

BLACKSANDS PETROLEUM, INC.
Form 10-Q
September 19, 2012

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended July 31, 2012

or

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

For the Transition Period from _____ to _____

Commission file number: 000-51427

BLACKSANDS PETROLEUM, INC.
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation
or organization)

20-1740044
(I.R.S. Employer Identification No.)

800 Bering, Suite 250
Houston, Texas 77057
(Address of principal executive offices) (zip code)

(713) 554-4490
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

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or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>

(Do not check if a smaller reporting company)

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

As of September 17, 2012, there were 16,377,125 shares of registrant’s common stock outstanding.

BLACKSANDS PETROLEUM, INC.

FORM 10-Q
For the Quarter Ended July 31, 2012

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

	July 31, 2012	October 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,892,108	\$ 240,314
Accounts receivable	323,817	803,249
Total Current Assets	3,215,925	1,043,563
Oil and gas property costs (successful efforts method of accounting)		
Proved	4,414,046	5,360,478
Unproved	2,014,413	2,012,768
Other assets	231,639	202,434
TOTAL ASSETS	\$ 9,876,023	\$ 8,619,243
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Note payable	\$ 60,000	--
Accounts payable	291,282	\$ 492,051
Accrued expenses	1,512,034	439,516
Total Current Liabilities	1,863,316	931,567
Notes payable, net of discount of \$2,057,361 and \$0	3,542,639	2,060,000
Asset retirement obligation	713,641	677,318
Total Liabilities	6,119,596	3,668,885
Stockholders' Equity:		
Preferred stock - \$0.01 par value; 10,000,000 shares authorized:	--	--
Series A - \$.001 par value, 310,000 shares authorized, 250,000 and nil shares issued and outstanding, respectively	250	250
Common stock - \$0.001 par value; 100,000,000 shares authorized; 16,383,318 and 16,377,068 shares issued and outstanding at July 31, 2012 and October 31, 2011, respectively	16,384	16,378
Additional paid-in capital	22,479,213	21,949,403
Accumulated deficit	(18,739,420)	(17,015,673)
Total Stockholders' Equity	3,756,427	4,950,358
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 9,876,023	\$ 8,619,243

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

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

	Nine Months Ended July 31,		Three Months Ended July 31,	
	2012	2011	2012	2011
Revenue:				
Oil and gas revenue	\$ 1,321,934	\$ 1,408,718	\$ 251,184	\$ 515,955
Expenses:				
Selling, general and administrative	1,502,101	1,862,065	464,865	535,345
Depreciation and depletion	641,280	428,639	162,235	89,533
Accretion expense	36,323	44,480	12,117	13,945
Lease operating expenses	652,378	582,229	193,483	229,993
Impairment of oil and gas properties	--	77,703	--	77,703
Oil and gas exploration	--	106,394	--	--
Total expenses	2,832,082	3,101,510	832,700	946,519
Loss from operations	(1,510,148)	(1,692,792)	(581,516)	(430,564)
Other income and (expense):				
Interest expense	(213,599)	(1,901,588)	(94,936)	(68,139)
Change in value of derivative liability	--	(52,725)	--	--
Total other income (expense)	(213,599)	(1,954,313)	(94,936)	(68,139)
Loss before provision for income taxes	(1,723,747)	(3,647,105)	(676,452)	(498,703)
Provision for income taxes	--	--	--	--
Net loss	(1,723,747)	(3,647,105)	(676,452)	(498,703)
Preferred stock dividends	150,000	150,000	50,000	50,000
Net loss attributable to common shareholders	\$(1,873,747)	\$(3,797,105)	\$(726,452)	\$(548,703)
Loss per share attributable to common shareholders				
Basic and diluted	\$(0.11)	\$(0.24)	\$(0.04)	\$(0.03)
Weighted Average Shares Outstanding Basic and diluted	16,381,333	15,539,590	16,383,318	16,228,997

