

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

PetroShare Corp.

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

FORM S-1
REGISTRATION STATEMENT UNDER
THE SECURITIES ACT OF 1933

PETROSHARE CORP.

(Exact name of registrant as specified in its charter)

Colorado
(State or other jurisdiction of
incorporation or organization)

1311
(Primary Standard Industrial
Classification Code Number)

46-1454523
(I.R.S. Employer
Identification No.)

**7200 S. Alton Way, Suite B-220
Centennial, Colorado 80112
(303) 500-1169**
(Address and telephone number of principal executive offices)

**Stephen J. Foley,
Chief Executive Officer
PetroShare Corp.
7200 S. Alton Way, Suite B-220
Centennial, Colorado 80112
(303) 500-1169**
(Name, address and telephone number of agent for service)

**With a copy to:
David J. Babiarz, Esq.
Dufford & Brown, P.C.
1700 Broadway, Suite 2100
Denver, Colorado 80290-2101
(303) 861-8013**

Approximate date of commencement of proposed sale to public: As soon as practical after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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 the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered ⁽¹⁾	Proposed maximum offering price per share	Proposed maximum aggregate offering price	Amount of registration fee
Common stock, \$0.001 par value, to be sold by the selling shareholders	10,539,753 shares	\$1.00 ⁽²⁾	\$ 10,539,753 ⁽²⁾	\$ 1,357.52
Common stock, \$0.001 par value, to be sold by the registrant	3,000,000 shares	\$1.00	\$ 3,000,000	\$ 386.40
TOTAL:	13,539,753 shares		\$ 13,539,753	\$ 1,743.92

(1) Pursuant to Rule 416 under the Securities Act of 1933, as amended, includes an indeterminate number of additional shares to prevent dilution in the event of stock splits, stock dividends or similar events.

(2) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(o) of the Securities Act of 1933, as amended.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. Neither we nor the selling shareholders may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED September 22, 2014

PRELIMINARY PROSPECTUS



PETROSHARE CORP.

3,000,000 Shares
of Common Stock
Offered by
PetroShare Corp.

10,539,753 Shares
of Common Stock
Offered by
Selling Shareholders

This is the initial public offering of our stock. We are offering up to 3,000,000 shares of our common stock on a "best efforts" basis at a price of \$1.00 per share. The shares will be offered through our officers and directors. The Selling Shareholders identified in this prospectus are offering an additional 10,539,753 shares. We will not receive any of the proceeds from the sale of the shares being sold by the Selling Shareholders. There is presently no market for our common stock.

We are an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act") and have elected to comply with certain reduced public company reporting requirements for future filings. Investing in our common stock involves a high degree of risk and should only be purchased by those who can afford to lose their entire investment. Before buying our common stock, you should read carefully the "RISK FACTORS" beginning on page 8 of this prospectus, including the material risks associated with our status as an emerging growth company.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of our common stock or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

	Price to the public	Underwriting discount or commissions ⁽¹⁾	Net proceeds to the Company ⁽²⁾
Per share	\$ 1.00	\$ -0-	\$ 1.00
Total (3,000,000 shares)	\$ 3,000,000	\$ -0-	\$ 3,000,000

(1) We may sell the shares through FINRA registered broker-dealers or other intermediaries and pay a commission or other compensation in an amount up to 10% of the sales price. However, we have no obligation to do so.

(2) Excludes expenses payable by the Company in connection with the offering, estimated to be \$100,000, including legal and accounting fees, filing fees, travel and miscellaneous expenses.

Certain of our shareholders identified in this prospectus under "**SELLING SHAREHOLDERS**" or their successors or assigns may offer and sell from time to time up to 10,539,753 shares of our common stock. The shares may be offered at a fixed price of \$1.00 per share until such time, if ever, that our shares are quoted on the electronic bulletin board, which we refer to as the OTC Bulletin Board, maintained by the Financial Industry Regulatory Authority, which we refer to as FINRA, or the interdealer quotation system known as OTC Markets, following which the shares may be offered at prices prevailing in the market or at privately negotiated prices. We will pay the expenses incurred to register the shares for resale, but the Selling Shareholders will pay any underwriting discounts, commissions or agent's commissions related to the sale of their shares of common stock. See "**PLAN OF DISTRIBUTION**" on page 52.

This document does not constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction in which such offer or solicitation is unlawful. An offer is not being made or directed to, nor is this document being delivered to, persons in any jurisdiction in which the making or acceptance of the offer would not be in compliance with the laws of such jurisdiction. However, we may, in our sole discretion, take such action as we may deem necessary to extend the offer to persons in any such jurisdiction.

The date of this prospectus is _____, 2014

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Additional Information

This prospectus contains descriptions of certain contracts, agreements or other documents affecting our business. These descriptions are not necessarily complete. For the complete text of these documents, you can refer to the exhibits filed with the registration statement of which this prospectus is a part. (See **"WHERE YOU CAN FIND MORE INFORMATION"**).

You should rely only on the information contained in this prospectus, or to which we have referred you. We have not authorized anyone to provide you with information other than as contained or referred to in this prospectus. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate as of the date of this document.

Special Note Regarding Forward-Looking Statements

Please see the note under **"RISK FACTORS"** for a description of special factors potentially affecting forward-looking statements included in this prospectus.

SUMMARY

The following summary highlights information contained elsewhere in this prospectus. It does not contain all of the information you should consider before investing in our stock. You should read the entire prospectus carefully, including the sections entitled "RISK FACTORS" and "FINANCIAL STATEMENTS."

As used in this prospectus, unless the context requires otherwise, the terms "PetroShare," "we," "our" or "us" refer to PetroShare Corp.

Our Company

We were organized under the laws of the State of Colorado on September 4, 2012. We were organized to investigate, acquire and develop oil and gas properties in the Rocky Mountain or mid-continent region of the United States and produce oil, liquids and/or natural gas from those properties. Since our inception in 2012, we have completed the acquisition of certain oil and gas working interests in approximately 1,100 net undeveloped acres located in Moffat County, Colorado, and, together with our working interest partners, have completed drilling and casing, and are in the process of completing and evaluating two wells on that prospect. Currently, we own a 25% working interest in the wells and three other entities collectively own the remaining 75% working interest.

Based on information gathered and analysis performed in connection with drilling the two wells, we and our working interest partners decided to complete both wells. We commenced preliminary completion efforts in January 2014, but were halted by stipulations in our drilling permit related to the protection of wildlife. Following expiration of the wildlife stipulations in April 2014, we continued completion and stimulation efforts and hope to achieve commercial production during the second half of 2014. Based on drilling records, well logs and preliminary completion efforts in early 2014, we believe the two wells demonstrate the potential for multiple oil and gas pay zones. However, as of September 19, 2014, we have not generated any revenue related to our oil and gas properties.

Our goal is to become an independent producer of oil, natural gas and liquids and participate successfully in the oil and gas industry. In the short term, we hope to identify and develop an economic, low-risk drilling inventory and oil-weighted reserve base to demonstrate the success of our business plan and management team. In the longer term and depending on a number of factors, including drilling results, general economic conditions, oil and natural gas prices and the availability of capital, we would entertain expanding our operations through internal growth and/or opportunistic acquisitions, or selling our assets to a larger independent or major oil and gas producer.

We believe we are distinguished from other start-up companies and independent oil and gas producers by the experience and relationships of our management team. We also believe that the recent success demonstrated by other oil and gas producers drilling in the Niobrara Shale formation in Colorado provides a roadmap for our success.

Since inception, we have financed our operations through a combination of equity financing and the sale of working interests in the Buck Peak prospect. From inception through June 30, 2014, we raised approximately \$3,049,000 through the sale of our common stock in private placements, including \$12,000 from the investment by our founders, and sold 75% of the working interests in the two wells on the Buck Peak prospect. Subsequent to June 30, 2014, we raised an additional \$325,002 through the sale of our common stock. We have used the proceeds from the sale of our common stock and prospect fees from the sale of the working interests to acquire the Buck Peak prospect, to finance our share of drilling costs and expenses, to pay general and administrative expenses and to acquire a portion of the working interest of one of our partners.

Our office is currently located at 7200 South Alton Way, Suite B-220, Centennial, CO 80112. Our telephone number, c/o Stephen J. Foley, our Chief Executive Officer, is (303) 500-1169. We maintain a website at www.petrosharecorp.com, but the information on our website is not part of this prospectus.

Buck Peak Prospect

On April 30, 2013, we completed the acquisition of oil and gas working interests ranging from less than 7.5% up to 100% in certain parcels totaling approximately 8,400 gross acres (1,100 net acres) located in Moffat County, Colorado, which we refer to as the Buck Peak prospect. This property is located approximately six miles southeast of Craig, Colorado, in the northwest corner of the State. The acreage position represented by the Buck Peak prospect is located in and around the Buck Peak Field, originally discovered in the late 1950's and developed on and off through the early 1970's. Records from the Colorado Oil and Gas Conservation Commission ("COGCC") show that the Buck Peak Field has produced over six million BOE (barrels of oil equivalent) from the Niobrara Shale geologic formation since its discovery and still has active wells producing which are over 40 years old.

The Buck Peak prospect targets oil and associated wet gas from the fractured Niobrara Shale formation. In addition, the prospect has demonstrated a potential for coal bed methane and conventional gas production from relatively shallow zones above the Niobrara. Wells drilled on the prospect acreage by other companies have also indicated both oil and gas production from various zones deeper than the Niobrara.

The two wells which we drilled in 2013 are located in Section 25 of the Buck Peak prospect, on what we believe to be the top of the geologic structure holding oil and gas. Each well was drilled to a true vertical depth (TVD) of approximately 7,900 feet, one drilled vertically and the other directionally, from a single well pad. Following drilling of the two wells in December 2013, we conducted preliminary completion work until February 15, 2014, when wildlife stipulations contained in our drilling permit required postponement of further operations. Following expiration of those stipulations, we resumed completion efforts in some of the zones deemed capable of production in May 2014, and are currently evaluating the results. We expect to continue completion efforts on additional zones in the Fall of 2014.

We are also exploring opportunities to acquire additional acreage, both developed and undeveloped, in the area surrounding the Buck Peak prospect.

The Offering

Common stock outstanding before the offering ⁽¹⁾	16,984,753
Common stock offered by us	3,000,000
Common stock offered by the selling shareholders	10,539,753
Common stock outstanding after the offering ⁽¹⁾⁽²⁾	19,984,753

Use of proceeds

We estimate that our net proceeds from the sale of the common stock that we are offering will be approximately \$2,900,000, assuming an initial public offering price of \$1.00 per share, and after deducting estimated offering expenses payable by us. We intend to use the net proceeds from this offering to pay for general corporate purposes, including additions to working capital and capital expenditures. See **"Use of Proceeds."**

Dividend Policy

We do not anticipate paying any dividends on our common stock in the foreseeable future; however, we may change this policy in the future. See **"Dividend Policy."**

(1) Excludes 2,000,000 shares of common stock underlying outstanding options that are currently exercisable.
(2) Assumes that all of the common stock offered under this prospectus is sold, of which there is no assurance.

Risk Factors

This offering involves as high degree of risk. Our common stock should only be purchased by persons who can afford to lose their entire investment. Risk factors relating to our company and the oil and gas industry include:

- Since we are a new business with essentially no operating history, investors have no basis to evaluate our ability to operate profitably.
- We have no revenue and have incurred operating losses since our inception and may never be profitable.
- We are dependent on achieving profitable operations and receipt of additional working capital to fund continued development and implementation of our business plan, and our failure to obtain this capital may cause the partial or total loss of your investment.
- Since we have no reserves at this time, investors in our common stock cannot be assured that we will have any cash flow in the future.
- Our investment in a single prospect and the concurrent lack of diversification will increase the risk to investors that we will not be profitable.
- If the Buck Peak prospect is not productive of oil or natural gas, any funds spent on exploration may be lost and we will be forced to seek additional opportunities, which will be expensive and time-consuming.

- A major oil company, Southwestern Energy Co., has recently acquired all the leasehold and certain producing assets of both Quicksilver Resources, Inc. and SWEPI (Royale Dutch Shell affiliate) in the Niobrara play in the Sand Wash Basin covering Moffat and Routt Counties, Colorado and such acquisition may increase competition for leases, drilling rigs and other services in the area.
- Our ability to sell any production and/or receive market prices for our production may be adversely affected by lack of transportation, capacity constraints and interruptions.
- We are an "emerging growth company" and as a result of the reduced disclosure and governance requirements applicable to emerging growth companies, our common stock may be less attractive to investors.
- We are not required to obtain an opinion from our independent registered public accounting firm on the effectiveness of our internal controls over financial reporting under Section 404(b) of the Sarbanes-Oxley Act of 2002 until we are no longer an emerging growth company.
- Our financial statements may not be comparable to other public companies.
- While we believe we have adequate internal controls over financial reporting, we will be required to evaluate our internal controls under Section 404 of the Sarbanes-Oxley Act of 2002 and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have a material adverse effect on the price of our common stock.
- Our business is substantially dependent on our senior executive officers and the loss of service of any of these individuals would adversely affect our business.
- Because we do not have an audit or compensation committee, shareholders will have to rely on our Board of Directors, which includes only one "independent" director as defined by a national securities exchange, to perform these functions.
- Colorado law and our Articles of Incorporation may protect our directors from certain types of lawsuits at the expense of the shareholders.
- Oil and gas operations are affected by fluctuations in oil and natural gas prices and low prices could have a material adverse effect on the future of our operations.
- The cost of oil and natural gas exploration is extremely volatile and may adversely affect our operations.
- Our operations are subject to health, safety and environmental laws and regulations which may expose us to significant costs and liabilities and which may not be covered by insurance.
- Federal, state, and local legislative and regulatory initiatives relating to hydraulic fracturing, as well as government reviews of such activities, could result in increased costs, additional operating restrictions or delays, and adversely affect our production and/or ability to record future reserves.

- Competition in the oil and natural gas industry is intense, and many of our competitors have resources that are substantially greater than ours.
- Seasonal weather conditions, lease stipulations, and permit restrictions adversely affect our ability to conduct drilling activities where we expect to operate.
- We may incur losses as a result of title deficiencies.
- The oil and gas business involves many operating risks that can cause substantial losses.
- Extensive state and federal regulation may be costly to comply with and may result in significant fines and penalties.

Risk factors relating to our common stock include the following:

- The initial price of our common stock in this offering has been arbitrarily determined and bears no necessary relationship to our lack of earnings, the book value of our common stock or any other traditional criteria of value.
- Our offering is being conducted on a "best efforts" basis, and there is no assurance that we will obtain the funding we need to explore our property, pay our administrative expenses or further out business plan.
- Since no broker or dealer has committed to create or maintain a market in our stock, there is no assurance that our stock will be quoted in the OTC Bulletin Board or OTC Markets, and purchasers of our common stock may have difficulty selling their shares, should they desire to do so.
- Our stock price may be volatile and as a result you could lose all or part of your investment.
- Investors in this offering will experience immediate substantial dilution of their investment.
- A small number of existing shareholders own a significant amount of our common stock, which could limit your ability to influence the outcome of any shareholder vote.
- The sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.
- Since our common stock is not presently listed on a national securities exchange, trading in our shares will likely be subject to rules governing "penny stocks," which will impair trading activity in our shares.
- FINRA sales practice requirements may also limit a shareholder's ability to buy and sell our stock.
- Issuance of our stock in the future could dilute existing shareholders and adversely affect the market price of our common stock, if a public trading market develops.
- We have never paid dividends on our common stock and we do not anticipate paying any in the foreseeable future.

Prospective investors in our common stock should be aware of these and other risk factors discussed in this prospectus.

Summary Financial Data

The following tables present certain selected historical financial data about our company. Historical financial information for the period September 4, 2012 (inception) to December 31, 2012 and the year ended December 31, 2013 has been derived from our financial statements, which have been audited by StarkSchenkein, LLP, our independent registered public accounting firm. The financial information as of and for the three and six months ended June 30, 2014 and 2013 is unaudited. The selected balance sheet data also illustrates the receipt of proceeds from a private placement of common stock completed after June 30, 2014, and the anticipated proceeds to our company from this offering. You should read the data set forth below in conjunction with the section entitled **"MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS"** our financial statements and related notes included elsewhere in this prospectus.

Operating Data				
	Six months ended June 30, 2014	Six months ended June 30, 2013	Year ended December 31, 2013	Inception (September 4, 2012) to December 31, 2012
	(unaudited)			
Revenue	\$ -	\$ -	\$ -	\$ -
General and administrative expenses	352,750	146,580	473,668	699,658
Exploration costs	-	29,424	29,537	-
Total costs and expenses	356,209	176,215	504,089	699,658
Net (loss)	\$ (356,193)	\$ (176,215)	\$ (504,075)	\$ (699,658)
Net (loss) per common share	\$ (0.02)	\$ (0.01)	\$ (0.04)	\$ (0.40)
Balance Sheet Data				
As of June 30, 2014				
	Actual (Unaudited)	Proforma (1)	Proforma As Adjusted (1)(2)	
Cash	\$ 1,568,908	\$ 1,893,910	\$ 4,793,910	
Joint interest billing receivable	13,748	13,748	13,748	
Unproved oil and gas properties	452,780	452,780	452,780	
Wells in progress	1,202,777	1,202,777	1,202,777	
Total Assets	3,362,415	3,687,417	6,587,417	
Current Liabilities	1,113,501	1,113,501	1,113,501	
Total Shareholders' Equity	\$ 2,248,914	\$ 2,573,916	\$ 5,473,916	
<p>(1) Gives effect to the additional issuance of 650,003 shares of common stock through a private placement resulting in gross proceeds of \$325,002 which occurred subsequent to June 30, 2014, but excludes other changes to our Balance Sheet subsequent to June 30, 2014.</p> <p>(2) The pro forma as adjusted reflects the sale of all shares of common stock offered by the Company under this prospectus and includes the estimated offering expenses payable by the Company. A \$0.25 increase (decrease) in the assumed initial public offering price of \$1.00 per share of our common stock would increase (decrease) each of cash, total assets, and total stockholders' equity by \$750,000, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, and after deducting estimated offering expenses payable by us.</p>				

RISK FACTORS

An investment in our securities involves a high degree of risk. You should carefully consider the risks described below together with all of the other information included in this prospectus before making an investment decision. If any of the following risks actually occurs, our business, financial condition or results of operations could materially suffer. In that case, you may lose all or part of your investment. If we are unable to prevent events that have a negative affect from occurring, then our business may suffer.

Risks Relating to Our Company

Since we are a new business with essentially no operating history, investors have no basis to evaluate our ability to operate profitably. We were incorporated in September 2012 and have received no revenue from operations to date. Our activities to date have been limited to organizational efforts, assembling a management team, raising capital, researching and developing our business plan, completing the acquisition of our first property and commencing our first drilling program. We face all of the risks commonly encountered by other new businesses, including the lack of an established operating history, need for additional capital and personnel, and competition. There is no assurance that our business will be successful or that we can ever operate profitably. We may not be able to effectively manage the demands required of a new business in our industry, such that we may be unable to successfully implement our business plan or achieve profitability.

We have no revenue and have incurred substantial losses since our inception and may never be profitable. Since our inception in 2012, we have no revenue and have never been profitable. As of June 30, 2014, our accumulated deficit was approximately \$16 million, including a loss of \$504,075 in 2013 and a loss of \$56,193 for the six months ended June 30, 2014. In the future, our ability to become profitable will depend on the success of our current drilling efforts, future exploration and development efforts and our ability to generate revenue sufficient to cover our costs and expenses. In pursuit of those objectives, we will seek to identify additional hydrocarbons that can be extracted economically at operating and exploration properties. We may suffer significant additional losses in the future and may never be profitable. Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis.

We are dependent on achieving profitable operations and receipt of additional working capital to fund continued development and implementation of our business plan, and our failure to obtain this capital may cause the partial or total loss of your investment. Our company has limited capitalization and is dependent upon achieving profitable operations and receipt of additional financing to continue operations. Continued development of our business plan will require significant additional working capital, and we have no established source of obtaining that financing other than through this offering. Significant amounts of capital are required for companies to participate in the business of exploration for oil and gas resources, and many companies that are engaged in this business are significantly better capitalized than us. We may also require additional capital to pay our administrative expenses, including salary and rent. Adverse developments in our business or general economic conditions may require us to raise additional financing at prices or on terms that are disadvantageous to existing shareholders. We may not be able to obtain additional capital at all and may be forced to curtail or cease our operations. As an alternative to equity financing, we may seek debt financing or may be required to farm-out our oil and gas properties for development on less than favorable terms. We currently have no credit available to us and we can offer no assurance that such debt will be available or if available, that it will be available on reasonable terms. The inability to obtain necessary financing may adversely impact our ability to develop our properties and to expand our business operations.

Since we have no reserves at this time, investors in our common stock cannot be assured that we will have any cash flow in the future. The Buck Peak prospect is the primary oil and gas prospect where we have invested all of our capital resources. This prospect is still in the exploration stage, and no estimate can be made at this time as to oil and natural gas reserves, proved, probable or otherwise, nor can any guarantees be made that sufficient reserves will be discovered for production. The absence of any recent drilling or production history prevents us from assigning any proved reserves to the property. Even with new technology such as 3D seismic and other exploration techniques, oil and gas exploration is a high risk undertaking. As a result, investors have no assurance that we will have any cash flow.

Our investment in a single prospect and the concurrent lack of diversification will increase the risk to investors that we will not be profitableOur investment in the Buck Peak prospect and the capital required to pay our share of drilling costs increases the risk that the operation of our business will not be profitable, as we will not be able to spread the risk of investment and operation over a number of different assets until we become profitable or receive additional investment. If one or both of the wells at the Buck Peak prospect is not successful in producing economically viable amounts of oil and/or gas, our business may suffer and you may lose all or part of your investment.

If the Buck Peak prospect is not productive of oil or natural gas, any funds spent on exploration may be lost and we will be forced to seek additional opportunities, which will be expensive and time-consuming. All of our current capital investment is tied up in the Buck Peak prospect. Since the Buck Peak prospect is not currently developed, we are dependent on the development efforts to prove reserves at the Buck Peak prospect for additional cash flow. If we are unable to prove that the Buck Peak prospect can be productive of oil and natural gas, we will be forced to seek additional investments. Investigating and locating suitable property for acquisition is expensive and time consuming. Even if we are successful in identifying one or more additional properties for acquisition, there is no assurance that we can obtain such property at reasonable prices or that sufficient working capital will be available to finance the acquisition.

A major oil company, Southwestern Energy Co., has recently acquired all the leasehold and certain producing assets of both Quicksilver Resources, Inc. and SWEPI (Royale Dutch Shell affiliate) in the Niobrara play in the Sand Wash Basin covering Moffat and Routt Counties and such acquisition may increase competition for leases, drilling rigs and other services in the area. Previously, SWEPI had announced plans to monetize their assets in this area as well as other selected assets across the US. The agreement between SWEPI and Southwestern represents the culmination of SWEPI's efforts as it relates to its Sand Wash Basin assets. Drilling results in the Niobrara play in the Sand Wash Basin to date have been mixed, with some good wells and also some mechanically-plagued and uneconomic wells. Southwestern's entry into to this play may increase competition for rigs and oil field services as well as create competition for lease acquisitions, thus potentially driving prices upward. There is no guarantee that Southwestern will develop the proper drilling and development strategies to economically develop the Niobrara on a wider scale.

Our ability to sell any production and/or receive market prices for our production may be adversely affected by lack of transportation, capacity constraints and interruptionsThe marketability of any production from the Buck Peak prospect or any other interests that we may acquire depends in part upon the availability, proximity and capacity of third-party refineries, natural gas gathering systems and processing facilities. We expect to deliver any crude oil and natural gas produced from our properties through trucking services and pipelines that we do not own. The lack of availability or capacity of these systems and facilities could reduce the price offered for any production or result in the shut-in of producing wells or the delay or discontinuance of development plans for properties.

We are an "emerging growth company" and as a result of the reduced disclosure and governance requirements applicable to emerging growth companies, our common stock may be less attractive to investors. As an "emerging growth company," as defined in the JOBS Act, we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to the following:

- reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements; and
- exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and from holding a vote for stockholder approval of any golden parachute payments not previously approved.

We cannot predict if investors will find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock if such a market develops, and our stock price may be more volatile.

We are not required to obtain an opinion from our independent registered public accounting firm on the effectiveness of our internal controls over financial reporting under Section 404(b) of the Sarbanes-Oxley Act of 2002 until we are no longer an emerging growth company. For so long as we remain an emerging growth company as defined in the JOBS Act, we intend to take advantage of certain exemptions from various reporting requirements that are applicable to public companies that are not emerging growth companies, including, but not limited to, not being required to obtain the auditor attestation of our assessment of our internal controls. Once we are no longer an emerging growth company or, if prior to such date, we opt to no longer take advantage of the applicable exemption, we will be required to include an opinion from our independent registered public accounting firm on the effectiveness of our internal controls over financial reporting. We will remain an "emerging growth company" until the earliest to occur of (1) the last day of the fiscal year during which our total annual revenues equal or exceed \$1 billion (subject to adjustment for inflation), (2) the last day of the fiscal year during which occurs the fifth anniversary of our initial public offering, (3) the date on which we have, during the previous three-year period, issued more than \$1 billion in non-convertible debt, or (4) the date on which we are deemed a "large accelerated filer" under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Once we are no longer an emerging growth company, compliance with Section 404(b) will be costly.

Our financial statements may not be comparable to other public companies We have elected to use the extended transition period for complying with new or revised accounting standards under Section 102(b) of the JOBS Act. This election allows us to delay the adoption of new or revised accounting standards that have different effective dates for public and private companies until those standards apply to private companies. As a result of this election, if the PCAOB adopts new or revised accounting standards and we decide to delay adoption of such changes, our financial statements may not be comparable to companies that comply with public company effective dates and the price of our common stock may be adversely affected.

While we believe we have adequate internal controls over financial reporting, we will be required to evaluate our internal controls under Section 404 of the Sarbanes-Oxley Act of 2002 and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have a material adverse effect on the price of our common stock. Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we will likely be required to furnish a report by our management on internal controls for the fiscal year ending December 31, 2015. Such a report must contain, among other matters, an assessment of the effectiveness of our internal controls over financial reporting, including a statement as to whether or not our internal controls are effective. This assessment must include disclosure of any material weaknesses in our internal controls over financial reporting identified by our management. While we believe our internal controls over financial reporting are effective, we are still constructing the system, processing documentation and performing the evaluations needed to comply with Section 404, which is both costly and challenging. We may not be able to complete our evaluation, testing and any required remediation in a timely fashion. If we are unable to assert that our internal controls over financial reporting are effective, or if we disclose significant deficiencies or material weaknesses in our internal controls, investors could lose confidence in the accuracy and completeness of our financial reports, which would have a material adverse effect on our stock price.

We may not be required to register our common stock under the Exchange Act, which would reduce the disclosure we are required to provide to our investors compared to other public companies and may adversely affect the price of our stock in any market that may develop. Our securities are not presently registered under the Exchange Act, and we may not be required or may not choose to register under that Act in the future. Registration under the Exchange Act would be required if we meet certain minimum asset and shareholder requirements or if any of our securities were to be listed on a national securities exchange. Since we do not believe that we will meet the minimum requirements for mandatory registration, and we do not expect that our common stock will be listed on an exchange in the foreseeable future, we may not be subject to certain reporting requirements imposed by that Act. Among other consequences, we will not be required to comply with the proxy solicitation rules of the Exchange Act and our directors and officers will not be required to file reports of their trading activity in our stock under Section 16 of the Exchange Act. As a result, there will be less information available to the public regarding our corporate affairs and insider transactions in our common stock than other companies that have registered common stock under the Exchange Act.

Our business is substantially dependent on our senior executive officers and the loss of service of any of these individuals would adversely affect our business. Stephen J. Foley is our Chief Executive Officer and responsible for overseeing our business, developing our business plan and the strategic vision of our company. Frederick Witsell is our President and responsible for identifying and managing our properties. Each of these individuals is critical to the perceived success of our business. The loss of service of either of these individuals would adversely affect our business, as we have very limited personnel and expect to rely on contractors for a majority of service that we require. There is no assurance we would be able to replace either of such individuals, or if so, on terms that were acceptable to our company. We have no key man life insurance on either of these individuals.

Because we do not have an audit or compensation committee, shareholders will have to rely on our Board of Directors, which includes only one "independent" director as defined by a national securities exchange, to perform these functions. We do not presently maintain an audit or compensation committee. These functions are performed by our Board of Directors as a whole and only one of the members of our Board meets the definition of "independent" under the rules of any national securities exchange. Since two of our current Board members are also part of our management team, there is a potential conflict where these individuals participate in discussions concerning management compensation and audit issues that may affect management decisions. This lack of independence may adversely affect our corporate governance and the operation of our business.

Colorado law and our Articles of Incorporation may protect our directors from certain types of lawsuits at the expense of the shareholders. The laws of the State of Colorado provide that directors of a corporation shall not be liable to the corporation or its shareholders for monetary damages for all but limited types of conduct. Our Articles of Incorporation permit us to indemnify our directors and officers against all damages incurred in connection with our business to the fullest extent provided or allowed by law. The exculpation provisions may have the effect of preventing shareholders from recovering damages against our directors caused by their negligence, poor judgment or other circumstances.

Risks Relating to the Energy Production and/or Distribution Industry

Oil and gas operations are affected by fluctuations in oil and natural gas prices and low prices could have a material adverse effect on the future of our operations. If exploration efforts are successful in identifying economic amounts of oil and gas, our future success will depend largely on the prices received for any oil or gas production. Prices received also will affect the amount of future cash flow available for capital expenditures and may affect the ability to raise additional capital. Lower prices may also affect the amount of natural gas and oil that can be economically produced from reserves either discovered or acquired.

Prices for natural gas and oil fluctuate widely. For example, natural gas and oil prices declined significantly in 2008, and, for an extended period of time, remained below prices obtained in previous years. Factors that can cause price fluctuations include:

- The level of consumer product demand;
- Weather conditions;
- Domestic and foreign governmental regulations;
- The price and availability of alternative fuels;
- Political and ethnic conflicts in natural gas and oil producing regions;
- The domestic and foreign supply of natural gas and oil;
- The price of foreign imports; and
- Overall economic conditions.

The cost of oil and natural gas exploration is extremely volatile and may adversely affect our operations. The costs of oil and gas exploration, such as the costs of drilling rigs, casing, cement, and pumps, and the fuel and parts necessary to keep the rigs and pumps operating and the costs of the oil field service crews have been volatile over the past few years in direct proportion to the amount of ongoing oil and gas exploration. As with most other companies involved in resource exploration and development, we may be adversely affected by future increases in the costs of conducting exploration, development and resource extraction that may not be fully offset by increases in the price received on sales of oil or natural gas.

