,574
Payroll	72,179	82,851	240,521	248,192
Professional fees	247,922	304,672	952,620	1,234,345
Lawsuit settlement expense	-	-	-	662,485
Gain on sale of proved mineral rights	-	-	-	(7,172,151)
General and administrative expenses	56,158	25,110	114,704	73,457
Total Operating Expenses (Income)	377,155	414,666	1,311,808	(4,933,098)
INCOME (LOSS) FROM OPERATIONS	(129,536)	286,291	(606,362)	6,394,420
OTHER INCOME (EXPENSES):				
Interest income	894	2,739	3,272	3,669
Other income	-	5,000	-	5,000
Total other income (expenses)	894	7,739	3,272	8,669
NET INCOME (LOSS) BEFORE INCOME TAXES	(128,642)	294,030	(603,090)	6,403,089
Income tax expense benefit (provision)	46,103	85,360	154,998	(2,359,082)
NET INCOME (LOSS)	$ (82,539)	$ 379,390	$ (448,092)	$ 4,044,007
NET INCOME (LOSS) PER COMMON SHARE BASIC AND DILUTED	$ (0.00)	$ 0.01	$ (0.01)	$ 0.07
Weighted average common shares outstanding:				
basic	56,735,350	56,735,350	56,735,350	56,735,350
diluted	56,735,350	56,808,229	56,735,350	56,817,563

See accompanying notes to the consolidated financial statements

BAKKEN RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	(unaudited) Nine Months Ending September 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (448,092)	$ 4,044,007
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and depletion expense	3,963	20,574
Options expense	-	14,463
Gain on sale of proved mineral rights	-	(7,172,151)
Deferred tax liability	-	296,013
Change in operating assets and liabilities:		
Restricted cash asset	595,000	-
Accounts receivable - trade	44,430	901,272
Other receivables	(79,080)	(198,509)
Prepaids	(67,190)	(16,927)
Accounts payable	(90,502)	(40,264)
Royalty payable to related party	71,642	(282,814)
Accrued liabilities	(5,383)	198,512
Income tax payable	(974,776)	683,768
NET CASH USED BY OPERATING ACTIVITIES	(949,988)	(1,552,056)
CASH FLOW FROM INVESTING ACTIVITIES:		
Cash provided by sale of proved mineral rights	(472,022)	7,847,417
Cash paid for acquisition of unproven oil and gas properties	-	(421,988)
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	(472,022)	7,425,429
NET CHANGE IN CASH	(1,422,010)	5,873,373
Cash at beginning of period	6,334,092	1,523,601
Cash at end of period	$ 4,912,082	$ 7,396,974

See accompanying notes to the consolidated financial statements

BAKKEN RESOURCES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited interim consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and with the rules and regulations of the U.S. Securities and Exchange Commission (SEC) applicable to Form 10-Q including Article 8 of Regulation S-X. These unaudited interim consolidated financial statements should be read in conjunction with the financial statements of the Company for the year ended December 31, 2014 and notes thereto contained in the information as part of the Company s Annual Report on Form 10-K filed with the SEC on September 1, 2016. Notes to the consolidated financial statements which would substantially duplicate the disclosure contained in the audited financial statements for fiscal 2015, as reported on the Form 10-K filed with the SEC on October 3, 2016, have been omitted. In the opinion of management, the unaudited interim consolidated financial statements furnished reflect all adjustments (consisting of normal recurring adjustments) which are necessary to present fairly the financial position and the results of operations for the interim periods presented herein. Unaudited interim results are not necessarily indicative of the results for the full year.

Oil and Gas Properties

The Company owns royalty interests and one working interest. The Company capitalizes asset acquisition costs. Unproved oil and gas properties are periodically assessed to determine whether they have been impaired, and any impairment in value is charged to expense. The costs of properties, which are determined to be productive, are transferred to prove oil and gas properties and amortized on an equivalent unit-of-production basis.