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

BLACKSANDS PETROLEUM, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the Nine Months Ended July 31, 2012 and 2011
(Unaudited)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,723,747)	\$ (3,647,105)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Loss on derivative liability	--	52,725
Stock based compensation expense	529,816	741,306
Amortization of debt discount	21,656	1,745,300
Depreciation and depletion	641,280	429,988
Accretion	36,323	44,480
Impairment of oil and gas costs	--	77,703
Changes in operating assets and liabilities:		
Accounts receivable	479,432	(661,865)
Prepaid expense and other current assets	(26,748)	(182,577)
Accounts payable	871,749	384,751
Net cash flows provided by (used in) operating activities	829,761	(1,015,294)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of fixed assets	(3,252)	(4,187)
Oil and gas property costs	(1,774,715)	(5,184,454)
Net cash flows used in investing activities	(1,777,967)	(5,188,641)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of common stock	--	2,464,400
Net proceeds from bridge notes payable	--	1,745,300
Repayment of notes payable	--	(51,300)
Proceeds from joint venture agreement	2,600,000	--
Proceeds from notes payable	1,000,000	1,500,000
Net cash flows provided by financing activities	3,600,000	5,658,400
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,651,794	(545,535)
CASH AND CASH EQUIVALENTS - Beginning of period	240,314	1,609,961
CASH AND CASH EQUIVALENTS - End of period	\$ 2,892,108	\$ 1,064,426

Supplemental Disclosures

Cash paid for interest	\$ --	\$ 15,379
Cash paid for income taxes	\$ --	\$ --

Supplemental non-cash activities

Asset retirement obligation acquired in acquisition	\$ --	\$ 165,277
Conversion of notes payable to common stock	\$ --	\$ 1,694,000
Reclassification of derivative liability to equity	\$ --	\$ 976,481
Discount on debenture for warrants and beneficial conversion feature	\$ --	\$ 1,745,300

Discount on notes payable	\$	2,079,017	\$	--
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The accompanying notes are an integral part of these unaudited consolidated financial statements

BLACKSANDS PETROLEUM, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

1. The Company and Summary of Significant Accounting Policies

Blacksands Petroleum, Inc. (hereinafter referred to as the “Company”) was incorporated in the State of Nevada on October 12, 2004. Since August 2007, the Company has been engaged in the exploration, development, exploitation and production of oil and natural gas. Until November 9, 2009 when the Company acquired its interest in the J.E. Pettus Gas Unit, the Company was considered an exploration stage company in accordance with Accounting Standards Codification (“ASC”) No. 915. The Company sells its oil and gas products primarily to domestic pipelines and refineries. Its operations are presently focused in the States of Texas and New Mexico.

The accompanying unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and rules of the Securities and Exchange Commission (“SEC”), and should be read in conjunction with the audited financial statements and notes thereto contained in annual report on Form 10-K for the year ended October 31, 2011 filed with the SEC on February 14, 2012. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the consolidated financial statements which would substantially duplicate the disclosure contained in the audited financial statements as reported in the 2011 annual report on Form 10-K have been omitted.

2. Debt

Silver Bullet Properties

On November 19, 2010, the Company entered into a loan agreement with Silver Bullet Property Holdings for a promissory note totaling \$1,500,000. The note bears interest at the rate of 10% per annum and is due on the earlier of the date the Company closes on an offering with gross proceeds of at least \$5 million or November 19, 2011. On September 27, 2011, the Company entered into an amendment to the promissory note dated November 19, 2010 (the “Note”) issued by the Company to Silver Bullet Property Holdings SDN BHD (the “Investor”). Pursuant to the amendment, the maturity date of the Note was amended from November 19, 2011 to February 1, 2013. In addition, the Investor loaned the Company an additional \$1 million, with \$500,000 loaned prior to October 31, 2011 and the remaining \$500,000 received in two installments in November and December 2011. Pursuant to a security agreement, dated September 27, 2011, as security for the repayment of the Note, the Company granted the Investor a first priority lien on the Company’s oil and gas mineral leases in the ApClark Field. In April 2012, the parties agreed to further extend the note to May 1, 2014 and the investor agreed to an additional loan of \$500,000 to the Company. The Company also granted a net proceeds interest (9% but reduced to 4.5% if the note is repaid prior to May 1, 2013) in the AP Clark properties included in the security agreement. The net proceeds interest represents the amount remaining from the proceeds of the sale of the property after deducting the related costs. The amendment was reviewed to determine its accounting treatment as a restructuring, extinguishment or modification and determined to be a modification. The Company received the additional \$500,000 in June 2012.