Our operations are subject to health, safety and environmental laws and regulations which may expose us to significant costs and liabilities and which may not be covered by insurance. Our oil and natural gas exploration will be subject to stringent and complex federal, state and local laws and regulations governing health and safety aspects of our operations, the discharge of materials into the environment and the protection of the environment. These laws and regulations may impose on our operations numerous requirements, including the obligation to obtain a permit before conducting drilling or underground injection activities; restrictions on the types, quantities and concentration of materials that may be released into the environment; limitations or prohibitions of drilling activities on certain lands lying within wilderness, wetlands and other protected areas; specific health and safety criteria to protect workers; and the responsibility for cleaning up any pollution resulting from operations. Numerous governmental authorities such as the U.S. Environmental Protection Agency, or the EPA, and analogous state agencies have the power to enforce compliance with these laws and regulations and the permits issued under them, oftentimes requiring difficult and costly actions. Failure to comply with these laws and regulations may result in the assessment of administrative, civil or criminal penalties; the imposition of investigatory or remedial obligations; the issuance of injunctions limiting or preventing some or all of our proposed operations; and delays in granting permits and cancellation of leases.

There is an inherent risk of incurring significant environmental costs and liabilities in the performance of our operations, some of which may be material, due to our handling of petroleum hydrocarbons and wastes, our emissions to air and water, the underground injection or other disposal of our wastes, the use of hydraulic fracturing fluids and historical industry operations and waste disposal practices. Under certain environmental laws and regulations, we may be liable regardless of whether we were at fault for the full cost of removing or remediating contamination, even when multiple parties contributed to the release and the contaminants were released in compliance with all applicable laws. In addition, accidental spills or releases on our properties may expose us to significant liabilities that could have a material adverse effect on our financial condition or results of operations and which may not be covered by insurance. Aside from government agencies, the owners of properties where our wells are located, the operators of facilities where our petroleum hydrocarbons or wastes are expected to be taken for reclamation or disposal and other private parties may be able to sue us to enforce compliance with environmental laws and regulations, collect penalties for violations or obtain damages for any related personal injury or property damage. Some sites are located near current or former third-party oil and natural gas operations or facilities, and there is a risk that contamination has migrated from those sites to ours. Changes in environmental laws and regulations occur frequently, and any changes that result in more stringent or costly material handling, emission, waste management or cleanup requirements could require us to make significant expenditures to attain and maintain compliance or may otherwise have a material adverse effect on our own results of operations, competitive position or financial condition. We may not be able to recover some or any of these costs from insurance.

Federal, state, and local legislative and regulatory initiatives relating to hydraulic fracturing, as well as government reviews of such activities, could result in increased costs, additional operating restrictions or delays, and adversely affect our production and/or ability to book future reserves. Hydraulic fracturing involves the injection of water, sand, and chemical additives under pressure into a targeted subsurface formation. The water and pressure create fractures in the rock formations, which are held open by the grains of sand, enabling the oil or natural gas to flow to the wellbore. The process is typically regulated by state oil and natural gas commissions; however, the EPA asserted federal regulatory authority over certain hydraulic-fracturing activities involving diesel fuel under the Safe Drinking Water Act. In addition, the COGCC has adopted (and other states have adopted or are considering adopting) regulations that impose more stringent permitting, disclosure and well construction requirements on hydraulic fracturing operations. Further, on February 23, 2014, Colorado's Air Quality Control Commission fully adopted EPA's Standards of Performance for Crude Oil and Natural Gas Production, Transmission, and Distribution; adopted corresponding revisions to its emissions reporting and permitting framework; and adopted complimentary oil and gas control measures. These regulations will affect our operations, increase our costs of exploration and production and limit the quantity of natural gas and oil that we can economically produce to the extent that we use hydraulic fracturing.

Certain cities in Colorado have implemented bans on hydraulic fracturing, some of which are subject to a lawsuit with the Colorado Oil and Gas Association. In addition, several ballot initiatives were proposed and subsequently withdrawn in Colorado in 2014 seeking to impose additional restrictions on fracturing and oil and gas development. In the event that a new regulation or legal restriction at the federal, state or local level is adopted related to hydraulic fracturing or other development activities in the areas in which we currently or in the future plan to operate, we may incur additional costs to comply with such requirements that may be significant in nature, and also could become subject to additional permitting requirements and cause us to experience added delays or curtailment in the pursuit of exploration, development, or production activities. Furthermore, these additional costs may put us at a competitive disadvantage compared to larger companies in the industry which can spread such additional costs over a greater number of wells and larger operating staff.

Competition in the oil and natural gas industry is intense, and many of our competitors have resources that are substantially greater than ours. We operate in the highly competitive environment to acquire producing prospects and productive properties, marketing oil and gas and securing equipment and trained personnel. As a small oil and gas company, most competitors, including major and large independent oil and gas companies, possess and employ financial, technical and personnel resources substantially greater than ours. Those companies may be able to develop and acquire more prospects and productive properties than our financial or personnel resources permit. Our ability to acquire additional prospects and discover reserves in the future will depend on our ability to evaluate and select suitable properties and consummate transactions in a highly competitive environment. Also, there is substantial competition for capital available for investment in the oil and gas industry. Larger competitors may be better able to withstand sustained periods of unsuccessful drilling and absorb the burden of changes in laws and regulations more easily than we can, which would adversely affect our competitive position. We may not be able to compete successfully in the future in acquiring prospective properties, developing reserves, marketing hydrocarbons, attracting and retaining quality personnel and raising additional capital.

Seasonal weather conditions, lease stipulations, and permit restrictions adversely affect our ability to conduct drilling activities where we expect to operate Oil and natural gas operations in the Rocky Mountains are sometimes adversely affected by seasonal weather conditions and lease stipulations designed to protect various wildlife and surface interests. These restrictions may limit our ability to operate in those areas and can potentially intensify competition for drilling rigs, oil field equipment, services, supplies and qualified personnel, which may lead to periodic shortages. These constraints and the resulting shortages or high costs could delay our operations and materially increase our operating and capital costs. For example, we currently operate in an area that is (a) considered an Elk Winter Concentration Area, which means we must cease operations, except for certain emergency operations, from December 1 through April 15 of each year; and (b) accessed by a county road that is considered a "No Winter Maintenance" section, which means that the county will not maintain or plow the road from approximately November 1 through June 1 or later depending upon conditions of each year.

We may incur losses as a result of title deficiencies. We own working and revenue interests in oil and natural gas leasehold interests. The existence of a material title deficiency can render a lease worthless and can adversely affect our results of operations and financial condition. Title insurance covering mineral leaseholds is not generally available and, in all instances, we forego the expense of retaining lawyers to examine the title to the mineral interest to be placed under lease or already placed under lease until the drilling block is assembled and ready to be drilled. As is customary in our industry, we rely upon the judgment of oil and natural gas lease brokers, in-house landmen or independent landmen who perform the field work in examining records in the appropriate governmental offices and abstract facilities before attempting to acquire or place under lease a specific mineral interest. We do not always perform curative work to correct deficiencies in the marketability of the title to us. In cases involving serious title problems, the amount paid for affected oil and natural gas leases can be lost, and the target area can become undrillable. We may be subject to litigation from time to time as a result of title issues.

The oil and gas business involves many operating risks that can cause substantial losses The oil and natural gas business involves a variety of operating risks, including:

- Fires;
- Explosions;
- Blow-outs and surface cratering;
- Uncontrollable flows of underground natural gas, oil or formation water;
- Natural disasters;
- Pipe and cement failures;
- Casing collapses;

- Embedded oilfield drilling and service tools;
- Abnormal pressure formations; and
- Environmental hazards such as natural gas leaks, oil spills, pipeline ruptures or discharges of toxic gases.

If any of these events occur, we could incur substantial losses as a result of:

- Injury or loss of life;
- Severe damage to and destruction of property, natural resources or equipment;
- Pollution and other environmental damage;
- Clean-up responsibilities;
- Regulatory investigation and penalties;
- Suspension of our operations; or
- Repairs necessary to resume operations.

If we were to experience any of these problems, it could affect well bores, gathering systems and processing facilities, any one of which could adversely affect our ability to conduct operations. We may be affected by any of these events more than larger companies, since we have limited working capital. We currently have general liability insurance with a combined single limit per occurrence of not less than \$1,000,000 for bodily injury and property damage and a combined occurrence limit of \$2,000,000 and control of well insurance with limits of \$5,000,000 for any one occurrence. For other risks, however, we may not obtain insurance if we believe the cost of available insurance is excessive relative to the risks presented. In addition, pollution and environmental risks generally are not fully insurable. If a significant accident or other event occurs and is not fully covered by insurance, it could adversely affect operations and/or our financial condition. Moreover, we cannot assure shareholders that we will be able to maintain adequate insurance in the future at rates considered reasonable.

Extensive state and federal regulation may be costly to comply with and result in significant fines and penalties. Companies that explore for and develop, produce and sell oil and natural gas in the United States are subject to extensive federal, state, local and tribal laws and regulations, including complex tax and environmental laws and the corresponding regulations, and are required to obtain various permits and approvals from federal, state, local and tribal agencies and authorities. Our ability to obtain, sustain and renew the necessary permits and approvals from federal, state, local and tribal agencies and authorities on acceptable terms and without unfavorable restrictions or conditions is subject to a change in regulations and policies and to the discretion of the applicable governmental agencies or authorities, among other factors. Possible regulation related to global warming and climate change could have an adverse effect on our operations and demand for oil and gas.

Risks Related to the Offering and Our Common Stock

The initial price of our common stock in this offering has been arbitrarily determined and bears no necessary relationship to our lack of earnings, the book value of our common stock or any other traditional criteria of value. The initial offering price has been determined by negotiations between representatives of our management and certain selling shareholders and is based in part on the recent sales price of our common stock. However, since no underwriter has been involved in the offering of our common stock in the past and no underwriter is involved in this offering, the price has not been negotiated at arm's length as might otherwise be the case. Purchasers of our common stock in this offering have no assurance that they will be able to sell the common stock for a profit, or at all.

Our offering is being conducted on a “best efforts” basis, and there is no assurance that we will obtain the funding we need to explore our property, pay our administrative expenses or further our business plan. No person or entity has agreed to purchase any or all of our common stock in this offering. We will use our best efforts to find purchasers for the stock offered by us during the offering period. There is no provision for creating an escrow or trust account or other similar arrangement for the proceeds of this offering. All funds from the offering received by us will be immediately deposited into our bank account and available for all valid corporate purposes. If we do not find qualified investors to purchase all of the stock offered under this prospectus, we may be forced to seek capital from other sources or curtail our business plan. Investors in this offering have no assurance that the funding that we accept will be adequate for the purposes for which we have budgeted it.

Since no broker or dealer has committed to create or maintain a market in our stock, there is no assurance that our stock will be quoted in the OTC Bulletin Board or OTC Markets, and purchasers of our common stock may have difficulty selling their shares, should they desire to do so. It is our intention to seek one or more broker-dealers to apply for quotation of our common stock on the OTC Bulletin Board or OTC Markets following the date of this prospectus. However, we have no agreement with any broker-dealer at this time, and there is no assurance that we will be successful in finding one in the future. In addition, we believe that our stock will be characterized as a “micro-cap” security and therefore subject to increased scrutiny by FINRA. A micro-cap security is generally a low priced security issued by a small company, or the stock of a company with low capitalization. If we are unable to obtain quotation of our common stock on the OTC Bulletin Board or OTC Markets, trading in our stock will be limited, and purchasers of our common stock may have difficulty selling their shares, should they desire to do so.

Our stock price may be volatile and as a result you could lose all or part of your investment!In addition to volatility associated with over-the-counter securities in general, the value of your investment could decline due to the impact of any of the following factors upon the market price of our common stock:

- failure to successfully implement our business plan;
- failure to meet our revenue or profit goals or operating budget;
- decline in demand for our common stock;
- sales of additional amounts of common stock;
- downward revisions in securities analysts’ estimates or changes in general market conditions;
- investor perception of our industry or our prospects; and
- general economic trends.

In addition, stock markets have experienced extreme price and volume fluctuations and the market prices of securities have been highly volatile. These fluctuations are often unrelated to operating performance and may adversely affect the market price of our common stock. As a result, investors may be unable to resell their shares at a fair price.

Investors in this offering will experience immediate substantial dilution of their investment As of June 30, 2014, our shareholders had acquired and retain a total of 16,334,750 shares of common stock for an aggregate investment of \$3,116,000, including cash and the value assigned to certain assets transferred to our company, or an average price of \$0.19 per share. During July 2014, the Company sold a total of 650,003 additional shares of common stock in a private placement for net proceeds of \$325,002, increasing the average purchase price per share to \$0.20. This compares to a price of \$1.00 per share for investors in this offering. On a pro forma basis, after giving effect to the sale of 650,003 shares of common stock through September 19, 2014, our as-adjusted net tangible book value as of June 30, 2014 would have been approximately \$2,573,916, or approximately \$0.15 per share. After giving effect to the sale of shares of our common stock in this offering, assuming a public offering price of \$1.00 per share, after deducting estimated offering expenses payable by us, our adjusted pro forma net tangible book value as of June 30, 2014 would have been \$5,473,916, or \$0.27 per share. Investors in this offering will therefore experience immediate dilution of their investment of \$0.73 or 73% of their investment.

A small number of existing shareholders own a significant amount of our common stock, which could limit your ability to influence the outcome of any shareholder vote Our executive officers and directors beneficially own approximately 45% of our common stock as of the date of this prospectus. Under our Articles of Incorporation and Colorado law, the vote of a majority of the shares outstanding is generally required to approve most shareholder action. As a result, these individuals shall strongly influence the outcome of shareholder votes for the foreseeable future, including votes concerning the election of directors, amendments to our Articles of Incorporation or proposed mergers or other significant corporate transactions. We have no existing agreements or plans for mergers or other corporate transactions that would require a shareholder vote at this time. However, shareholders should be aware that they may have limited ability to influence the outcome of any vote in the future.

The sale of a substantial number of shares of our common stock may cause the price of our common stock to decline It is likely that market sales of large amounts of common stock (or the potential for those sales even if they do not actually occur) could cause the market price of our common stock to decline, if a trading market is ever established, which may make it difficult to sell our common stock in the future at a time and price which we deem reasonable or appropriate and may also cause you to lose all or a part of your investment. (See "**SHARES ELIGIBLE FOR FUTURE SALE**").

Since our common stock is not presently listed on a national securities exchange, trading in our shares will likely be subject to rules governing "penny stocks," which will impair trading activity in our shares. Our common stock may be subject to rules adopted by the SEC regulating broker-dealer practices in connection with transactions in penny stocks. Those disclosure rules applicable to penny stocks require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized disclosure document required by the SEC. These rules also require a cooling off period before the transaction can be finalized. These requirements may have the effect of reducing the level of trading activity in any secondary market for our common stock. Many brokers may be unwilling to engage in transactions in our common stock because of the added disclosure requirements, thereby making it more difficult for stockholders to dispose of their shares. (See "**MARKET INFORMATION**").

FINRA sales practice requirements may also limit a shareholder's ability to buy and sell our stock In addition to the penny stock rules promulgated by the SEC, which are discussed in the immediately preceding risk factor, FINRA rules require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit the ability to buy and sell our stock and have an adverse effect on the market value for our shares.

Issuance of our stock in the future could dilute existing shareholders and adversely affect the market price of our common stock, if a public trading market develops We have the authority to issue up to 110,000,000 shares of stock, including 100,000,000 shares of common stock and 10,000,000 shares of preferred stock, and to issue options and warrants to purchase shares of our stock without shareholder approval. Because our common stock is not currently listed on an exchange, we are not required to solicit shareholder approval prior to issuing large blocks of our stock. These future issuances could be at values substantially below the price paid for our common stock by investors in this offering. In addition, we could issue large blocks of our stock to fend off unwanted tender offers or hostile takeovers without further shareholder approval. Because there is presently no trading market for our common stock, the issuance of our stock may have a disproportionately large impact on its price compared to larger companies.

The issuance of preferred stock in the future could adversely affect the rights of the holders of our common stock. An issuance of preferred stock could result in a class of outstanding securities that would have preferences with respect to voting rights and dividends and in liquidation over the common stock and could, upon conversion or otherwise, have all of the rights of our common stock. Our Board of Directors' authority to issue preferred stock could discourage potential takeover attempts or could delay or prevent a change in control through merger, tender offer, proxy contest or otherwise by making these attempts more difficult or costly to achieve.

We have never paid dividends on our common stock and we do not anticipate paying any in the foreseeable future We have not paid dividends on our common stock to date, and we may not be in a position to pay dividends for the foreseeable future. Our ability to pay dividends will depend on our ability to successfully develop our business plan and generate revenue from operations. Further, our initial earnings, if any, will likely be retained to finance our operations. Any future dividends will depend upon our earnings, our then-existing financial requirements and other factors, and will be at the discretion of our Board of Directors. (See "DIVIDEND POLICY").

Forward-Looking Statements

This prospectus contains statements that plan for or anticipate the future. Forward-looking statements include statements about our future business plans and strategies, statements about future revenue, profit and the receipt of working capital, and most other statements that are not historical in nature. In this prospectus, forward-looking statements are often identified by the words "anticipate," "plan," "intend," "believe," "expect," "estimate," and similar words or expressions. All statements other than statements of historical fact are forward-looking statements within the meanings of applicable securities laws. Because forward-looking statements involve future risks and uncertainties, there are factors that could cause actual results to differ materially from those expressed or implied. Prospective investors are urged not to put undue reliance on these forward-looking statements.

A few of the uncertainties that could affect the accuracy of forward-looking statements, besides the specific Risk Factors identified above, include:

- Changes in the general economy affecting the disposable income of the public;
- Changes in environmental law, including federal, state and local legislation;

- Changes in drilling requirements imposed by state or local laws or regulations;
- Terrorist activities within and outside the United States;
- Technological changes in the oil and gas industry;
- Acts and omissions of third parties over which we have no control;
- Inflation and the costs of goods or services used in our operation;
- Access and availability of materials, equipment, supplies, labor and supervision, power and water;
- Interpretation of drill hole results and the uncertainty of reserve estimates;
- The availability of sufficient pipeline and other transportation facilities to carry our production and the impact of these facilities on price;
- The level of demand for the production of oil and gas; and
- Changes in our business strategy.

The Private Securities Litigation Reform Act of 1995, which provides a "safe harbor" for similar statements by existing public companies, does not apply to our offering, as we are not previously registered as a public company.

USE OF PROCEEDS

We estimate that our net proceeds, after deducting the estimated expenses related to this offering will be a maximum of \$2,900,000. However, since there is no minimum number of shares that must be sold to complete the offering, we have illustrated various amounts. There is no assurance that we will sell any or all of the shares. We intend to use the estimated gross proceeds as follows:

Proposed use	Amount of Gross Proceeds		
	\$ 1,000,000	\$ 2,000,000	\$ 3,000,000
Future Drilling and Leasing Activity	\$ 300,000	\$ 1,300,000	\$ 2,300,000
General and Administrative Expenses	\$ 350,000	\$ 350,000	\$ 350,000
Working Capital	\$ 250,000	\$ 250,000	\$ 250,000
Estimated legal, accounting, printing, and travel expenses	\$ 100,000	\$ 100,000	\$ 100,000

The foregoing represents our current intentions based upon our current plans and business condition. Management will have broad discretion in the application of our net proceeds from this offering, and the occurrence of unforeseen events or changes in business conditions could result in the application of our net proceeds from this offering in a manner other than as described in this prospectus.

Pending application in accordance with our plan of operation, the proceeds of this offering may be invested in temporary interest-bearing investments such as checking accounts, time deposits, certificates of deposit and short-term government obligations. We do not intend to invest the proceeds of this offering in a manner that would subject us to regulation as an investment company for purposes of United States securities laws.

We will not receive any proceeds from the sale by the selling shareholders of shares of common stock pursuant to this prospectus.

MARKET FOR COMMON STOCK AND RELATED STOCKHOLDER INFORMATION

Market Information

There currently exists no public trading market for our common stock. However, following the date of this prospectus, we intend to identify one or more registered broker-dealers who might be interested in making application to FINRA to quote our common stock on the OTC Bulletin Board or OTC Markets. There can be no assurance that a public trading market will develop at that time, or be sustained in the future. Without an active public trading market, you may not be able to liquidate your shares without considerable delay, if at all. If a market does develop, the price for our securities may be highly volatile and may bear no relationship to our actual financial condition or results of operations. Factors that we discuss in this prospectus, including the many risks associated with an investment in our stock, may have a significant impact on the market price of our common stock. Also, because of the relatively low expected initial trading price of our common stock, many brokerage firms may be unwilling to effect transactions in the common stock.

Any market which may develop for our common stock will be affected by the offer and sale of securities by the selling shareholders, as well as future sales of securities. We currently have outstanding 16,984,753 shares of our common stock which may be sold under Rule 144 of the Securities Act. See **SHARES ELIGIBLE FOR FUTURE SALE** for additional information.

Holders of our Common Stock

As of September 19, 2014, we had approximately 105 record holders of our common stock who collectively own 16,984,753 shares.

Penny Stock Rules

Due to the price of our common stock, as well as the fact that we do not expect our stock to be listed on a national securities exchange, our stock may be characterized as a "penny stock" under applicable securities regulations. If our stock is or becomes a penny stock, we will be subject to rules adopted by the SEC and FINRA regulating broker-dealer practices in connection with transactions in penny stocks. The broker or dealer proposing to effect a transaction in a penny stock must furnish the customer with a document containing information prescribed by rule and obtain from the customer an executed acknowledgment of receipt of that document.

The broker or dealer must also provide the customer with pricing information regarding the security prior to the transaction and with the written confirmation of the transaction. The broker or dealer must also disclose the aggregate amount of any compensation received or receivable by him in connection with such transaction prior to consummating the transaction and with the written confirmation of the trade. The broker or dealer must also send an account statement to each customer for which he has executed a transaction in a penny stock each month in which such security is held for the customer's account. The existence of these rules may have an adverse effect on the price of our stock, and the willingness of certain brokers to effect transactions in our stock.

Transfer Agent

We currently act as our own transfer agent for our common stock. We anticipate hiring an independent transfer agent in the future in the event that a public market for our stock develops.

Securities Authorized for Issuance Under Equity Compensation Plans

Our Equity Incentive Plan (also as referred to as the "Plan") was adopted to be effective November 30, 2012. The Plan terminates by its terms on November 30, 2022. Under the Plan, a total of 5,000,000 shares of common stock are reserved for issuance thereunder. Set forth below is information as of December 31, 2013, with respect to compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance.

Equity Incentive Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity Incentive Plan	2,000,000	\$0.25	3,000,000

Under the Plan, incentive or non-qualified stock options and/or grants of restricted or non-restricted common stock may be issued to key persons. Key persons include officers, directors, employees, consultants and others providing service to us. The Plan was established to advance the interests of our company and our shareholders by affording key persons, upon whose judgment, initiative and efforts we may rely for the successful conduct of our businesses, an opportunity for investment in our company and the incentive advantages inherent in stock ownership in our company. This Plan gives our board of directors broad authority to grant options and make stock grants to key persons selected by the board while considering criteria such as employment position or other relationship with us, duties and responsibilities, ability, productivity, length of service or association, morale, interest in us, recommendations by supervisors, and other matters, and to set the option price, term of option, and other broad authorities. Options may be granted at a price determined by our board of directors in its sole discretion and may have a term up to 10 years.

Options granted under the Plan may generally be exercised by paying the exercise price to us in cash at the time of exercise. In the event the exercise price is expected to exceed \$2,000 in the aggregate, the board of directors may allow the option holder to surrender shares already owned by him or her in satisfaction of the exercise price, or by "attestation," where a portion of the shares underlying the option are surrendered in payment.

Options granted under the Plan give rise to taxable income to the recipient if the fair market value of the common stock on the date of grant is more than exercise price. In that event, we would receive a corresponding deduction for tax purposes. When a non-qualified option is exercised, the holder is subject to tax on the difference between the exercise price of the option and the fair market value of the stock on the date of exercise at ordinary rates. We receive a corresponding deduction for income tax purposes in that case as well. Recipients of stock grants are subject to tax on the fair market value of the stock on the date of grant and we receive a corresponding deduction.

Shares issued upon exercise of options or upon stock grants under the Plan are "restricted securities" as defined under the Securities Act unless a registration statement covering such shares is effective. Restricted shares cannot be freely sold and must be sold pursuant to an exemption from registration (such as Rule 144) which exemptions typically impose conditions on the sale of the shares.

Federal Income Tax Consequences of the Grant and Exercise of Options

Certain of the federal income tax consequences applicable to the grant and exercise of non-qualified options and incentive options are as follows:

Non-Qualified Options. There are no income tax consequences to the participant or to us when a non-qualified option is granted. When a non-qualified stock option is exercised, in general, the participant recognizes compensation, subject to wage withholding and income tax, equal to the excess of the fair market value of the common stock on the date of exercise over the exercise price. We are generally entitled to a deduction equal to the compensation recognized by the participant, assuming that the compensation satisfies the ordinary, necessary and reasonable compensation requirements for deductibility and that the deduction is not limited by Section 162(m) of the Code.

Incentive Options. When an incentive option is granted, there are no income tax consequences for the participant or us. When an incentive option is exercised, the participant does not recognize income and we do not receive a deduction. The participant, however, must treat the excess of the fair market value of our common stock on the date of exercise over the exercise price as an item of adjustment for purposes of the alternative minimum tax. If the participant makes a "disqualifying disposition" of the common stock (described below) in the same taxable year the incentive option was exercised, there are no alternative minimum tax consequences.

If the participant disposes of our common stock after the participant has held it for at least two years after the incentive option was granted and at least one year after the incentive option was exercised, the amount the participant receives upon the disposition over the exercise price is treated as capital gain. We are not entitled to a deduction for this amount. If the participant makes a "disqualifying disposition" of common stock by disposing of common stock before it has been held for at least two years after the date the incentive option was granted and at least one year after the date the incentive option was exercised, the participant recognizes compensation income equal to the excess of:

- the fair market value of common stock on the date the incentive option was exercised or, if less, the amount received on the disposition, over
- the exercise price.

We are not required to withhold income or other taxes in connection with a "disqualifying disposition." We are generally entitled to a deduction equal to the compensation recognized by the participant, assuming that the compensation satisfies the ordinary, necessary and reasonable compensation requirements for deductibility and that the deduction is not limited by Section 162(m) of the Code.

Code Section 409A. Section 409A of the Code provides that all amounts deferred under a nonqualified deferred compensation plan are currently includible in gross income to the extent they are not subject to a substantial risk of forfeiture and have not been taxed previously unless the plan satisfies both the plan document and operational requirements specified in Section 409A of the Code. If the deferred compensation plan fails to satisfy the requirements of Section 409A, all amounts deferred for the year of the failure and all preceding years (to the extent they are not subject to a substantial risk of forfeiture) are included in the gross income of the participant(s) affected by the failure. The amount included in gross income is also subject to an additional tax equal to 20% of that amount and to interest. Incentive options are not subject to Section 409A. We have structured the Plan and expect to administer the Plan with the intention that non-qualified options will qualify for an exemption from Section 409A of the Code.

Code Section 162(m). Under Section 162(m) of the Code, we may be limited as to federal income tax deductions to the extent that total annual compensation in excess of \$1 million is paid to our chief executive officer or any one of the four highest paid executive officers who were employed by us on the last day of the taxable year. However, certain "performance-based compensation," the material terms of which are disclosed to and approved by our shareholders, is not subject to this limitation on deductibility. We have structured the Plan with the intention that compensation resulting from options granted under the plan would be deductible without regard to the limitations otherwise imposed by Section 162(m) of the Code.

Dividend Policy

We have never declared or paid dividends on our common stock. Payment of future dividends, if any, will be at the discretion of our Board of Directors after taking into account various factors, including the terms of any credit arrangements, our financial condition, operating results, current and anticipated cash needs and plans for expansion. At the present time, we are not party to any agreement that would limit our ability to pay dividends.

Dilution

If you invest in our common stock, you will experience dilution to the extent of the difference between the price you pay per share in this initial public offering and the pro forma as adjusted net tangible book value of our common stock immediately after this offering. Our net tangible book value as of June 30, 2014 was approximately \$2,248,914, or approximately \$0.14 per share. Net tangible book value per share is determined by dividing our total tangible assets, less total liabilities, by the number of outstanding shares of our common stock. On a pro-forma basis, after giving effect to the sale of 650,003 shares of common stock subsequent to June 30, 2014, for net proceeds of \$325,002, our as-adjusted net tangible book value as of June 30, 2014 would have been approximately \$2,573,916, or approximately \$0.15 per share without taking into effect any other changes in book value subsequent to that date.

After giving effect to the sale of all of the shares of our common stock in this offering of which there is no assurance, and assuming a public offering price of \$1.00 per share, after deducting estimated offering expenses payable by us, our adjusted pro forma net tangible book value as of June 30, 2014 would have been \$5,473,916, or \$0.27 per share. This amount represents an immediate increase in our pro forma net tangible book value of \$0.12 per share to our existing stockholders and an immediate dilution in our adjusted pro forma net tangible book value of approximately \$0.73 per share to new investors purchasing shares of our common stock in this offering. We determine dilution by subtracting the adjusted pro forma net tangible book value per share after the offering from the amount of cash that a new investor paid for a share of common stock.

Dilution per share to new investors is determined by subtracting pro forma as adjusted net tangible book value per share after this offering from the initial public offering price per share paid by new investors. The following table illustrates this dilution:

Assumed public offering price per share	\$	1.00
Historical net tangible book value per share as of June 30, 2014	\$	0.14
Pro forma increase in historical net tangible book value per share attributable to the private placement completed July 2014	\$	0.01
Pro forma net tangible book value per share as of June 30, 2014	\$	0.15
Increase in pro forma net tangible book value per share attributable to this offering	\$	0.12
Adjusted Pro forma as adjusted net tangible book value per share after this offering	\$	0.27
Dilution per share to new investors	\$	0.73

A \$0.25 increase (decrease) in the assumed initial public offering price of \$1.00 per share would increase (decrease) the pro forma net tangible book value, by \$0.04 per share and the dilution to new investors by \$0.21 per share, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, and after deducting estimated expenses payable by us.

The following table summarizes, on a pro forma basis as of June 30, 2014, the differences between the number of shares of common stock purchased from us, the total consideration and the average price per share paid by existing stockholder and by investors participating in this offering, after deducting estimated offering expenses, at an assumed initial public offering price of \$1.00 per share, the price set forth on the cover of this prospectus.