During the three months ended September 30, 2015, the Company recognized no impairment of its oil and gas properties.

NOTE 2 RELATED PARTY TRANSACTIONS

Related Party Receivable

In connection with the acquisition of the Holms Property, the Company granted to Holms Energy LLC., which is owned by a former officer of the Company, a five percent (5%) overriding royalty on all revenue generated from the Holms Property for ten years from the date of the acquisition closing (2020). As of September 30, 2015 and December 31, 2014, the royalty receivable was $67,205 and $138,846, respectively.

Related Party Payable

Through December 31, 2014, the Company collected royalty payments for certain wells on behalf of Holms Energy Development Corporation, which is controlled by the Company s former Chief Executive Officer (CEO). This occurred because one of the Company s operators, Oasis Petroleum, did not recognize Holms Energy Development Corporation s ownership of minerals below the Bakken formation. This situation was corrected beginning January 1, 2015. Therefore, the Company will no longer serve as a payment conduit for Holms Energy Development Corporation. The Company did not generate any revenue associated with these royalty payments and the cash payments were remitted directly to Holms Energy Development Corporation by the Company.

Big Willow Lease

On July 9, 2014, the Company entered into an oil and gas lease with Big Willow Properties, LLP (the Big Willow Lease). At present, the Big Willow Lease contemplates that the property will be eventually operated by Holms Energy Development Corporation, an entity that is controlled by the Company s former CEO. Terms of such arrangements between the Company and Holms Energy Development Corporation have not yet been considered and approved by the disinterested members of the Company s Board of Directors. See Note 6 below for additional information relating to the Big Willow Lease.

NOTE 3 SALE OF PROVED MINERAL RIGHTS

On February 4, 2014, the Company sold a portion of its producing proved mineral rights for an aggregate cash sales price of $7,847,417 and a 2% retained royalty on proceeds derived from such sold mineral assets. The net book value of the asset on the date of the sale was $675,266 resulting in a gain on the sale of proven mineral rights of $7,172,151 for the nine months ended September 30, 2014. Ten percent (10%) of the total cash purchase price was escrowed with a third-party financial institution for approximately 90 days following the closing of this transaction.

The property sold consists of the 767+/- net mineral acres acquired by the Company as part of the Company s acquisition of the former Greenfield mineral interests in 2010. The Greenfield mineral interests derive from substantially the same gross mineral acreage as those originally contributed to the Company in 2010. During 2013, thirty-six percent (36%) of total revenue was generated from the property that was sold.

The mineral rights sale reduces current year and future revenue from the North Dakota mineral asset. It also impacts comparable financial statements since one-third of the Company s mineral rights are no longer producing revenue, thus making historical comparisons difficult. It does, however, create considerable cash reserves that may be used to secure additional mineral rights to generate future revenue.

NOTE 4 STOCKHOLDERS EQUITY

During the three months ended September 30, 2015, aggregate options expense of $0 has been recognized related to common stock options granted during 2012. As of September 30, 2015, all options granted have been fully expensed and all warrants issued have expired.

NOTE 5 INCOME TAXES

During the three months ended September 30, 2015, aggregate income tax benefit totaled $46,103. For the nine months ended September 30, 2015, total tax benefit is $154,998, which results from adjusting income tax payable estimated for 2014 to the actual 2014 liability. The net operating loss that accrued during the three months ended September 30, 2015 creates no income tax liability.

During the three months ended September 30, 2015, the Company made income tax payments totaling $0 in addition to income tax withholding on royalty payments totaling $32,915.

NOTE 6 SUBSEQUENT EVENTS

Val Holms Termination: The Company s founder and CEO, Val M. Holms, was terminated in May 2016 on the basis of fraud and other allegations levied against him.