PIE Energy

In November 2009, the Company received an interest-free advance from an unrelated third party totaling \$60,000. In January 2011, the interest-free advances were converted into a note payable, which is due on January 11, 2012 and has a stated annual interest rate of 6%. In January 2012, the parties amended the agreement to extend the due date to

January 11, 2013. All other terms and conditions remained unchanged.

Joint Venture Agreement

On July 20, 2012, Blacksands Petroleum, Inc. (the “Company”) entered into a Contribution Agreement (the “Contribution Agreement”), between APClark, LLC, a wholly-owned subsidiary of the Company (“APClark”) and KP-RAHR Ventures III, LLC (“KP Ventures”). Pursuant to the Contribution Agreement (i) the Company contributed \$1,000 and certain of the Company’s oil and gas assets to APClark in exchange for 1,000 shares of Class A Membership Units of APClark (the “Class A Membership Units”) and (ii) KP Ventures contributed approximately \$2,600,000 (the “KP Ventures Cash Consideration”) to APClark in consideration of 1,000 shares of Class B Non-Voting Convertible Preferred Membership Units of APClark (the “Class B Membership Units”) and the transaction, the “Asset Transaction”). KP Ventures has the option to contribute additional funds to APClark, up to an aggregate of \$7,600,000, for no further equity consideration.

In connection with the Contribution Agreement, the Company entered into a Company Agreement (the “Operating Agreement”) governing the operations of APClark and defining various rights of the Company and KP Ventures.

Pursuant to the Operating Agreement, KP Ventures shall receive a preferred return of 12% per annum (the “Preferred Return”) on the unrecovered KP Ventures Cash Consideration until such time as the KP Ventures Cash Consideration is repaid. In addition, KP Ventures receives a 1% overriding royalty from the production of the APClark oil and gas properties. Once the KP Ventures Cash Consideration is repaid, including all accrued Preferred Returns, the Class B Membership Units shall automatically convert into Class C Non-Voting Net Profit Membership Units (the “Class C Membership Units”), which represent a non-dilutable “Net Profits” interest (“NPI”) in APClark and the assets owned by APClark and a percentage of all outstanding membership units of APClark initially equal to the NPI. The amount of the NPI granted depends on when the KP Ventures Cash Consideration and Preferred Return is paid, as follows:

Date of Repayment in Full	NPI %
On or prior to six month anniversary	7.5%
After six months but on or prior to two year anniversary	15%
After two years but on or prior to three year anniversary	20%
After three years	50%

The Company will be responsible for the operations of APClark and has the right to appoint the sole director of APClark. The consent of KP Ventures is required in certain situations, including, but not limited to: expanding the scope of the business; admitting additional members or transfer of membership units; approve annual budget; any merger or sale of all or substantially all of the assets of APClark; voluntary liquidation, dissolution or winding up of APClark; and to make any cash distributions.

In addition, the Company entered into a Pledge Agreement (the “Pledge Agreement”) pursuant to which it pledged the Class A Membership Units to KP Ventures to secure the Company’s obligations and performance thereunder and under the Contribution Agreement and Operating Agreement, which such Class A Membership Units shall be held pursuant to an escrow agreement.

Previously, the Company entered into a security agreement, dated as of September 27, 2011, pursuant to which, as security for the repayment of promissory notes in the principal face amount of \$3,000,000 (the “Notes”), issued to Silver Bullet Property Holdings SDN BHD (“Silver Bullet”) a first priority security interest (the “Security Interest”) in certain of the assets of the Company that were contributed to APClark pursuant to the Contribution Agreement (the “Pledged Assets”). In connection with the Asset Transaction, the Company, APClark, Silver Bullet and KP Ventures entered into a subordination agreement (the “Subordination Agreement”), pursuant to which Silver Bullet subordinated its Security Interest to KP Ventures, so that KP Ventures would have a first priority interest in the Pledged Assets until

KP Ventures is repaid the KP Ventures Cash Consideration and Preferred Return. In addition, the Company previously granted Silver Bullet a “net proceeds” interest of 9% on the Pledged Assets (the “Silver Bullet NPI”), which Silver Bullet NPI was capped at 25% of the outstanding principal and accrued interest owed under the Notes (the “Silver Bullet NPI Limitation”).

As consideration for Silver Bullet to enter into the Subordination Agreement, the Company agreed to increase the interest on the Notes to 12% per annum and remove the Silver Bullet NPI Limitation so there is no cap on the maximum amount of Silver Bullet NPI that Silver Bullet can receive.