	Shares Purchased			Total Consideration			Average price/ share
	Number	Percent		Amount	Percent		
Existing stockholder	16,984,753	85%	\$	3,441,002	53%	\$	0.20
New investors	3,000,000	15%		3,000,000	47%		1.00
Total	19,984,753	100%	\$	6,441,002	100%	\$	0.32

The above discussion and tables are based on 16,984,753 shares of common stock issued and outstanding as of June 30, 2014, on a pro forma basis, after giving effect to the sale of 650,003 shares of common stock subsequent to June 30, 2014 and exclude 2,000,000 shares of common stock issuable upon the exercise of stock options outstanding as of June 30, 2014 at an exercise price of \$0.25 per share.

BUSINESS AND PROPERTIES

Our History

We were organized in September 2012 under the laws of the State of Colorado to investigate, acquire and develop oil and gas properties in the Rocky Mountain and mid-continent region of the United States. Since our inception, we have assembled a management team, raised operating capital, completed the acquisition of our first property and commenced our first drilling program. See "**Description of Properties**", below, for a description of our first prospect. The PetroShare management team includes an individual with significant experience in the oil and gas industry and other individuals with many years of executive experience in a variety of businesses. See "**Management**."

We presently hold an interest in approximately 8,400 gross (1,100 net) leased acres in Moffat County, Colorado, which is known as the Buck Peak prospect. We are the operator of two oil and/or gas wells on the Buck Peak Prospect currently in the process of being completed and evaluated. We have not received revenue from operations to date and are considered an exploration stage company for accounting purposes.

Current and Proposed Operations

In 2013, we completed the acquisition of one undeveloped oil and gas prospect, known as the Buck Peak prospect. The prospect consists of interests in various parcels totaling approximately 8,400 gross acres, of which we have acquired approximately 1,100 net acres. The majority of the net acres are located in Section 25 of Township 6 North, Range 90 West, Moffat County, Colorado. Our largest working interest position is concentrated in one 672 acre section located at what we believe to be the crest of the Buck Peak Field structural feature. That is where the two drilled wells, described below, are located.

In December 2013, we completed drilling and casing of two new wells on our Buck Peak prospect. We sold a majority of the working interest in those wells and currently own a 25% working interest. Both wells were successfully drilled and cased. Drilling of the first well (Kowach #3-25) commenced on November 6, 2013. On November 26, 2013, after reaching a true vertical depth of approximately 7,900 feet, we and our working interest partners made the decision to run production liner in order to complete the well in the future following completion of the drilling program and move the rig to commence drilling on the second well (Voloshin #3-25). We are the operator of the wells pursuant to participation agreements and standard form AAPL Form 610 Operating Agreement with our working interest partners. Three other companies, not affiliated with us, are participating in the drilling operations.

As of June 30, 2014, we and our working interest partners had spent approximately \$6.5 million on the two wells and expect to incur additional expenses of approximately \$800,000 to complete the wells. Both wells encountered significant oil shows in the Niobrara Formation and preliminary analysis of the drilling record and well logs indicate the potential for multiple pay zones between the two wells. We commenced stimulation and completion efforts in May 2014. Fracture stimulations were completed and we are currently evaluating the results. Subject to the approval of our working interest partners, we plan to perforate and fracture stimulate an additional prospective zone in the Upper Niobrara section during the fourth quarter of 2014. Upon completion of this proposed work, we would then determine the overall productive capability of the well(s) and if economically productive, install the appropriate surface production facilities and put the well(s) into production.

On May 5, 2014 we entered into a Settlement Agreement and Mutual General Release ("Settlement Agreement") with one of our former working interest partners that was delinquent in its obligations to pay for drilling and completing the two wells that we have started. Under the Settlement Agreement, the delinquent partner agreed to surrender its working interest for total payment of \$1,142,237 by us. We made a non-refundable payment of \$100,000 upon entering into the Settlement Agreement and the final payment of \$1,042,237 on June 16, 2014. Under the terms of the Settlement Agreement, the delinquent partner surrendered its rights under the participation agreement and the joint operating agreement after final payment was made by us. In connection with this Settlement Agreement, we and our three remaining working interest partners purchased additional interests in the two wells such that these three partners now own 75% of the working interest in the two wells and we retain 25%. Under the Settlement Agreement, neither party admitted liability to the other and agreed to mutual releases that became effective upon delivery of the final payment.

Our plan of operation for the remainder of 2014 is to complete multiple zones in each of the two wells on the Buck Peak prospect, evaluate results of those completion efforts, investigate drilling of additional wells on that prospect and investigate and evaluate acquisitions of other oil and gas acreage. We conducted preliminary completion work on the two wells in January and February 2014, under an authorized waiver from stipulations in our drilling permit which require a moratorium to accommodate local wildlife. The preliminary work was designed to test reservoir pressure and develop an appropriate stimulation program. With the preliminary completion work and analysis of drilling records from 2014, we resumed completion work in May 2014, following expiration of the permit moratorium. Our goal is to put the first of the wells on production by the end of 2014. Any cash flow that may result from the initial drilling program will be used to offset general and administrative expenses and fund additional capital programs.

The two wells in which we have participated to date represent the first of what might be an extended program on the Buck Peak prospect. The objectives of the first two wells were to employ modern drilling and logging practices in order to define potential Niobrara production zones, determine reservoir pressures and well bore spacing, and employ modern completion techniques. Our ultimate goal is to develop incremental oil and gas reserves as we endeavor to build our portfolio.

Upon the completion of the two wells, we plan to analyze geophysical, production and pressure data to determine if additional infill wells are warranted and if so, determine if the current 80 acre spacing pattern for the Niobrara will optimize reserve recoveries. In addition, if any other productive zones are delineated, we plan to address the appropriate spacing pattern at that time. Under the current spacing pattern for the Niobrara, we may have up to six additional wells (eight total) which could be drilled in the targeted section.

We have additional minor working interests in acreage (less than 10%) which is governed by a joint operating agreement designating Southwestern Energy as successor to Quicksilver Resources, Inc. and/or SWEPI LP as the operator. Under the provisions of this agreement, Southwestern is the operator and is permitted to propose one or more wells on the acreage covered by the agreement, following which we would be permitted to participate at our election. If we elect to participate, we would be required to pay our proportionate share of the costs and expenses, and would be entitled to a proportionate share of any production, from those wells. No wells have been proposed by Southwestern under this agreement as of the date of this prospectus.

We have in the past and expect to continue in the future, investigating opportunities to acquire additional oil and gas acreage in the area proximate to the Buck Peak prospect. The Niobrara shale formation is undergoing significant development in both Wyoming and parts of northern Colorado, and we hope to encounter opportunities in this region. Our objective will be to acquire leaseholds and properties with a 24 to 36 month development timeline. Depending on opportunities presented to us, we may endeavor to acquire additional undeveloped acreage or one or more producing properties. However, due to our limited personnel and working capital, such opportunities may be limited.

The Niobrara formation is a shale rock formation varying from approximately 200 to 1,500 feet in thickness and extending from Canada to New Mexico, but the vast majority of the oil and gas concentration is in Colorado and Wyoming. The formation generally slopes downward from east to west, from Kansas to western Colorado, from depths of approximately 1,500 feet to 12,000 feet below the surface. Oil and gas companies have been producing resources from the Niobrara for over 100 years, but horizontal drilling techniques and hydraulic fracturing have only recently opened up increased production opportunities in the Niobrara formation.

We anticipate that we will need to raise additional funding in the next 12 months to continue our business operations. While we believe our existing capital and liquidity will be sufficient for general and administrative expenses during that time, we will need additional capital for additional drilling and leasing activities. The amount we invest in drilling and leasing will depend on, among other factors, opportunities presented to us and the success of this offering. The most significant of our future capital requirements include (i) costs to acquire additional acreage; (ii) cost to drill additional wells; (iii) approximately \$46,000 per month for salaries and other corporate overhead; (iv) legal and accounting fees for the filing the registration statement of which this prospectus is a part; and (v) approximately \$16,000 per month in legal and accounting fees associated with our anticipated status as a public company required to file reports with the SEC. We anticipate funding for these projected expenses from proceeds from the sales of our common stock via our most recent private placement, this offering or from additional private equity offerings or anticipated revenue from drilling activities.

Joint Operating Agreement and Participation Agreements

We are the designated operator of the acreage in Section 25 and are registered with the COGCC as an operator of oil and gas wells and properties in the State of Colorado and have posted the appropriate bonds to support our activities. We have entered into an operating agreement with our working interest partners that stipulates, among other things, that each partner is responsible for paying its proportionate share of costs and expenses in connection with drilling the two wells. As operator, we are an independent contractor not subject to the control or direction of our other working interest partners except as to the type of operation to be undertaken as provided in the operating agreement. Further, we are responsible for hiring employees or contractors to conduct operations, taking custody of funds for the account of all working interest partners, keeping books and records relating to operations, and filing operational notices, reports or applications required to be filed with governmental bodies having jurisdiction over operations. Our liability to the other working interest partners for losses sustained or liabilities incurred are limited to losses incurred as a result of our gross negligence or willful misconduct.

Certain participation agreements that we have with our working interest partners establish an area of mutual interest ("AMI") surrounding the drill sites. If either party to a participation agreement acquires one or more leases within the AMI, such partner is required to offer the other party the right to participate in the lease in proportion to the percentage specified in the agreement. Such right continues for a period of two years and so long thereafter as oil and/or gas are produced in paying quantities from the wells.

Buck Peak Acquisition

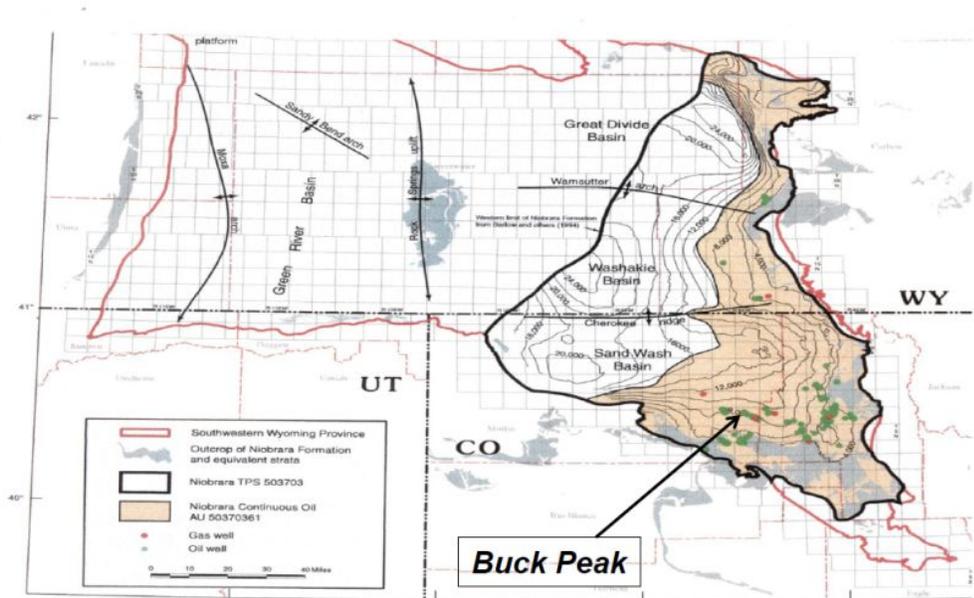
We completed the acquisition of the Buck Peak prospect in April 2013. We paid \$565,310 in cash and issued 67,000 shares of our common stock valued at \$67,000 for this acreage. We paid the entire purchase price from our working capital.

We currently have lease agreements covering the Buck Peak prospect covering approximately 8,400 gross acres and 1,100 net acres. The prospect is located in Northwest Colorado, south of the town of Craig, in Moffat County. Access to the leases is by paved and dirt country roads and private road access. These leaseholds are held under "paid-up" fee leases. All of the acreage is held by oil and gas leases with varying expiration dates, some with options to extend ranging from one to five years, and landowner and other royalties ranging from 20 to 22-1/2%. The leases covering Section 25, where our drilling efforts are currently focused, are held by current drilling and completion efforts and are burdened with total royalties of approximately 22%. However, the leases can be held indefinitely by production.

Unless production is established within the spacing units covering the undeveloped acreage, the leases for such acreage will eventually expire. These leases are scheduled to expire, including potential extensions, at various times beginning in October 2014 and continuing through 2019. If our leases expire in areas we intend to explore, we will have to negotiate the price and terms of lease renewals with the lessors. The costs to renew such leases may increase significantly, and we may not be able to renew such leases on commercially reasonable terms, or at all.

The Buck Peak prospect is located in and around wells drilled in the Buck Peak Field area discovered in the late 1950's and developed off and on through the early 1970's. The Buck Peak field has produced over 6.0 MMBOE from the Niobrara since its discovery and still has active wells producing which are over 40 years old. The original discovery and development wells drilled in the late 1950's and early 1960's on the prospect acreage have been plugged and abandoned. Production records for these old wells maintained by the COGCC indicate that they were still capable of producing economic amounts of oil and gas at the time they were abandoned in 1994.

The following map illustrates the general location of the Buck Peak prospect in the State of Colorado and in relation to the estimated extent of the Niobrara Shale formation:



The primary drilling objective in this area is oil production from the fractured Niobrara Formation. The area has seen resurgence in drilling activity over the past 36 months in conjunction with drilling success in the Niobrara in the DJ Basin, on the front range of Colorado. Active operators in the area have included SWEPI, Gulfport Energy Corp (NYSE GPOR), Axia Energy Partners and others. However, in August 2013, Shell announced its decision to commercialize its assets in the Sand Wash Basin in Moffat and Routt Counties, Colorado as well as other assets in the United States by marketing those assets for sale. Southwestern Energy Co. recently announced that it completed its purchase of 312,000 acres jointly owned by SWEPI and Quicksilver in the Sand Wash Basin.

Secondary objectives consist of coal bed methane and conventional natural gas from the Iles formation and the deeper Morapas Sand.

There are existing active natural gas gathering lines in the Prospect area. These lines connect to a processing plant in the Buck Peak area. The condition and capacity of these lines and the processing facility is uncertain at this time. However, initial investigations indicate that capacity exists in these facilities.

The availability of a ready market for our oil and gas depends upon numerous factors beyond our control, including the extent of domestic production and importation of oil and gas, the relative status of the domestic and international economies, the proximity of our properties to gas pipeline systems, the capacity of those systems, the marketing of other competitive fuels, fluctuations in seasonal demand and governmental regulation of production, refining, transportation and pricing of oil, natural gas and other fuels.

Regulatory Environment

The production and sale of oil and gas are subject to various federal, state and local governmental regulations, which may be changed from time to time in response to economic or political conditions. Matters subject to regulation include discharge permits for drilling operations, drilling bonds, reports concerning operations, the spacing of wells, unitization and pooling of properties, taxation and environmental protection. Many laws and regulations govern the location of wells, the method of drilling and casing wells, the plugging and abandoning of wells, the restoration of properties upon which wells are drilled, temporary storage tank operations, air emissions from flaring, compression, the construction and use of access roads and the disposal of fluids used in connection with operations. From time to time, regulatory agencies have imposed price controls and limitations on production by restricting the rate of flow of oil and gas wells below actual production capacity in order to conserve supplies of oil and gas. Changes in these regulations could have a material adverse effect on the company.

The failure to comply with any such laws and regulations can result in substantial penalties. In addition, the effect of all these laws and regulations may limit the amount of oil and gas we can produce from our wells and may limit the number of wells or the locations at which we can drill. Although we believe we are in substantial compliance with current applicable laws and regulations relating to our oil and gas operations, we are unable to predict the future cost or impact of complying with such laws and regulations because such laws and regulations are frequently amended or reinterpreted.

As the operator of Buck Peak prospect, we are responsible for obtaining all permits and government permission necessary to operate the property. We must obtain permits for any new wells that are drilled. However, we do not expect that such permits or other regulations will be a material impediment to the operation of our business.

In February 2013, the COGCC passed extensive rule changes providing perhaps the most stringent oil and gas regulations in the country, including statewide requirements, commonly known as setbacks, from wells and production facilities, to various structures. In addition, certain Colorado cities, including Fort Collins, Boulder, and Lafayette, have voted to ban hydraulic fracturing. At one time in 2014, there were several proposed ballot initiatives that could have subjected the oil and gas industry to even greater restrictions and regulatory uncertainty. The ballot initiatives included statewide setback distances greater than those currently mandated by the COGCC, as well as proposals for local government control of oil and gas operations. In exchange for withdrawing these potential ballot initiatives, Governor John Hickenlooper has appointed a commission to study the issues and make recommendations regarding any additional regulation.

Any additional regulations that may result from these efforts may increase our costs of exploration and production and limit the quantity of natural gas and oil that we can economically produce to the extent that we use hydraulic fracturing.

Competition

The oil and gas industry is highly competitive. Our competitors and potential competitors include major oil companies and independent producers of varying sizes which are engaged in the acquisition of producing properties and the exploration and development of prospects. Most of our competitors have greater financial, personnel and other resources than we do and therefore has greater leverage with respect to acquiring prospects and producing oil and gas. We believe a high degree of competition in this industry will continue for the foreseeable future.

Intense competition in the industry is not limited to the acquisition of oil and gas properties but also extends to the technical expertise to find, advance, and operate such properties, the labor to operate the properties, and the capital for the purpose of funding such properties. Our inability to compete with other companies for these resources may have a material adverse effect on our results of operation and business.

Company Facilities

Our executive and administrative offices are currently located at 7200 South Alton Way, Suite B-220, Centennial, CO 80112, where we lease approximately 1,400 square feet. Rent is payable at the rate of \$1,933 per month with contractual annual escalations for a term which extends until June 2016. We believe this space is adequate for our needs for the foreseeable future.

Employees

PetroShare currently has two employees, including its Chief Executive Officer and President. It also engages a number of independent contractors to supplement the services of its employees, including geologic, marketing and software development consultants, drilling contractors, attorneys and accountants. We believe our relations with our employees and vendors are outstanding.

Legal Proceedings

Neither the Company nor any of its officers or directors in their capacity as such is a party to any pending legal proceeding and no such proceeding is contemplated to the best of their knowledge and belief.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Overview

The following discussion summarizes our plan of operation for the next twelve months. It also analyzes (i) our financial condition at June 30, 2014 and December 31, 2013 and compares it to December 31, 2013 and December 31, 2012, respectively, and (ii) our results of operations for the three and six months ended June 30, 2014 and 2013 and the year ended December 31, 2013 and the period ended December 31, 2012. This discussion and analysis of financial condition and results of operation should be read in conjunction with the financial statements and related notes included in this prospectus and with the understanding that the actual future results may be materially different from what we currently expect.

We were organized in September 2012 under the laws of the State of Colorado to investigate, acquire and develop oil and gas properties in the Rocky Mountain and mid-continent region of the United States. Since our inception, we have assembled a management team, raised operating capital, completed the acquisition of our first property, and commenced exploration and development of this property. Currently, two exploratory wells have been drilled and are undergoing completion and testing activities. From its inception through April 1, 2014, PetroShare's activities had been accounted for as those of a "Development Stage Enterprise" as set forth in Accounting Standards Codification No. 915 "Development Stage Entities" ("ASC 915"). Beginning the fiscal quarter ended June 30, 2014, the Company elected to apply ASU No. 2014-10 which allows it to terminate the presentation of inception-to-date information.

Upon the completion of the two initial wells, anticipated in the Fall of 2014, we and our working interest partners plan to analyze geophysical, production and pressure data to determine if additional infill wells are warranted on the property and if so, determine if the current 80 acre spacing pattern for the property will optimize reserve recoveries. In addition, if any productive zones besides the Niobrara are delineated, we plan to address the appropriate spacing pattern at that time. Under the current spacing pattern for the property, we may have up to six additional wells (eight total) which could be drilled in the targeted section.

As of June 30, 2014, we have not yet generated revenues, although we hope to generate revenue from our drilling activity during the remainder of calendar 2014. We account for our oil and gas costs using the successful efforts accounting method. Under the successful efforts method, lease acquisition costs, intangible drilling and development costs on successful wells, and development of dry holes are capitalized. Costs of drilling exploratory wells are initially capitalized, but charged to expense if and when a well is determined to be unsuccessful.

Plan of Operation

Our plan of operation for the next 12 months includes completing the two Niobrara oil and gas wells that we began drilling in 2013 in the Buck Peak Prospect and to evaluate opportunities to acquire other interests in oil and gas properties in the region. The first well was drilled vertically and the other well directionally to allow a reasonable offset distance and test what we believe to be separate, undrained, fractured reservoir zones. We financed the drilling and completion costs for the first two wells through the sale of working interests and three private placements of our equity.

We initially sold all but 10% of the working interests in the first two wells to four working interest partners, including a 30% working interest to a third party with which we contemplated a merger. If the contemplated merger did not close, the counterparty's interest decreased to 25%, with our interest in the wells increasing to 15%. On March 10, 2014, we notified the counterparty to the proposed merger that it owed certain funds for its share of the drilling and/or completion costs of the two wells. Shortly thereafter, we notified the counterparty in writing that we terminated the Letter of Intent and all negotiations for the proposed merger. Subsequently, the counterparty alleged claims against us regarding the proposed merger and costs owed for completion of the wells.

Pursuant to the Settlement Agreement, we paid the counterparty a total of \$1,142,237, with the final payment of \$1,042,237 on June 16, 2014 for the surrender of its working interest in the two wells. Concurrently with this Settlement Agreement, we and our three remaining working interest partners purchased additional interests in the two wells such that these three partners own 75% of the working interest in the two wells and we retain 25%. The Company received \$935,537 from these three partners for the purchase of these additional working interests as well as their additional pro-rata share of drilling and completion costs.

If exploration efforts at the Buck Peak Prospect proceed as anticipated, we expect to begin producing oil and gas during the fourth quarter of 2014. Under the terms of the participation agreements, we are required to pay our proportionate share of the costs of the wells. Accordingly, the ultimate success of our business plan depends on our ability to generate sufficient revenue from the sale of produced oil and gas to cover fixed and variable expenses. Moving forward, we believe the major components of our fixed expenses will include executive compensation, general office expenses, and legal and accounting fees, which we anticipate will be similar to our fixed expenses for the quarter ended June 30, 2014 (see further discussion in "**Liquidity and Capital Resources**"). We anticipate that the variable expenses will primarily include acquiring acreage and costs of drilling activities. Any cash flow that may result from the initial drilling program will likely be used to offset general and administrative expenses and fund additional drilling programs and acquisitions. We are unable to predict whether we will have any cash flow from operations unless and until the wells are completed and producing oil and/or gas and even then it may be difficult to predict with a high degree of accuracy.

Assuming the receipt of cash flow from the initial wells being completed on the Buck Peak Prospect as discussed above and the delineation of economic Niobrara zones and spacing, we anticipate undertaking an active leasing and acquisition program beginning in late 2014, targeting what we believe to be geologically desirable areas of the Niobrara formation. We plan to obtain permits for and drill up to 3 additional gross wells (0.75 net wells) in 2015 and an additional 3 gross wells (0.75 net wells) in 2016 in the Buck Peak Prospect area. Our plan is subject to the continued positive economic results of any wells previously drilled and completed and may be modified substantially to redirect capital into new opportunities which we believe may yield better value for our shareholders. We anticipate that any future wells will have reduced costs as compared to the costs of the initial two wells due to significant testing involved in the initial wells. We plan to finance these activities through the sale of private or publicly financed equity and the sale of working interests, as we intend to retain no more than 25% working interest in any well.

Based on our presence in the Buck Peak Prospect area, we may also participate as a non-operator in the drilling of additional wells by virtue of our working interest position in the Buck Peak Prospect area. Other operators known to be active in the area include Southwestern Energy, Peakview Oil Co., and Axia Resources.

In addition, we may have acquisition opportunities in other areas undergoing active development of the Niobrara formation, including but not limited to areas in Wyoming and the northern DJ Basin in Colorado. Our objective will be to acquire leasehold and properties with a 24 to 36 month development timeline. However, without sufficient cash flow from the initial wells being drilled on the Buck Peak Prospect, there may be an absence of working capital to fund future capital expenditures. Thus, funding for further exploration and/or development activities may come from additional equity offerings, although no specific commitments have been made. If we are unable to obtain such financing, we may be forced to forego participation in an opportunity for continued development activity or to acquire an interest in other oil and gas properties in the future.

We have additional minor working interests in acreage offsetting the Buck Peak Prospect (less than 10%) which is governed by a Joint Operating Agreement designating Southwestern Energy as successor to Quicksilver Resources, Inc. as the operator. If and when the operator decides to drill on the acreage in which we own these working interests, we would make a decision about whether to incur the costs of participation.

As of June 30, 2014, we had working capital of \$486,234. Although difficult to anticipate our exact capital requirements, we may require additional capital in the next 12 months for our general and administrative expenses and to participate in other acquisition opportunities. We intend to use the proceeds of this offering to finance those expenses.

Company Development Philosophy. As a general rule, we do not intend to pursue projects that require extensive research and development activities as they relate to drilling and completion practices. However, we will undertake what we believe are cost efficient efforts to understand the potential producing zones in the Niobrara as it manifests in the Buck Peak area with an ultimate objective of delineating a regional resource play similar to those being actively developed in the Power River Basin of Wyoming and Colorado Front Range. We will endeavor to monitor and evaluate the drilling and completion techniques of larger operators in the area (*i.e.*, Southwestern and Axia) and to emulate those techniques that appear to be yielding the best economic results, optimizing them where management believes there is an opportunity. We plan to utilize modern, high resolution 2D and 3D seismic surveys to define target area drilling locations where warranted. We intend to be environmentally responsible and minimize our development footprint while maximizing shareholder value.

Prospect Acquisition & Growth Philosophy. Our philosophy is to utilize our knowledge of target areas, which we believe to be geographically desirable based on our in-house database that indicates extensive natural fracturing of the Niobrara. We expect to then pursue options to acquire small, focused acreage positions (5,000 to 20,000 acres), rather than amassing large, roaming acreage holdings. Prospect acquisitions will be delineated by our geologic data base, integrating current well control and then be covered with modern seismic, modeled after known producing area seismic signatures. We believe this strategy will promote the drilling of economically productive vertical and directional wells with little or no post drilling stimulation required. However, we will apply modern stimulation technology where we believe it will economically increase reserve recovery and enhance shareholder value.

We intend to generate prospects internally by utilizing our proprietary database to narrow target areas and leverage the expertise and industry contacts of our officers and directors. Our database was developed internally over time by our President. However, acquisitions from third parties of production and/or exploration and development acreage positions will be considered. Third-party opportunities must be reviewed by our management team and meet the criteria that our own internally generated prospects must meet.

The following summarizes the general criteria expected to be used for acquisitions:

- Initial identification of acreage positions will be from past knowledge, our existing database and new area activities;
- Any decision to pursue or abandon a particular prospect will be based on a review of the available information such as surface and subsurface geological parameters, reservoir quality, proximity to production facilities, hydrocarbon quality, proximity and quality of oil and gas shows, accessibility to the market, as well as the size of the project;
- The next step will be to determine the availability of additional public or proprietary data that may be purchased or obtained, such as existing seismic and geochemical data, historical production and well log interpretations;
- Next we will make an economic analysis to determine feasibility and economic return potential, using a sensitivity analysis varying costs and recoverable reserves scenarios, applying various discounts to the then current commodity price strip, factoring in area basis differentials and transportation costs; and
- If deemed economical, we will pursue the acquisition of the land by lease, seismic option or by tendering offers for qualifying properties.

In any event, we expect that we will take steps to reduce our risk in any one particular property by syndicating a portion of the prospect areas to our Area of Mutual Interest partners, and/or other independent third parties.

Liquidity and Capital Resources

Overview

All of our capital resources to date have been provided through the sale of equity securities, prospect fees received from working interest partners, and drilling advances from working interest partners. Through June 30, 2014, we received \$3,049,000 in sale of our common stock to accredited investors including \$12,000 from our founders in exchange for common stock. From inception through June 30, 2014, we received \$450,000 in prospect fees from the sale of working interests, \$3,823,402 in drilling advances from these partners, and \$935,537 from these partners for the purchase of the additional 15% working interests as well as their additional pro-rata share of drilling and completion costs. To date we have not generated any cash from operations, we have relied on the sale of equity as well as the sale of working interests and associated drilling advances to fund all of our capital needs.

We anticipate that we will need to raise additional funding in the next 12 months to continue our business operations. While we believe our existing capital and liquidity will be sufficient for general and administrative expenses during that time, we will need additional capital for additional drilling and leasing activities. The amount we invest in drilling and leasing will depend on, among other factors, opportunities presented to us and the success of this offering. The most significant of our future capital requirements include (i) costs to acquire additional acreage; (ii) cost to drill additional wells; (iii) approximately \$46,000 per month for salaries and other corporate overhead; (iv) legal and accounting fees for the filing this registration statement; and (v) approximately \$16,000 per month in legal and accounting fees associated with our anticipated status as a public company required to file reports with the SEC. We anticipate funding for these projected expenses from proceeds from the sales of our shares of common stock via our most recent private placement, this offering or from additional private equity offerings or anticipated revenue from drilling activities.

Working Capital

June 30, 2014. As of June 30, 2014, we had working capital of \$486,234 comprised of current assets of \$1,599,735 and current liabilities of \$1,113,501. Working capital decreased by \$635,922 from \$1,122,156 as of December 31, 2013. Our cash decreased significantly from December 31, 2013 to June 30, 2014, as we paid costs associated with drilling and completing our first two wells. Joint interest billing receivables also decreased significantly. Liabilities accrued during the quarter for drilling costs decreased for the same reason.

December 31, 2013. As of December 31, 2013, our working capital totaled \$1,122,156, consisting of \$3,682,773 of current assets and \$2,560,617 of current liabilities. This represents a substantial increase from the \$5,182 of working capital existing at December 31, 2012, shortly after our initial organization. Cash at December 31, 2013 increased significantly due to a private placement of our common stock completed during the year in which we raised \$2,252,000, and from drilling advances received prior to year end that had not yet been expended. Joint interest billings arose from amounts due from our working interest partners in the Buck Peak Prospect.

Accounts payable and accrued expenses at December 31, 2013 arose primarily from drilling activities prior to year end. Drilling advances that existed at that date related to amounts collected from our working interest partners but not yet spent on drilling and/or completion efforts.

As of the date of this prospectus, we remain dependent on generating cash flow from operations and receipt of additional capital to implement our business plan.

Cash Flows

Six Months Ended June 30, 2014 Compared to June 30, 2013

Operating Activities

Net cash used in operating activities during the six months ended June 30, 2014 was \$1,312,361 compared to \$152,884 during the six months ended June 30, 2013, representing an increase of \$1,159,477. The increase in net cash used by operating activities is attributable to the costs associated with drilling and completing our first two wells and certain prepaid drilling costs offset by cash generated from the collection of joint interest billing receivables. We had no drilling activity in the 2013 period.