Eagle Private Equity Transaction: In May 2016, the Company entered into a financing agreement with Eagle Private Equity (Eagle). The Eagle transaction provides a non-revolving line of credit not to exceed $1,000,000 and intended for the acquisition of non-working interest assets. The Convertible Loan Credit Agreement is convertible into Series A preferred stock. Series A preferred stock generally holds common stock voting rights equivalent to 100 shares of common stock for each share of series A preferred stock.

The agreement includes conversion rights if certain triggering events occurred. On July 20, 2016, a triggering event occurred, which granted Eagle the right to put loans to the Company and convert debt ($600,000) into equity (600,000 preferred shares) having the voting equivalent of 60 million shares of the Company s common stock.

Big Willow Lease Expiration: On July 9, 2014, Val Holms entered into a two year lease agreement on 28,000 gross acres approximately 9,300 net mineral acres) in southwest Idaho. The agreement, referred to as the Big Willow lease, included a two year primary term with the option to extend for an additional term. On July 9, 2016 the lease expired. As of December 31, 2015, the Company has invested more than $751,000 on lease bonus payments, title work, and other development related costs. These costs have been written off on July 9, 2016.

Attempted Takeover: On July 20, 2016, Val Holms half-brother, Allan Holms, attempted a takeover of the Company. Allan Holms and an armed security force attempted to remove the existing Board of Directors, remove current management, remove all counsel and suspend litigation, and take control of the Company s cash assets. Allan Holms purported to hold proxies from Val Holms and other shareholders representing a majority of the Company s common stock. Law enforcement agencies intervened and ended the takeover. The Company has filed for and received temporary restraining orders in Montana and Nevada enjoining Allan Holms from taking such takeover actions, pending preliminary hearings. A hearing in Montana has taken place and is pending a decision. Hearings in Nevada are scheduled to be heard in late October 2016. The Company believes such proxies were improperly and illegally obtained and that Allan Holms actions on July 20 are invalid and without merit.

Roil Lawsuit Appeal: In August 2016, the Washington State Appellate Court ruled to affirm the lower court s ruling that Allan Holms and Roil Energy, LLC did not have any claims to the Company s assets and also to overturn the lower court s ruling that found certain fraud and awarded Allan Holms certain attorney s fees. The Company had posted a $462,485 appeal bond as part of the appeal process. The plaintiffs are petitioning the Washington State Supreme Court. When all legal remedies have been exhausted, the Company will recognize the appeal bond refund as a receivable on the balance sheet. As of December 31, 2015 the Company has not booked the receivable.

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NOTE 7 COMMITMENTS AND CONTINGENCIES

Office Lease Commitment

On December 1, 2010, BRI entered into a one-year office lease, renewable for up to five years, for a 2,175 square foot executive office at 1425 Birch Ave., Suite A, Helena, MT 59601, for a monthly charge of $1,600 for the first year; $1,800 second year; $2,000 third year; $2,200 fourth year; and $2,400 fifth year. BRI has leased an additional room at $100 per month. Therefore, total rent is $2,500 per month.

Litigation

On April 2, 2012, BRI was served with a summons relating to a complaint filed by Allan Holms, both individually and derivatively through Roil Energy, LLC. Allan Holms is the half-brother of BRI s CEO, Val Holms. The Complaint (filed in the Superior Court of the State of Washington located in Spokane County) names, among others, Joseph Edington, Val and Mari Holms, Holms Energy, LLC and BRI as defendants. The Complaint primarily alleges breach of contract, tortious interference with prospective business opportunity and fraud. The complaint focuses on events allegedly occurring around February and March 2010 whereby Allan Holms alleged an oral agreement took place whereby he was to receive up to 40% of the originally issued equity of Roil Energy, LLC. Allan Holms alleges Roil Energy was originally intended to be the predecessor entity to BRI. After various court proceedings, the Washington Court of Appeals affirmed a trial court s ruling against the plaintiff and reversed the trial court s ruling against certain of the defendants. The Company believes the possibility of any future economic damages to BRI to be unlikely. When the Company filed the appeal with the Washington Court of appeals, the Company was required to post a bond of $462,485. This amount is identified on the income statement as lawsuit settlement expense. Upon the successful appeal, the bond will be returned to the Company.