As a result of the required repayment of the equity to KP Ventures, the amount of the contribution has been reflected as a liability on the balance sheet. The Company has also recorded a discount on this liability relating to the relative fair value of the overriding royalties totaling \$163,786 and net profits interest totaling \$1,915,231. These discounts reduced the carrying value of the proved oil and gas costs. The carrying value of the discounts totaled \$2,057,361 at July 31, 2012. The Company amortized \$21,656 as additional interest expense through July 31, 2012.

In addition, Blacksands has commenced fracture stimulation procedures on the Livestock 18-1 and Livestock 7-1 wells.

3. Asset Retirement Obligation

The following table summarizes the change in the asset retirement obligation (“ARO”) for the periods ended July 31, 2012

Beginning balance at November 1, 2011	\$ 677,318
Liabilities settled	--
Liabilities incurred through acquisition of assets	--
Accretion expense	36,323
Ending balance at July 31, 2012	\$ 713,641

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

4. Stockholders’ Equity

Stock compensation

In January 2012, the Company appointed a new director to the Board of Directors. In conjunction with this appointment, the Company entered into a compensation agreement with the director. Pursuant to this agreement, the director will receive cash compensation totaling \$20,000 (paid quarterly) along with payment for attendance at Board meetings. In addition, the director received 25,000 shares of restricted Common Stock of the Company, of which 6,250 shares vest immediately and the remaining shares vest in semi-annual amounts of 3,125 shares. The Company has recorded \$55,626 in compensation for the vested shares. The unamortized amount remaining on the unvested shares total \$44,374 at July 31, 2012. The Company also granted the director an option to purchase up to 88,000 shares of the Company’s common stock at an exercise price of \$4.50 per share. The options vest equally over four years.

The fair value of the option grants were estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions: expected volatility of 134%, risk free interest rate of 0.77%; and expected lives of 3.7 years.

Stock Options

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

	Number of Shares	Weighted Average Exercise Price
Outstanding at November 1, 2011	1,033,333	\$3.00
Granted	88,000	4.50
Exercised	-	-
Cancelled	-	-
Outstanding at July 31, 2012	1,121,333	\$3.12
Exercisable at July 31, 2012	708,333	\$3.00

During the nine months ended July 31, 2012 and 2011, the Company recorded stock-based compensation of \$474,190 and \$741,306, respectively, as general and administrative expenses. At July 31, 2012, the weighted average remaining life of the stock options is 7.62 years. The unamortized amount of stock-based compensation at July 31, 2012 was \$456,269. This cost is expected to be recognized over a weighted average period of 1.27 years.

5. Contingencies

The Company, as an owner or lessee and operator of oil and gas properties, is subject to various federal, state and local laws and regulations relating to discharge of materials into, and protection of, the environment. These laws and regulations may, among other things, impose liability on the lessee under an oil and gas lease for the cost of pollution clean-up resulting from operations and subject the lessee to liability for pollution damages. In some instances, the Company may be directed to suspend or cease operations in the affected area. The Company maintains insurance coverage, which it believes is customary in the industry, although the Company is not fully insured against all environmental risks. The Company is not aware of any environmental claims existing as of July 31, 2012, which have not been provided for, covered by insurance or otherwise have a material impact on its financial position or results of operations. There can be no assurance, however, that current regulatory requirements will not change, or past noncompliance with environmental laws will not be discovered on the Company's properties.

In connection with the drilling of the test well on the Pedregosa property, the Company received an invoice from the operator for additional drilling expenses. The Company disagrees with certain of the additional costs. Pursuant to the joint operating agreement for the property, the disagreement is required to be resolved through arbitration.

6. Subsequent event

In September 2012, the Company completed the sale of its interest in the Copano Bay project in exchange for \$50,000.

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

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

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

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

Overview

We currently focus our oil and natural gas exploration, exploitation and development operations on projects located in Colorado, New Mexico and Texas. The higher potential impact projects ("Core Focus Areas") are concentrated on (i) Spraberry, Wolfberry, Strawn and Mississippian formations in the Permian Basin in W. Texas, (ii) conventional reef structures in the Pedregosa Basin in S.W. New Mexico and (iii) conventional structure and stratigraphic formations and unconventional resource formations in Southern Colorado. In addition to the Core Focus Areas, our management team is pursuing producing conventional and unconventional properties ("Non-Core Properties"), which we anticipate will provide us with immediate cash flow and additional upside through recompletion potential and new drilling opportunities.

