

BAKKEN RESOURCES INC
Form 10-K
April 16, 2012

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

FORM 10-K

- Annual Report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended **December 31, 2011.**
- 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: **000-53632**

BAKKEN RESOURCES, INC.

(Exact name of small business issuer as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

26-2973652

(I.R.S. employer
identification number)

1425 Birch Ave. Suite A; Helena, MT 59601

(Address of principal executive offices and zip code)

(406) 442-9444

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.001 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. YES NO

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Indicate by check mark whether the registrant (1) has 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

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Indicate by check mark if the disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained in this herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

Large accelerated filer [] Accelerated filer [] 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 aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, as of December 31, 2011 is \$28,133,750 based on the sale price of the shares in a private placement that closed on September 30, 2011 at a price of \$0.50 per share. Shares of Common Stock held by each officer and director and by each person who is known by the registrant to own 10% or more of the outstanding Common Stock, if any, have been excluded in that such persons may be deemed to be affiliates of the registrant. The determination of affiliate status is not necessarily a conclusive determination for any other purpose. The shares of our company are currently listed on the OTC Bulletin Board exchange, symbol BKKN .

Number of shares outstanding of the issuer's common stock as of April 16, 2012 is 56,935,350 shares

DOCUMENTS INCORPORATED BY REFERENCE

None.

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CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

We are including the following discussion to inform our existing and potential security holders generally of some of the risks and uncertainties that can affect our company and to take advantage of the "safe harbor" protection for forward-looking statements that applicable federal securities law affords.

From time to time, our management or persons acting on our behalf may make forward-looking statements to inform existing and potential security holders about our company. All statements other than statements of historical facts included in this report regarding our financial position, business strategy, plans and objectives of management for future operations, industry conditions, and indebtedness covenant compliance are forward-looking statements. When used in this report, forward-looking statements are generally accompanied by terms or phrases such as "estimate," "project," "predict," "believe," "expect," "anticipate," "target," "plan," "intend," "seek," "goal," "will," "should," "may" or other words and similar expressions that convey the uncertainty of future events or outcomes. Items contemplating or making assumptions about, actual or potential future sales, market size, collaborations, and trends or operating results also constitute such forward-looking statements.

Forward-looking statements involve inherent risks and uncertainties, and important factors (many of which are beyond our company's control) that could cause actual results to differ materially from those set forth in the forward-looking statements, including the following: general economic or industry conditions, nationally and/or in the communities in which our company conducts business, changes in the interest rate environment, legislation or regulatory requirements, conditions of the securities markets, our ability to raise capital, changes in accounting principles, policies or guidelines, financial or political instability, acts of war or terrorism, other economic, competitive, governmental, regulatory and technical factors affecting our company's operations, products, services and prices.

We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. Accordingly, results actually achieved may differ materially from expected results in these statements. Forward-looking statements speak only as of the date they are made. You should consider carefully the statements in "Item 1A. Risk Factors" and other sections of this report, which describe factors that could cause our actual results to differ from those set forth in the forward-looking statements. We do not undertake, and specifically disclaim, any obligation to update any forward-looking statements to reflect events or circumstances occurring after the date of such statements.

Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We assume no obligation to update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this report, other than as may be required by applicable law or regulation. Readers are urged to carefully review and consider the various disclosures made by us in our reports filed with the United States Securities and Exchange Commission (the "SEC") which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operation and cash flows. If one or more of these risks or uncertainties materialize, or if the underlying assumptions prove incorrect, our actual results may vary materially from those expected or projected.

BAKKEN RESOURCES, INC.
ANNUAL REPORT OF FORM 10-K
FOR FISCAL YEAR ENDED DECEMBER 31, 2011

PART I

ITEM 1. BUSINESS.

Overview and Background

Bakken Resources, Inc. (the Company , BRI , we , us , or our) owns 50% of the mineral rights to approximately 6,000 gross acres of land located about 8 miles southeast of Williston, North Dakota. These mineral rights currently bear to us an average 8.5% royalty from the oil and gas produced on such land. The area is part of what is commonly referred to as the Bakken oil shale formation, Bakken Formation or Bakken. Oil shale is a geological sedimentary formation that is typically rich in kerogen, an organic material. When kerogen is heated or broken down, it releases natural gas and oil.

There were originally 14 independent executed oil and gas leases with three contracted oil drilling companies on various parcels of land constituting the 6,000 gross acres (and approximately 3,000 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 that we acquired rights to in November 2010; include Oasis Petroleum having 11 leases, Continental Resources, Inc. having 2 leases and Texon L.P with 1 lease (collectively, the Lessees). 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, they 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). MLS was unable to develop the interactive multimedia language education business into a financially viable business, and its board of directors decided to redirect its business and acquire oil and gas rights via an option to purchase certain oil and gas rights from Holms Energy, LLC, a private Nevada company (Holms Energy). On June 11, 2010, MLS and Multisys Acquisition, Inc., its wholly-owned Nevada subsidiary, entered into an Option to Purchase Assets Agreement with Holms Energy, pursuant to which Holms Energy agreed to grant Multisys Acquisition an option to purchase certain oil and gas production royalty rights on land in North Dakota. On November 26, 2010 MLS exercised this option by paying Holms Energy \$100,000, issuing

forty million (40,000,000) shares of common stock to them, and granting Holms Energy a 5% overriding royalty on all gross revenue generated from the Company's gas and oil production royalty revenues. Subsequent to the closing of 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 3,000 net mineral acres located primarily in McKenzie County, North Dakota. Such 3,000 net mineral acres are currently spread across 14 spacing units. Operators in the area where BRI's minerals are located have been approved for up to eight wells per spacing unit (typically 1,280 acres), but generally petition for permits prior to the commencement of drilling in a particular spacing unit. Assuming this would apply for all spacing units under which BRI has mineral acres, BRI would have a royalty interest in up to 112 wells. Note, however, that the royalties due to BRI under any particular well would vary based on the number of acres BRI has under any particular spacing unit where there is a producing well.