Investing Activities

Net cash used in investing activities during the six months ended June 30, 2014 was \$592,742 compared to \$782,469 during the six months ended June 30, 2013, representing a decrease of \$189,727. During the 2014 period, we paid \$183,736 for our share of the development of our properties and \$202,306 for the acquisition of additional working interest in our wells. Pursuant to the Settlement Agreement, we paid the counterparty a total of \$1,142,237 for the surrender of its working interest in the two wells. Concurrently with this Settlement Agreement, we and our three remaining working interest partners purchased additional interests in the two wells such that these three partners own 75% of the working interest in the two wells and we retain 25%. We received \$935,537 from these three partners for the purchase of these additional working interests as well as their additional pro-rata share of drilling and completion costs. During the 2013 period, we paid \$778,083 for the acquisition of properties with no development activity.

Financing Activities

During the six months ended June 30, 2014, we sold 1,570,000 shares of our common stock at \$0.50 per share for gross proceeds of \$785,000. This compares to the sale of 2,254,000 shares of our common stock at a price of \$0.50 per share for gross proceeds of \$1,127,000 during the six months ended June 30, 2013. In July 2014, we completed the private placement commenced in the second quarter, selling an additional 650,003 shares of stock for proceeds of \$325,002.

Year Ended December 31, 2013 Compared to December 31, 2012

Operating Activities

Net cash provided by operating activities during the year ended December 31, 2013 was \$1,041,564. This represents an increase of \$1,048,382 from the net use of \$6,818 during the prior period. The net cash provided by operating activities in 2013 is attributable to our receipt of drilling advances of \$663,560 and an increase in accounts payable of \$1,876,094. However, this increase in cash from operating activities was offset by increases in our joint interest billing receivable of \$981,575. For the prior period we had no accounts payable, drilling advances, or joint interest billing receivable.

Investing Activities

Net cash used in investing activities during the year ended December 31, 2013 was \$609,735. We did not have any investing activities in 2012 as we only commenced operations in September 2012. During 2013, we spent \$605,350 on acquisition and development of our oil and gas properties including the acquisition of our interest in the Buck Peak Prospect for which we paid \$565,310 in cash and stock and payments of \$40,040 for the development of that prospect.

Financing Activities

During the year ended December 31, 2013, we received \$2,252,000 from the sale of 4,504,000 shares of our common stock at a price of \$0.50 per share. During the prior period, we received \$12,000 from our founders for 12,000 shares of our common stock.

Capital Expenditures

As of June 30, 2014, we did not have any material commitments for capital expenditures.

Results of Operations

Three Months Ended June 30, 2014 Compared to June 30, 2013

Overview: For the three months ended June 30, 2014, we reported net income of \$219,029, or \$0.01 per share, compared to a loss during the three months ended June 30, 2013 of \$86,981, or \$0.01 per share. We did not report any revenue in either period. The net income in the second quarter of 2014 resulted from the recovery of a bad debt expense recorded in the prior quarter. Otherwise, we have incurred losses in each reported period since our inception. We began operations on September 4, 2012, thus our activities were limited during the prior period to activities such as fundraising, formulating our business plan and investigating oil and gas properties.

Lease operating and production tax expenses: During the three months ended June 30, 2014, we incurred lease operating expense and production tax of \$2,951 compared to \$nil in the three months ended June 30, 2013.

General and administration expenses: We incurred general and administrative expenses of \$202,378 during the three months ended June 30, 2014 compared to \$78,105 in the three months ended June 30, 2013, representing an increase of \$124,273. This increase is attributable to increases in salary and wage expenses, legal expenses, and accounting fees during the current period compared to limited activity in the prior period as we were commencing operations.

Depreciation, depletion, amortization, and accretion expense: During the three months ended June 30, 2014, we incurred depreciation expense of \$240 compared to \$211 in the three months ended June 30, 2013 related to the deprecation of our property, plant, and equipment assets.

Exploration costs: During the three months ended June 30, 2014, we incurred no exploration costs compared to \$8,665 in the three months ended June 30, 2013. The expenses in the prior period related to investigation of the Buck Peak prospect.

Bad debt expense (recovery): During the quarter ended March 31 2014, we recorded bad debt expense of \$424,591 related to certain amounts owed from one of our working interest partners. During the quarter ended June 30, 2014, pursuant to the Settlement Agreement, the working interest partner owing these amounts surrendered their interest in the wells, and we with the three remaining working interest partners acquired the surrendered interest. As such, during the three months ended June 30, 2014, we recorded the recovery of the allowance for doubtful accounts.

Interest income: During the three months ended June 30, 2014, we recognized interest income of \$7 compared to \$nil in the three months ended June 30, 2013.

Six Months Ended June 30, 2014 Compared to June 30, 2013

Overview: For the six months ended June 30, 2014, we reported a net loss of \$356,193, or \$0.02 per share, compared to a loss during the six months ended June 30, 2013 of \$176,215, or \$0.01 per share. We did not report any revenue in either period. We began operations on September 4, 2012, thus our activities were limited during the prior period to activities such as fundraising, formulating our business plan and investigating oil and gas properties.

Lease operating and production tax expenses: During the six months ended June 30, 2014, we incurred lease operating expense and production tax of \$2,978 compared to \$nil in the six months ended June 30, 2013.

General and administration expenses: We incurred general and administrative expenses of \$352,750 during the six months ended June 30, 2014 compared to \$146,580 in the six months ended June 30, 2013, representing an increase of \$206,170. This increase is attributed to increases in salary and wage expenses, legal expenses, and accounting fees during the current period compared to limited activity in the prior period as we were commencing operations.

Depreciation, depletion, amortization, and accretion expense: During the six months ended June 30, 2014, we incurred depreciation expense of \$481 compared to \$211 in the six months ended June 30, 2013 related to the deprecation of our property, plant, and equipment assets.

Exploration costs: During the six months ended June 30, 2014, we incurred no exploration costs compared to \$29,424 in the six months ended June 30, 2013. The expenses in the prior period related to investigation of the Buck Peak prospect.

Interest income: During the six months ended June 30, 2014, we recognized interest income of \$16 compared to \$nil in the six months ended June 30, 2013.

Year Ended December 31, 2013 Compared to December 31, 2012

Overview: For the year ended December 31, 2013, we reported a net loss of \$504,075, or \$0.04 per share, compared to a loss from inception through December 31, 2012 of \$699,658, or \$0.40 per share. We did not report any revenue in either period. We did not begin operations until September 4, 2012, thus we reported only a partial year of operating activity during 2012. Our activities during that time were limited to raising money, formulating our business plan and investigating oil and gas properties.

Lease operating and production tax expenses: During the year ended December 31, 2013, we incurred lease operating expense and production tax of \$253 compared to \$nil in the prior period.

General and administration expenses: We incurred general and administrative expenses of \$473,668 during the year ended December 31, 2013 compared to \$699,658 in the prior period, representing a decrease of \$225,990. This improvement is attributed to non-cash stock based compensation expense of \$692,840 in 2012 with no similar expense recognized in 2013, offset by increases in 2013 of salary and wage expenses, legal expenses, and accounting fees. The legal and accounting fees in 2013 included significant expenses associated with the proposed business combination that was terminated on March 12, 2014 and the subsequently negotiated Settlement Agreement.

Depreciation, depletion, amortization, and accretion expense: During the year ended December 31, 2013, we incurred depreciation expense of \$631 compared to \$nil in the prior period related to the deprecation of our property, plant, and equipment assets.

Exploration costs: During the year ended December 31, 2013, we incurred exploration costs of \$29,537 compared to \$nil in the prior period.

Interest income: During the year ended December 31, 2013, we recognized interest income of \$14 compared to \$nil in the prior period.

Off-Balance Sheet Arrangements

As of June 30, 2014, we had no off-balance sheet arrangements of the type required to be disclosed by Item 303(a)(5) of Regulation S-K.

JOBS Act Emerging Growth Company

We are an "emerging growth company" as defined in the JOBS Act. We will remain an "emerging growth company" until the earliest to occur of (1) the last day of the fiscal year during which our total annual revenues equal or exceed \$1 billion (subject to adjustment for inflation), (2) the last day of the fiscal year during which occurs the fifth anniversary of our initial public offering, (3) the date on which we have, during the previous three-year period, issued more than \$1 billion in non-convertible debt, or (4) the date on which we are deemed a "large accelerated filer" under the Exchange Act.

As an "emerging growth company," we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to the following:

- not being required to obtain an auditor attestation under Section 404(b) of the Sarbanes Oxley Act;
- reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements;
- exemptions from the requirements of holding a non-binding advisory vote on executive compensation and from holding a vote for stockholder approval of any golden parachute payments not previously approved;
- presenting not more than two years of audited financial statements to make our registration statement effective with respect to an initial public offering;
- delaying adoption of new and revised accounting standards until those standards would otherwise apply to private companies; and
- providing executive compensation disclosure under Item 402 of Regulation S-K to the extent required by smaller reporting companies as defined by rule of the SEC.

Certain exemptions described above are also available to us as a smaller reporting company. Specifically, the reduced disclosure obligation regarding executive compensation under Item 402 of Regulation S-K, presenting not more than two years of audited financial statements, and not being required to obtain an auditor attestation under Section 404(b) of the Sarbanes Oxley Act are the same for an "emerging growth company" such as ours that qualifies as a "smaller reporting company."

Section 102(b) of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act, for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to avail ourselves of this extended transition period and, as a result, we are not required to adopt any new or revised accounting standards on the relevant dates when adoption of such standards are required for other public companies. While we are not required to adopt any new or revised accounting standards on the relevant dates, we may elect to do so.

Critical Accounting Policies

Certain of our accounting policies are important to the portrayal of our financial condition and results of operation, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances.

On April 5, 2012, the JOBS Act was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As an "emerging growth company" we may delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We intend to take advantage of the benefits of this extended transition period. Accordingly, our financial statements may not be comparable to companies that comply with such new or revised accounting standards, if new or revised accounting standards are adopted in the future.

We believe that application of the following accounting policies, which are critical to our financial position and results of operations, requires significant judgments and estimates on the part of management. Our accounting policies are discussed in detail in Note 1 of the Notes to Financial Statements included in this prospectus.

Oil and Gas Properties

Proved. The Company follows the successful efforts method of accounting for its oil and gas properties. Under this method of accounting, all property acquisition costs and development costs are capitalized when incurred and depleted on a units-of-production basis over the remaining life of proved reserves and proved developed reserves, respectively. Costs of drilling exploratory wells are initially capitalized but are charged to expense if the well is determined to be unsuccessful.

We assess our proved oil and gas properties for impairment whenever events or circumstances indicate that the carrying value of the assets may not be recoverable. The impairment test compares undiscounted future net cash flows to the assets' net book value. If the net capitalized costs exceed estimated future net cash flows, then the cost of the property is written down to fair value. Fair value for oil and gas properties is generally determined based on discounted estimate of future net cash flows. Impairment expense for proved properties is reported in exploration and impairment expense.

Net carrying values of retired, sold or abandoned properties that constitute less than a complete unit of depreciable property are charged or credited, net of proceeds, to accumulated depreciation, depletion and amortization unless doing so significantly affects the unit-of-production amortization rate, in which case a gain or loss is recognized in the statement of operations. Gains or losses from the disposal of complete units of depreciable property are recognized in earnings.

Unproved. Unproved properties consist of costs to acquire undeveloped leases as well as costs to acquire unproved reserves. Undeveloped lease costs and unproved reserve acquisitions are capitalized, and individually insignificant unproved properties are amortized on a composite basis, based on past success, past experience and average lease-term lives. We evaluate significant unproved properties for impairment based on remaining lease term, drilling results, reservoir performance, seismic interpretation or future plans to develop acreage. When successful wells are drilled on undeveloped leaseholds, unproved property costs are reclassified to proved properties and depleted on a unit-of-production basis. Impairment expense for unproved properties is reported in exploration and impairment expense.

Exploratory. Geological and geophysical costs, including exploratory seismic studies, and the costs of carrying and retaining unproved acreage are expensed as incurred. Costs of seismic studies that are utilized in development drilling within an area of proved reserves are capitalized as development costs. Amounts of seismic costs capitalized are based on only those blocks of data used in determining development well locations. To the extent that a seismic project covers areas of both developmental and exploratory drilling, those seismic costs are proportionately allocated between development costs and exploration expense.

Costs of drilling exploratory wells are initially capitalized, pending determination of whether the well has found proved reserves. If an exploratory well has not found proved reserves, the costs of drilling the well and other associated costs are charged to expense. Cost incurred for exploratory wells that find reserves, which cannot yet be classified as proved, continue to be capitalized if (a) the well has found a sufficient quantity of reserves to justify completion as a producing well, and (b) the Company is making sufficient progress assessing the reserves and the economic and operating viability of the project. If either condition is not met, or if we obtain information that raises substantial doubt about the economic or operational viability of the project, the exploratory well costs, net of any salvage value, are expensed.

Enhanced Recovery Activities. We may carry out tertiary recovery methods on certain of its oil and gas properties in order to recover additional hydrocarbons that are not recoverable from primary or secondary recovery methods. Acquisition costs of tertiary injectants, such as purchased CO₂, for enhanced oil recovery ("EOR") activities that are used during a project's pilot phase, or prior to a project's technical and economic viability (i.e. prior to the recognition of proved tertiary recovery reserves) are expensed as incurred. After a project has been determined to be technically feasible and economically viable, all acquisition costs of tertiary injectants are capitalized as development costs and depleted, as they are incurred solely for obtaining access to reserves not otherwise recoverable and have future economic benefits over the life of the project. As CO₂ is recovered together with oil and gas production, it is extracted and re-injected, and all the associated CQ recycling costs are expensed as incurred. Likewise costs incurred to maintain reservoir pressure are also expensed.

Recent Accounting Pronouncements

In July 2013, the FASB issued ASU No. 2013-11 "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry-Forward, a Similar Tax Loss, or a Tax Credit Carry-Forward Exists" ("ASU 2013-11"). ASU 2013-11 addresses the diversity in practice that exists for the balance sheet presentation of an unrecognized tax benefit when a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward exists. ASU 2013-11 requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward. ASU No. 2013-11 is effective for our fiscal quarter ending June 30, 2014. ASU 2013-11 impacts balance sheet presentation only. The adoption of ASU No 2013-11 did not have a material impact on the Company's financial statements.

In June 2014, the FASB issued ASU No. 2014-10 "Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation" ("ASU 2014-10"). ASU 2014-10 addresses the cost and complexity associated with the incremental reporting requirements for development stage entities, such as startup companies, without compromising the availability of relevant information and eliminates an exception provided to development stage entities in Topic 810, Consolidation, for determining whether an entity is a variable interest entity on the basis of the amount of investment equity that is at risk. The Company elected to apply ASU 2014-10 for our fiscal quarter ended June 30, 2014. ASU 2014-10 impacts financial statement presentation only and removes the requirement to present additional inception-to-date information.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There have been no changes in or disagreements with our independent registered public accounting firm on accounting or financial disclosure.

MANAGEMENT

Directors and Officers

The following individuals presently serve as our officers and directors:

Name	Age	Positions With the Company	Board Position Held Since
Bill M. Conrad	57	Chairman of the Board and Director	November 2012
Stephen J. Foley	60	Chief Executive Officer and Director	November 2012
Frederick J. Witsell	55	President, Secretary and Director	November 2012

Each of our directors is serving a term which expires at the next annual meeting of our shareholders and until his successor is elected and qualified or until he resigns or is removed. Our officers serve at the will of our board of directors.

Stephen J. Foley should be considered a founder of our company, as he has taken initiative in the organization of our business.

The following information summarizes the business experience of each of our officers and directors for at least the last five years:

Bill M. Conrad, Chairman. Mr. Conrad has served as Chairman of the Board of PetroShare since inception. He is presently an independent consultant, providing financial and management services. From 1990 until December 2012, Mr. Conrad served as Vice-President of MCM Capital Management, Inc., a privately-held financial and management consulting firm. MCM assisted other companies in developing and implementing their business plans and capital formation strategies. In that capacity, Mr. Conrad participated in the organization or development of a number of companies in industries as diverse as oil and gas, real estate, and technology. Mr. Conrad also currently serves (2006 to present) as a director, and since January 1, 2014, as the Chairman of Gold Resource Corporation, a publicly traded gold mining and exploration company with securities listed on the NYSE MKT. Mr. Conrad also currently serves (2005 to present) as a director of Synergy Resources Corporation, a publicly traded oil and gas company with securities listed on the NYSE MKT. Our Board of Directors believes that the management and corporate finance experience developed by Mr. Conrad over many years serving as an executive officer and director of numerous publicly-traded companies, as well as his familiarity with relevant accounting principles and financial statement presentation, make him well-qualified to serve on our board of directors.

Stephen J. Foley, Chief Executive Officer. Mr. Foley has served as the Chief Executive Officer of PetroShare since its inception. Prior to entering private business, Mr. Foley had a successful pro football career as a safety with the Denver Broncos football organization of the National Football League where he played for 11 seasons, from 1976 to 1986. In 1991, Mr. Foley founded and continues to serve as the president of FSI Development Inc., a privately-held construction and development company engaged in residential development and construction, where he devotes a minor portion of his time. In 2000, he founded and continues to serve as a manager of FS Land, LLC, another privately-held real estate development company. He holds a BS in Business Administration from Tulane University and serves on the Board of Denver Street Schools. Our Board of Directors believes that Mr. Foley's experience founding and operating his own business, as well as his significant participation in the development of business strategy and decision-making for the company since its inception provides him with the appropriate experience and qualifications to serve as a member of our board of directors.

Frederick J. Witsell, President and Secretary. Mr. Witsell became our President in November 2012 and assumed the role of Secretary in August 2013. Mr. Witsell has over 32 years' experience in several facets of the oil and gas industry, including prospect development, conventional and horizontal drilling and completion operations, project management, gathering and compression systems, and marketing and risk management. From 2010 to 2011, Mr. Witsell served as Vice-President and General Manager of Monroe Gas Storage, an affiliate of High Sierra Energy Partners, and led the organization's projects and eventual divestiture in 2011. From 1999 to 2003, he was with Markwest Hydrocarbons (NYSE) in the capacity of Vice-President of the Rocky Mountain Business Unit and responsible for the growth thru capital programs and financial performance of the company's oil and gas operations in the US and Canada. Mr. Witsell led the acquisition and eventual divestiture process of Markwest oil and gas assets. Prior to 1999 and at various times between 2003 and 2010 and in 2012, Mr. Witsell also served as an executive and co-founder of a series of small, privately-funded oil and gas companies with properties in North Dakota, Wyoming, Utah and Colorado. He was responsible for the growth and execution of capital programs, utilizing modern horizontal / directional drilling and completion technologies. He led the divestiture of these oil and gas companies. Mr. Witsell has a BA in Geology from Colorado College, an MBA in Energy Management from the University of Denver, and is a member of Society of Petroleum Engineers, the American Association of Petroleum Geologists and the Rocky Mountain Association of Geologists. Our board of directors believes that Mr. Witsell is well-qualified to serve as a director and executive officer of the company as a result of his extensive oil and gas industry experience including in areas of executive management and operations developed by serving as an executive officer of other oil and gas companies throughout his career.

Director Independence

We have elected to apply the standards of the NYSE MKT for determining the "independence" of our directors. Our board of directors has determined that Bill M. Conrad qualifies as "independent" in accordance with Section 803(A) of the NYSE MKT Company Guide. During the review, our board of directors considered relationships and transactions during 2013 and during the past three fiscal years between each director or any member of his immediate family, on the one hand, and our company and our affiliates, on the other hand. The purpose of this review was to determine whether any such relationships or transactions were inconsistent with a determination that the director is independent. The only compensation or remuneration that we provide to Mr. Conrad during his tenure as a director is compensation as a non-employee director. Neither Mr. Conrad nor any members of his family have participated in any transaction with us that would disqualify him as an "independent" director under the standard described above. Stephen J. Foley and Frederick J. Witsell do not qualify as "independent" because they are our executive officers.

Committees

Audit Committee. We presently do not have an audit committee and the board of directors as a whole will perform the tasks that an audit committee would otherwise perform, including engaging our independent registered public accountants and reviewing their performance and approving their fees, planning the scope and reviewing the results of the audit of our financial statements, and reviewing our accounting and financial reporting procedures and controls. Although we may form an audit committee in the future, there is no assurance as to when or whether we will be able to do so.

Compensation Committee. We presently do not have a compensation committee and the board of directors as a whole will approve the compensation of our executive officers. Executive officers who also serve on the board of directors do not vote on matters pertaining to their own personal compensation. Although we may form a compensation committee in the future, there is no assurance as to when or whether we will be able to do so.

Director Compensation

Bill M. Conrad, our sole independent director, is paid a director's fee in the amount of \$6,500 per month beginning November 2013. None of our other directors are compensated in their capacities as such. We do, however, reimburse all of our directors for reasonable and necessary expenses incurred by them in that capacity.

Further, in December 2012, our board granted options to purchase our common stock to the directors under the Equity Incentive Plan. The options are exercisable at a price of \$0.25 per share for a period of 10 years. (See "**Certain Relationships and Related Transactions**")

We will review our compensation arrangements periodically in the future and may change our compensation policies as our business needs dictate and our resources permit.

Executive Compensation

Stephen J. Foley, our Chief Executive Officer, and Frederick J. Witsell, our President, are each compensated by us at the rate of \$12,500 per month, or \$150,000 per annum under the terms of their respective employment agreements. We also reimburse our officers for reasonable and necessary expenses incurred by them on our behalf. Each individual is also entitled to a severance payment in the event his employment is terminated without cause by our company, Mr. Foley in the amount of 12 months' compensation and Mr. Witsell in an amount equal to the compensation remaining under his then-existing agreement. Both Mr. Foley's and Mr. Witsell's employment agreements contain provisions requiring each of them to perform their duties in good faith, with diligence and to the best of their abilities and prohibiting them from disclosing the company's confidential information. In addition, Mr. Foley's employment agreement includes non-compete and non-solicitation provisions.

The following table summarizes the total compensation of our named executive officers for the two years ended December 31, 2013:

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards ⁽¹⁾	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
Stephen J. Foley ⁽²⁾	2013	\$ 31,250	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 31,250
Chief Executive Officer and Director	2012	—	—	—	115,473	—	—	115,473
Frederick J. Witsell ⁽³⁾	2013	\$ 137,500	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 137,500
President, Director of Operations and Geosciences and Director	2012	—	—	—	230,947	—	—	230,947

(1) The aggregate fair value of the stock option awards on the date of grant was computed in accordance with FASB ASC Topic 718. See Note 8 to the audited financial statements for the year ended December 31, 2013, included in this prospectus, for certain assumptions made in connection with the valuation of these stock options.

(2) Mr. Foley's salary is pursuant to his November 1, 2013 employment agreement.

(3) Mr. Witsell's salary is pursuant to his March 1, 2013 employment agreement.

Outstanding Equity Awards at Year End

The following table sets forth outstanding stock option awards as of December 31, 2013. As of December 31, 2013, the Company had not granted any stock awards.

Name	Number of securities underlying unexercised options (#) exercisable	Number of securities underlying unexercised options (#) unexercisable	Option awards		Option exercise price (\$)	Option expiration date
			Number of securities underlying unexercised options (#)	Number of securities underlying unexercised options (#)		
Bill M. Conrad	500,000 ⁽¹⁾	-	-	-	0.25	12/15/2022
Stephen J. Foley	500,000 ⁽¹⁾	-	-	-	0.25	12/15/2022
Frederick J. Witsell	1,000,000 ⁽¹⁾	-	-	-	0.25	12/15/2022

⁽¹⁾ Represents stock options granted on December 15, 2012 pursuant to the Equity Incentive Plan. These options vested immediately.

Director Compensation

The following table sets forth with respect to the named directors, compensation information inclusive of equity awards and payments made during the years ended December 31, 2013 and 2012 in the director's capacity as a director.

Name		Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$) ⁽¹⁾	All Other Compensation (\$)	Total (\$)
Bill M. Conrad	2013	13,000	-	-	-	13,000
	2012	-	-	115,473	-	115,473
Stephen J. Foley	2013	-	-	-	-	-
	2012	-	-	-	-	-
Frederick J. Witsell	2013	-	-	-	-	-
	2012	-	-	-	-	-

⁽¹⁾ The aggregate fair value of the stock option awards on the date of grant was computed in accordance with FASB ASC Topic 718. See Note 8 to the audited financial statements for the year ended December 31, 2013, included in this prospectus, for certain assumptions made in connection with the valuation of these stock options.

Certain Relationships and Related Transactions

Initial Capitalization. On November 30, 2012, we issued a total of 7,600,000 shares of our common stock to our existing officers and directors for an aggregate price of \$7,600 or \$0.001 per share. The shares were issued to the following individuals and in the following amounts:

Bill M. Conrad	2,200,000 shares
Stephen J. Foley	2,200,000 shares
Frederick J. Witsell	3,200,000 shares

In December 2012, we granted options to purchase a total of 2,000,000 additional shares of our common stock to the foregoing individuals under our Equity Incentive Plan. The options are exercisable at a price of \$0.25 per share for a period of 10 years. Of the total number of options granted, Mr. Witsell received options to purchase 1,000,000 shares and each of the other individuals received options to purchase 500,000 shares.

At the time of these transactions, Messrs. Conrad, Foley, Witsell, and two other individuals who have since resigned their positions, were the only members of our board of directors.

Acquisition of Buck Peak Prospect. Mr. Witsell is the manager and a member of Premier Energy Partners (I) LLC from which we acquired certain working interests in the Buck Peak prospect. Mr. Witsell received \$50,480 for his share of the proceeds payable to Premier. Mr. Witsell abstained from voting on this transaction as a member of the Board of Directors.

Indemnification and Limitation on Liability of Directors

Our Articles of Incorporation and Bylaws provide that we may indemnify, to the fullest extent permitted by Colorado law, any of our directors, officers, employees or agents made or threatened to be made a party to a proceeding, by reason of the person serving or having served in a capacity as such, against judgments, penalties, fines, settlements and reasonable expenses incurred by the person in connection with the proceeding if certain standards are met. At present, there is no pending litigation or proceeding involving any of our directors, officers, employees or agents where indemnification will be required or permitted. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

The Colorado Business Corporation Act (the "CBCA") allows indemnification of directors, officers, employees and agents of a company against liabilities incurred in any proceeding in which an individual is made a party because he was a director, officer, employee or agent of the company if such person conducted himself in good faith and reasonably believed his actions were in, or not opposed to, the best interests of the company, and with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. A person must be found to be entitled to indemnification under this statutory standard by procedures designed to assure that disinterested members of the board of directors have approved indemnification or that, absent the ability to obtain sufficient numbers of disinterested directors, independent counsel or shareholders have approved the indemnification based on a finding that the person has met the standard. Indemnification is limited to reasonable expenses.

Our Articles of Incorporation limit the liability of our directors to the fullest extent permitted by the CBCA. Specifically, our directors will not be personally liable for monetary damages for breach of fiduciary duty as directors, except for:

- any breach of the duty of loyalty to our company or our stockholders;
- acts or omissions not in good faith or that involved intentional misconduct or a knowing violation of law;
- dividends or other distributions of corporate assets that are in contravention of certain statutory or contractual restrictions;
- violations of certain laws; or
- any transaction from which the director derives an improper personal benefit.

Liability under federal securities law is not limited by the Articles.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

As of September 19, 2014, there were a total of 16,984,753 shares of our common stock outstanding, our only class of voting securities currently outstanding. The following table describes the ownership of PetroShare voting securities by: (i) each of our officers and directors; (ii) all of our officers and directors as a group; and (iii) each shareholder known us to own beneficially more than 5% of our common stock. Unless otherwise stated, the address of each of the individuals is our address, 7200 South Alton Way, Suite B-220, Centennial, CO 80112.

In calculating the percentage ownership for each shareholder, we assumed that any options owned by an individual and exercisable within 60 days are exercised, but not the options owned by any other individual.

Name and Address of Beneficial Owner	Shares Beneficially Owned		
	Number	Percentage (%) Before Offering	Percentage (%) After Offering ⁽⁵⁾
Bill M. Conrad ⁽¹⁾	2,500,000 ⁽²⁾	14.3	12.2
Stephen J. Foley ⁽¹⁾	2,095,000 ⁽²⁾	12.0	10.2
Frederick J. Witsell ⁽¹⁾	3,850,000 ⁽³⁾	21.4	18.3
All officers and directors as a group (3 persons)	8,445,000 ⁽⁴⁾	44.5	38.4

(1) Officer and director of PetroShare.

(2) Includes options to acquire 500,000 shares of common stock which are presently exercisable.

(3) Includes options to acquire 1,000,000 shares of common stock which are presently exercisable.

(4) Includes options to acquire 2,000,000 shares of common stock which are presently exercisable.

(5) Assumes that all shares offered by us hereunder are sold.

Changes in Control

We are aware of no circumstances that may give rise to a change in control of our company.

SELLING SHAREHOLDERS

We have agreed to file the registration statement which contains this prospectus on behalf of our selling shareholders. We have also agreed to use our best efforts to keep the registration statement effective and update the prospectus until the securities owned by the selling shareholders have been sold or may be sold without registration or prospectus delivery requirements under the Securities Act. We will pay the costs and fees of registering the shares, but the selling shareholders will pay any brokerage commissions, discounts or other expenses relating to the sale of the shares.

The registration statement which we have filed with the SEC, of which this prospectus forms a part, covers the resale of our common stock by the selling shareholders from time to time under Rule 415 of the Securities Act. Our agreement with the selling shareholders is designed to provide those shareholders some liquidity in their ownership of common stock and to permit secondary public trading of our securities. The selling shareholders may offer our securities covered under this prospectus for resale from time to time. The selling shareholders may also sell, transfer or otherwise dispose of all or a portion of our securities in transactions exempt from the registration requirements of the Securities Act. (See "PLAN OF DISTRIBUTION").

The table below presents information as of September 19, 2014 regarding the selling shareholders and our common stock that the selling shareholders may offer and sell from time to time under this prospectus. The table is prepared based on information supplied to us by those shareholders. Except as otherwise noted, the individuals listed in the table below have sole voting and investment power over the shares. Although we have assumed, for purposes of the table below, that the selling shareholders will sell all of the securities offered by this prospectus, because they may offer all or some of the securities in transactions covered by this prospectus or in another manner, no assurance can be given as to the actual number of shares that will be resold by the selling shareholders. Information covering the selling shareholders may change from time to time, and changed information will be presented in a supplement to this prospectus if and when required. If we are advised of a change in selling shareholders and the new selling shareholders, any pledges, donees or transferees wish to rely upon this prospectus in the resale of their shares, we will file an amendment to the registration statement of which this prospectus is a part. Except as described above, there are no agreements, arrangements or understandings with respect to resale of any of the securities covered by this prospectus.