As of July 31, 2012, we owned interests in (i) approximately 8,900 gross (5,050 net) acres in the Midland Basin, (ii) approximately 108,715 gross (54,357 net) acres in the Pedregosa Basin and (iii) approximately 3,300 gross (1,650 net) acres in Colorado and 3,148 gross acres in Non-Core Properties. In August 2011, leases on approximately 1,240 gross acres in Colorado expired and were not renewed.

We have approximately, 117,776 (59,716 net acres) held by production. This includes approximately 4,000 gross acres (1,000 net acres) in Midland Basin, 108,715 gross acres (54,357 net acres) in the Pedregosa Basin, and approximately 5,061 gross acres (4,358 net acres) in the Non-Core Properties.

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

During the nine months ended July 31, 2012, we (i) completed and began production from our BVR Well No. 6-1, (ii) drilled and set casing for the Livestock Well 7-1, (iii) commenced drilling operations on the Livestock Well 18-1.

The Core Focus Areas provide us with the opportunity to grow reserves and cash flow by drilling and developing the properties. Our other properties currently provide cash flow for overhead and administrative costs, while we develop our Core Focus Areas.

We continue to pursue avenues to reduce or eliminate our financial exposure on a case by case basis for each project. Joint venture arrangements may be considered for others to participate for a disproportionate share of the initial leasing and/or drilling costs, further reducing our exposure.

Projects in the next 12 months, subject to raising the capital requirements:

Subject to obtaining additional financing, the following drilling, recompletion/work-over and leasing activity may be pursued. The projects and our share of the estimated costs are listed below:

Estimated cost based on expected participating working interest.

Project	Current WI%	No. Wells	Procedure	Est. Cost
Midland Basin	62.5-85%	6	New Drill	\$ 7.0MM
Pedregosa Basin	50%	1	New Drill	\$ 0.0 MM
Colorado	50%	1	New Drill	\$ 0.9 MM
Other producing properties	100%	3	Recompletions	\$ 0.4 MM
Other producing properties	30%	1	New Drill	\$ 0.5 MM
All Properties	various		New Leases	\$ 1.3MM
				10.10
Total				\$ MM

While our base case drilling, recompletion/workover and leasing activity would result in estimated costs of \$10.1 million, we may expand drilling, recompletion/workover and leasing activity to as much as \$22 million, if project economics and general economic conditions support the more aggressive drilling program. If we elect to expand drilling activities, we will need to access additional capital.

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

In order to retain a strong balance sheet, we have sold equity and used joint venture agreements with other industry companies to limit or eliminate our financial exposure in early drilling.

Recent Transactions

ApClark Joint Venture

On July 20, 2012, we entered into a Contribution Agreement (the "Contribution Agreement"), by and among us, ApClark, LLC, our wholly-owned subsidiary ("ApClark") and KP-RAHR Ventures III, LLC ("KP Ventures"), pursuant to which (i) we contributed \$1,000 and certain of our oil and gas assets to ApClark in consideration of 1,000 shares of Class A Membership Units of ApClark (the "Class A Membership Units") and (ii) KP Ventures contributed approximately \$2,600,000 (the "KP Ventures Cash Consideration") to ApClark in consideration of 1,000 shares of Class B Non-Voting Convertible Preferred Membership Units of ApClark (the "Class B Membership Units" and the transaction, the "Asset Transaction"). KP Ventures has the option to contribute additional funds to ApClark, up to an aggregate of \$7,600,000, for no further equity consideration.

In connection with the Contribution Agreement, we entered into a Company Agreement (the “Operating Agreement”) governing the operations of ApClark and defining various rights of us and KP Ventures.