As of December 31, 2011, BRI received royalty income primarily from two producing wells, commonly known as the Missoula and the Hystead wells. During 2011, the amount of such royalties received from these two wells was approximately \$218,000. BRI has interest under several other wells which have been drilled and likely producing, but for whom royalties are still not been received as of December 31, 2011.

With respect to drilling operations, pursuant to the North Dakota Oil and Gas Commission, long lateral deep horizontal multi-stage fracking wells in the Bakken Formation must be permitted in spacing unit of not less than 640 acres, up to 1,280 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. When a horizontal well is drilled in the area where the subject property is located, they typically drill down about 9,500 vertical feet and then utilize a downhole directional drilling tool to flatten the hole to 90

degrees and drill horizontally down 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. BRI does, however, have interests in certain wells not drilled into the Bakken Formation.

Some of our acreage is subject to joint venture and drilling agreements between Oasis Petroleum and Continental Resources. Oasis and Continental filed jointly for and were granted approval for one spacing unit and Oasis Petroleum received approval for six allowances by the North Dakota Oil and Gas Commission to drill eight wells in the Bakken Formation, which a portion of the Holms Property (defined herein) has been included in each of the eight approved spacing units. BRI is not a party to such agreements but will receive royalties for any wells drilled under such drilling agreements.

Acquisition of Assets

On June 11, 2010, Multisys Language Solutions, Inc. or MLS, Multisys Acquisition, and Holms Energy entered into an Option to Purchase Assets Agreement, pursuant to which Holms Energy agreed to grant Multisys Acquisition an option to exercise an Asset Purchase Agreement to assign all right, title, and interest of specific Holms Energy owned oil and gas mineral rights to Multisys Acquisition. On November 26, 2010, MLS completed an initial closing of a private placement in the amount of \$1,545,000 that issued 6,180,000 shares at \$0.25 per share and 3,090,000 three-year warrants exercisable for 3,090,000 shares at \$.50 per share, callable at \$0.01 per share at any time after November 26, 2011, if the underlying shares are registered, and the common stock trades for 20 consecutive trading days at an average closing sales price of \$0.75 or more. We concurrently exercised the option with Holms Energy and executed an Asset Purchase Agreement by and between MLS, Holms Energy, and Multisys Acquisition in order to acquire certain interests in mineral rights and assets from Holms Energy. The option was exercised on November 26, 2010 and the Asset Purchase Agreement was entered into on November 26, 2010 by paying the consideration to Holms Energy detailed in the Asset Purchase Agreement. Under the Asset Purchase Agreement, Multisys Acquisition paid Holms Energy \$100,000, issued Holms Energy 40,000,000 shares of restricted common stock, and granted to Holms Energy a 5% overriding royalty on all revenue generated from the Holms Property for ten years from the date of the acquisition closing. With the issuance of the 40,000,000 shares to the Holms Energy members, the Holms Energy members own a controlling interest in BRI. Holms Energy disbursed 40,000,000 shares to its members on a ratable ownership basis as a dividend to members.

The Asset Purchase Agreement related to the acquisition of: 1) certain Holms Energy mineral rights in oil and gas rights on approximately 6,000 gross acres and 3,000 net mineral acres of land located in McKenzie County, 8 miles southeast of Williston, North Dakota (the Holms Property); 2) potential production royalty income from wells to be drilled on the property whose oil and gas mineral rights are owned by Holms Energy; and 3) the transfer of all right, title and interest to an Option to Purchase the Greenfield mineral rights entered into between Holms Energy and Rocky and Evenette Greenfield dated June 18, 2010 related to purchasing additional oil and gas mineral rights and production royalty income on the Holms Property for One Million Six Hundred Forty Nine Thousand (\$1,649,000) Dollars (the Greenfield Option) (altogether, the Asset Acquisition). The Greenfield Option was subsequently exercised by Holms Energy on November 12, 2010, and those Greenfield mineral rights were acquired by Multisys Acquisition through the Asset Purchase Agreement with Holms Energy. Holms Energy exercised the Greenfield option and executed the Asset Purchase Agreement on the Greenfield mineral rights on November 12, 2010 using \$385,000 of a \$485,000 one month non-interest bearing loan from BRI to complete the initial payment of \$400,000, of which \$15,000 was already paid by Holms Energy. The purchase price of the Greenfield mineral rights under the agreement with Holms Energy was an aggregate of \$1,649,000 plus interest as follows: an initial payment of \$400,000; installment payments in the amount of \$30,000 per quarter plus interest at 5% per annum for 8 years and a balloon payment in the amount of \$289,000. The collateral for the loan was the Greenfield mineral rights. Under the