On June 6, 2012, the Company filed a Temporary Restraining Order (the TRO) and Verified Complaint for Injunctive Relief against McKinley Romero, Peter Swan Investment Consulting Ltd and IWJ Consulting Group, LLC (collectively, the Defendants), in connection with the Defendants request to the transfer agent to remove restrictive legends from an aggregate of 4.7 million shares, which the Company believes were improperly obtained by the Defendants. The Company obtained the TRO from the Second Judicial District Court of the State of Nevada, County of Washoe on June 6, 2012 enjoining the Defendants from seeking removal of the restrictive legends. On a scheduled hearing on June 26, 2012 the judge in this matter ruled in favor of the Company s motion for a preliminary injunction. The order granting such preliminary injunction was issued from this court on August 14, 2012. This matter is pending the Company s motion for final judgment in favor of the Company.

In March 2013, the Company received notice of a complaint titled Gillis v. Bakken Resources, Inc., Case No. A-13-675280-B, filed in the District Court of the State of Nevada for Clark County. Mr. Gillis, the plaintiff in this matter (the Gillis Case), is the trustee of the Bruce and Marilyn Gillis 1987 Trust. Mr. Gillis is alleging that the Company breached certain registration rights obligations pursuant to an equity investment made at or around November 2010. The Court in this this matter granted class certification and class notice in March 2014. The Company settled this matter in September 2014 for $200,000. This expenditure has been identified on this income statement as Settlement Expense.

In March 2014, the Company received notice of a complaint titled Manuel Graiwer and TJ Jesky v. Val Holms, Herman Landeis, Karen Midtlyng, David Deffinbaugh, Bill Baber, W. Edward Nichols, and Wesley Paul, Case No. CV14 00544 (the Graiwer Case), filed in the Second Judicial District Court of the State of Nevada for Washoe County. Messrs. Graiwer and Jesky, the plaintiffs in the Graiwer Case, bring action on behalf of the Company derivatively, and the Company is also named as a nominal defendant. Messrs. Graiwer and Jesky are shareholders of the company and allege breach of fiduciary duty, gross negligence, corporate waste, unjust enrichment, and civil conspiracy against one or more of the named defendants. The Company is also informed that each of the other named defendants denies the validity of the claims made in the Graiwer case, and each intends to vigorously defend against such claims, as applicable. The plaintiff in the Graiwer Case have agree to dismiss all claims against all defendants except Val M. Holms, and such dismissal is pending approval by the Court.

The Bakken Resources Inc. bylaws state that the Company will indemnify officers and directors for actual and reasonable amounts incurred while acting as an agent of the corporation. Val Holms attorneys have submitted invoices to Bakken through December 31, 2015 for direct payment totaling more than $282,000. These services include the Graiwer lawsuit and investigation related defense costs, as well as a litany of other services that don t pertain to any litigation. The Company has reviewed all submitted charges. The Company paid all billings that appear to be indemnifiable under the Company s bylaws and Val Holms Leave of Absence Agreement. Consequently, $169,000 in services billed have not been reimbursed nor accrued as legal fees expense.

The nature of these commitments and contingencies is such that management cannot accurately determine what impact, if any, they may have on results of operation, cash flows, and financial statements. Management believes, however, it is unlikely that any adverse impact will occur from these commitments and contingencies.

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

This discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and notes thereto included in this quarterly report on Form 10-Q (the Quarterly Report) and the audited financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2014 (the 2014 Annual Report), as filed with the SEC on October 3, 2016. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including but not limited to those identified in the 2014 Annual Report in the section entitled Risk Factors.