Pursuant to the Operating Agreement, KP Ventures shall receive a preferred return of 12% per annum (the “Preferred Return”) on the KP Ventures Cash Consideration until such time as the KP Ventures Cash Consideration is repaid. Once the KP Ventures Cash Consideration is repaid, including all accrued Preferred Returns, the Class B Membership Units shall automatically convert into Class C Non-Voting Net Profit Membership Units (the “Class C Membership Units”), which represent a non-dilutable “Net Profits” interest (“NPI”) in ApClark and the assets owned by ApClark and a percentage of all outstanding membership units of ApClark initially equal to the NPI. The amount of the NPI granted depends on when the KP Ventures Cash Consideration and Preferred Return is paid, as follows:

Date of Repayment in Full	NPI %
On or prior to six month anniversary	7.5%
After six months but on or prior to two year anniversary	15%
After two years but on or prior to three year anniversary	20%
After three years	50%

We will be responsible for the operations of ApClark and have the right to appoint the sole director of ApClark, provided that, the consent of KP Ventures is required in certain situations, including, but not limited to: expanding the scope of the business; admit additional members or transfer of membership units; approve annual budget; any merger or sale of all or substantially all of the assets of ApClark; voluntary liquidation, dissolution or winding up of ApClark; and to make any cash distributions.

In addition, we entered into a Pledge Agreement (the “Pledge Agreement”) pursuant to which we pledged the Class A Membership Units to KP Ventures to secure our obligations and performance thereunder and under the Contribution Agreement and Operating Agreement, which such Class A Membership Units shall be held pursuant to an escrow agreement.

Silver Bullet Amendment

Previously, we entered into a security agreement, dated as of September 27, 2011, pursuant to which, as security for the repayment of promissory notes in the principal face amount of \$3,000,000 (the “Notes”), we issued to Silver Bullet Property Holdings SDN BHD (“Silver Bullet”) a first priority security interest (the “Security Interest”) in certain of our assets that were contributed to ApClark pursuant to the Contribution Agreement (the “Pledged Assets”). In connection with the Asset Transaction, we, ApClark, Silver Bullet and KP Ventures entered into a subordination agreement (the “Subordination Agreement”), pursuant to which Silver Bullet subordinated its Security Interest to KP Ventures, so that KP Ventures would have a first priority interest in the Pledged Assets until KP Ventures is repaid the KP Ventures Cash Consideration and Preferred Return. In addition, we previously granted Silver Bullet a “net profits” interest of 9% on the Pledged Assets (the “Silver Bullet NPI”), which Silver Bullet NPI was capped at 25% of the outstanding principal and accrued interest owed under the Notes (the “Silver Bullet NPI Limitation”).

As consideration for Silver Bullet to enter into the Subordination Agreement, we agreed to increase the interest on the Notes to 12% per annum and remove the Silver Bullet NPI Limitation so there is no cap on the maximum amount of Silver Bullet NPI that Silver Bullet can receive.

Consolidated Results of Operations for the Three Months Ended July 31, 2012 Compared to the Three Months Ended July 31, 2011

Revenues for the three months ended July 31, 2012 totaled \$251,184 as compared to \$515,955 for the three months ended July 31, 2011. The decrease totaling \$264,771 resulted from the change in the price of oil (approximately \$112,000) and a decrease in the production from our wells.

Selling general and administrative expenses decreased \$70,481 from \$535,345 during the three months ended July 31, 2011 to \$464,865 during the three months ended July 31, 2012. This decrease is primarily the result of a decrease of approximately \$75,000 in the stock based compensation recorded as the result of the full vesting of stock option grants to officers and a decrease of approximately \$40,000 in professional fees, which were offset by an increase in stock based compensation of approximately \$60,000 for the vesting of shares granted to a director.

Depreciation, depletion and accretion increased by \$70,874 to \$174,352 during the three months ended July 31, 2012 as compared to \$103,478 during the three months ended July 31, 2011. The increase was the result of production from the BVR Well No. 6-1 and Everett No. 3 wells we drilled in the past 12 months.

Lease operating expenses decreased \$36,510 from \$229,993 during the three months ended July 31, 2011 to \$193,483 during the three months ended July 31, 2012. The decrease was primarily the result of the decrease in production during the quarter.

We incurred interest expense totaling \$94,936 during the three months ended July 31, 2012 as compared to \$68,139 for the three months ended July 31, 2011. The interest expenses were predominately the result of borrowings on the notes due to Silver Bullet and amortization of the discount on the Contribution Agreement.

We incurred a net loss during the three months ended July 31, 2012 of \$676,452, compared to a net loss of \$498,703 during the three months ended July 31, 2011.