terms of the loan from BRI to Holms Energy, Holms Energy, in conjunction with the entry into the Asset Purchase Agreement on November 26, 2010, assigned the Greenfield mineral rights to Multisys Acquisition in exchange for forgiveness of \$385,000 of the loan. The other \$100,000 of the loan was to be applied to the Asset Purchase Agreement between BRI and Holms Energy, and on November 26, 2010, that \$100,000 was applied to the Asset Purchase Agreement and the loan was forgiven. In conjunction with the exercise of the option and execution of the Asset Purchase Agreement with Holms Energy, Multisys Acquisition acquired the rights to the Asset Purchase Agreement between Holms Energy and the Greenfields and therefore purchased the gas and oil production royalty rights of Rocky and Evenette Greenfield.

Change of Control of Bakken Resources, Inc.

After the closing of the Asset Purchase Agreement on November 26, 2010 which involved, in part, the issuance of 40 million (40,000,000) shares of BRI common stock to Holms Energy. Holms Energy subsequently declared a special dividend distribution of such 40 million shares to its members. The members of Holms Energy beneficially held in aggregate approximately 76.2% of the outstanding shares of common stock of Multisys Language Solutions after the closing of the Asset Purchase Agreement on November 26, 2010. After the closing of the transaction, based on an informal agreement in place,

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the current directors of MLS appointed the nominees designated by Holms Energy, LLC as members of the board of directors of MLS on December 1, 2010. Subsequently, the current officers and directors of MLS resigned their positions, clearing the way for the appointment of new executive officers by the new board of directors of MLS. Pursuant to the authorization from MLS stockholders for the amendment of the articles of incorporation of MLS at a special meeting of stockholders, MLS changed its corporate name from Multisys Language Solutions, Inc. to Bakken Resources, Inc. on December 10, 2010 to reflect its new business focus.

Business Strategy

We plan to focus on evolving into a growth-orientated independent energy company engaged in the acquisition, exploration, exploitation, and development of oil and natural gas properties. We plan to initially focus our activities mainly in the Williston Basin, a large sedimentary basin in eastern Montana, Western North and South Dakota, and Southern Saskatchewan known for its rich deposits of petroleum and potash. To date, we have collected approximately \$247,000 in revenues from royalties generated from our mineral rights.

Per our business plan and strategy, we have pursued relationships to gather information on future potential oil and gas drilling projects and explored and contemplated possible joint partnerships in other drilling programs. We previously announced our acquisition of mineral acreage in the Duck Lake region of Western Montana, in a potential oil play commonly referred to as the Alberta Bakken. The Company remains in discussion with various groups for strategic partnerships and plans to announce the completion of such arrangements if and when they are consummated.

Geology of the Bakken Formation

The geological formation, as well as many other criteria, determines the production level of any commercial wells, which impact the potential future royalty revenue, if any. The following profile of the Williston Basin gives an idea as to the value of our mineral assets. Our original 14 leases are in a geographic area known as the Williston Basin, which is a large intracratonic sedimentary basin in eastern Montana, western North and South Dakota and southern Saskatchewan known for its rich deposits of petroleum and potash. The basin is a geologic structural basin but not a topographic depression; it is transected by the Missouri River. The oval-shaped depression extends approximately 475 miles (764 km) north-south and 300 miles (480 km) east-west. The map below shows the general location of the Bakken Formation (not intended to show or represent the location of any oil fields).

The Bakken Formation is an oil-bearing stratum covering parts of Montana, North Dakota, and Saskatchewan. Oil was first produced from the Bakken more than 50 years ago. Production was mainly from a few vertical wells until the 1980 s when horizontal or directional drilling technology became available. Only recently after the intensive application of horizontal wells combined with hydraulic fracturing technology did production really accelerate. The Bakken is one of many hydrocarbon producing formations in the Williston Basin, a sedimentary basin covering parts of three states and two provinces. The total layer of sediments in the basin can be up to 15,000 ft. thick, and within that, the Bakken itself reaches a maximum of 150 feet. According to the United States Geological Survey (USGS) in a release dated April 10, 2008, North Dakota and Montana have an estimated 3.0 to 4.3 billion barrels of undiscovered, technically recoverable oil in an area known as the Bakken Formation. The USGS report goes on to further state that the Bakken Formation estimate is larger than all other current USGS oil assessments of the lower 48 states and is the largest "continuous" oil accumulation ever assessed by the USGS. A "continuous" oil accumulation means that the oil resource is dispersed throughout a geologic formation rather than existing as discrete, localized occurrences. In April 2008 a report from the State of North Dakota estimated that of the 167 billion barrels of oil in place in the North Dakota portion of the Bakken Formation, 2.1 billion barrels were technically recoverable at that time. Technically recoverable oil must also be contrasted with economically recoverable oil meaning the amount of producible reserves of oil that will give a reasonable return on investment. The volume of economically recoverable reserves will change as oil price, cost of wells and other factors vary.

Isopach map, total Middle Member, Bakken Formation. The Holms Property is located in the immediate area at the tip of the arrow originating from the 60 feet Isopach Interval.