Overview

Bakken Resources, Inc. (the Company , BRI , we , us , or our) is an independent energy company focused on holding non-working interests in oil and natural gas properties throughout North America. Bakken s primary focus since inception has been the Williston Basin in western North Dakota. The Company owns mineral rights to approximately 7,200 gross acres and 1,600 net mineral acres of land located about 8 miles southeast of Williston, North Dakota. The Company s land assets consist generally of net mineral acres spanning from the sub-surface to the base of the so-called rock unit in an area commonly referred to as the Bakken formation.

A non-working interest simply means that the Company doesn t bear either the risk or the financial burden attributable to exploration and production of oil and natural gas wells. The Company simply invests in successful wells or projects that have demonstrated a high degree of success. The Company partners with strong operators to explore and develop oil and natural gas from company leases.

During the third quarter of 2015, the Company received royalty and overriding royalty payments on seventy-five (75) producing oil wells seventy-two (72) of which also produce natural gas. This production and proved reserves are as follows:

	Producing Wells	Average Daily Production	Proved Reserves	Percent Proved Developed	Q3 of 2015 Average Price
Crude Oil	75	10,450 Bbls	48,794,378 Bbls	28%	42.53
Natural Gas	72	10,300 MCF	75,889,541 MCF	22%	3.14

Bbls = Barrels MCF = thousand cubic feet

The leases comprising the Company s mineral rights average 17%. When the mineral rights were transferred from Holms Energy LLC., Holms Energy LLC. retained a 5% overriding royalty. Therefore, these mineral rights currently bear to us an average 12% royalty (17% less 5%) from the oil and gas produced on such lands until November 2020. At that time the 5% overriding royalty currently held by Holms Energy, LLC, a related private Nevada company (Holms Energy) will revert back to the Company. The Company s average net royalty interest is further reduced by the approved North Dakota Industrial Commission (NDIC) well spacing units attributable to each of the sixteen spacing units. The net average royalty percentage through the second quarter was .78%.

We currently have leases with three contracted oil drilling operators on various parcels of land constituting the 7,200 gross acres (and approximately 1,600 net mineral acres) on which we have mineral rights royalty interests. The contracted oil drilling companies with whom we are parties in interest pursuant to lease agreements (collectively, the Lessees) that we acquired rights to in November 2010 include: (1) Oasis Petroleum, (2) Continental Resources, Inc., and (3) Statoil ASA. We have no rights to influence the activities conducted by these Lessees of our mineral rights, but if the Lessees do not accomplish the agreed upon drilling programs within the timeline, Lessees can lose their leases.

The predecessor to our company was incorporated on June 6, 2008, under the laws of the state of Nevada, under the name Multisys Language Solutions, Inc. (MLS). Holms Energy contributed the primary assets that formed the basis of our current business operations. In connection with the closing of the transactions resulting in the contribution of the mineral rights held by Holms Energy in November 2010, Holms Energy received forty million (40,000,000) shares of common stock of the Company. Holms Energy retained a 5% overriding royalty on all gross revenue generated from the Company's gas and oil production royalty revenues.

Also in connection with the November 2010 transactions, the Company purchased approximately 800 net mineral acres from the Revocable Living Trust of Rocky G. Greenfield and Evenette G. Greenfield. The Company sold these 800 net mineral acres to a third party in February of 2014. The Company retained a two percent (2%) overriding royalty on the sale of these mineral rights.

The mineral rights received by the Company from the contribution by Holms Energy in connection with the November 2010 transactions included mineral rights from the surface to the base of the Bakken formation. The mineral rights received by the Company from the Greenfields include all mineral rights from the surface to the basement.

After closing the Asset Purchase Agreement with Holms Energy on December 10, 2010, MLS changed its name to Bakken Resources, Inc. These transactions and the resulting change of control are described below under Acquisition of Assets.