Consolidated Results of Operations for the Nine Months Ended July 31, 2012 Compared to the Nine Months Ended July 31, 2011

Revenues for the nine months ended July 31, 2012 totaled \$1,321,934 as compared to \$1,408,718 during the nine months ended July 31, 2011. The decrease, totaling \$86,784, was primarily the result of the decrease in the price of oil during the quarter ended July 31, 2012.

Selling general and administrative expenses decreased \$359,964 from \$1,862,065 during the nine months ended July 31, 2011 to \$1,502,101 during the nine months ended July 31, 2012. This decrease is primarily the result of a decrease of approximately \$370,000 in stock based compensation as the result of the vesting of stock option grants.

Depreciation, depletion and accretion increased by \$204,484 to \$677,603 during the nine months July 31, 2012 as compared to \$473,119 during the nine months ended July 31, 2011. The increase was the result of the production from the BVR Well No. 6-1 and Everett No. 3 wells we drilled in the past 12 months.

Lease operating expenses increased \$70,149 from \$582,229 during the nine months ended July 31, 2011 to \$652,378 during the nine months ended July 31, 2012. The increase was the result of the higher cost of operations from the Copano Bay, BVR Well No. 6-1 and Everett 3 wells.

During the period ended July 31, 2011, we incurred exploration expenses of \$106,394. These costs related primarily to the 2-D seismic work done on the Pedregosa property. There were no exploration costs in the period ended July 31, 2012.

We incurred interest expense totaling \$1,901,588 during the nine months ended July 31, 2011. The interest was incurred on promissory notes totaling \$1,560,000 and bridge notes totaling \$1,745,300 as well as on the discount and beneficial conversion features on the bridge notes. Interest expense totaling \$213,599 in the period ended July 31, 2012 was primarily the result of borrowings on the notes due to Silver Bullet and amortization of the discount on the Contribution Agreement.

We incurred a net loss for the period ended July 31, 2012 of \$1,723,747, compared to a net loss of \$3,647,105 for the period ended July 31, 2011.

Liquidity and Capital Resources

As of July 31, 2012, we had cash and cash equivalents on hand of \$2,892,108. We believe this amount, together with production from existing wells and the two wells being completed in September 2012, are sufficient to fund our general and administrative costs for the next twelve months. However, we do not have sufficient funds on hand in order to fund any capital expenditures for the drilling of new wells or the recompletion of existing wells. We expect to rely on external sources of capital in order to continue to fund our capital expenditures. We do not have any firm commitments to raise additional capital nor is there any assurance sufficient capital will be available at acceptable terms, if at all.

Pursuant to the Operating Agreement, KP Ventures shall receive a 12 Preferred Return on the KP Ventures Cash Consideration until such time as the KP Ventures Cash Consideration is repaid. Once the KP Ventures Cash Consideration is repaid, including all accrued Preferred Returns, the Class B Membership Units shall automatically convert into the Class C Membership Units, which represent a non-dilutable NPI in APClark and the assets owned by APClark and a percentage of all outstanding membership units of APClark initially equal to the NPI. The amount of the NPI granted depends on when the KP Ventures Cash Consideration and Preferred Return is paid, as follows:

Date of Repayment in Full	NPI %
On or prior to six month anniversary	7.5%
After six months but on or prior to two year anniversary	15%
After two years but on or prior to three year anniversary	20%
After three years	50%

Net Cash Used In Operating Activities

Cash provided by operating activities for the nine months ended July 31, 2012 was \$829,761, compared to \$1,015,294 used for the comparative period. The increase in cash provided by operating activities was from the decrease in our net loss, amortization of debt discount, a reduction in accounts receivable and increase in accounts payable.

Cash Flows Used In Investing Activities

Net cash used in investing activities for the nine months ended July 31, 2012 was \$1,777,967 compared to \$5,188,641 for the comparative period. The costs for both periods presented relate to our oil and gas acquisitions and development. During the nine months ended July 31, 2011, the costs relate primarily to the costs associated with the drilling of the test well on the Pedregosa property, the acquisition of the Copano Bay property, the acquisition of additional leases in the AP Clark Field and costs associated with the drilling of the Everett 3 well. During the nine months ended July 31, 2012, the costs relate primarily to the completion of the BVR 6-1 well and the drilling of the two Livestock wells.