Name of Selling Shareholder	Number of Shares Owned Prior to the Offering and to be Offered	Shares Owned After the Offering ¹	
		Number	Percent
Kingdom Building Leadership Ministries ²	1,000,000	0	0
Dave Preston	10,000	0	0
Trent and Natalie Wiesen	150,000	0	0
Jeanne David	10,000	0	0
Steven Barrios	110,000	0	0
David and Tiffany Foley	150,000	0	0
Joseph Kimmel	10,000	0	0
Pat and Bernie Hyland	10,000	0	0
Al Foley	150,000	0	0
Hugh Jessiman	10,000	0	0

(1) Assumes that all the shares offered hereby are sold, of which there is no assurance.

(2) The selling shareholder has identified Derek Fuller as the individual with the power to vote and dispose of these shares.

Anita Marshall	10,000	0	0
Nancy J. Foley	10,000	0	0
Carol A. Foley	10,000	0	0
Dewey L. Williams Profit Sharing Plan & Trust ³	50,000	0	0
Dewey L. Williams	10,000	0	0
William E. Skeith	40,000	0	0
Robert M. and Jane M. Igo	40,000	0	0
Mark McGinnis Trust ⁴	70,000	0	0
Verne P. Collier	250,000	0	0
Avery Ellis LLC ⁵	200,000	0	0
Theresa & Jerry Goergen	50,000	0	0
Kevin Hennings	50,000	0	0
Gary C. Huber	150,000	0	0
Cynthia G. Jones	100,000	0	0
Anthony and Jean McGinnis	25,000	0	0
Curtis D. Miller	50,000	0	0
Stephen C. Palmer	50,000	0	0
NFSC, Inc. PSP ⁶	20,000	0	0
David Limpert	150,000	0	0
Allison J. West	40,000	0	0
Brian M. Conrad	60,000	0	0
Thomas P. Brennan	100,000	0	0
A M Gas Marketing Corp. ⁷	100,000	0	0
Randy Scholl	200,000	0	0
Gregory A. Patterson and Julia K. Patterson	250,000	0	0
Frostbridge Fund I LLC ⁸	54,000	0	0
Jason Reid	300,000	0	0
John Reid	100,000	0	0
Astute Enterprises, LLC ⁹	100,000	0	0

(3) The selling shareholder has identified Dewey Williams as the individual with the power to vote and dispose of these shares.

(4) The selling shareholder has identified Mark McGinnis as the individual with the power to vote and dispose of these shares.

(5) The selling shareholder has identified Andrew Scherr as the individual with the power to vote and dispose of these shares.

(6) The selling shareholder has identified Tom Golden as the individual with the power to vote and dispose of these shares.

(7) The selling shareholder has identified Barton Levin as the individual with the power to vote and dispose of these shares.

(8) The selling shareholder has identified David Wersebe as the individual with the power to vote and dispose of these shares.

(9) The selling shareholder has identified Mark Huisinger as the individual with the power to vote and dispose of these shares.

Pensco Trust Company FBO Richard Morean ¹⁰	100,000	0	0
William W. Reid	300,000	0	0
Denney & Denney Capital, LLLP ¹¹	80,000	0	0
Scott C. Chandler	100,000	0	0
Victor E. Loitz	50,000	0	0
Robert C. Lombardi and Cyndy L. Kraft	100,000	0	0
DR-par Solutions, LLC ¹²	100,000	0	0
Henry A. Mora and Catherine A. Mora	200,000	0	0
William Daron Ball and Abra Suzanne Ball	145,024	0	0
Milton D. McKenzie	661,000	0	0
Robin Reed	400,000	0	0
Victory Fund, LLC ¹³	100,000	0	0
CHARLESCLAY, LLC ¹⁴	50,000	0	0
John Carpenter	22,500	0	0
David Witsell	177,000	0	0
Kyle Worsham	27,500	0	0
Fredo P. Killing	100,000	0	0
Shirley H. Witsell	50,000	0	0
Deborah A. Golden	50,000	0	0
Ryan J. Witsell	25,000	0	0
Kellen F. Witsell	25,000	0	0
Jean Staiano	30,000	0	0
John Wilson	10,000	0	0
Lon Garrison	10,000	0	0
Parker Garrison	10,000	0	0
Leyton Garrison	10,000	0	0
Maclain Garrison	10,000	0	0
William Asbury	10,000	0	0
Edgar Arthur Brown	200,000	0	0
Ted and Andrea Bull	30,000	0	0
Gregory S. Callanan	150,000	0	0
Robert M. Chevalier and Elizabeth M. Chevalier	9,000	0	0
Judah Regenstreif	70,000	0	0
David Reid	300,000	0	0
Dennis Arends	122,000	0	0
Steven J. Borelli	50,000	0	0
Robert C. Fay	50,000	0	0

(10) The selling shareholder has identified Richard D. Morean as the individual with the power to vote and dispose of these shares.

(11) The selling shareholder has identified Arthur J. Denney as the individual with the power to vote and dispose of these shares.

(12) The selling shareholder has identified as David Robey as the individual with the power to vote and dispose of these shares.

(13) The selling shareholder has identified Dan Rudden as the individual with the power to vote and dispose of these shares.

(14) The selling shareholder has identified William Lackey as the individual with the power to vote and dispose of these shares.

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Gary K. Guilford	10,000	0	0
Janelle L. Henderson & Stephen C. Palmer, JTWROS	50,000	0	0
Investment Ministries, LLC ¹⁵	150,000	0	0
Noteworthy Financial, Inc. ¹⁶	20,000	0	0
Mitchel Lucero	100,000	0	0
A and WP Living Trust ¹⁷	40,000	0	0
David A. Patterson	10,000	0	0
Richard S. Hensley	50,000	0	0
William L. Pell	90,000	0	0
Quest IRA, Inc. FBO J. Warren Padgett ¹⁸	24,000	0	0
Quest IRA, Inc. FBO Ann M. Padgett ¹⁹	24,000	0	0
Lifetime Partners, LLC ²⁰	50,000	0	0
Joe P. Gallegos and Marianne Gallegos	20,000	0	0
Chris C. Edwards	10,000	0	0
Larry Douglas	100,000	0	0
Quest IRA, Inc. FBO David K. Kennedy ²¹	20,000	0	0
David Kennedy	20,000	0	0
Pensco Trust Company FBO Abby Ball ²²	16,424	0	0
Pensco Trust Company FBO William Ball ²³	38,555	0	0
Paul Davis SEP IRA	50,000	0	0
CFI Fund, LLC ²⁴	50,000	0	0
Russ Jones	100,000	0	0
Daron Ball	200,000	0	0
Christopher N. Dilapo	693,750	0	0
Steven K. Garrison	420,000	0	0
TOTAL	10,539,753	0	0

Except as otherwise noted in the table above and to the best of our knowledge, the selling shareholders are not associated with or affiliates of United States broker-dealers, and at the time of purchase the selling shareholders purchased the securities in the ordinary course of business and did not have any agreements or understandings, directly or indirectly, with any persons to distribute or dispose of the securities. Further, except as otherwise stated, none of the selling shareholders have any relationship to our company, except as a shareholder.

- (15) The selling shareholder has identified Terry Tyson as the individual with the power to vote and dispose of these shares.
- (16) The selling shareholder has identified David Kennedy as the individual with the power to vote and dispose of these shares.
- (17) The selling shareholder has identified Ann Padgett as the individual with the power to vote and dispose of these shares.
- (18) The selling shareholder has identified Warren Padgett as the individual with the power to vote and dispose of these shares.
- (19) The selling shareholder has identified Ann Padgett as the individual with the power to vote and dispose of these shares.
- (20) The selling shareholder has identified Doyle McAlister as the individual with the power to vote and dispose of these shares.
- (21) The selling shareholder has identified David Kennedy as the individual with the power to vote and dispose of these shares.
- (22) The selling shareholder has identified Abby Ball as the individual with the power to vote and dispose of these shares.
- (23) The selling shareholder has identified William Ball as the individual with the power to vote and dispose of these shares.
- (24) The selling shareholder has identified Donald Lester as the individual with the power to vote and dispose of these shares.

Our Distribution

We are offering a total of 3,000,000 shares of common stock on a "best efforts" basis at an offering price of \$1.00 per share. The shares are being offered by us through our officers and directors. No commission will be paid by us to our officers or directors for sales of shares made by them. However, we may retain broker-dealers or other intermediaries to assist in the sale of our shares, and we reserve the right to pay a commission up to 10% of the offering price for sales effectuated through these intermediaries.

No one, including us, or our officers and directors, has made any commitment to purchase any or all of the shares. Rather, we will use our best efforts to find purchasers for the shares for a period of 60 days from the date of this prospectus, subject to any extension in our discretion for up to an additional 90 days. There is no minimum number of shares which must be sold, or sales proceeds which must be received, to complete this offering. As a result, all proceeds will be immediately deposited in our bank account and available for all corporate purposes. Purchasers in this offering will not be entitled to a return of their investment following receipt by us.

We anticipate offering the shares to individuals or entities whom we believe may be interested or who have contacted us with an interest in purchasing the shares. We may sell the shares to a person or entity if they are resident in a state in which we may legally offer and sell the shares. We may also offer the shares to non-residents of the United States. However, we are not obligated to sell the shares to anyone. Due to the restrictions on resale imposed by applicable securities laws, it is not anticipated that any individual or entity will purchase 10% or more of the amount of our stock outstanding at the time of the sale.

In the view of the SEC, any broker-dealer participating in this offering that sells securities would be deemed an "underwriter" as defined in Section 2(11) of the Securities Act of 1933 and any commission paid to such broker would be deemed underwriting compensation. Further, prior to the participation of any broker-dealer, we may be required to obtain the consent of the NASD to the underwriting compensation and arrangements.

The offering price of the shares was determined by us primarily with reference to recent sales prices of our common stock. We also considered factors such as our history and lack of revenue, our assets and the anticipated expenses of exploring and developing our properties. However, the offering price of the common stock should not be used as an indication of the value of the securities or an assurance that purchasers will be able to resell the securities for an amount equal to the offering price or an amount in excess thereof.

Inasmuch as we are offering the common stock directly, and we have not retained an underwriter as might be the case in other offerings, our determination of the offering price has not been determined through negotiation with an underwriter. To the extent that an underwriter has not been involved in determining the price of our securities, investors are subject to an increased risk that the price of our securities have been arrived at arbitrarily.

The fact that we have agreed to register the proposed sales of our common stock on behalf of the selling shareholders may affect our ability to sell stock in this offering. Due to the absence of a trading market for our stock and the concurrent lack of visibility for our company, we will appeal to a limited number of individuals or entities who might be interested in purchasing our stock. To the extent that selling shareholders may attempt to sell stock during the same time, they may appeal to the same individuals or entities and compete with us. Furthermore, the selling shareholders may sell their shares at market prices if our common stock is accepted for quotation on the OTC Bulletin Board while we will offer our shares at a fixed price of \$1.00. This may affect the amount of stock that we are able to sell in this offering and reduce the proceeds which we might otherwise receive. However, we do not expect that the selling shareholders will offer their securities until we are successful in developing a market for our common stock.

Selling Shareholder Distributions

The selling shareholders and their pledgees, donees, transferees or other successors in interest may offer the shares of our common stock from time to time after the date of this prospectus and will determine the time, manner and size of each sale in the over the counter market, in privately negotiated transactions or otherwise. The shares may be offered at a fixed price of \$1.00 per share until such time, if ever, our shares are quoted on the OTC Bulletin Board, following which the shares may be offered at prices prevailing in the market or at privately negotiated prices. The selling shareholders may negotiate, and may pay, brokers or dealers commissions, discounts or concessions for their services. In effecting sales, brokers or dealers engaged by the selling shareholders may allow other brokers or dealers to participate. However, the selling shareholders and any brokers or dealers involved in the sale or resale of the shares may qualify as "underwriters" within the meaning of Section 2(a)(11) of the Securities Act. In addition, the brokers' or dealers' commissions, discounts or concessions may qualify as underwriters' compensation under the Securities Act.

The methods by which the selling shareholders may sell the shares of our common stock include:

- A block trade in which a broker or dealer so engaged will attempt to sell the shares as agent but may position and resell a portion of the block, as principal, in order to facilitate the transaction;
- Sales to a broker or dealer, as principal, in a market maker capacity or otherwise and resale by the broker or dealer for its account;
- Ordinary brokerage transactions and transactions in which a broker solicits purchases;
- Privately negotiated transactions;
- Short sales;
- Any combination of these methods of sale; or
- Any other legal method.

In addition to selling their shares under this prospectus, the selling shareholders may transfer their shares in other ways not involving market makers or established trading markets, including directly by gift, distribution, or other transfer, or sell their shares under Rule 144 of the Securities Act rather than under this prospectus, if the transaction meets the requirements of Rule 144. Any selling shareholder who uses this prospectus to sell his shares will be subject to the prospectus delivery requirements of the Securities Act.

Regulation M under the Exchange Act provides that during the period that any person is engaged in the distribution of our shares of common stock, as defined in Regulation M, such person generally may not purchase our common stock. The selling shareholders are subject to these restrictions, which may limit the timing of purchases and sales of our common stock by the selling shareholders. This may affect the marketability of our common stock.

The selling shareholders may use agents to sell the shares. If this happens, the agents may receive discounts or commissions. The selling shareholders do not expect these discounts and commissions to exceed what is customary for the type of transaction involved. If required, a supplement to this prospectus will set forth the applicable commission or discount, if any, and the names of any underwriters, brokers, dealers or agents involved in the sale of the shares. The selling shareholders and any underwriters, brokers, dealers or agents that participate in the distribution of our common stock offered hereby may be deemed to be "underwriters" within the meaning of the Securities Act, and any profit on the sale of shares by them and any discounts, commissions, concessions or other compensation received by them may be deemed to be underwriting discounts and commissions under the Securities Act. The selling shareholders may agree to indemnify any broker or dealer or agent against certain liabilities relating to the selling of the shares, including liabilities arising under the Securities Act.

Upon notification by the selling shareholders that any material arrangement has been entered into with a broker or dealer for the sale of the shares through a block trade, special offering, exchange distribution or secondary distribution or a purchase by a broker or dealer, we will file a supplement to this prospectus, if required, pursuant to Rule 424(b) under the Securities Act, disclosing the material terms of the transaction.

DETERMINATION OF OFFERING PRICE

Our common stock is being offered by the selling shareholders at a price of \$1.00 per share, until such time, if ever as our common stock is listed on the OTC Bulletin Board or OTC Markets. The price of the shares was determined by us in negotiation with certain of our selling shareholders and primarily with reference to recent sales prices of our common stock. We also considered factors such as our history and limited revenue and other factors which our management considered in determining, in their best judgment, the fair market value of our common stock. However, the offering price of the common stock should not be used as an indication of the value of the securities or an assurance that purchasers will be able to resell the securities for an amount equal to the offering price or an amount in excess thereof.

DESCRIPTION OF CAPITAL STOCK

Our authorized capital consists of 100,000,000 shares of common stock, \$0.001 par value per share, and 10,000,000 shares of preferred stock, \$0.01 per share. As of September 19, 2014, we had 16,984,753 shares of common stock issued and outstanding, and no shares of preferred stock outstanding.

The following discussion summarizes the rights and privileges of our capital stock. This summary is not complete, and you should refer to our Articles of Incorporation, as amended, filed with the Colorado Secretary of State.

Common Stock

The holders of our common stock are entitled to one vote for each share held of record on all matters submitted to stockholders, including the election of directors. Cumulative voting for directors is not permitted. Except as provided by special agreement, the holders of common stock are not entitled to any preemptive rights and the shares are not redeemable or convertible. All outstanding common stock is, and all common stock offered hereby will be, when issued and paid for, fully paid and non-assessable. The number of authorized shares of common stock may be increased or decreased (but not below the number of shares then outstanding or otherwise reserved under obligations for issuance by us) by the affirmative vote of a majority of shares cast at a meeting of our shareholders at which a quorum is present.

Our Articles of Incorporation and Bylaws do not include any provision that would delay, defer or prevent a change in control of our company. However, as a matter of Colorado law, certain significant transactions would require the affirmative vote of a majority of the shares eligible to vote at a meeting of shareholders which requirement could result in delays to or greater cost associated with a change in control of our company.

The holders of our common stock are entitled to dividends if, as and when declared by our Board of Directors from legally available funds, subject to the preferential rights of the holders of any outstanding preferred stock. Upon any voluntary or involuntary liquidation, dissolution or winding up of our affairs, the holders of our common stock are entitled to share, on a pro rata basis, all assets remaining after payment to creditors and prior to distribution rights, if any, of any series of outstanding preferred stock.

Preferred Stock

Our Articles of Incorporation vest our board of directors with authority to divide the preferred stock into series and to fix and determine the relative rights and preferences of the shares of any such series so established to the full extent permitted by the laws of the State of Colorado and our Articles of Incorporation in respect to, among other things:

- (i) the number of shares to constitute such series and the distinctive designations thereof;
- (ii) the rate and preference of dividends, if any, the time of payment of dividends, whether dividends are cumulative and the date from which any dividend shall accrue;
- (iii) whether preferred stock may be redeemed and, if so, the redemption price and the terms and conditions of redemption;
- (iv) the liquidation preferences payable on preferred stock in the event of involuntary or voluntary liquidation;
- (v) sinking fund or other provisions, if any, for redemption or purchase of preferred stock;
- (vi) the terms and conditions by which preferred stock may be converted, if the preferred stock of any series are issued with the privilege of conversion; and
- (vii) voting rights, if any.

As of the date of this registration statement, we have not designated or authorized any preferred stock for issuance.

Restrictions on Future Sales of Our Common Stock

All of our common stock currently outstanding is subject to restrictions on resale. The shares being offered have not been registered under the Securities Act or under any state securities laws or regulations. Purchasers of the shares may not offer, sell or otherwise dispose of the common stock in the absence of (i) an effective registration for such securities under the Securities Act, or (ii) an opinion of Company's counsel that such registration is not required.

SHARES ELIGIBLE FOR FUTURE SALE

Sales of substantial amounts of common stock (including shares issued upon the exercise of outstanding options) in the public market after this offering could cause the market price of our common stock to decline. Those sales also might make it more difficult for us to sell equity-related securities in the future or reduce the price at which we could sell any equity-related securities.

Rule 144

In general, under Rule 144 as currently in effect, a person who is not an affiliate of our company holding restricted securities that were not acquired from us or an affiliate of our company within the previous year would be entitled to sell those shares free of any restrictions. An affiliate of our company would be entitled to sell, within any three-month period, a number of shares that does not exceed the greater of:

- 1% of the then outstanding shares of our common stock, or
- the average weekly trading volume of our common stock during the four calendar weeks preceding the date of proposed sale.

Sales by affiliates under Rule 144 are also subject to requirements relating to manner of sale and filing of notice with the SEC.

WHERE YOU CAN FIND MORE INFORMATION

You may read and copy any document we file at the SEC's Public Reference Rooms at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Rooms. You can also obtain copies of our SEC filings by going to the SEC's website at <http://www.sec.gov>.

We have filed with the SEC a registration statement on Form S-1 to register the shares of our common stock. This prospectus is part of that registration statement and, as permitted by the SEC's rules, does not contain all of the information set forth in the registration statement. For further information about us or our common stock, you may refer to the registration statement and to the exhibits filed as part of the registration statement. The description of all agreements or the terms of those agreements contained in this prospectus are specifically qualified by reference to the agreements, filed or incorporated by reference in the registration statement.

We will provide copies of our reports and other information which we file with the SEC without charge to each person who receives a copy of this prospectus. Your request for this information should be directed in writing to our secretary, Frederick Witsell, at our corporate office in Colorado. You can also review this information at the public reference rooms of the SEC and on the SEC's website as described above.

LEGAL MATTERS

We have been advised on the legality of the shares included in this prospectus by Dufford & Brown, P.C., of Denver, Colorado.

EXPERTS

Our financial statements as of December 31, 2013 and 2012, the period September 4, 2012 (inception) through December 31, 2012, the year ended December 31, 2013 and the period September 4, 2012 (inception) through December 31, 2013 included in this prospectus have been included in reliance on the report of StarkSchenkein, LLP, our independent registered public accounting firm. These financial statements have been included on the authority of this firm as an expert in auditing and accounting.

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PetroShare Corp.
Balance Sheets

	June 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,568,908	\$ 2,689,011
Joint interest billing receivable	13,748	981,575
Prepaid and other assets	17,079	12,187
Total current assets	<u>1,599,735</u>	<u>3,682,773</u>
Oil and Gas Properties-using successful efforts method		
Unproved oil and gas properties	452,780	250,474
Wells in progress	1,202,777	439,873
Oil and gas properties, net	<u>1,655,557</u>	<u>690,347</u>
Property, plant and equipment, net	3,273	3,754
Other assets	103,850	3,850
Total Assets	<u>\$ 3,362,415</u>	<u>\$ 4,380,724</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 1,097,776	\$ 1,894,091
Accounts payable – related parties	15,725	2,966
Drilling advances	-	663,560
Total current liabilities	<u>1,113,501</u>	<u>2,560,617</u>
Total liabilities	<u>1,113,501</u>	<u>2,560,617</u>
Shareholders' Equity:		
Preferred stock-.01 par value 10,000,000 shares authorized; 0 shares issued and outstanding.	-	-
Common stock-.001 par value: 100,000,000 and 100,000,000 shares authorized; 16,334,750 shares and 14,764,750 shares issued and outstanding, respectively	16,335	14,765
Additional paid in capital	3,792,505	3,009,075
Accumulated deficit	(1,559,926)	(1,203,733)
Total Shareholders' Equity	<u>2,248,914</u>	<u>1,820,107</u>
Total Liabilities and Shareholders' Equity	<u>\$ 3,362,415</u>	<u>\$ 4,380,724</u>

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

PetroShare Corp.
Statements of Operations
(unaudited)

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Revenues				
Oil and gas production revenue	\$ -	\$ -	\$ -	\$ -
Costs and Expenses				
Lease operating expense and production taxes	2,951	-	2,978	-
General and administrative expense	202,378	78,105	352,750	146,580
Depreciation, depletion, amortization and accretion	240	211	481	211
Exploration costs	-	8,665	-	29,424
Bad debt expense (recovery)	(424,591)	-	-	-
Total Costs and Expenses	(219,022)	86,981	356,209	176,215
Operating Income (Loss)	219,022	(86,981)	(356,209)	(176,215)
Other Income				
Other income (expense)	7	-	16	-
Total Other Income	7	-	16	-
Net Income (Loss)	\$ 219,029	\$ (86,981)	\$ (356,193)	\$ (176,215)
Net Income (Loss) per Common Share				
Basic	\$ 0.01	\$ (0.01)	\$ (0.02)	\$ (0.01)
Diluted	\$ 0.01	\$ (0.01)	\$ (0.02)	\$ (0.01)
Weighted Average Number of Common Shares Outstanding				
Basic	15,212,277	14,375,484	14,989,750	13,808,619
Diluted	16,183,309	14,375,484	14,989,750	13,808,619

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

PetroShare Corp.
Statements of Cash Flows
(unaudited)

	For the six months ended	
	June 30, 2014	June 30, 2013
Cash flows from operating activities		
Net (loss) for the period	\$ (356,193)	\$ (176,215)
Adjustments to reconcile net loss to net cash (used in) operating activities		
Depreciation expense	481	211
Bad debt expense (recovery)	(424,591)	-
Changes in operating assets and liabilities		
Joint interest billing receivable	1,178,680	-
Prepaid expenses and other assets	(104,892)	(8,700)
Accounts payable and accrued liabilities	(955,045)	21,161
Accounts payable - related parties	12,759	10,659
Drilling advances	(663,560)	-
Net cash (used in) operating activities	(1,312,361)	(152,884)
Cash flows from investing activities		
Additions of furniture fixtures and equipment	-	(4,385)
Development of oil and gas properties	(183,736)	-
Acquisitions of oil and gas properties	(202,306)	(778,084)
Buyout of working interest partner	(1,142,237)	-
Proceeds from working interest partner for additional working interest	935,537	-
Net cash (used in) investing activities	(592,742)	(782,469)
Cash flows from financing activities		
Common stock issued for cash	785,000	1,127,000
Net cash provided by financing activities	785,000	1,127,000
Net (decrease) increase in cash	(1,120,103)	191,647
Cash		
Beginning of period	2,689,011	5,182
End of period	<u>\$ 1,568,908</u>	<u>\$ 196,829</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -
Non-cash investing and financing transactions		
Exchange of information for lease interests	\$ -	\$ 8,999
Issuance of common stock for Asset Purchase Agreement	\$ -	\$ 67,000

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

PetroShare Corp.
Statements of Changes in Shareholders' Equity
For the period January 1, 2014 through June 30, 2014

	<u>Common Stock</u>		<u>Additional Paid in Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance, January 1, 2014	14,764,750	\$ 14,765	\$ 3,009,075	\$ (1,203,733)	\$ 1,820,107
Issuance of Common Shares for Cash at \$0.50 per share	1,570,000	1,570	783,430	-	785,000
Net Loss from January 1, 2014 through June 30, 2014	-	-	-	(356,193)	(356,193)
Balance, June 30, 2014 (unaudited)	<u>16,334,750</u>	<u>\$ 16,335</u>	<u>\$ 3,792,505</u>	<u>\$ (1,559,926)</u>	<u>\$ 2,248,914</u>

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

NOTE 1 - ORGANIZATION AND NATURE OF BUSINESS

PetroShare Corp. ("PetroShare" or the "Company") is a corporation that was organized under the laws of the State of Colorado on September 4, 2012 to investigate, acquire and develop oil and gas properties in the Rocky Mountain or mid-continent portion of the United States. Since its inception, PetroShare has focused on financing activities and the acquisition, exploration and development of oil and gas prospects located in Moffat County, Colorado known as the Buck Peak Prospect, which it believes is prospective for oil and natural gas. As of June 30, 2014, two exploratory wells have been drilled and are in the process of completion. To date, the Company has not generated any revenue from these wells. From its inception through April 1, 2014, PetroShare's activities had been accounted for as those of a "Development Stage Enterprise" as set forth in Accounting Standards Codification No. 915 "Development Stage Entities" ("ASC 915"). Beginning the fiscal quarter ended June 30, 2014, the Company elected to apply ASU No. 2014-10 which allows it to terminate the presentation of inception-to-date information.

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared in accordance with Generally Accepted Accounting Principles in the United States ("US GAAP") and applicable rules of the SEC regarding interim financial reporting. Accounting policies conform to US GAAP. Significant policies are discussed below. Certain information and note disclosures normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted pursuant to SEC rules and regulations, although the Company believes that the disclosures included herein are adequate to make the information presented not misleading. Except as noted below, there have been no material changes to the footnotes from those accompanying the audited financial statements contained in this prospectus.

The interim unaudited financial statements have been prepared by the Company. In the opinion of management, the interim unaudited financial statements contain all adjustments (consisting primarily of normal recurring accruals) necessary for a fair statement of the results for the interim periods presented. Results for interim periods are not necessarily indicative of results to be expected for a full year. You should read these interim financial statements in conjunction with the audited financial statements and notes thereto included in this prospectus.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

In July 2013, the FASB issued ASU No. 2013-11 "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" ("ASU 2013-11"). ASU 2013-11 addresses the diversity in practice that exists for the balance sheet presentation of an unrecognized tax benefit when a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward exists. ASU 2013-11 requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward. ASU No. 2013-11 is effective for PetroShare's fiscal quarter ending June 30, 2014. ASU 2013-11 impacts balance sheet presentation only. The adoption of ASU No. 2013-11 did not have a material impact on the Company's financial statements.

In June 2014, the FASB issued ASU No. 2014-10 "Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation" ("ASU 2014-10"). ASU 2014-10 addresses the cost and complexity associated with the incremental reporting requirements for development stage entities, such as startup companies, without compromising the availability of relevant information and eliminates an exception provided to development stage entities in Topic 810, Consolidation, for determining whether an entity is a variable interest entity on the basis of the amount of investment equity that is at risk. The Company elected to apply ASU 2014-10 for our fiscal quarter ended June 30, 2014. ASU 2014-10 impacts financial statement presentation only and removes the requirement to present additional inception-to-date information.

Earnings (Loss) per Common Share

Basic earnings (loss) per share attributable to PetroShare shareholders is computed by dividing net income (loss) attributable to PetroShare shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share attributable to PetroShare shareholders is computed by dividing the net income attributable to PetroShare shareholders by the weighted average number of common shares outstanding during the period adjusted to include the effects of potentially dilutive securities. Potentially dilutive securities include incremental shares issuable upon the exercise of options issued to the management and directors of PetroShare.

The amounts used in computing earnings (loss) per share and the effects of potentially dilutive securities on the weighted average number of common shares were as follows:

	For the three months ended		For the six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Net income (loss) attributable to PetroShare Corp. shareholders	\$ 219,029	\$ (86,981)	\$ (356,193)	\$ (176,215)
Weighted Average number of shares used in basic earnings (loss) per share	15,212,277	14,375,484	14,989,750	13,808,619
Effects of dilutive securities:				
Vested stock options (1)	971,032	-	-	-
Weighted average number of shares used in diluted earnings (loss) per share	16,183,309	14,375,484	14,989,750	13,808,619
Basic earnings (loss) per share attributable to PetroShare Corp shareholders	\$ 0.01	\$ (0.01)	\$ (0.02)	\$ (0.01)
Diluted earnings (loss) per share attributable to PetroShare Corp. shareholders	\$ 0.01	\$ (0.01)	\$ (0.02)	\$ (0.01)

(1) For the three months ended June 30, 2013 and the six months ended June 30, 2014 and 2013, shares underlying certain vested common options outstanding have been excluded from the calculation of diluted earnings (loss) per share, as the inclusion of these shares would have been anti-dilutive.

Joint Interest Billing Receivable

The Company's accounts receivable consists primarily of joint interest billings, which are recorded at the invoiced and to-be-invoiced amounts. Collateral is not required for such receivables, nor is interest charged on past due balances. Joint interest billing receivables are collateralized by the pro rata revenue attributable to the joint interest holders and further by the interest itself. As of June 30, 2014, three partners totaled 100% of the Company's total joint interest billing receivable with no allowance indicated during the period. As of December 31, 2013, four partners totaled 100% of the Company's total joint interest billing receivables with no allowance indicated during the period. During the first quarter of 2014, the Company believed that certain of its joint interest billing accounts receivable may not be fully collectible based on correspondence with one of its working interest partners. Accordingly, as of March 31, 2014, the Company recorded an allowance for doubtful accounts of \$424,591 related to the full amount owed by one of its partners. During the quarter ended June 30, 2014, the Company reached a settlement agreement with the working interest partner allowing for the termination of the partner's interest. In addition, concurrent agreements were executed with the remaining three working interest partners whereby the Company and the three remaining partners acquired the fourth partner's share. As such, during the quarter ended June 30, 2014, the Company recorded the recovery of the allowance for doubtful accounts (Note 3).