The Bakken Shale in the Williston Basin is over 11,000 ft. deep at the center of the formation and rises to 3,100 ft. on the edges of the basin. The Bakken Formation is composed of three distinct members. The first layer averages twenty three feet in depth and consists of blackish marine shale. The second member runs from 30 ft. to 80 ft. and composed of interbedded limestone, siltstone, sandstone and dolomite. The bottom member is a dark black marine shale that averages 10 ft. to 30 ft. in thickness. All three formations that make up the Bakken are rich in an organic material called Kerogen. When Kerogen is heated (thermogenic processes) or broken down by organic means (biogenic processes), natural gas and oil are created. The Bakken Formation is capped by a very thick limestone formation called the Lodgepole. It is because of this limestone cap that there is so much gas and oil trapped in the shale horizon. The Bakken Formation is what is considered a thermally mature deposit and the oil from the Bakken has a 41 specific gravity and is deemed to be commercially high grade crude oil.

Horizontal Drilling

Horizontal or directional drilling has revolutionized the way the oil and gas wells are being drilled in the Williston Basin. The reason that horizontal drilling is changing the oil and gas business is that a well drilled horizontally through a formation that contains oil and gas should produce many more times that of a vertical well. A vertical well will only penetrate a limited area of the productive zone, whereas a well drilled horizontally may penetrate up to 10,000' of the zone. This also means that previously tight shale formations such as the Bakken Formation can result in prolific production.

The Bakken Formation has poor porosity which reduces the ability of the gas and oil to flow out of this horizon. Recently, horizontal drilling of lateral holes combined with hydraulic fracturing (fracking) has resulted in substantial production from thick formations that have poor porosity. It should be noted, however, that porosity and the permeability of the oil shale rock can vary widely and unpredictably over short distances, thus dry wells can be found next to prolific wells with little explanation geologically.

Fracking is a procedure whereby packers (plugs) are set every 250' to 300' and up to ten 2,000 horsepower hydraulic pumps deliver high pressure fluids that contain a high percentage of round ceramic beads and sand are utilized as proppants and keep the fissures and fractures open along the bedding-planes that are created by the high pressure fluids. The fissures and channels created by the high pressure fluid and held open by the ceramic beads that are left behind; provide a pathway to allow the gas and oil to flow into the drill hole.

Two technologies are currently being used to enhance horizontal drilling: 1) log while drilling (LWD); and 2) drill string radar (DST). LWD uses long sensors which read gamma radiation given off by the formation, which provides real time information to the drillers and this information is gathered and assists drillers to drill in the optimum sections of the formation. DST provides information to the driller on the surface as to what direction, angle and depth the well is being drilled. The combination of the two technologies greatly assists keeping the drill bit in the optimum location within the Bakken Formation.

Example of Horizontal Drilling

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Governmental Regulations

Our operations are subject to various rules, regulations and limitations impacting the oil and natural gas exploration and production industry as whole.

Regulation of Oil and Natural Gas Production. Oil and natural gas exploration, production and related operations, when developed, are subject to extensive rules and regulations promulgated by federal, state and local authorities and agencies. For example, the state of North Dakota and Montana requires permits for exploration drilling, operation of commercial wells, submission of several reports concerning operations of wells and imposes other requirements relating to the production of oil and natural gas. Such states may also have statutes and regulations addressing conservation matters, including provisions for the unitization or pooling of oil and natural gas properties, the

establishment of maximum rates of production from wells, and the regulation of spacing, plugging and abandonment of such wells. Failure to comply with any such rules and regulations can result in substantial penalties. The regulatory burden on the oil and gas industry will most likely increase the cost of doing business and may affect our potential for profitability. Although we believe that we are currently in substantial compliance with all applicable laws and regulations, because such rules and regulations are frequently amended or reinterpreted, we are unable to predict the future cost or impact of complying with such laws. Significant expenditures may be required to comply with governmental laws and regulations and may have a material adverse effect on our financial condition and results of operations.

Environmental Matters

Our operations and properties are subject to extensive and changing federal, state and local laws and regulations relating to environmental protection, including the generation, storage, handling, emission, transportation and discharge of materials into the environment, and relating to safety and health. The recent trend in environmental legislation and regulation generally is toward stricter standards, and this trend will likely continue. These laws and regulations may:

- § require the acquisition of a permit or other authorization before construction or drilling commences and for certain other activities;
- § limit or prohibit construction, drilling and other activities on certain lands lying within wilderness and other protected areas; and
- § impose substantial liabilities for pollution resulting from its operations.

The permits required for our operations may be subject to revocation, modification and renewal by issuing authorities. Governmental authorities have the power to enforce their regulations, and violations are subject to fines or injunctions, or both. In the opinion of management, we are in substantial compliance with current applicable environmental laws and regulations, and have no material commitments for capital expenditures to comply with existing environmental requirements. Nevertheless, changes in existing environmental laws and regulations or in interpretations thereof could have a significant impact on BRI, as well as the oil and natural gas industry in general.

The Comprehensive Environmental, Response, Compensation, and Liability Act (CERCLA) and comparable state statutes impose strict, joint and several liabilities on owners and operators of sites and on persons who disposed of or arranged for the disposal of hazardous substances found at such sites. It is not uncommon for the neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. The Federal Resource Conservation and Recovery Act (RCRA) and comparable state statutes govern the disposal of solid waste and hazardous waste and authorize the imposition of substantial fines and penalties for noncompliance. Although CERCLA currently excludes petroleum from its definition of hazardous substance, state laws affecting our operations may impose clean-up liability relating to petroleum and petroleum related products. In addition, although RCRA classifies certain oil field wastes as non-hazardous, such exploration and production wastes could be reclassified as hazardous wastes thereby making such wastes subject to more stringent handling and disposal requirements.