Cash Flows from Financing Activities

Cash provided by financing activities for the period ended July 31, 2012 was \$3,600,000, compared to \$5,658,400 for the comparative period. The financing for the period ended July 31, 2012 was provided through a loan from Silver Bullet and from the joint venture agreement with KP –Rahr Venture III LLP. The cash flows from investing activities for the period ended July 31, 2011 resulted from borrowings from Silver Bullet (\$1.5 million), proceeds from the sale of common stock (\$2,464,400) and proceeds from bridge notes (\$1,745,300).

On November 19, 2010, we entered into a loan agreement with Silver Bullet Property Holdings SDN BHD (“Silver Bullet”), pursuant to which we issued a promissory note totaling \$1,500,000 (the “Note”) in exchange for \$1,500,000. The Note bears interest at the rate of 10% per annum and was due on the earlier of the date we closed on an offering with gross proceeds of at least \$5 million or November 19, 2011. On September 27, 2011, we entered into an amendment to the Note, whereby the maturity date of the Note was amended from November 19, 2011 to February 1, 2013. In addition, Silver Bullet loaned us an additional \$1 million, with \$500,000 loaned prior to October 31, 2011 and the remaining \$500,000 received in two installments in November and December 2011. Pursuant to a security agreement, dated September 27, 2011, as security for the repayment of the Note, we granted Silver Bullet a first priority lien on our oil and gas mineral leases in the Apclark Field. In April 2012, we entered into another amendment with Silver Bullet, whereby the maturity date of the Note was amended February 1, 2013 to May 1, 2014 and Silver Bullet agreed to lend us an additional \$500,000. We also granted Silver Bullet a net proceeds interest of 9% in the AP Clark properties included in the security agreement, which would be reduced to 4.5% if the Note is repaid prior to May 1, 2013. The Company received the additional \$500,000 in June 2012.

Pursuant to the Subordination Agreement, Silver Bullet subordinated its Security Interest to KP Ventures, so that KP Ventures would have a first priority interest in the Pledged Assets until KP Ventures is repaid the KP Ventures Cash Consideration and Preferred Return. As consideration for Silver Bullet to enter into the Subordination Agreement, we agreed to increase the interest on the Notes to 12% per annum and remove the Silver Bullet NPI Limitation so there is no cap on the maximum amount of Silver Bullet NPI that Silver Bullet can receive.

On July 20, 2012, in connection with the Contribution Agreement, we received approximately \$2,600,000 from KP Ventures in exchange for 1,000 Class B Membership Units of APClark.

Critical Accounting Policies

Oil and Gas Accounting

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

Property Acquisition Costs

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

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

Exploratory Costs

For exploratory wells, drilling costs are temporarily capitalized, or “suspended,” on the balance sheet, pending a determination of whether potentially economic oil and gas reserves have been discovered by the drilling effort to justify completion of the find as a producing well. If exploratory wells encounter potentially economic quantities of oil and gas, the well costs remain capitalized on the balance sheet as long as sufficient progress assessing the reserves and the economic and operating viability of the project is being made. The accounting notion of “sufficient progress” is a judgmental area, but the accounting rules do prohibit continued capitalization of suspended well costs on the mere chance that future market conditions will improve or new technologies will be found that would make the project’s development economically profitable. Often, the ability to move the project into the development phase and record proved reserves is dependent on obtaining permits and government or co-venturer approvals, the timing of which is ultimately beyond our control. Exploratory well costs remain suspended as long as we are actively pursuing such approvals and permits, and believe they will be obtained. Once all required approvals and permits have been obtained,

the projects are moved into the development phase, and the oil and gas reserves are designated as proved reserves. Once a determination is made the well did not encounter potentially economic oil and gas quantities, the well costs are expensed as a dry hole and reported in exploration expense.

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

Proved Reserves

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

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

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

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

Asset Retirement Obligations

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Item 4. Controls and Procedures.

(a) Evaluation of disclosure controls and procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

There were no changes in our internal control over financial reporting that occurred during the quarter ended July 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

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

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

- 31.01 Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.02 Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.01 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document*
- 101.SCH XBRL Taxonomy Extension Schema Document*
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document*
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document*
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document*
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document*

* Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

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

BLACKSANDS PETROLEUM, INC.

Date: September 19, 2012

By: /s/ DAVID DEMARCO
David DeMarco
Chief Executive Officer

Date: September 19, 2012

By: /s/ DONALD GIANNATTASIO
Donald Giannattasio
Chief Financial Officer