



Attorneys and Counselors at Law

August 7, 2008

**Re: Powder River Petroleum International, Inc.  
Receiver's Initial Report to Shareholders and Working Interest Investors**

**Introduction:**

In connection with a lawsuit filed in the District Court of Tulsa County, State of Oklahoma, Case No. CJ-2008-4855, I have been appointed by the Court to act as receiver for Powder River Petroleum International Inc., (the "Company"). The purpose of the receivership is to administer and manage the business affairs of the Company and to marshal and safeguard its assets.

The allegations in the lawsuit include, among other things, claims that Company's management has been grossly negligent and/or has acted in a fraudulent manner in conducting the Company's business. Specifically, the Company's President and Chief Executive Officer, Brian Fox, is alleged to have acted in a grossly negligent or fraudulent manner in his dealings with working interest investors (the "investors") in a number of respects, including but not limited to: (a) failing to drill or perform promised re-completion work on leases, (b) hiring an operator with a criminal and regulatory history of investor fraud, (c) failing to take steps to preserve company assets, (d) taking actions which caused the unreasonable loss of company assets, (e) withholding funds due to the Company from affiliated entities he controlled, (f) transferring company assets without an exchange of reasonably equivalent value, (g) filing misleading reports with regulators, and (h) paying himself an exorbitant salary and bonuses that were not justified under the circumstances.

**Initial Actions:**

Since being appointed receiver, I have begun an investigation of the foregoing claims in connection with my duties as receiver. While that investigation is ongoing, I can report that I have concluded that Mr. Fox has caused the Company to pay himself over \$2,000,000 in salary and reimbursements, during a time period the Company did not have sufficient revenues from oil and gas production to pay its expenses and obligations. Mr. Fox has also failed to pay various expenses of the Company for the past four months, which has resulted in the Company being in default on various obligations and some of the producing oil and gas properties of the Company being shut down. One of the most recent notices of default involves a purported Company obligation in excess of \$1 million in connection with a lease of certain oil and gas equipment which has yet to be located.

I have also received from Jeff Johnson, the Vice President and Chief Financial Officer of the Company, evidence indicating to me that Mr. Fox defrauded working interest investors who invested in 2007. This evidence also indicates to me that the fraudulent activity likely extended beyond 2007. In this instance, the documents I have been provided indicate that Mr. Fox committed the Company to pay a minimum 9% return to working interest investors. During 2007, a total of \$4,413,406 in interest payments were made to those investors, of which \$3,263,004 came from funds received from subsequent investors, not profits generated by the Company from oil and gas production. The scheme began to reveal itself when there were insufficient funds from later investors to pay the promised returns to the earlier investors. The Oklahoma Department of Securities as well as the United States Securities and Exchange Commission ("SEC") have been

advised of the forgoing. It is my understanding that the Oklahoma Department of Securities has begun an investigation of the allegations that have been made and it is my expectation that the SEC will conduct an investigation of the allegations as well.

Since being appointed Receiver for the Company, I have attempted to assert control over the various oil and gas producing properties of the Company. I have retained the services of an independent accountant who, with the assistance of Mr. Johnson, is attempting to indentify the current and past due liabilities of the Company. Mr. Fox has actively interfered in this undertaking and has refused to provide information relative to the Company's operations, in defiance of the Court's order to cooperate. Mr. Fox's activities and lack of cooperation have caused disruptions in the Company's operations.

I have also retained an independent oil and gas engineering consulting firm to evaluate the known oil and gas properties of the Company and its investors. The report, which is expected to be issued before the end of August, will provide the estimated oil and gas reserves for the known oil and gas properties of the Company, as well as a geological (prospective) evaluation of those properties. In this regard, one of the principal properties of the Company, the Weesatche lease in Goliad County, Texas, is the subject of pending litigation with the operator of the property. The operator is a company controlled by John Ehrman. Mr. Ehrman is believed to be a co-conspirator of Mr. Fox. Mr. Ehrman has been a subject of two prior SEC enforcement proceedings and has previously pled guilty to a federal criminal fraud charge. Mr. Ehrman is currently the subject of additional criminal fraud charges and is scheduled for trial in September. Mr. Fox has been the subject of regulatory proceedings in an unrelated matter filed by the Calgary Securities Commission. Based on my review, none of the foregoing regulatory and criminal proceedings were disclosed by the Company in its SEC filings or to its investors.

I will be in a better position to evaluate the Company's properties, its prospects, and the value of investors' potential future revenues when the engineering report is received and an accounting is completed.

#### **Subsequent Reports:**

I will be required to provide an initial report to the Court within 45 days of my appointment, which is August 28<sup>th</sup>. Additionally, I will be required to file a quarterly report on behalf of the Company with the SEC. At this time, I have no faith or confidence in the Company's financial statements that have been filed with the SEC or that are currently available to me.

#### **Conclusion:**

I am sorry to report the forgoing to you. I will use every effort to preserve the remaining value of your investment. Due to the large number of shareholders and investors, which are believed to number between 600 to several thousand individuals, it is my intention to post periodic updates of the receivership and the court proceedings on the Powder River web site, in addition to the Company's SEC filings.



Bruce W. Day, Receiver  
Powder River Petroleum International, Inc.