Oil and Gas Properties

Proved. PetroShare follows the successful efforts method of accounting for its oil and gas properties. Under this method of accounting, all property acquisition costs and development costs are capitalized when incurred and depleted on a units-of-production basis over the remaining life of proved reserves and proved developed reserves, respectively. Costs of drilling exploratory wells are initially capitalized but are charged to expense if the well is determined to be unsuccessful.

PetroShare assesses its proved oil and gas properties for impairment whenever events or circumstances indicate that the carrying value of the assets may not be recoverable. The impairment test compares estimated undiscounted future net cash flows to the assets' net book value. If the net capitalized costs exceed estimated future net cash flows, then the cost of the property is written down to fair value. Fair value for oil and gas properties is generally determined based on estimated discounted future net cash flows. Impairment expense for proved properties is reported in exploration and impairment expense. The Company did not recognize any impairment expense during the three and six months ended June 30, 2014 or 2013.

Net carrying values of retired, sold or abandoned properties that constitute less than a complete unit of depreciable property are charged or credited, net of proceeds, to accumulated depreciation, depletion and amortization unless doing so significantly affects the unit-of-production amortization rate, in which case a gain or loss is recognized in the statement of operations. Gains or losses from the disposal of complete units of depreciable property are recognized in earnings (loss).

Unproved. Unproved properties consist of costs to acquire undeveloped leases as well as costs to acquire unproved reserves. Undeveloped lease costs and unproved reserve acquisitions are capitalized, and individually insignificant unproved properties are amortized on a composite basis, based on past success, past experience and average lease-term lives. PetroShare evaluates significant unproved properties for impairment based on remaining lease term, drilling results, reservoir performance, seismic interpretation or future plans to develop acreage. When successful wells are drilled on undeveloped leaseholds, unproved property costs are reclassified to proved properties and depleted on a unit-of-production basis. Impairment expense for unproved properties is reported in exploration and impairment expense. The Company did not recognize any impairment expense during the three and six months ended June 30, 2014 or 2013.

Exploratory. Geological and geophysical costs, including exploratory seismic studies, and the costs of carrying and retaining unproved acreage are expensed as incurred. Costs of seismic studies that are utilized in development drilling within an area of proved reserves are capitalized as development costs. Amounts of seismic costs capitalized are based on only those blocks of data used in determining development well locations. To the extent that a seismic project covers areas of both developmental and exploratory drilling, those seismic costs are proportionately allocated between development costs and exploration expense.

Costs of drilling exploratory wells are initially capitalized, pending determination of whether the well contains proved reserves. If an exploratory well does not contain proved reserves, the costs of drilling the well and other associated costs are charged to expense. Costs incurred for exploratory wells that contain reserves, which cannot yet be classified as proved, continue to be capitalized if (a) the well has found a sufficient quantity of reserves to justify completion as a producing well, and (b) PetroShare is making sufficient progress assessing the reserves and the economic and operating viability of the project. If either condition is not met, or if PetroShare obtains information that raises substantial doubt about the economic or operational viability of the project, the exploratory well costs, net of any salvage value, are expensed.

Enhanced Recovery Activities. PetroShare may carry out tertiary recovery methods on certain of its oil and gas properties in order to recover additional hydrocarbons that are not recoverable from primary or secondary recovery methods. Acquisition costs of tertiary injectants, such as purchased CO₂, for enhanced oil recovery ("EOR") activities that are used during a project's pilot phase, or prior to a project's technical and economic viability (i.e. prior to the recognition of proved tertiary recovery reserves) are expensed as incurred. After a project has been determined to be technically feasible and economically viable, all acquisition costs of tertiary injectants are capitalized as development costs and depleted, as they are incurred solely for obtaining access to reserves not otherwise recoverable and have future economic benefits over the life of the project. As CO₂ is recovered together with oil and gas production, it is extracted and re-injected, and all the associated CO₂ recycling costs are expensed as incurred. Likewise costs incurred to maintain reservoir pressure are also expensed.

Drilling Advances

The Company's drilling advances consist of cash provided to the Company from its joint interest partners for planned drilling activities. Advances are applied against the joint interest partner's share of expenses incurred. As of June 30, 2014 and December 31, 2013, drilling advances totaled \$nil and \$663,560, respectively.

Income Taxes

PetroShare recognizes deferred tax assets and liabilities based on differences between the financial reporting and tax bases of assets and liabilities using the enacted tax rates that are expected to be in effect when the differences are expected to be recovered. PetroShare provides a valuation allowance for deferred tax assets for which it does not consider realization of such assets to be more likely than not.

NOTE 3 – ACQUISITIONS AND BUSINESS COMBINATIONS

Asset Purchases

In April 2013, PetroShare acquired working interests in undeveloped acreage located in Moffat County, Colorado known as the Buck Peak Prospect (the "Prospect") consisting of approximately 1,100 net acres. PetroShare acquired the Prospect from two entities: (1) Premier Energy LLC, an entity affiliated with Frederick J. Witsell, the Company's President and Director of Operations/Geosciences and (2) an unaffiliated entity.

- On April 9, 2013, PetroShare acquired 463.29 net acres from the unaffiliated entity for cash consideration of \$341,430.
- On April 18, 2013, PetroShare acquired 623.65 net acres from Premier Energy, LLC for a total purchase price of \$223,880 in cash and 67,000 shares of common stock valued at \$1.00 per share (Note 9).

Asset Exchange

In June and August 2013, PetroShare acquired 17.876 net acres in the Prospect from unaffiliated entities in exchange for certain daily prospective drilling and completion information on one of its two wells ("Asset Exchange," Notes 4 and 5).

Proposed Business Combination

On September 12, 2013, PetroShare entered into a letter of intent (the "Letter of Intent") with a third party (the "Counterparty") outlining the terms and conditions of a transaction between PetroShare and the Counterparty in which (1) the two companies would undertake a business combination in which the existing shareholders of PetroShare would obtain 70% of the Counterparty's common stock issued and outstanding after the transaction and the existing shareholders of the Counterparty would retain 30% of the common stock issued and outstanding after the transaction and (2) PetroShare would grant the Counterparty an option to participate with PetroShare in the drilling activities of one or both of the wells on the Prospect in an amount equal to 30% of 100% of the working interest. Completion of the business combination was subject to a number of contingencies, including negotiation and execution of a definitive agreement and approval of each company's shareholders.

On September 30, 2013, PetroShare and the Counterparty entered into a participation agreement whereby the Counterparty agreed to pay 30% of the total cost and expense of at least one and up to two wells for a 30% working interest thereafter having a net revenue interest of not less than 23.509% in the wells. In the event that the acquisition contemplated in the Letter of Intent was not completed, the Counterparty's interests in the wells would be reduced to 25% and the net revenue interest would be proportionately reduced. At the same time, the parties executed a Joint Operating Agreement related to the wells.

On March 10, 2014, the Company notified the Counterparty that it owed certain funds for its share of the drilling and/or completion costs of the two wells under the Joint Operating Agreement. The Company also indicated that it would suspend the Counterparty's rights under the Joint Operating Agreement for the two wells if it failed to pay its share of the costs by April 9, 2014, and that such failure may be considered to be the Counterparty's election not to participate in the completion of the wells. Shortly thereafter, on March 12, 2014, the Company notified the Counterparty in writing that it terminated the Letter of Intent and all negotiations for the proposed business combination. The Counterparty then notified PetroShare that it disputed the alleged default under the Joint Operating Agreement and raised other claims against the Company.

On May 5, 2014, the parties entered into a Settlement Agreement to settle their claims which required the Company to make a payment to the Counterparty of \$1,142,237 by June 16, 2014 (the Company paid \$100,000 of this amount on May 6, 2014). The Settlement Agreement also included mutual releases that became effective upon receipt of the final payment. The Settlement Agreement acknowledges that neither party admits any liability to the other.

The Company made the final payment of \$1,042,237 on June 16, 2014, and, pursuant to the Settlement Agreement, the Counterparty waived any rights under the Participation Agreement and Joint Operating Agreement.

Concurrently with this Settlement Agreement and after the performance of the Settlement Agreement, the Company and its three remaining working interest partners purchased interests in the two wells such that these three partners own 75% of the working interest in the two wells and the Company retains 25%. During the three months ended June 30, 2014, the Company received \$935,537 from these three partners for the purchase of these additional working interests as well as their additional pro-rata share of drilling and completion costs.

NOTE 4 – OIL AND GAS PROPERTIES

PetroShare's oil and gas exploration and production activities are accounted for using the successful efforts method. Under this method, all property acquisition costs and costs of exploratory and development wells are capitalized when incurred, pending determination of whether the well has found proved reserves. If an exploratory well does not find proved reserves, the costs of drilling the well are charged to expense and included within cash flows from investing activities. The costs of development wells are capitalized whether productive or nonproductive. Lease acquisition costs are also capitalized. Interest cost is capitalized as a component of property cost for significant exploration and development projects that require greater than six months to be readied for their intended use.

Other exploration costs, including certain geological and geophysical expenses and delay rentals for oil and gas leases, are charged to expense as incurred. The sale of a partial interest in a proved property is accounted for as a cost recovery, and no gain or loss is recognized as long as this treatment does not significantly affect the unit of production amortization rate. A gain or loss is recognized for all other sales of proved properties and is classified in other operating revenues. Maintenance and repairs are charged to expense, and renewals and betterments are capitalized to the appropriate property and equipment accounts.

The unit-of-production method of depreciation, depletion, and amortization of gas properties under the successful efforts method of accounting will be applied pursuant to the simple multiplication of units produced by the costs per unit on a field by field basis. Leasehold cost per unit is calculated by dividing the total cost by the estimated total proved oil and gas reserves associated with that field. Well cost per unit is calculated by dividing the total cost by the estimated total proved developed oil and gas reserves associated with that field. The volumes or units produced and asset costs are known and while the proved reserves have a high probability of recoverability, they are based on estimates that are subject to some variability.

Aggregate Capitalized Costs. Aggregate capitalized costs relating to PetroShare's crude oil and natural gas producing activities are shown below:

	June 30, 2014	December 31, 2013
Proved	\$ -	\$ -
Wells in progress	1,202,777	439,873
Unproved	452,780	250,474
Total capitalized costs	<u>\$ 1,655,557</u>	<u>\$ 690,347</u>

Costs Incurred in Oil and Gas Activities. Costs incurred in connection with PetroShare's crude oil and natural gas acquisition, exploration and development activities for each of the periods are shown below:

	For three months ended June 30, 2014	For three months ended June 30, 2013	For six months ended June 30, 2014	For six months ended June 30, 2013
Lease acquisition costs	\$ -	\$ -	\$ -	\$ -
Exploration costs	-	8,665	-	29,424
Total operations	<u>\$ -</u>	<u>\$ 8,665</u>	<u>\$ -</u>	<u>\$ 29,424</u>

In April 2013, PetroShare acquired working interests in undeveloped acreage located in Moffat County, Colorado known as the Prospect consisting of approximately 1,100 net acres. PetroShare acquired the Prospect from two entities: (1) Premier Energy LLC, an entity affiliated with Frederick J. Witsell, the Company's President and Director of Operations/Geosciences and (2) an unaffiliated entity.

- On April 9, 2013, PetroShare acquired 463.29 net acres from the unaffiliated entity for cash consideration of \$341,430.
- On April 18, 2013, PetroShare acquired 623.65 net acres from Premier Energy, LLC for a total purchase price of \$223,880 in cash and 67,000 shares of common stock valued at \$1.00 per share (Note 9).

In June and August 2013, PetroShare acquired 17.876 additional net acres in the Prospect from unaffiliated entities in exchange for certain daily prospective drilling and completion information on one of its two wells (Note 5).

Through June 30, 2014, PetroShare entered into certain participation agreements with third parties in which these parties agreed to participate in the drilling and development of certain of PetroShare's wells. These agreements are detailed below:

- On August 1, 2013, PetroShare entered into a participation agreement whereby it granted a 10% working interest in certain of its wells in exchange for a prospect fee of \$75,000 and the participant's agreement to pay its proportionate share of the costs of the wells.
- On September 30, 2013, PetroShare entered into a participation agreement whereby it granted a 25% working interest in certain of its wells in exchange for a prospect fee of \$187,500 and the participant's agreement to pay its proportionate share of the costs of the wells.
- On September 30, 2013, PetroShare, in association with a proposed business combination, entered into a participation agreement whereby the Counterparty agreed to pay 30% of the total cost and expense of at least one and up to two wells for a 30% working interest thereafter having a net revenue interest of not less than 23.509% in the wells. In the event that the proposed acquisition was not completed, the Counterparty's interests in the wells would be reduced to 25% and the net revenue interest would be proportionately reduced. On March 10, 2014, the Company notified the Counterparty that it owed certain funds for its share of the drilling and/or completion costs of the two wells. On March 12, 2014, the Company notified the Counterparty in writing that it terminated the Letter of Intent and all negotiations for the proposed business combination. On May 5, 2014, the parties entered into a settlement agreement. (See full discussion in Note 3 "Business Combination").
- On November 1, 2013, PetroShare entered into a participation agreement whereby it granted a 25% working interest in certain of its wells in exchange for a prospect fee of \$187,500 and the participant's agreement to pay its proportionate share of the costs of the wells.
- Concurrently with the Settlement Agreement and after the performance of the Settlement Agreement (Note 3), three of the Company's working interest partners collectively acquired an additional 15% working interest in the wells. The Company received \$935,537 from these three partners for the purchase of the additional working interests as well as their additional pro-rata share of drilling and completion costs.

During the three months ended June 30, 2014 and 2013, the Company collected drilling advances from its working interest partners of \$971,345 and \$nil, respectively. During the six months ended June 30, 2014 and 2013, the Company collected drilling advances from its working interest partners of \$1,538,926 and \$nil, respectively. As of the periods ended June 30, 2014 and December 31, 2013, the Company had unused portions of these advances totaling \$nil and \$663,560, respectively.

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liability balances were comprised of trade accounts payable, drilling advances, deferred exploration expenses associated with the Asset Exchange, and accounts payable – related parties and are shown below:

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Trade payables	\$ 1,079,779	\$ 1,876,094
Drilling advances	-	663,560
Deferred exploration expenses (1)	17,997	17,997
Accounts payable – related parties	15,725	2,966
Total accounts payable and accrued liabilities	<u>\$ 1,113,501</u>	<u>\$ 2,560,617</u>

(1) See Note 3 for discussion of the Asset Exchange.

NOTE 6 - SHAREHOLDERS' EQUITY

Common Stock

As of June 30, 2014 and December 31, 2013, PetroShare had 100,000,000 shares of common stock authorized with a par value of \$0.001 per share. As of June 30, 2014 and December 31, 2013, 16,334,750 and 14,764,750 shares were issued and outstanding, respectively. Holders of the common stock are entitled to one vote per share, and dividends may be paid on the common stock at the discretion of the Board of Directors.

During the period from January 1, 2014 through June 30, 2014, the Company had the following activity in its common stock:

- In May 2014, the Board of Directors authorized the sale of the Company's common stock in a private placement. During the second quarter of 2014, the Company sold 1,570,000 shares of common stock at \$0.50 per share for gross proceeds of \$785,000.

Preferred Stock

As of June 30, 2014 and December 31, 2013, PetroShare had 10,000,000 shares of preferred stock authorized with a par value of \$0.01 per share. As of June 30, 2014 and December 31, 2013, there was no preferred stock issued or outstanding.

NOTE 7 - STOCK BASED COMPENSATION

On November 30, 2012, the Board of Directors of PetroShare adopted an Equity Incentive Plan (the "Plan") reserving up to 5,000,000 shares of PetroShare's common stock to be issued in the form of Incentive Options, Non-Qualified Options, Restricted Stock Awards, Stock Bonuses, or other stock grants to certain employees and consultants of PetroShare.

A summary of activity under the Plan through June 30, 2014 is as follows:

PETROSHARE CORP.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
June 30, 2014

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Remaining Contractual Term</u>
Outstanding, December 31, 2012	3,000,000	\$ 0.25	9.96
Granted	-	-	-
Exercised	-	-	-
Forfeited	1,000,000	\$ 0.25	9.35
Outstanding, December 31, 2013	2,000,000	\$ 0.25	8.96
Exercisable, December 31, 2013	<u>2,000,000</u>	<u>\$ 0.25</u>	<u>8.96</u>
Outstanding, December 31, 2013	2,000,000	\$ 0.25	8.96
Granted	-	-	-
Exercised	-	-	-
Forfeited	-	-	-
Outstanding, June 30, 2014	2,000,000	\$ 0.25	8.46
Exercisable, June 30, 2014	<u>2,000,000</u>	<u>\$ 0.25</u>	<u>8.46</u>

NOTE 8 - INCOME TAXES

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

PetroShare has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. No uncertain tax positions have been identified as of June 30, 2014.

PetroShare is in a position of cumulative reporting losses for the current and preceding reporting periods. The volatility of energy prices is not readily determinable by management. At this date, this fact pattern does not allow PetroShare to project sufficient sources of future taxable income to offset tax loss carry-forwards and net deferred tax assets. Under these circumstances, it is management's opinion that the realization of these tax attributes does not reach the "more likely than not criteria" under ASC 740 – Income Taxes. As a result, PetroShare's deferred tax assets as of June 30, 2014 and December 31, 2013 are subject to a full valuation allowance.

NOTE 9 - RELATED PARTY TRANSACTIONS

Pursuant to ASC 850 "Related Party Disclosure", management has evaluated related parties and all transactions associated with those and determined that no transactions exist which would require disclosure, except as disclosed below:

In April 2013, PetroShare acquired working interests in the Buck Peak Prospect from two entities: (1) Premier Energy LLC, an entity affiliated with Frederick J. Witsell, the Company's President and Director of Operations/Geosciences and (2) an unaffiliated entity. As consideration for the purchase from Premier Energy LLC, PetroShare paid cash totaling \$223,880 and 67,000 shares of common stock valued at \$1.00 per share. Pursuant to the Asset Purchase Agreement, the total Purchase Price was allocated among the four members of Premier Energy LLC, including Mr. Witsell, who received \$50,480 in cash and no shares of common stock (Note 3).

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Operating leases and agreements

PetroShare leases its office facilities under a three-year non-cancelable operating lease agreement expiring in June 2016. During the three months ended June 30, 2014 and 2013, lease expense totaled \$5,804 and \$700, respectively. During the six months ended June 30, 2014, and 2013, lease expense totaled \$11,604 and \$3,333, respectively. The table below summarizes future minimum rental payments required under the operating lease agreement:

Year ending December 31,	Amount
2014	\$ 11,951
2015	24,254
2016	12,302
Total	\$ 48,507

Employment agreements

On March 1, 2013, PetroShare executed an employment agreement with Frederick J. Witsell, PetroShare's President and Director of Operations/Geosciences. The one-year agreement provides for an annual salary of \$150,000 and can be terminated by PetroShare at any time with cause or with 30-days' notice without cause in which latter case all consideration due under the agreement is payable immediately upon termination. Pursuant to the terms of the agreement, Mr. Witsell's employment shall continue after the initial term on a year-to-year basis unless terminated pursuant to the terms of the contract.

On November 1, 2013, PetroShare executed an employment agreement with Stephen J. Foley, PetroShare's Chief Executive Officer. The one-year agreement provides for an annual salary of \$150,000 and can be terminated by PetroShare at any time with cause or with 30-days' notice without cause in which latter case all consideration due under the agreement is payable immediately upon termination as well as severance payments equal to twelve months of base salary from the date of termination. Pursuant to the terms of the agreement, Mr. Foley's employment shall continue after the initial term on a year-to-year basis unless terminated pursuant to the terms of the contract.

NOTE 11 - SUBSEQUENT EVENTS

Pursuant to ASC 855, management has evaluated all events and transactions that occurred from July 1, 2014 through the date of issuance of the financial statements. During this period, PetroShare did not have any significant subsequent events, except as disclosed below:

- The Company sold 650,003 shares of common stock to accredited investors in a private placement at a price of \$0.50 per share. The sale of these shares resulted in gross proceeds of \$325,002. The private placement closed on July 18, 2014.



StarkSchenkein, LLP
BUSINESS ADVISORS & CPAs

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
PetroShare Corp.

We have audited the accompanying balance sheets of PetroShare Corp. as of December 31, 2012 and 2013, and the related statements of operations, shareholders' equity, and cash flows for the period from September 4, 2012 (inception) to December 31, 2012, for the year ended as of December 31, 2013, and the period from September 4, 2012 (inception) to December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PetroShare Corp. as of December 31, 2012 and 2013, and the results of its operations and its cash flows for the period from September 4, 2012 (inception) to December 31, 2012, for the year ended as of December 31, 2013, and the period from September 4, 2012 (inception) to December 31, 2013 in conformity with accounting principles generally accepted in the United States of America.

/s/ StarkSchenkein, LLP

StarkSchenkein, LLP
Denver, Colorado
July 2, 2014

PetroShare Corp.
(A Development Stage Enterprise)
Balance Sheets

	December 31, 2013	December 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,689,011	\$ 5,182
Joint interest billing receivable	981,575	-
Prepaid expenses and other assets	12,187	-
Total current assets	3,682,773	5,182
Oil and Gas Properties-using successful efforts method		
Unproved oil and gas properties	250,474	-
Wells in progress	439,873	-
Oil and gas properties, net	690,347	-
Property, plant and equipment, net	3,754	-
Other assets	3,850	-
Total Assets	\$ 4,380,724	\$ 5,182
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 1,894,091	\$ -
Accounts payable – related parties	2,966	-
Drilling advances	663,560	-
Total current liabilities	2,560,617	-
Total liabilities	2,560,617	-
Shareholders' Equity:		
Preferred stock-\$.01 par value: 10,000,000 shares authorized; 0 shares issued and outstanding.	-	-
Common stock-\$.001 par value: 100,000,000 and 100,000,000 shares authorized; 14,764,750 shares and 12,000,000 shares issued and outstanding, respectively	14,765	12,000
Additional paid in capital	3,009,075	692,840
Deficit accumulated during the development stage	(1,203,733)	(699,658)
Total Shareholders' Equity	1,820,107	\$ 5,182
Total Liabilities and Shareholders' Equity	\$ 4,380,724	\$ 5,182

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

PetroShare Corp.
(A Development Stage Enterprise)
Statements of Operations

	For the year ended December 31, 2013	For the period from September 4, 2012 (inception) through December 31, 2012	For the period from September 4, 2012 (inception) through December 31, 2013
Revenues			
Oil and gas production revenue	\$ -	\$ -	\$ -
Costs and Expenses			
Lease operating expense	253	-	253
General and administrative expense	473,668	699,658	1,173,326
Depreciation, depletion, amortization and accretion	631	-	631
Exploration costs	29,537	-	29,537
Total Costs and Expenses	504,089	699,658	1,203,747
Operating (Loss)	(504,089)	(699,658)	(1,203,747)
Other Income			
Interest income	14	-	14
Net (Loss)	\$ (504,075)	\$ (699,658)	\$ (1,203,733)
Net (Loss) per Common Share			
Basic and Diluted	\$ (0.04)	\$ (0.40)	\$ (0.11)
Weighted Average Number of Common Shares Outstanding			
Basic and Diluted	13,888,332	1,728,814	10,917,683

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

PetroShare Corp.
(A Development Stage Enterprise)
Statements of Cash Flows

	For the year ended December 31, 2013	For the period from September 4, 2012 (inception) through December 31, 2012	For the period from September 4, 2012 (inception) through December 31, 2013
Cash flows from operating activities			
Net (loss) for the period	\$ (504,075)	\$ (699,658)	\$ (1,203,733)
<i>Adjustments to reconcile net loss to net cash provided by (used in) operating activities</i>			
Depreciation expense	631	-	631
Share based compensation expense	-	692,840	692,840
Changes in operating assets and liabilities			
Joint interest billing receivable	(981,575)	-	(981,575)
Prepaid expenses and other assets	(16,037)	-	(16,037)
Accounts payable and accrued liabilities	1,876,094	-	1,876,094
Accounts payable – related parties	2,966	-	2,966
Drilling advances, net	663,560	-	663,560
Net cash provided by (used in) operating activities	<u>1,041,564</u>	<u>(6,818)</u>	<u>1,034,746</u>
Cash flows from investing activities			
Additions of furniture fixtures and equipment	(4,385)	-	(4,385)
Development of oil and gas properties	(40,040)	-	(40,040)
Acquisitions of oil and gas properties	(565,310)	-	(565,310)
Net cash (used in) investing activities	<u>(609,735)</u>	<u>-</u>	<u>(609,735)</u>
Cash flows from financing activities			
Common stock issued for cash	2,252,000	-	2,252,000
Common shares issued to founders	-	12,000	12,000
Net cash provided by financing activities	<u>2,252,000</u>	<u>12,000</u>	<u>2,264,000</u>
Net increase in cash	2,683,829	5,182	2,689,011
Cash			
Beginning of period	5,182	-	-
End of period	<u>\$ 2,689,011</u>	<u>\$ 5,182</u>	<u>\$ 2,689,011</u>
Non-cash investing and financing transactions			
Exchange of information for lease interests	\$ 17,997	\$ -	\$ 17,997
Issuance of common stock for asset purchase agreement	\$ 67,000	\$ -	\$ 67,000
Cancellation of shares	\$ 1,806	\$ -	\$ 1,806

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

PetroShare Corp.
(A Development Stage Enterprise)
Statements of Changes in Shareholders' Equity
For the period September 4, 2012 (inception) through December 31, 2013

	Common Stock		Additional Paid in Capital	Deficit Accumulated During the Development Stage	Total
	Shares	Amount			
Balance, September 4, 2012 (Inception)	-	\$ -	\$ -	\$ -	\$ -
Issuance of Founders' Shares for cash	12,000,000	12,000	-	-	12,000
Stock Based Compensation Expense	-	-	692,840	-	692,840
Net Loss from Inception through December 31, 2012	-	-	-	(699,658)	(699,658)
Balance, December 31, 2012	<u>12,000,000</u>	<u>12,000</u>	<u>692,840</u>	<u>(699,658)</u>	<u>5,182</u>
Issuance of Common Shares for Cash at \$0.50 per share	4,504,000	4,504	2,247,496	-	2,252,000
Issuance of Common Shares in association with Asset Purchase Agreement at \$1.00 per share	67,000	67	66,933	-	67,000
Cancellation of Certain Founders' Shares in association with Separation Agreement	(1,806,250)	(1,806)	1,806	-	-
Net Loss from January 1, 2013 through December 31, 2013	-	-	-	(504,075)	(504,075)
Balance, December 31, 2013	<u>14,764,750</u>	<u>\$ 14,765</u>	<u>\$ 3,009,075</u>	<u>\$ (1,203,733)</u>	<u>\$ 1,820,107</u>

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

NOTE 1 - ORGANIZATION AND NATURE OF BUSINESS

PetroShare Corp. ("PetroShare" or the "Company") is a corporation organized under the laws of the State of Colorado on September 4, 2012. PetroShare is a development stage enterprise organized to investigate, acquire and develop oil and gas properties in the Rocky Mountain or mid-continent portion of the United States. Since its inception, PetroShare has focused on financing activities and the acquisition, exploration and development of oil and gas prospects located in Moffat County, Colorado known as the Buck Peak Prospect, which PetroShare believes is prospective for oil and natural gas. As of December 31, 2013, two exploratory wells have been drilled and are awaiting completion.

NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared in accordance with Generally Accepted Accounting Principles in the United States ("US GAAP"). Accounting policies conform to US GAAP. Significant policies are discussed below.

Development Stage Enterprise

PetroShare has not earned any revenues from its principal operations. Accordingly, PetroShare's activities have been accounted for as those of a "Development Stage Enterprise" as set forth in Accounting Standards Codification No. 915 "Development Stage Entities" ("ASC 915"). Among the disclosures required by ASC 915 are that PetroShare financial statements be identified as those of a development stage company, and that the statements of operations, stockholders' equity and cash flows disclose activity since the date of PetroShare's inception.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Loss Per Common Share

Basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the periods presented. Diluted loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. During the years ended December 31, 2013 and 2012, the Company did not include 2,000,000 and 3,000,000 stock purchase options outstanding, respectively, for purposes of calculating diluted net loss per share, as their effect would be anti-dilutive. All shares issued from inception are considered outstanding for all periods presented, unless returned to treasury or cancelled.

Fair Value Measurement

ASC 820 clarifies that fair value is an exit price, representing the amount that would be received for the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 establishes a three-tiered fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1: Observable inputs such as quoted market prices in active markets;
- Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Cash and Cash Equivalents

PetroShare considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. PetroShare's bank accounts periodically exceed federally insured limits. PetroShare maintains its deposits with high quality financial institutions and, accordingly, believes its credit risk exposure associated with cash is remote.

Joint Interest Billing Receivable

The Company's accounts receivable consists primarily of joint interest billings, which are recorded at the invoiced or to-be-invoiced amounts. Collateral is not required for such receivables, nor is interest charged on past due balances. Joint interest billing receivables are collateralized by the pro rata revenue attributable to the joint interest holders and further by the interest itself. The Company has not had any significant credit losses in the past and believes its joint interest billing accounts receivable are fully collectable. Accordingly, no allowance was indicated at December 31, 2013 or 2012. As of December 31, 2013, four partners totaled 100% of the Company's total joint interest billing receivables. There was no joint interest billing receivable at December 31, 2012.

Oil and Gas Properties

Proved. PetroShare follows the successful efforts method of accounting for its oil and gas properties. Under this method of accounting, all property acquisition costs and development costs are capitalized when incurred and depleted on a units-of-production basis over the remaining life of proved reserves and proved developed reserves, respectively. Costs of drilling exploratory wells are initially capitalized but are charged to expense if the well is determined to be unsuccessful.

PetroShare assesses its proved oil and gas properties for impairment whenever events or circumstances indicate that the carrying value of the assets may not be recoverable. The impairment test compares undiscounted future net cash flows to the assets' net book value. If the net capitalized costs exceed future net cash flows, then the cost of the property is written down to fair value. Fair value for oil and gas properties is generally determined based on discounted future net cash flows. Impairment expense for proved properties is reported in exploration and impairment expense. The Company did not recognize any impairment expense in 2013 or 2012.

Net carrying values of retired, sold or abandoned properties that constitute less than a complete unit of depreciable property are charged or credited, net of proceeds, to accumulated depreciation, depletion and amortization unless doing so significantly affects the unit-of-production amortization rate, in which case a gain or loss is recognized in the statement of operations. Gains or losses from the disposal of complete units of depreciable property are recognized in earnings.