The Endangered Species Act (ESA) seeks to ensure that activities do not jeopardize endangered or threatened animal, fish and plant species, nor destroy or modify the critical habitat of such species. Under ESA, exploration and production operations, as well as actions by federal agencies, may not significantly impair or jeopardize the species or its habitat. ESA provides for criminal penalties for willful violations of the Act. Other statutes that provide protection to animal and plant species and that may apply to our operations include, but are not necessarily limited to, the Fish and Wildlife Coordination Act, the Fishery Conservation and Management Act, the Migratory Bird Treaty Act and the National Historic Preservation Act. Although we believe that our operations will be in substantial compliance with such statutes, any change in these statutes or any reclassification of a species as endangered could subject BRI to significant expenses to modify our operations or could force BRI to discontinue certain operations altogether.

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Competition

The oil and natural gas industry is intensely competitive, and we compete with numerous other oil and gas exploration and production companies who may also be seeking oil well operators for leasehold interests. Many of these companies have substantially greater resources than we have. Not only do they explore for and produce oil and natural gas, but many also carry on midstream and refining operations and market petroleum and other products on a regional, national or worldwide basis. The operations of other companies may be able to pay more for exploratory prospects and productive oil and natural gas properties. They may also have more resources to define, evaluate, bid for and purchase a greater number of properties and prospects than our financial or human resources permit.

Our larger or integrated competitors may have the resources to be better able to absorb the burden of existing, and any changes to federal, state, and local laws and regulations more easily than we can, which would adversely affect our competitive position. Our ability to discover reserves and acquire additional properties in the future will be dependent upon our ability and resources to evaluate and select suitable properties and to consummate transactions in this highly competitive environment. In addition, we may be at a disadvantage in producing oil and natural gas properties and bidding for exploratory prospects, because we have fewer financial and human resources than other companies in our industry. Should a larger and better financed company decide to directly compete with us, and be successful in its efforts, our business could be adversely affected.

Marketing and Customers

The market for oil and natural gas that we will produce depends on factors beyond our control, including the extent of domestic production and imports of oil and natural gas, the proximity and capacity of natural gas pipelines and other transportation facilities, demand for oil and natural gas, the marketing of competitive fuels and the effects of state and federal regulation. The oil and gas industry also competes with other industries in supplying the energy and fuel requirements of industrial, commercial and individual consumers.

Our production royalties derived from oil and gas production from the Holms Property are expected to be sold by the Lessees at prices tied to the spot oil markets. If any gas is produced from wells drilled on property that we own rights to, the mineral rights will have limited market value because there are limited gas gathering lines available in the immediate area and only a percentage of gas produce will be purchased. We will be required to rely on the Lessees to market and sell any future gas production.

Employees

We currently have two full-time employees and one part-time employee, respectively, Val Holms, President and Chief Executive Officer; Karen Midtlyng, Secretary and Director and David Deffinbaugh, Chief Financial Officer. All of our appointed executives have entered into written employments agreements. As drilling production activities continue to increase by our Lessees, and if revenue from production royalties develops as anticipated and increases, we may hire additional technical, operational or administrative personnel as appropriate. We are using and will continue to use the services of independent consultants and contractors to perform various professional services. We believe that this use of third-party service providers may enhance our ability to contain general and administrative expenses.

Office Location

Our offices are located at 1425 Birch Ave., Suite A, Helena, MT 59601. We also maintain a presence in New York City with a part-time office.

Available Information Reports to Security Holders

Our website address is www.bakkenresourcesinc.com. We make available on this Website under Company SEC Filings free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Section 16 reports for officers and directors, and amendments to those reports as soon as reasonably practicable after we electronically file those materials with, or furnish those materials to, the SEC. These filings are also available to the public at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Electronic filings with the SEC are also available on the SEC internet website at www.sec.gov.

In addition, BRI regularly monitors and maintains information relating to drilling activity on wells which it has a mineral interest. Such information can also be found on our website.

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ITEM 1A. RISK FACTORS

You should carefully consider the risks, uncertainties and other factors described below. The statements contained in or incorporated herein that are not historic facts are forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially from those set forth in or implied by forward-looking statements. Any of the factors could materially and adversely affect our business, financial condition, operating results and prospects and could negatively impact the market price of our common stock. Also, you should be aware that the risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties, of which we are not yet aware, or that we currently consider to be immaterial may also impair our business operations.

Risks Associated with Our Business

We are an early stage company. We may never attain profitability.

The business of acquiring, exploring for, developing and producing hydrocarbon reserves is inherently risky. We have a limited operating history for you to consider in evaluating our business and prospects. Our operations are therefore subject to all of the risks inherent in acquiring, exploring for, developing and producing hydrocarbon reserves, particularly in light of our limited experience in undertaking such activities. We may never overcome these obstacles.