Description of Oil Leases and Oil Production

BRI currently derives its primary source of revenue from royalties generated from leasing its mineral acreage. BRI s mineral acreage consists of approximately 1,600 net mineral acres located primarily in McKenzie County, North Dakota. Such 1,600 net mineral acres are currently spread across 17 spacing units. Operators covering BRI s minerals have been approved for up to 15 wells per spacing unit (typically 1,280 acres), but generally petition for permits prior to the commencement of drilling in a particular spacing unit. If this holds for all spacing units under which BRI has mineral acres, BRI would have a royalty interest in up to 187 wells. Note, however, that the royalties due to BRI under any particular well vary based on the number of acres BRI has under any particular spacing unit with a producing well.

With respect to drilling operations, pursuant to the North Dakota Oil and Gas Commission, long lateral deep horizontal multistage fracking wells in the Bakken Formation must be permitted in spacing unit of not less than 640 acres, up to 2,900 acres, with some exceptions. The spacing units have to be approved and permitted in advance of drilling by the North Dakota Oil and Gas Commission. Recently, the North Dakota Industrial Commission (NDIC) has approved multi-well permits for wells drilled in the Three Forks formation along several of the defined benches typically associated with separate geologic benchmarks contained in the Three Forks formation. Since approximately one-third of the Company s current net mineral acres include acreage in the Three Forks formation, any increase in the drilling operations on the Company s net mineral acres which include permitted for Three Forks wells may result an increased number of total wells from which the Company may derive royalty income.

When a horizontal well is drilled in the area where the subject property is located, it is typically drilled down about 10,800 vertical feet and then a down-hole directional drilling tool is used to flatten the hole to 90 degrees and drill horizontally down to the oil and gas producing formation. Horizontal directional drilling provides more contact area to the oil bearing formation than a typical vertical well. This method of drilling together with fracking is referred to as an enhanced oil recovery method, and is the primary source of recovery from the Bakken Formation. The Company also has interests in certain wells not drilled into the Bakken Formation.

Well activity information for wells in which the Company has mineral interest is compiled in a table which is available on the Company web site at http://www.bakkenresourcesinc.com/well-activity.php.

The information provided in the website table is categorized by well name, the operator, field and pool, the NDIC identifying number, and the well status and location description. Well status is defined by several categories: Producing; Confidential; Drilling; and Permitted Location to Drill. The table is updated as new information becomes available on the NDIC website at https://www.dmr.nd.gov/oilgas/. Included in the table are NDIC file numbers which can be used to search for information for each well listed on the BRI webpage. Individuals may subscribe to the NDIC website following the prompts on the homepage. A premium service subscription is also available for a fee.

Currently, most of the leases covering the Company s mineral acres contain what is commonly referred to as continuous drilling clauses. Generally, a continuous drilling clause requires an operator to maintain active drilling operations in order to hold or extend an oil and gas lease past the natural expiration date of the lease. All of the Company s current leases currently have active drilling operations and are likely to have active operations in the foreseeable future.

Results of Operations

Comparison of the Three and Nine Months Ended September 30, 2015 and September 30, 2014

Key Trends. The first half of 2015 witnessed several trends that are driving net income:

Oil and Natural Gas Prices: Oil and natural gas unit prices have declined sharply since hitting highs in June. Currently, these unit prices are 56% lower than their 2014 peak. While we believe prices will increase, it may be a couple of years before they return to levels greater than $70 per barrel.

Oil and Natural Gas Production Levels: Although unit prices are down, we production levels are at a record high. The higher production is attributed to the substantial increase in producing wells since 2014. However, a slowdown in the number of new producing wells was seen in the second quarter 2015. The higher production is not sufficient to offset the impact of lower prices. Therefore, operating revenue is down substantially from 2014.

Net Royalty Interest: The new producing wells have boosted production and revenue, but have driven net royalty percentage down by more than 16% (.9659% versus .78%). The lower net royalty percentage when coupled with lower gross revenue affects the bottom line.

Legal and Investigation Related Costs: Operating expenses have increased due to high legal fees which are attributed to ongoing litigation and the ongoing internal investigation.

Collectively, these trends have created an operating loss for the first nine months of 2015.