Unproved. Unproved properties consist of costs to acquire undeveloped leases as well as costs to acquire unproved reserves. Undeveloped lease costs and unproved reserve acquisitions are capitalized, and individually insignificant unproved properties are amortized on a composite basis, based on past success, past experience and average lease-term lives. PetroShare evaluates significant unproved properties for impairment based on remaining lease term, drilling results, reservoir performance, seismic interpretation or future plans to develop acreage. When successful wells are drilled on undeveloped leaseholds, unproved property costs are reclassified to proved properties and depleted on a unit-of-production basis. Impairment expense for unproved properties is reported in exploration and impairment expense. The Company did not recognize any impairment expense in 2013 or 2012.

Exploratory. Geological and geophysical costs, including exploratory seismic studies, and the costs of carrying and retaining unproved acreage are expensed as incurred. Costs of seismic studies that are utilized in development drilling within an area of proved reserves are capitalized as development costs. Amounts of seismic costs capitalized are based on only those blocks of data used in determining development well locations. To the extent that a seismic project covers areas of both developmental and exploratory drilling, those seismic costs are proportionately allocated between development costs and exploration expense.

Costs of drilling exploratory wells are initially capitalized, pending determination of whether the well has found proved reserves. If an exploratory well has not found proved reserves, the costs of drilling the well and other associated costs are charged to expense. Cost incurred for exploratory wells that find reserves, which cannot yet be classified as proved, continue to be capitalized if (a) the well has found a sufficient quantity of reserves to justify completion as a producing well, and (b) PetroShare is making sufficient progress assessing the reserves and the economic and operating viability of the project. If either condition is not met, or if PetroShare obtains information that raises substantial doubt about the economic or operational viability of the project, the exploratory well costs, net of any salvage value, are expensed.

Enhanced Recovery Activities. PetroShare may carry out tertiary recovery methods on certain of its oil and gas properties in order to recover additional hydrocarbons that are not recoverable from primary or secondary recovery methods. Acquisition costs of tertiary injectants, such as purchased CO₂, for enhanced oil recovery ("EOR") activities that are used during a project's pilot phase, or prior to a project's technical and economic viability (i.e. prior to the recognition of proved tertiary recovery reserves) are expensed as incurred. After a project has been determined to be technically feasible and economically viable, all acquisition costs of tertiary injectants are capitalized as development costs and depleted, as they are incurred solely for obtaining access to reserves not otherwise recoverable and have future economic benefits over the life of the project. As CO₂ is recovered together with oil and gas production, it is extracted and re-injected, and all the associated CO₂ recycling costs are expensed as incurred. Likewise costs incurred to maintain reservoir pressure are also expensed.

Property, Plant and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using straight-line methods over the estimated useful lives of the related assets. Expenditures for renewals and betterments which increase the estimated useful life or capacity of the asset are capitalized; expenditures for repairs and maintenance are expensed when incurred.

Impairment of Long-Lived Assets

PetroShare has adopted ASC 360, "Accounting for the Impairment or Disposal of Long-Lived Assets," which requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. ASC 360 establishes a single auditing model for long-lived assets to be disposed of by sale. The Company did not recognize any impairment expense in 2013 or 2012.

Drilling Advances

The Company's drilling advances consist of cash provided to the Company from its joint interest partners for planned drilling activities. Advances are applied against the joint interest partner's share of expenses incurred. As of December 31, 2013 and 2012, drilling advances totaled \$663,560 and \$nil, respectively.

Income Taxes

PetroShare recognizes deferred tax assets and liabilities based on differences between the financial reporting and tax bases of assets and liabilities using the enacted tax rates that are expected to be in effect when the differences are expected to be recovered. PetroShare provides a valuation allowance for deferred tax assets for which it does not consider realization of such assets to be more likely than not.

Share Based Compensation

PetroShare uses the Black-Scholes option-pricing model to determine the fair-value of stock-based awards in accordance with ASC 718, "Compensation." The option-pricing model requires the input of highly subjective assumptions, including the option's expected life, the price volatility of the underlying stock, and the estimated dividend yield of the underlying stock. PetroShare's expected term represents the period that stock-based awards are expected to be outstanding and is determined based on the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior as influenced by changes to the terms of its stock-based awards. As there was no historical data available to ascertain a forfeiture rate, the plain vanilla method was applied in calculating the expected term of the options. As PetroShare's common stock is not currently publicly traded, the expected stock price volatility is based on the historical volatility of a group of publicly traded companies that share similar operating metrics and histories. PetroShare has never paid dividends on its common stock and currently does not intend to do so, and as such, the expected dividend yield is zero.

Recently Issued Accounting Pronouncements

In July 2013, the FASB issued ASU No. 2013-11 "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" ("ASU 2013-11"). ASU 2013-11 addresses the diversity in practice that exists for the balance sheet presentation of an unrecognized tax benefit when a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward exists. ASU 2013-11 requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward. ASU No. 2013-11 is effective for PetroShare's fiscal quarter ending June 30, 2014. ASU 2013-11 impacts balance sheet presentation only. PetroShare is currently evaluating the impact of the new pronouncement but believes the balance sheet impact will not be material.

In June 2014, the FASB issued, ASU No. 2014-10 "Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation" ("ASU 2014-10"). ASU 2014-10 addresses the cost and complexity associated with the incremental reporting requirements for development stage entities and eliminate an exception provided to development stage entities in Topic 810, Consolidation, for determining whether an entity is a variable interest entity on the basis of the amount of investment equity that is at risk. ASU 2014-10 is effective for PetroShare's fiscal quarter ending June 30, 2014. ASU 2014-10 impacts financial statement presentation only. PetroShare is currently evaluating the impact of the new pronouncements but believes the balance sheet impact will not be material.

NOTE 3 –ACQUISITIONS AND BUSINESS COMBINATIONS

Asset Purchases

In April 2013, PetroShare acquired working interests in undeveloped acreage located in Moffat County, Colorado known as the Buck Peak Prospect (the "Prospect") consisting of approximately 1,100 net acres. PetroShare acquired the Prospect from two entities: (1) Premier Energy LLC, an entity affiliated with Frederick J. Witsell, the Company's President and Director of Operations/Geosciences and (2) an unaffiliated entity.

- On April 9, 2013, PetroShare acquired 463.29 net acres from the unaffiliated entity for cash consideration of \$341,430.
- On April 18, 2013, PetroShare acquired 623.65 net acres from Premier Energy, LLC for a total purchase price of \$223,880 in cash and 67,000 shares of common stock valued at \$1.00 per share (See Notes 7 and 10).

Asset Exchange

In June and August 2013, PetroShare acquired 17.876 net acres in the Prospect from unaffiliated entities in exchange for certain daily prospective drilling and completion information on one of its two wells ("Asset Exchange," see also Notes 5 and 6).

Business Combination

On September 12, 2013, PetroShare entered into a letter of intent (the "Letter of Intent") with a third party (the "Counterparty") outlining the terms and conditions of a potential transaction between PetroShare and the Counterparty in which (1) the two companies would undertake a business combination in which the existing shareholders of PetroShare would obtain 70% of the Counterparty's common stock issued and outstanding after the transaction and the existing shareholders of the Counterparty would retain 30% of the common stock issued and outstanding after the transaction and (2) PetroShare would grant the Counterparty an option to participate with PetroShare in the drilling activities of one or both of the wells on the Prospect in an amount equal to 30% of 100% of the working interest. Completion of the business combination was subject to a number of contingencies, including negotiation and execution of a definitive agreement and approval of each company's shareholders.

On September 30, 2013, PetroShare and the Counterparty entered into a participation agreement whereby the Counterparty agreed to pay 30% of the total cost and expense of at least one and up to two wells for a 30% working interest thereafter having a net revenue interest of not less than 23.509% in the wells. In the event that the acquisition contemplated in the Letter of Intent was not completed, the Counterparty's interests in the wells would be reduced to 25% and the net revenue interest would be proportionately reduced. At the same time, the parties executed a Joint Operating Agreement related to the wells.

On March 10, 2014, the Company notified the Counterparty that it owed certain funds for its share of the drilling and/or completion costs of the two wells under the Operating Agreement. The Company also indicated that it would suspend the Counterparty's rights under the Joint Operating Agreement for the two wells if it failed to pay its share of the costs by April 9, 2014, and that such failure may be considered to be the Counterparty's election not to participate in the completion of the wells. Shortly thereafter, on March 12, 2014, the Company notified the Counterparty in writing that it terminated the Letter of Intent and all negotiations for the proposed business combination. The Counterparty then notified PetroShare that it disputed the alleged default under the Joint Operating Agreement and raised other claims against the Company.

On May 5, 2014, the parties entered into a Settlement Agreement to settle their claims which required the Company to make a payment to the Counterparty of \$1,142,237 by June 16, 2014 (the Company paid \$100,000 of this amount on May 6, 2014). The Settlement Agreement also included mutual releases that become effective upon receipt of the final payment. The Settlement Agreement acknowledges that neither party admits any liability to the other.

The Company made the final payment of \$1,042,237 on June 16, 2014, and, pursuant to the Settlement Agreement, the Counterparty waived any rights under the Participation Agreement and joint Operating Agreement.

Concurrently with this Settlement Agreement and after the performance of the Settlement Agreement, we and our three remaining working interest partners purchased additional interests in the two wells such that these three partners own 75% of the working interest in the two wells and we retain 25%.

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

Property and equipment balances were comprised of furniture, fixtures, and equipment and are shown below:

	December 31, 2013	December 31, 2012
Property, Plant and Equipment	\$ 4,385	\$ -
Accumulated Depreciation	(631)	-
Total Property, Plant and Equipment, net	\$ 3,754	\$ -

NOTE 5 – OIL AND GAS PROPERTIES

PetroShare's oil and gas exploration and production activities are accounted for using the successful efforts method. Under this method, all property acquisition costs and costs of exploratory and development wells are capitalized when incurred, pending determination of whether the well has found proved reserves. If an exploratory well does not find proved reserves, the costs of drilling the well are charged to expense and included within cash flows from investing activities. The costs of development wells are capitalized whether productive or nonproductive. Lease acquisition costs are also capitalized. Interest cost is capitalized as a component of property cost for significant exploration and development projects that require greater than six months to be readied for their intended use.

Other exploration costs, including certain geological and geophysical expenses and delay rentals for oil and gas leases, are charged to expense as incurred. The sale of a partial interest in a proved property is accounted for as a cost recovery, and no gain or loss is recognized as long as this treatment does not significantly affect the unit of production amortization rate. A gain or loss is recognized for all other sales of proved properties and is classified in other operating revenues. Maintenance and repairs are charged to expense, and renewals and betterments are capitalized to the appropriate property and equipment accounts.

The unit-of-production method of depreciation, depletion, and amortization of gas properties under the successful efforts method of accounting will be applied pursuant to the simple multiplication of units produced by the costs per unit on a field by field basis. Leasehold cost per unit is calculated by dividing the total cost by the estimated total proved oil and gas reserves associated with that field. Well cost per unit is calculated by dividing the total cost by the estimated total proved developed oil and gas reserves associated with that field. The volumes or units produced and asset costs are known and while the proved reserves have a high probability of recoverability, they are based on estimates that are subject to some variability.

PETROSHARE CORP.
(A Development Stage Enterprise)
NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

In April 2013, PetroShare acquired working interests in undeveloped acreage located in Moffat County, Colorado known as Buck Peak Prospect (the "Prospect") consisting of approximately 1,100 net acres. PetroShare acquired the Prospect from two entities: (1) Premier Energy LLC, an entity affiliated with Frederick J. Witsell, the Company's President and Director of Operations/Geosciences and (2) an unaffiliated entity.

- On April 9, 2013, PetroShare acquired 463.29 net acres from the unaffiliated entity for cash consideration of \$341,430.
- On April 18, 2013, PetroShare acquired 623.65 net acres from Premier Energy, LLC for a total purchase price of \$223,880 in cash and 67,000 shares of common stock valued at \$1.00 per share (See Notes 7 and 10).

In June and August 2013, PetroShare acquired 17.876 net acres in the Prospect from unaffiliated entities in exchange for certain daily prospective drilling and completion information on one of its two wells (See Notes 3 and 6).

The following table highlights the costs incurred for oil and gas property acquisition, exploration, and development activities:

	For the year ended December 31, 2013	September 4, 2012 (Inception) through December 31, 2012
Acquisition of Properties		
Proved	\$ -	\$ -
Unproved	250,474	-
Exploration Costs	29,537	-
Development Costs	439,873	-
Total Costs Incurred	\$ 719,884	\$ -

PETROSHARE CORP.
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NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012

Aggregate Capitalized Costs. Aggregate capitalized costs relating to PetroShare's crude oil and natural gas producing activities are shown below:

	December 31, 2013	December 31, 2012
Proved	\$ -	\$ -
Wells in progress	439,873	-
Unproved	250,474	-
Total capitalized costs	<u>\$ 690,347</u>	<u>\$ -</u>

Costs Incurred in Oil and Gas Activities. Costs incurred in connection with PetroShare's crude oil and natural gas acquisition, exploration and development activities for each of the periods are shown below:

	For the year ended December 31, 2013	September 4, 2012 (Inception) through December 31, 2012	September 4, 2012 (Inception) through December 31, 2013
Lease acquisition costs	\$ -	\$ -	-
Exploration costs	29,537	-	29,537
Total operations	<u>\$ 29,537</u>	<u>\$ -</u>	<u>\$ 29,537</u>

During the year ended December 31, 2013, PetroShare entered into certain participation agreements with third parties in which these parties agreed to participate in the drilling and development of certain of PetroShare's wells. These agreements are detailed below:

- On August 1, 2013, PetroShare entered into a participation agreement whereby it granted a 10% working interest in certain of its wells in exchange for a prospect fee of \$75,000 and the participant's agreement to pay its proportionate share of the costs of the wells.
- On September 30, 2013, PetroShare entered into a participation agreement whereby it granted a 25% working interest in certain of its wells in exchange for a prospect fee of \$187,500 and the participant's agreement to pay its proportionate share of the costs of the wells.

- On September 30, 2013, PetroShare, in association with a proposed business combination, entered into a participation agreement whereby the Counterparty agreed to pay 30% of the total cost and expense of at least one and up to two wells for a 30% working interest thereafter having a net revenue interest of not less than 23.509% in the wells. In the event that the proposed acquisition is not completed, the Counterparty's interests in the wells would be reduced to 25% and the net revenue interest shall be proportionately reduced. On March 10, 2014, the Company notified the Counterparty that it owed certain funds for its share of the drilling and/or completion costs of the two wells. On March 12, 2014, the Company notified the Counterparty in writing that it terminated the Letter of Intent and all negotiations for the proposed business combination. On May 5, 2014, the parties entered into a settlement agreement. (See full discussion in Note 3 "Business Combination").
- On November 1, 2013, PetroShare entered into a participation agreement whereby it granted a 25% working interest in certain of its wells in exchange for a prospect fee of \$187,500 and the participant's agreement to pay its proportionate share of the costs of the wells.

During the years ended December 31, 2013 and 2012, the Company collected drilling advances from its working interest partners of \$3,246,713 and \$nil, respectively. As of the years ended December 31, 2013 and 2012, the Company had unused portions of these advances totaling \$663,560 and \$nil, respectively.

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liability balances were comprised of trade accounts payable, drilling advances, deferred exploration expenses associated with the Asset Exchange, and accounts payable – related parties and are shown below:

	December 31, 2013	December 31, 2012
Trade payables	\$ 1,876,094	\$ -
Drilling advances	663,560	-
Deferred exploration expenses ⁽¹⁾	17,997	-
Accounts payable – related parties	2,966	-
Total accounts payable and accrued liabilities	\$ 2,560,617	\$ -

(1) See Note 3 for discussion of the Asset Exchange.

NOTE 7 - SHAREHOLDERS' EQUITY

Common Stock

As of December 31, 2013 and 2012, PetroShare had 100,000,000 shares of common stock authorized with a par value of \$0.001 per share. As of December 31, 2013 and 2012, 14,764,750 and 12,000,000 shares were issued and outstanding, respectively. Holders of the common stock are entitled to one vote per share, and dividends may be paid on the common stock at the discretion of the Board of Directors.

Activity of the period from September 4, 2012 (inception) through December 31, 2012 included the following:

- 12,000,000 shares of common stock were issued to founders in consideration of initial capital contributions of \$12,000 cash.

Activity of the period from January 1, 2013 through December 31, 2013 included the following:

- 2,254,000 shares of common stock were issued at \$0.50 per share in connection with a private placement. The cash proceeds received by PetroShare as of December 31, 2013 and related to the sale of the shares in this private placement amounted to \$1,127,000. The private placement was completed in March 2013.
- 67,000 shares of common stock valued at \$1.00 per share were issued as partial consideration for the Buck Peak Prospect acquisition (See Note 3).

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December 31, 2013 and 2012

- 2,250,000 shares of common stock were issued at \$0.50 per share in connection with a second private placement. The cash proceeds received by PetroShare as of December 31, 2013 related to the sale of the shares in this private placement amounted to \$1,125,000. The private placement was completed in December 2013.
- 1,806,250 shares of common stock were cancelled in connection with the resignation and separation agreements of two of the former members of the Board of Directors.

Preferred Stock

As of December 31, 2013, PetroShare had 10,000,000 shares of preferred stock authorized with a par value of \$0.01 per share. As of December 31, 2013, there was no preferred stock issued or outstanding.

NOTE 8 - STOCK BASED COMPENSATION

On November 30, 2012, the Board of Directors of PetroShare adopted an Equity Incentive Plan (the "Plan") reserving up to 5,000,000 shares of PetroShare's common stock to be issued in the form of Incentive Options, Non-Qualified Options, Restricted Stock Awards, Stock Bonuses, or other stock grants to certain employees and consultants of PetroShare.

During the period beginning September 4, 2012 through December 31, 2012, PetroShare granted non-qualified options to purchase up to 3,000,000 shares of PetroShare's common stock to the members of the Board of Directors pursuant to the Plan. During the year ended December 31, 2013, options to acquire 1,000,000 shares of PetroShare's common stock were forfeited concurrent with the resignation of certain former members of the Board of Directors. No options were granted during the year ended December 31, 2013.

A summary of activity under the Plan through December 31, 2013 is as follows:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Remaining Contractual Term</u>
Outstanding, September 4, 2012	-	-	-
Granted	3,000,000	\$ 0.25	10.00
Exercised	-	-	-
Forfeited	-	-	-
Outstanding, December 31, 2012	3,000,000	\$ 0.25	9.96
Exercisable, December 31, 2012	3,000,000	\$ 0.25	9.96
Outstanding, December 31, 2012	3,000,000	\$ 0.25	9.96
Granted	-	-	-
Exercised	-	-	-
Forfeited	1,000,000	\$ 0.25	9.35
Outstanding, December 31, 2013	2,000,000	\$ 0.25	8.96
Exercisable, December 31, 2013	2,000,000	\$ 0.25	8.96

All options granted during the period ended December 31, 2012 vested 100% as of the date of grant. Options will expire ten years from the date of grant in December 2022 and are non-transferable.

The fair value of each share-based award is estimated on the date of the grant using the Black-Scholes pricing model that incorporates the assumptions noted in the following table. As PetroShare's common stock is not currently publicly traded, the expected stock price volatility is based on the historical volatility of a group of publicly traded companies that the Company believes share similar operating metrics and histories. The expected term of the awards represents the period of time that management anticipates awards to be outstanding. As there was no historical data available to ascertain a forfeiture rate, the plain vanilla method was applied in calculating the expected term of the options. The risk-free rate for the periods within the contractual life of the option is based on the U.S Treasury bond rate in effect at the time of the grant for bonds with maturity dates at the expected term of the options. PetroShare has never paid dividends on its common stock and currently does not intend to do so, and as such, the expected dividend yield is zero.

	December 31, 2013	December 31, 2012
Expected option term — years	-	5
Weighted-average risk-free interest rate	-	0.70%
Expected dividend yield	-	0
Weighted-average volatility	-	158%

In connection with the issuance of the options to purchase its common stock, PetroShare recorded share-based compensation of \$nil for the year ended December 31, 2013, and \$692,840 for the period from September 4, 2012 through December 31, 2012.

NOTE 9 - INCOME TAXES

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

PetroShare has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. No uncertain tax positions have been identified as of December 31, 2013.

PetroShare is in a position of cumulative reporting losses for the current and preceding reporting periods. The volatility of energy prices is not readily determinable by management. At this date, this fact pattern does not allow PetroShare to project sufficient sources of future taxable income to offset tax loss carry-forwards and net deferred tax assets. Under these circumstances, it is management's opinion that the realization of these tax attributes does not reach the "more likely than not criteria" under ASC 740 – Income Taxes. As a result, PetroShare's deferred tax assets as of December 31, 2013 and 2012 are subject to a full valuation allowance.

Net deferred tax assets and liabilities consist of the following components as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Deferred tax assets - current:		
Exploration costs	\$ 4,210	\$ -
Deferred tax assets - noncurrent:		
NOL Carryover	349,382	2,591
Stock Compensation	263,345	263,345
Exploration costs	4,210	-
Total deferred tax assets	<u>621,147</u>	<u>265,936</u>
Deferred tax liabilities - current:		
Intangible drilling costs	(163,614)	-
Total deferred tax liabilities	<u>(163,614)</u>	<u>-</u>
Valuation Allowance	(457,533)	(265,936)
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

The income tax provision differs from the amount of income tax determined by applying the U.S. federal tax rate to pretax loss from continuing operations for the years ended December 31, 2013 and 2012 due to the following:

	<u>2013</u>	<u>2012</u>
Tax at statutory federal rate	\$ (168,258)	\$ (233,542)
State taxes, net of federal	(23,339)	(32,394)
Change in valuation allowance	191,596	265,936
Provision (benefit) for income taxes	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2013, the Company had net operating loss carry-forwards of approximately \$350,000 that may be offset against future taxable income from the years 2014 through 2033.

Due to the change in ownership provisions of the Tax Reform Act of 1986, net operating loss carry forwards for federal income tax reporting purposes are subject to annual limitations. Should a change in ownership occur, net operating loss carry forwards may be limited as to use in future years.

The Company files income tax returns in the U.S. federal jurisdiction and in the state of Colorado. The Company is currently subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities since inception of the Company.

NOTE 10 - RELATED PARTY TRANSACTIONS

Pursuant to ASC 850 "Related Party Disclosure", management has evaluated related parties and all transactions associated with those and determined that no transactions exist which would require disclosure, except as disclosed below:

- In April 2013, PetroShare acquired working interests in the Buck Peak Prospect from two entities: (1) Premier Energy LLC, an entity affiliated with Frederick J. Witsell, the Company's President and Director of Operations/Geosciences and (2) an unaffiliated entity. As consideration for the purchase from Premier Energy LLC, PetroShare paid cash totaling \$223,880 and 67,000 shares of common stock valued at \$1.00 per share. Pursuant to the Asset Purchase Agreement, the total Purchase Price was allocated among the four members of Premier Energy LLC, including Mr. Witsell, who received \$50,480 in cash and no shares of common stock (See Note 3).
- During the year ended December 31, 2013, the Company recognized \$3,850 in rent expense associated with certain office facilities managed by Compass Capital, LLC, an entity controlled by the Company's board member Bill Conrad. As of December 31, 2013, the Company no longer utilizes these office facilities.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Operating leases and agreements

PetroShare leases its office facilities under a three-year non-cancelable operating lease agreement expiring in June 2016. The following is a schedule by year of future minimum rental payments required under the operating lease agreement. Lease expense totaled \$15,325 for the year ended December 31, 2013 and \$nil for the period from inception through December 31, 2012.

Year ending December 31,	Amount
2014	\$ 23,551
2015	24,254
2016	12,302
	<u>\$ 60,107</u>

Employment agreements

On March 1, 2013, PetroShare executed an employment agreement with Frederick J. Witsell, PetroShare's President and Director of Operations/Geosciences. The one-year agreement provides for an annual salary of \$150,000 and can be terminated by PetroShare at any time with cause or with 30-days' notice without cause in which latter case all consideration due under the agreement is payable immediately upon termination. Pursuant to the terms of the agreement, Mr. Witsell's employment shall continue after the initial term on a year-to-year basis unless terminated pursuant to the terms of the contract.

On November 1, 2013, PetroShare executed an employment agreement with Stephen J. Foley, PetroShare's Chief Executive Officer. The one-year agreement provides for an annual salary of \$150,000 and can be terminated by PetroShare at any time with cause or with 30-days' notice without cause in which latter case all consideration due under the agreement is payable immediately upon termination as well as severance payments equal to twelve months of base salary from the date of termination. Pursuant to the terms of the agreement, Mr. Foley's employment shall continue after the initial term on a year-to-year basis unless terminated pursuant to the terms of the contract.

NOTE 12 - SUBSEQUENT EVENTS

Pursuant to ASC 855, management has evaluated all events and transactions that occurred from January 1, 2014 through the date of issuance of the financial statements. During this period, PetroShare did not have any significant subsequent events, except as disclosed below:

- On March 10, 2014, the Company notified on of its working interest partners (the "Counterparty") that it owed certain funds for its share of the completion costs of the two wells. On March 12, 2014, the Company notified the Counterparty in writing that it terminated the Letter of Intent and all negotiations for the proposed merger. On May 5, 2014, the parties entered into a settlement agreement. (See full discussion in Note 3 "Business Combination"). We made a non-refundable payment of \$100,000 upon entering into the Settlement Agreement and the final payment of \$1,042,237 was made on June 16, 2014. Under the terms of the Settlement Agreement, the delinquent partner surrendered its rights under the participation agreement and the joint operating agreement after final payment was made by us. Concurrently with this Settlement Agreement and after the performance of the Settlement agreement, we and our three remaining working interest partners purchased additional interests in the two wells such that these three partners own 75% of the working interest in the two wells and we retain 25%.
- Through July 2, 2014, the Company sold 1,715,024 shares of common stock to accredited investors in a private placement. The sale of these shares, at a price of \$0.50 per share, resulted in gross proceeds of \$857,512.

Shares

PETROSHARE CORP.

You should rely only on the information contained in this document or that we have referred you to. We have not authorized anyone to provide you with information that is different. This prospectus is not an offer to sell common stock and is not soliciting an offer to buy common stock in any state where the offer or sale is not permitted.

Until _____, 2014, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

Common Stock

PROSPECTUS

_____, 2014

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PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

We will pay all expenses in connection with the issuance and distribution of the securities being registered except selling discounts and commissions of the selling shareholders. The following table sets forth expenses and costs related to this offering (other than underwriting discounts and commissions) expected to be incurred with the issuance and distribution of the securities described in this registration statement.

SEC registration fee	\$	1,743.92
Legal fees		50,000.00
Accounting fees	
Blue Sky filing fees and expenses	
Printing and engraving expenses	
Miscellaneous	
Total	\$	<u> </u>

Item 14. Indemnification of Directors and Officers

Included in the prospectus.

Item 15. Recent Sales of Unregistered Securities.

Since our inception on September 4, 2012, we have issued an aggregate of 16, 984,573 shares of our common stock without registering those securities under the Securities Act. The following information describes the transactions in which those securities were issued.

In September 2012, in connection with our initial organization, we issued a total of 12,000,000 shares of our common stock to five individuals at a price per share of \$0.001 per share for cash proceeds of \$12,000. The common stock was issued pursuant to the exemption from registration contained in Section 4(a)(2) of the Securities Act.

In February and March 2013, we issued an additional 2,254,000 shares of common stock to 21 individuals or entities at a price per share of \$0.50 for cash proceeds of \$1,127,000. The common stock was issued pursuant to the exemption from registration contained in Section 4(a)(2) of the Securities Act and Rule 506(b) promulgated thereunder.

In April 2013, we issued an additional 67,000 shares of common stock valued at \$1.00 per share as partial consideration for the purchase of mineral leases for the Buck Peak Prospect from Premier Energy Partners (I) LLC. The common stock was issued pursuant to the exemption from registration contained in Section 4(a)(2) of the Securities Act.

In August 2013, 1,806,250 shares of common stock were cancelled in connection with the resignation and separation agreements of two former members of the Board of Directors.

In August through December 2013, we issued an additional 2,250,000 shares of common stock to 25 individuals or entities at a price of \$0.50 per share for cash proceeds of \$1,125,000. This second private placement was completed in December 2013. The common stock was issued pursuant to the exemption from registration contained in Section 4(a)(2) of the Securities Act and Rule 506(b) promulgated thereunder.

Finally, between May and July 2014, we issued an additional 2,220,003 shares of common stock to 37 individuals and entities at a price of \$0.50 per share in connection with a third private placement for cash proceeds of \$1,110,002. The common stock was issued pursuant to the exemption from registration contained in Section 4(a)(2) of the Securities Act and Rule 506(b) promulgated thereunder.

In each transaction in which we relied on Section 4(a)(2) of the Securities Act and/or Rule 506(b) promulgated thereunder, we did not engage in any general solicitation or advertising and we offered the securities to a limited number of persons with whom we had pre-existing relationships. We exercised reasonable care to ensure that the purchasers of securities were not underwriters within the meaning of the Securities Act, including making reasonable inquiry prior to accepting any subscription, making written disclosure regarding the restricted nature of the securities and placing a legend on the certificates representing the shares. In each case, the offerees were provided with a subscription agreement detailing the restrictions on transfer of the shares and eliciting their investment intent. Further, stop transfer restrictions were placed with our transfer agent and a restrictive legend was placed on the certificate in connection with these offerings. In addition, sales in the transactions exempt under Rule 506(b) were made exclusively to what the Company reasonably believed were accredited investors as defined in Rule 501 of the Securities Act.

Item 16. Exhibits and Financial Statement Schedules.

The following exhibits are filed with this registration statement:

- 3.1 Articles of Incorporation as filed with the Colorado Secretary of State on September 4, 2012.
- 3.2 Bylaws of the Company dated November 30, 2012.
- *4 Specimen stock certificate.
- *5 Opinion on Legality.
- 10.1 Equity Incentive Plan dated November 30, 2012.
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- 23.1 Consent of StarkSchenkein, LLP.
- *23.2 Consent of Dufford & Brown, P.C. (included in Exhibit 5).
- 24 Power of Attorney (included on signature page).

* To be filed by amendment.

Item 17. UNDERTAKINGS.

The undersigned registrant hereby undertakes:

- 1. To file, during any period in which it offers or sells securities, a post-effective amendment to this registration statement to:
 - i. To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;
 - ii. To reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information set forth in the registration statement arising after the effective date of the registration statement (or the most recent post-effective amendment thereof). Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in the volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;
 - iii. To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement, *provided, however*, that paragraphs (1)(i), (1)(ii) and (1)(iii) do not apply if the registration statement is on Form S-3 or F-3 and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the SEC by the Registrant pursuant to Section 13 or Section 15(d) of the Exchange Act, that are incorporated by reference in the registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the registration statement.
- 2. That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
- 3. To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.
- 4. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question, whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

5. For determining liability of the undersigned registrant under the Securities Act to any purchaser:

- i. That each prospectus filed by the undersigned pursuant to Rule 424(b)(3) shall be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and
- ii. Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1) (i), (vii), or (x) for the purpose of providing the information required by section 10(a) of the Securities Act shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.
- iii. Each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-1 and authorize this amendment to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Denver, Colorado, on this 22nd day of September, 2014.