Our business is speculative and dependent upon the implementation of our business plan and our ability to enter into agreements with third parties for the rights to exploit potential oil and natural gas reserves on terms that will be commercially viable for us.

Our current business model relies exclusively on uncertain future royalty payments as a source of future revenue. We have no influence on the activities conducted by the Lessees with regards to the exploitation of mineral rights owned by the company.

Our current business model relates to the potential generation of revenue from royalties tied to certain leases. These leases have been granted to experienced exploration and operating companies, both of whom have prior experience in drilling deep lateral multi-fracture horizontal wells. Until such time as wells are drilled on property where the Company owns mineral rights; any future income will be uncertain. Pursuant to the terms and conditions of the leases, we have no influence with regard to when the drilling will be undertaken, no decision making ability as to the location of any future wells and no influence as to the rate the wells are produced, if the operators are successful, of which there is no assurance. In the event the Lessees fail to meet their drilling commitment, the company has only three options: 1) it can agree to grant an extension; 2) it can renegotiate the terms of the existing leases; or 3) it can legally terminate the leases.

We may be unable to obtain additional capital or generate significant production royalty income that we will require to implement our business plan, which could restrict our ability to grow.

We expect that our current capital and our other existing resources will be sufficient only to provide a limited amount of working capital, and the potential of production royalty revenues generated from our oil and gas mineral rights properties, of which there is no assurance, may not be sufficient to fund both our continuing operations and our planned growth. We may require additional capital to continue to operate our business beyond the initial phase of development and to further expand our exploration and development programs to additional properties. We may be unable to obtain additional capital, and if we are able to secure additional capital, it may not be pursuant to terms deemed to be favorable to BRI and its shareholders.

Future acquisitions and future exploration, development, production and marketing activities, as well as our administrative requirements (such as salaries, insurance expenses and general overhead expenses, as well as legal compliance costs and accounting expenses) may require a substantial amount of additional capital and cash flow.

We may pursue sources of additional capital through various financing transactions or arrangements, including joint venturing of projects, debt financing, equity financing or other means. We may not be successful in locating suitable financing transactions in the time period required or at all, and we may not obtain the capital we require by other means. If we do not succeed in raising additional capital, our resources may not be sufficient to fund our planned operations going forward beyond twelve months from now.

Any additional capital raised through the sale of equity may dilute the ownership percentage of our stockholders. This could also result in a decrease in the fair market value of our equity securities because our assets would be owned by a larger pool of outstanding equity. The terms of securities we issue in future capital transactions may be more favorable to our

new investors, and may include preferences, superior voting rights and the issuance of other derivative securities, and issuances of incentive awards under equity employee incentive plans, which may have a further dilutive effect.

Our ability to obtain financing may be impaired by such factors as the capital markets (both generally and in the oil and gas industry in particular), our status as a new enterprise without a significant demonstrated operating history, production royalty revenue from our mineral rights property, currently our only oil and natural gas property and prices of oil and natural gas on the commodities markets (which will impact the amount of asset-based financing available to us) and/or the loss of key management. Further, if oil and/or natural gas prices on the commodities markets decline, our revenues from the anticipated royalties will decrease and such decreased revenues may increase our requirements for capital. If the amount of capital we are able to raise from financing activities, together with our revenues from operations, is not sufficient to satisfy our capital needs (even to the extent that we reduce our operations), we may be required to cease our operations.

We may incur substantial costs in pursuing future capital financing, including investment banking fees, legal fees, accounting fees, securities law compliance fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we may issue, such as convertible notes, which may adversely impact our financial condition.

Given our lack of oil and gas royalty revenues to date, our ability to make payments of approximately \$400,000 per year that we are obligated to make under purchase agreements, leases and employments agreements are uncertain over the next several years.

Under the terms of the Asset Purchase Agreement with Holms Energy, we are obligated to make payments of \$120,000 per year to Rocky and Evenette Greenfield under their Asset Purchase Agreement with Holms Energy to complete our purchase of mineral rights royalty interests from them. Under full-time employment agreements with our President and Chief Executive Officer Val Holms and with our Secretary, Karen Midtlyng we are obligated to make salary payments of \$180,000 per year and \$72,000 per year, respectively. In addition we are obligated to pay an average of \$24,000 per year over five years for our office space under the terms of a lease agreement.

Under the terms of the lease agreements with our contract oil drilling company leaseholders or Lessees, we have very little control over the number of wells that our Lessees choose to drill on our mineral rights properties and

how much production they generate

Our current business model relates to the potential generation of revenue from royalties tied to certain leases on property covered in part by mineral rights owned by us. These leases have been granted to Lessees who are experienced exploration and operating oil companies, who have prior experience in drilling deep lateral multi-fracture horizontal wells. Until such time as wells are drilled on property where we own mineral rights; any future income will be uncertain. Pursuant to the terms and conditions of the leases, we have no influence with regard to when the drilling will be undertaken, no decision making ability as to the location of any future wells and no influence as to the rate the wells are produced, if the operators are successful, of which there is no assurance

We have no previous operating history in the oil and gas industry, which may raise substantial doubt as to our ability to successfully develop profitable business operations.

We have a limited operating history. Our business operations must be considered in light of the risks, expenses, and difficulties frequently encountered in establishing a business in the oil and natural gas industries. We have not generated any oil and gas revenues to date and there is only one producing well to our knowledge on our newly acquired mineral rights property. There is nothing at this time on which to base an assumption that our business operations will prove to be successful in the long-term. Our future operating results will depend on many factors, including:

- our ability to raise adequate working capital;
- success of the development and exploration program conducted by the oil company Lessees operating on our property;
- demand for natural gas and oil;
- the level of our competition;
- our ability to attract and maintain key management and employees; and
- the ability of the of the oil company Lessees to efficiently explore, develop and produce sufficient quantities of marketable natural gas or oil in a highly competitive and speculative environment while maintaining quality and controlling costs.

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To achieve profitable operations in the future, we are primarily dependent upon the oil company Lessees to successfully execute on the factors stated above, along with continuing to develop strategies and relationships to

enhance our revenue by financially participating and investing in various drilling programs with third parties. Despite their best efforts, our Lessees may not be successful in their exploration or development efforts or obtain required regulatory approvals on the property where BRI is entitled to a production royalty. There is a possibility that some, or most, of the wells to be drilled on our mineral rights properties may never produce natural gas or oil.

We are highly dependent on our current Chief Executive Officer.

Val M. Holms is our Chief Executive Officer, President, and a director. The loss of Mr. Holms, upon whose knowledge, leadership, and technical expertise we heavily rely, would harm our ability to execute our business plan.

Our success will depend upon the future contributions of Mr. Holms, whose knowledge, leadership, and technical expertise would be difficult to replace. If we were to lose his services, we may be forced to cease operations until such time as we could hire a suitable replacement for him.

Our management team does not have extensive experience in public company matters, which could impair our ability to comply with legal and regulatory requirements.

Our management team has had limited public company management experience or responsibilities, which could impair our ability to comply with legal and regulatory requirements such as the Sarbanes-Oxley Act of 2002 and other federal securities laws applicable to reporting companies, including filing required reports and other information required on a timely basis. It may be expensive to implement programs and policies in an effective and timely manner that adequately respond to increased legal, regulatory compliance and reporting requirements imposed by such laws and regulations, and we may not have the resources to do so. Our failure to comply with such laws and regulations could lead to the imposition of fines and penalties and further result in the deterioration of our business and decreased value of our stock.

Our lack of diversification will increase the risk of an investment in BRI, and our financial condition and results of operations may deteriorate if we fail to diversify.

Our business focus initially is on the oil and gas industry on our oil and gas mineral rights property, located in McKenzie County, North Dakota. Larger companies have the ability to manage their risk by diversification. However, we currently lack diversification, in terms of both the nature and geographic scope of our business. As a result, we will likely be impacted more acutely by factors affecting our industry or the regions in which we operate than we would if our business were more diversified, enhancing our risk profile. If we cannot diversify or expand our operations, our financial condition and results of operations could deteriorate. Initially, we are solely dependent on the expertise of our Lessees as the operator of our property.

Uncertain future royalty payment and limited influence on future drilling and exploration.

Our current business model relates to the potential generation of revenue from royalties tied to certain leases owned by us. These leases have been granted to experienced exploration and operating companies, both of whom have prior experience in drilling deep lateral multi-fracture horizontal wells. Pursuant to the terms and conditions of the leases, we have no influence with regard to when the drilling will be undertaken, no decision making ability as to the location of any future wells and no influence as to the rate the wells are produced, there are no assurances as to the success of the operators.

Strategic relationships upon which we may rely on are subject to change, which may diminish our ability to conduct our operations.

Our ability to successfully acquire additional mineral rights properties, to participate in drilling opportunities, and to identify and enter into commercial arrangements with other third party companies will depend on developing and maintaining close working relationships with industry participants and on our ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment. These realities are subject to change and may impair our ability to grow.

To continue to develop our business, we will endeavor to use the business relationships of our management to identify, screen, and enter into strategic relationships, which may take the form of joint ventures with other private parties and contractual arrangements with other operating oil and gas exploration companies. We may not be able to establish these strategic relationships, or if established, we may not be able to maintain them. Even if we are able to engage in joint venture and enter into strategic investment relationships with existing operators, they may not be pursuant to terms and conditions that

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are favorable to us. In addition, the dynamics of our relationships with strategic partners may require us to incur expenses or undertake activities we would not otherwise be inclined to in order to fulfill our obligations to these partners or maintain our relationships. If our strategic relationships are not established or maintained, our business prospects may be limited, which could diminish our ability to conduct our operations.

Competition in obtaining rights to explore and develop oil and gas reserves and for our Lessee to market any future production may impair our business.

The oil and gas industry is highly competitive. This competition is increasingly intense as prices of oil and natural gas on the commodities markets have increased in recent years. Additionally, other companies engaged in our line of business may compete with us from time to time in obtaining capital from investors. Competitors include larger companies which, in particular, may have access to greater resources, may be more successful in the recruitment and retention of qualified employees and may conduct their own refining and petroleum marketing operations, which may give them a competitive advantage. In addition, actual or potential competitors may be strengthened through the acquisition of additional assets and interests. If we are unable to compete effectively or adequately respond to competitive pressures, this inability may materially adversely affect our results of operation and financial condition.

Risks Relating to the Ownership of Bakken Resources, Inc. Common Stock

Risks relating to low priced stocks will likely apply to our common stock.

Although our common stock is approved for trading on the OTC Bulletin Board, there has only been little, if any, trading activity in the stock. Accordingly, there is no history on which to estimate the future trading price range of the common stock. If the common stock trades below \$5.00 per share, trading in the common stock will be subject to the requirements of certain rules promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), which require additional disclosure by broker-dealers in connection with any trades involving a stock defined as a penny stock (generally, any non-FINRA equity security that has a market price share of less than \$5.00 per share, subject to certain exceptions). Such rules require the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and the risks associated therewith and impose various sales practice requirements on broker-dealers who sell penny stocks to persons other than established customers and accredited investors (generally defined as an investor with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 individually or \$300,000 together with a spouse). For these types of transactions, the broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to the sale. The broker-dealer also must disclose the commissions payable to the broker-dealer, current bid and offer quotations for the penny stock and, if the broker-dealer is the sole market-maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market. Such information must be provided to the customer orally or in writing before or with the written confirmation of trade sent to the customer.

Monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. The additional burdens imposed upon broker-dealers by such requirements could discourage broker-dealers from effecting transactions in the common stock which could severely limit the market liquidity of the common stock and the ability of holders of the common stock to sell it.

Limitations on the liability of our directors and officers under our Articles of Incorporation and our Bylaws may result in us indemnifying such officers and directors.

Our Articles of Incorporation includes provisions to eliminate, to the fullest extent permitted by Nevada General Corporation Law as in effect from time to time, the personal liability of directors of BRI for monetary damages arising from a breach of their fiduciary duties as directors. The Articles of Incorporation also includes provisions to the effect that we shall, to the maximum extent permitted from time to time under the laws of the State of Nevada, indemnify any director or officer. In addition, our bylaws require us to indemnify, to the fullest extent permitted by law, any director, officer, employee or agent of BRI for acts which such person reasonably believes are not in violation of our corporate purposes as set forth in the Articles of Incorporation.

Potential future issuances of additional common and preferred stock would dilute our current stockholders.

We are authorized to issue up to 100,000,000 shares of common stock. To the extent of such authorization, the board of directors of BRI will have the ability, without seeking stockholder approval, to issue additional shares of common stock in the future for such consideration as the board of directors may consider sufficient. The issuance of additional common stock in the future will reduce the proportionate ownership and voting power of the common stock offered hereby. We are also authorized to issue up to 10,000,000 shares of preferred stock, the rights and preferences of which may be designated in series by the board of directors. To the extent of such authorization, such designations may be made without stockholder approval.

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The designation and issuance of series of preferred stock in the future would create additional securities which would have dividend and liquidation preferences over the currently outstanding common stock. In addition, the ability to issue any future class or series of preferred stock could impede a non-negotiated change in control and thereby prevent stockholders from obtaining a premium for their common stock.

We are currently not approved for trading on the DTC system which makes it difficult for our stockholders to sell their shares.

The Depository Trust and Clearing Corporation, through its subsidiary DTC, provides electronic clearing, transfer, settlement and information services for Pink Sheet and over-the-counter stocks. As of this date, we have not been approved for electronic trading using the DTC system. Submission of materials in connection with an application for electronic trading has been delaying pending the completion of certain transactions. Until we receive such approval, our stockholders will not be able to deposit their shares into brokerage accounts easily in order to sell the shares at times that are convenient to the stockholders.

There is no assurance that a liquid public market for our common stock will develop.

Although our shares of common stock are currently eligible for quotation on the OTC Bulletin Board and the Pink Sheets, there has been no significant trading in our common stock. There has been no long term established public trading market for our common stock, and there can be no assurance that a regular and established market will be developed and maintained for the securities in the future. There can also be no assurance as to the depth or liquidity of any market for the common stock or the prices at which holders may be able to sell the shares.

The market price of our common stock is, and is likely to continue to be, highly volatile and subject to wide fluctuations

In the event that a public market for our common stock is created, market prices for the common stock will be influenced by many factors, some of which are beyond our control, including:

- dilution caused by our issuance of additional shares of common stock and other forms of equity securities, which we expect to make in connection with future capital financings to fund our operations and growth, to attract and retain valuable personnel and in connection with future strategic partnerships with other companies;
- announcements of new acquisitions, reserve discoveries or other business initiatives by our competitors;
- our ability to take advantage of new acquisitions, reserve discoveries or other business initiatives;
- fluctuations in revenue from our oil and gas business as new reserves come to market;
- changes in the market for oil and natural gas commodities and/or in the capital markets generally;
- changes in the demand for oil and natural gas, including changes resulting from the introduction or expansion of alternative fuels;
- quarterly variations in our revenues and operating expenses;
- changes in the valuation of similarly situated companies, both in our industry and in other industries;
- changes in analysts' estimates affecting our company, our competitors and/or our industry;
- changes in the accounting methods used in or otherwise affecting our industry;
- additions and departures of key personnel;
- announcements of technological innovations or new products available to the oil and gas industry;
- announcements by relevant governments pertaining to incentives for alternative energy development programs;
- fluctuations in interest rates and the availability of capital in the capital markets; and
- significant sales of our common stock, including sales by selling stockholders following the registration of shares under a prospectus.

These and other factors are largely beyond our control, and the impact of these risks, singly or in the aggregate, may result in material adverse changes to the mark