PETROSHARE CORP.
(Registrant)

/s/ Stephen J. Foley
By: Stephen J. Foley
Chief Executive Officer

POWER OF ATTORNEY

We, the undersigned officers and directors of PetroShare Corp., do hereby constitute and appoint Stephen J. Foley to be our true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for each of us and in our name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith and about the premises, as fully to all intents and purposes as each of us might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or any of them or their or his substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

In accordance with the requirements of the Securities Act of 1933, this amendment to the registration statement has been signed by the following persons in the capacity and on the dates stated.

<u>/s/ Stephen J. Foley</u> Stephen J. Foley	Chief Executive Officer and Director (Principal Executive, Financial and Accounting Officer)	September 22, 2014
<u>/s/ Bill M. Conrad</u> Bill M. Conrad	Chairman of the Board	September 22, 2014
<u>/s/ Frederick J. Witsell</u> Frederick J. Witsell	President, Secretary, Treasurer and Director	September 22, 2014

EXHIBIT INDEX

The following Exhibits are filed as part of this registration statement on Form S-1.

- 3.1 Articles of Incorporation as filed with the Colorado Secretary of State on September 4, 2012.
- 3.2 Bylaws of the Company dated November 30, 2012.
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- *5 Opinion on Legality.
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- 24 Power of Attorney (included on signature page).

* To be filed by amendment.

Document must be filed electronically
 Paper documents will not be accepted.
 Document processing fee
 Fees & forms/cover sheets
 are subject to change.
 To access other information or print
 copies of filed documents,
 visit www.sos.state.co.us and
 select Business Center.

E-Filed

Colorado Secretary of State
 Date and Time: 09/04/2012 04:33 PM
 ID Number: 20121491092

\$ 50.00

Document number: 20121491092
 Amount Paid: \$50.00

ABOVE SPACE FOR OFFICE USE ONLY

Articles of Incorporation for a Profit Corporation

filed pursuant to §7-102-101, et seq. and §7-102-103 of the Colorado Revised Statutes (C.R.S.)

1. The domestic entity name for the corporation is

PetroShare Corp.
(The name of a corporation must contain the term or abbreviation "corporation", "incorporated", "company", "limited", "corp.", inc.", "co." or "ltd.". See §7-90601, C.R.S. If the corporation is a professional or special purpose corporation, other law may apply.)

(Caution: The use of certain terms or abbreviations are restricted by law. Read instructions for more information.)

2. The principal office address of the corporation's initial principal office is

Street address

284 S. Larkspur Drive
(Street name and number)

Castle Rock CO 80104
(City) (State) (Postal/Zip Code)

United States
(Province - if applicable)(Country - if not US)

Mailing address

(leave blank if same as street address)

(Street number and name or Post Office Box information)

(City) (State) (Postal/Zip Code)

(Province - if applicable) (Country)

3. The registered agent name and registered agent address of the corporation's initial registered agent are

Name

(if an individual)

Babiarz David J.
(Last) (First) (Middle) (Suffix)

OR

(if an entity)

(Caution: Do not provide both an individual and an entity name)

Street address

1700 Broadway

Suite 2100

Denver CO 80290
(City) (State) (Postal/Zip Code)

United States
(Province - if applicable) (Country - if not US)

Mailing address
(leave blank if same as street address)

(Street number and name or Post Office Box information)

CO

(City) (State) (Postal/Zip Code)

(The following statement is adopted by marking the box.)

The person appointed as registered agent above has consented to being so appointed.

4. The true name and mailing address of the incorporator are:

Name
(if an individual)

Babiarz David J.

(Last) (First) (Middle)(Suffix)

OR

(if an entity)
(Caution: Do not provide both an individual and an entity name)

Mailing address

1700 Broadway

Suite 2100

Denver CO 80290

(City) (State) (Postal/Zip Code)

United States

(Province - if applicable)(Country - if not US)

(If the following statement applies, adopt the statement by marking the box and include an attachment.)

The corporation has one or more additional incorporators and the name and mailing address of each additional incorporator are stated in an attachment.

5. The classes of shares and number of shares of each class that the corporation is authorized to issue are as follows.

(If the following statement applies, adopt the statement by marking the box and enter the number of shares.)

The corporation is authorized to issue common shares that shall have unlimited voting rights and are entitled to receive the net assets of the corporation upon dissolution.

(If the following statement applies, adopt the statement by marking the box and include an attachment.)

Additional information regarding shares as required by section 7-106-101, C.R.S., is included in an attachment.

(Caution: At least one box must be marked. Both boxes may be marked, if applicable.)

6. (If the following statement applies, adopt the statement by marking the box and include an attachment.)

This document contains additional information as provided by law.

7. **(Caution: Leave blank if the document does not have a delayed effective date. Stating a delayed effective date has significant legal consequences. Read instructions before entering a date.)**

(If the following statement applies, adopt the statement by entering a date and, if applicable, time using the required format.)

The delayed effective date and, if applicable, time of this document is/are _____
(mm/dd/yyyy hour:minute am/pm)

Notice:

Causing this document to be delivered to the Secretary of State for filing shall constitute the affirmation or acknowledgment of each individual causing such delivery, under penalties of perjury, that the document is the individual's act and deed, or that the individual in good faith believes the document is the act and deed of the person on whose behalf the individual is causing the document to be delivered for filing, taken in conformity with the requirements of part 3 of article 90 of title 7, C.R.S., the constituent documents, and the organic statutes, and that the individual in good faith believes the facts stated in the document are true and the document complies with the requirements of that Part, the constituent documents, and the organic statutes.

This perjury notice applies to each individual who causes this document to be delivered to the Secretary of State, whether or not such individual is named in the document as one who has caused it to be delivered.

8. The true name and mailing address of the individual causing the document to be delivered for filing are:

Babiarz	David	J.
<i>(Last)</i>	<i>(First)</i>	<i>(Middle)(Suffix)</i>
<hr/>		
1700 Broadway		
<hr/>		
Suite 2100		
<hr/>		
Denver	CO	80290
<i>(City)</i>	<i>(State)</i>	<i>(Postal/Zip Code)</i>
<hr/>		
United States		
<i>(Province - if applicable)(Country - if not US)</i>		

(If the following statement applies, adopt the statement by marking the box and include an attachment.)

This document contains the true name and mailing address of one or more additional individuals causing the document to be delivered for filing.

Disclaimer:

This form/cover sheet, and any related instructions, are not intended to provide legal, business or tax advice, and are furnished without representation or warranty. While this form/cover sheet is believed to satisfy minimum legal requirements as of its revision date, compliance with applicable law, as the same may be amended from time to time, remains the responsibility of the user of this form/cover sheet. Questions should be addressed to the user's legal, business or tax advisor(s).

**ARTICLES OF INCORPORATION
OF
PETROSHARE CORP.**

Pursuant to § 7-102-102 and Part 3 of Article 90 of Title 7, Colorado Revised Statutes (C.R.S.), the Incorporator named below, being a natural person of the age of eighteen years or more, and desiring to form a body corporate under the laws of the State of Colorado, delivers to the Secretary of State of the State of Colorado these Articles of Incorporation.

ARTICLE I

NAME

The Name of the Corporation is **PetroShare Corp.** (hereinafter referred to as the "**Corporation**").

ARTICLE II

DURATION

The Corporation shall have perpetual existence from and after the filing of these Articles of Incorporation with the Secretary of State and unless the Corporation is dissolved in accordance with applicable law.

ARTICLE III

PRINCIPAL OFFICE

The principal office of the Corporation shall be located at 284 S. Larkspur Drive, Castle Rock, Colorado 80104, and thereafter at such location as the board of directors may determine.

ARTICLE IV

PURPOSES

The nature of the business of the Corporation and the objects, purposes and business thereof proposed to be transacted, promoted or carried on are to engage in any lawful act or activity for which corporations may be organized under the Colorado Business Corporation Act ("**Act**").

ARTICLE V

CAPITAL

A. Classes of Stock. The Corporation is authorized to issue two classes of stock to be designated, respectively, "Common Stock" and "Preferred Stock." The total number of shares of all classes which the Corporation shall have authority to issue is 110,000,000 shares. Of that amount, 100,000,000 shares shall be Common Stock, par value \$0.001, and 10,000,000 shares shall be Preferred Stock, par value \$0.01. The consideration for the issuance of the shares shall be paid to or received by the Corporation in full before their issuance.

B. Common Stock.

(1) *Dividends.* Dividends in cash, property, or shares of the Corporation may be paid upon the Common Stock, as and when declared by the board of directors, out of funds of the Corporation to the extent and in the manner permitted by law.

(2) *Distribution in Liquidation.* Upon any liquidation, dissolution or winding up of the Corporation, and after paying or adequately providing for the payment of all its obligations, the remainder of the assets of the Corporation shall be distributed, either in cash or in kind, pro rata to the holders of Common Stock, subject to the rights, if any, of the holders of any preferred stock issued by the Corporation. The board of directors may, from time to time, distribute to the shareholders in partial liquidation, out of stated capital or capital surplus of the Corporation, a portion of its assets, in cash or property, in the manner permitted and upon compliance with limitations imposed by law.

(3) *Voting Rights; Cumulative Voting.* Each outstanding share of Common Stock shall be entitled to one vote and each fractional share of Common Stock shall be entitled to a corresponding fractional vote on each matter submitted to a vote of shareholders. Cumulative voting shall not be allowed in the election of directors of the Corporation.

C. Preferred Stock.

Shares of Preferred Stock may be divided into such series as may be established, from time to time, by the board of directors. The board of directors, from time to time, may fix and determine the designation and number of shares of any series and the relative rights and preferences of the shares of any series so established as to distinguish the shares thereof from the shares of all other series. The board of directors is also authorized, within limits and restrictions stated in any resolution or resolutions of the board of directors originally fixing the number of shares constituting any such series, to increase or decrease (but not below the number of shares of any such series then outstanding) the number of shares of any such other series and the designations, relative powers, preferences and rights, and the qualifications, limitations or restrictions of such other series, including preferences with respect to any other series of Preferred Stock, in each case, so far as not inconsistent with the provisions of these Articles of Incorporation or the Act as then in effect.

D. Denial of Preemptive Rights. No holder of any shares of the Corporation, whether now or hereafter authorized, shall have any preemptive or preferential right to acquire any shares or securities of the corporation, including shares or securities held in the treasury of the Corporation.

ARTICLE VI

BOARD OF DIRECTORS

The business and affairs of the Corporation shall be managed by a board of directors. The number of directors constituting the board of directors shall be fixed, increased or decreased in the manner provided in the Bylaws of the Corporation. There shall be no fewer than one member of the Board of Directors.

ARTICLE VII

RIGHT OF DIRECTORS TO CONTRACT WITH CORPORATION

No contract or transaction shall be void or voidable or be enjoined, set aside, or give rise to an award of damages or other remedy in a proceeding by a shareholder or by or in the right of the corporation, solely because the contract or transaction involves a director of the corporation or an entity in which a director of the corporation is a director or officer or has a financial interest or solely because the director is present at or participates in the meeting of the corporation's board of directors or of a committee of the board of directors which authorizes, approves, or ratifies the contract or transaction or solely because the director's vote is counted for such purpose if:

A. The material facts as to the director's relationship or interest and as to the contract or transaction are disclosed or are known to the board of directors or the committee, and the board of directors or committee in good faith authorizes, approves, or ratifies the contract or transaction by the affirmative vote of a majority of the disinterested directors, even though the disinterested directors are less than a quorum; or

B. The material facts as to the director's relationship or interest and as to the contract or transaction are disclosed or are known to the shareholders entitled to vote thereon, and the contract or transaction is specifically authorized, approved, or ratified in good faith by a vote of the shareholders; or

C. The contract or transaction is fair as to the corporation.

Common or interested directors may be counted in determining the presence of a quorum at a meeting of the board of directors or of a committee which authorizes, approves, or ratifies such contract or transaction.

ARTICLE VIII

INDEMNIFICATION OF OFFICERS, DIRECTORS AND OTHERS

The board of directors of the Corporation shall have the power to:

A. Indemnify any director, officer, employee or agent of the Corporation to the fullest extent permitted by the Act as presently existing or as hereafter amended.

B. Authorize payment of expenses (including attorney's fees) incurred in defending a civil or criminal action, suit or proceeding in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the director, officer, employee or agent to repay such amount unless it is ultimately determined that he is entitled to be indemnified by the Corporation as authorized in this Article VIII.

C. Purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation or who is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article VIII.

The indemnification provided by this Article VIII shall not be deemed exclusive of any other rights to which those indemnified may be entitled under these Articles of Incorporation, Bylaws, agreement, vote of shareholders or disinterested directors or otherwise, and any procedure provided for by any of the foregoing, both as to action in his official capacity and as to action in another capacity while holding such office, shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

ARTICLE IX

VOTING BY SHAREHOLDERS

Any action required or permitted by Articles 101 to 117 of the Act to be taken at a shareholders' meeting may be taken without a meeting if shareholders holding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all of the shares entitled to vote thereon were present and voted, consent to such action in writing.

ARTICLE X

LIMITATIONS ON DIRECTOR LIABILITY

To the fullest extent permitted by the Act, as the same exists or may hereafter be amended, a director of this Corporation shall not be liable to the Corporation or its shareholders for monetary damages for breach of fiduciary duty as a director.

ARTICLE XI

POWERS AND LIMITATIONS

The powers and limitations of the Corporation shall be those set forth by the Act, under which this Corporation is formed.

ARTICLE XII

REGISTERED OFFICE AND REGISTERED AGENT

The registered agent of the Corporation is Dufford & Brown, P.C.; the registered office of the Corporation shall be located at 1700 Broadway, Suite 2100, Denver, Colorado 80290.

ARTICLE XIII

INCORPORATOR

The name and address of the Incorporator is as follows:

David J. Babiarz, Esq.
Dufford & Brown, P.C.
1700 Broadway, Suite 2100
Denver, Colorado 80290

ARTICLE XIV

RIGHT TO AMEND, ALTER, CHANGE OR REPEAL

The Corporation reserves the right to amend, alter, change or repeal and provision contained in these Articles of Incorporation in the manner now or hereinafter prescribed herein or by statute, and all rights conferred upon shareholders herein are granted subject to this reservation.

BYLAWS
OF
PETROSHARE CORP.

ARTICLE I

Office

The principal office of the Corporation shall be located at 284 S. Larkspur Drive, Castle Rock, Colorado 80104, and thereafter at such location as the Board of Directors may determine.

The Corporation may have such other offices, either within or without the State of Colorado, as the Board of Directors may determine or as the affairs of the Corporation may require from time to time.

The Corporation shall have and continuously maintain in the State of Colorado a registered office and a registered agent whose office is identical with such registered office as required by the Colorado Business Corporation Act ("**Act**").

ARTICLE II

Shareholders' Meetings

Section 1. **Annual Meetings.**

A. **Time and Place.** The Annual Meeting of the shareholders of the Corporation, commencing with the year following the year of incorporation, shall be as determined by the Board of Directors on a date not less frequent than once each calendar year.

B. **Purpose of Annual Meeting.** The business to be transacted at such Annual Meeting shall be the election of Directors and such other business as shall be properly brought before the meeting.

C. **Alternate Election Date.** If the election of Directors shall not be held on the day designated for the Annual Meeting, or at the designated date upon adjournment of such meeting, the Board of Directors shall call a Special Meeting of the shareholders as soon as conveniently possible thereafter. At such meeting, the election of Directors shall take place, and such election and any other business transacted thereat shall have the same force and effect as at an Annual Meeting duly called and held,

D. **Notice.** Written notice at the address last shown on the books of the Corporation stating the place, day and hour of the meeting, and in the case of a Special Meeting, the purpose for which the meeting is called, shall be delivered not less than 10 days nor more than 60 days before the date of the meeting, in any manner permitted by the Act, at the direction of the Chairman, President, Secretary or other officer or person calling the meeting; except that if the authorized shares of the Corporation are to be increased, at least 30 days notice shall be given.

Section 2. Special Meetings. Special Meetings of the shareholders may be called by the President, Board of Directors or by the holders of at least 10% the stock entitled to vote at such meeting as set forth in the Act.

Section 3. Waiver of Notice. A shareholder may waive the notice of meeting by attendance, either in person or by proxy, at the meeting, or by so stating in writing either before or after such meeting. Attendance at a meeting for the express purpose of objecting that the meeting was not lawfully called or convened shall not, however, constitute a waiver of notice. Except where otherwise required by law, notice need not be given of any adjourned meeting of the shareholders.

Section 4. Quorum. The holders of record of no fewer than thirty-three and one-third (33 1/3%) of the shares of the stock of the Corporation, issued and outstanding and entitled to vote, present in person or by proxy, shall, except as otherwise provided by law or by these Bylaws, constitute a quorum at all meetings of the shareholders; if there be no such quorum, the holders of a majority of such shares so present or represented may adjourn the meeting from time to time until a quorum shall have been obtained and, except as otherwise provided by law, no notice of any such adjourned meeting need be given if the time and place to which the meeting is adjourned are announced at the meeting so adjourned.

Section 5. Record Date For Determination of Shareholders.

A. Record Date. In order to determine the shareholders of record of the Corporation's stock who are entitled to notice of meetings, to vote at a meeting or adjournment thereof, and to receive payment of any dividend, or to make a determination of the shareholders of record for any other proper purpose, the Board of Directors of the Corporation may fix a date as the record date for such determination of shareholders, such date in any case to be not more than 70 days prior to the date of action which requires such determination, nor in the case of a shareholders' meeting, less than 10 days in advance of such meeting.

B. Alternate Record Date. If no record date is fixed for such determination of the shareholders of record, the date on which notice of the meeting is mailed or on which the resolution of the Board of Directors declaring a dividend is adopted, as the case may be, shall be the record date for such determination of shareholders.

C. Adjournment. When a determination of shareholders entitled to vote at any meeting has been made, as provided in this Section, such determination shall apply to any adjournment of such meeting.

D. Action By Consent. The record date for determining shareholders entitled to take action without a meeting pursuant to Section 9 below is the date a writing upon which the action is taken is first received by the Corporation.

Section 6. Presiding Officer. Except as provided in Article IV, Section 3 hereof, meetings of the shareholders shall be presided over by the Chairman, if one is appointed, and if not, by the President.

Section 7. Proxies. At all meetings of shareholders, a shareholder may vote by proxy executed in writing by the shareholder or the shareholder's duly authorized attorney-in-fact. Such proxies shall be filed with the Secretary of the Corporation before or at the time of the meeting. Each proxy to vote shall be in writing and signed by the shareholder or by his duly authorized attorney and shall not be voted or acted upon after eleven (11) months from the date of its execution, unless such proxy expressly provides for a longer period.

Section 8. Voting of Shares by Shareholders.

A. Neither treasury shares, nor shares of its own stock held by the Corporation in a fiduciary capacity, nor shares held by another corporation if a majority of the shares entitled to vote for the election of directors of such other corporation is held by this Corporation, shall be voted at any meeting or counted in determining the total number of outstanding shares at any given time.

B. At each meeting of the shareholders, except as otherwise provided by law or by the Articles of Incorporation, every holder of record of stock entitled to vote shall be entitled to one vote for each share of stock standing in his name on the books of the Corporation. Elections of directors shall be determined by a plurality of the votes cast, and except as otherwise provided by law, the Articles of Incorporation, or these Bylaws, all other actions shall be determined by a majority of the votes cast at such meeting.

C. At all elections of directors, the voting shall be by ballot or in such other manner as may be determined by the Chairman. With respect to any other matter presented to the shareholders for their consideration at a meeting, any shareholder entitled to vote may, on any question, demand a vote by ballot.

D. A complete list of the shareholders entitled to vote at each such meeting, arranged in alphabetical order, with the address of each, and the number of shares registered in the name of each shareholder, shall be prepared by the Secretary and shall be open to the examination of any shareholder, during ordinary business hours, beginning the earlier of ten days before the meeting for which the list was prepared or two business days after notice of the meeting is given and continuing through the meeting, and any adjournment thereof, at the Corporation's principal office or at a place specified in the notice of meeting in the city in which the meeting will be held.

E. The Board of Directors in advance of any meeting of shareholders may appoint one or more inspectors of election to act at that meeting or any adjournment thereof. If inspectors of election are not so appointed, the Chairman of the meeting may, and on the request of any shareholder entitled to vote shall, appoint one or more inspectors of election. Each inspector of election, before entering upon the discharge of

his duties, shall take and sign an oath faithfully to execute the duties of inspector of election at such meeting with strict impartiality and according to the best of his ability. If appointed, inspectors of election shall take charge of the polls and, when the vote is completed, shall make a certificate of the result of the vote taken and of such other facts as may be required by law.

Section 9. Action without Meeting. Any action required or permitted by the Colorado Business Corporation Act to be taken at a shareholders' meeting may be taken without a meeting if shareholders holding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting, at which all of the shares entitled to vote thereon were present and voted, consent to such action in writing.

ARTICLE III **Directors**

Section 1. Number. The property, affairs and business of the Corporation shall be managed by a Board of Directors of not less than one (1) person as shall be fixed by the Board of Directors from time to time. Except as hereinafter provided, Directors shall be elected at the Annual Meeting of the shareholders and each Director shall serve until the next annual meeting of shareholders or his resignation or removal and until his successor shall be elected and qualify.

Section 2. Increase in Numbers. The number of Directors may be increased or decreased from time to time by a majority vote of the whole Board of Directors, provided however, that no vote to decrease the number of Directors shall have the effect of shortening the term of any incumbent Director.

Section 3. Qualification. Directors need not be shareholders of the Corporation.

Section 4. Quorum. A majority of the Directors in office shall be necessary to constitute a quorum for the transaction of business. If at any meeting of the Board of Directors there shall be less than a quorum present, a majority of those present may adjourn the meeting without further notice, from time to time, until a quorum shall have been obtained.

Section 5. Vacancies. Any Director may resign at any time by giving written notice to the President or to the Secretary of the Corporation. Such resignation shall take effect at the time specified therein except such resignations shall not be submitted effective retroactively. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective. Any vacancy occurring in the Board of Directors may be filled by the affirmative vote of the shareholders, or by the remaining Directors, though less than a quorum. A Director elected to fill a vacancy shall be elected for the unexpired term of such Director's predecessor in office.

Section 6. Meetings. Regular meetings of the Board of Directors shall be held at such times as are fixed from time to time by resolution of the Board. Special Meetings may be held at any time upon call of the Chairman, President, or a majority of Directors. A meeting of the Board of Directors shall be held without notice immediately following the Annual Meeting of

the shareholders. Notice need not be given of regular meetings of the Board of Directors held at any time without notice. Notice of a regular meeting of the Board of Directors need not state the purpose of or the business to be transacted at such meeting.

Section 7. Presumption of Assent. A Director of the Corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless such Director's dissent shall be entered in the Minutes of the meeting or unless such Director shall have filed written dissent to such action with the person acting as the Secretary of the meeting before the adjournment thereof or shall forward such dissent by certified mail to the Secretary of the Corporation immediately following the adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favor of such action.

Section 8. Removal. Directors may be removed by shareholders only at a meeting called for such purpose. Any Director or Directors may be removed from office, without assignment of any reason therefore, by a requisite majority of the shareholders. When any Director or Directors are removed, new Directors may be elected at the same meeting of shareholders for the unexpired term of the Director or Directors to be removed. If the shareholders fail to elect persons to fill the unexpired term or terms of the Director or Directors removed, such unexpired terms shall be considered vacancies on the Board to be filled by the remaining Directors.

Section 9. Informal Action by Directors. Any action required to be taken at a meeting of the Board of Directors or any other action which may be taken at a meeting of the Board of Directors may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the Directors entitled to vote with respect to the subject matter thereof. Such consent shall have the same force and effect as a unanimous vote of the Directors and may be stated as such in any documents filed with the Secretary of State of Colorado under the Act.

Section 10. Compensation. Directors and members of any committee of the Board of Directors shall be entitled to such reasonable compensation for their services as Directors and members of any such committee as shall be fixed from time to time by resolution of the Board of Directors, and shall also be entitled to reimbursement for any reasonable expenses incurred in attending such meetings. The compensation of Directors may be on such basis as is determined in the resolution of the Board of Directors. Any Directors receiving compensation under these provisions shall not be barred from serving the Corporation in any other capacity and receiving reasonable compensation for such other services.

Section 11. Committees. Subject to the provisions of Section 7-108-206 of the Act, the Board of Directors, by a resolution or resolutions adopted by a majority of the members of the whole Board, may appoint an executive committee and such other committees as it may deem appropriate. Each such committee shall consist of at least two members of the Board of Directors. Each committee shall have and may exercise such powers as shall be conferred or authorized by the resolution appointing it and as otherwise provided by Colorado law. A majority of any such committee may determine its action and may fix the time and place of its

meetings, unless provided otherwise by the Board of Directors. The Board of Directors shall have the power at any time to fill vacancies in, to change the size of membership of and to discharge any such committee.

A. Committee to Keep Written Records. Each such committee shall keep a written record of its acts and proceedings and shall submit such record to the Board of Directors at each regular meeting thereof and at such other times as requested by the Board of Directors.

B. Failure to Keep Written Records. Failure to submit such records, or failure of the Board to approve any action indicated therein will not, however, invalidate such action to the extent it has been carried out by the Corporation prior to the time the record of such action was, or should have been, submitted to the Board of Directors as herein provided.

C. Conduct of Committee Meetings. The provisions of these bylaws governing meetings, action without meeting, notice, waiver of notice, and quorum and voting requirements of the board of directors apply to committees and their members as well.

D. Actions that May Not be Delegated. To the extent specified by resolution adopted from time to time by a majority of all the directors in office when the resolution is adopted, whether or not those directors constitute a quorum of the board, each committee shall exercise the authority of the board of directors with respect to the corporate powers and the management of the business and affairs of the Corporation; except that a committee shall not:

- (1) Authorize distributions;
- (2) Approve or propose to shareholders action that the Act requires to be approved by shareholders;
- (3) Fill vacancies on the board of directors or on any of its committees;
- (4) Amend the articles of incorporation pursuant to Section 7-110-102 of the Act;
- (5) Adopt, amend, or repeal bylaws;
- (6) Approve a plan of merger not requiring shareholder approval;
- (7) Authorize or approve reacquisition of shares, except according to a formula or method prescribed by the board of directors; or

(8) Authorize or approve the issuance or sale of shares, or a contract for the sale of shares, or determine the designation and relative rights, preferences, and limitations of a class or series of shares; except that the board of directors may authorize a committee or an officer to do so within limits specifically prescribed by the board of directors.

E. Creation of Committee not Compliance. The creation of, delegation of authority to, or action by, a committee does not alone constitute compliance by a director with applicable standards of conduct.

Section 12. Director Voting. At all meetings of the Board of Directors, each Director present shall have one vote, irrespective of the number of shares of stock, if any, which such Director may hold.

Section 13. Majority. Except as provided in the Corporation's Articles of Incorporation, the action of a majority of the Directors present at any meeting at which a quorum is present shall be the act of the Board of Directors. Any action authorized, in writing, by all of the Directors entitled to vote thereon and filed with the minutes of the Corporation shall be the act of the Board of Directors with the same force and effect as if the same had been passed by unanimous vote at a duly called meeting of the Board.

Section 14. Board and Committee Meeting by Telephone. Any one or more including, without limitation, all members of the Board of Directors, or any committee thereof, may participate in a meeting of the Board or such committee by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time. Participation by such means shall constitute presence in person at a meeting.

ARTICLE IV Officers

Section 1. Election and Term of Office. The Board of Directors shall elect a President and Secretary and it may elect a Chief Executive Officer different than the President, and it may, if it so determines, choose a Chairman of the Board and a Vice Chairman of the Board from among its members. The Board of Directors may also choose one or more Vice Presidents, one or more Assistant Secretaries, a Treasurer and one or more Assistant Treasurers. Any number of offices may be held by the same person. Each such officer shall hold office until the first meeting of the Board of Directors after the annual meeting of the shareholders next succeeding his election, and until his successor is elected and qualified or until his earlier resignation or removal. Any officer may resign at any time upon written notice to the corporation.

Section 2. Removal. Any Officer or agent or employee of the Corporation may be removed by the Board of Directors whenever in its judgment the best interests of the Corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any,

of the person so removed. Election or appointment of any Officer or agent shall not of itself create contract rights.

Section 3. Powers and Duties of the Chairman. If the Board appoints a Chairman, he or she shall preside at all meetings of the Board and the Shareholders unless the Board by a majority vote of a quorum thereof elects a chair other than the Chairman. He or she may sign and execute all authorized bonds, contracts, or other obligations in the name of the Corporation and may participate in one or more committees created by the Board.

Section 4. Powers and Duties of the President. Subject to the control of the Board of Directors, the President shall have general charge and control of all its business and affairs and shall have all powers and shall perform all duties incident to the office of President. He shall have such other powers and perform such other duties as may from time to time be assigned to him or her by these Bylaws or the Board of Directors.

Section 5. Powers and Duties of the Vice Presidents. Each Vice President shall have all powers and shall perform all duties incident to the office of Vice President and shall have such other powers and perform such other duties as may from time to time be assigned to him or her by these Bylaws, the Board of Directors or the President.

Section 6. Powers and Duties of the Secretary. The Secretary shall keep the minutes of all meetings of the Board of Directors and the minutes of all meetings of the shareholders in books provided for that purpose; he or she shall attend to the giving or serving of all notices of the Corporation; documents and other papers as the Board of Directors or the President shall authorize and direct; he or she shall have charge of the stock certificate books, transfer books and stock ledgers and such other books and papers as the Board of Directors or the President shall direct, all of which shall at all reasonable times be open to the examination of any Director, upon application, at the office of the Corporation during business hours; and he or she shall have all powers and shall perform such duties incident to the office of Secretary and shall also have such other powers and shall perform such other duties as may from time to time be assigned to him or her by these Bylaws or the Board of Directors or the President.

Section 7. Powers and Duties of the Treasurer. The Treasurer shall have the care and custody of the corporate funds and securities, sign checks, drafts, notes and orders for the payment of money, pay out and disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such payments and disbursements, deposit all monies and securities belonging to the Corporation and, in general perform such other duties as are customarily performed by the Treasurer, and such other duties as from time to time may be assigned by the Board of Directors or by the President. The Treasurers shall, further, render a statement of the condition of the finances of the Corporation from time to time and at the specific request of the Board of Directors.

Section 8. Vacancies. Any vacancy in an office from any cause may be filled for the unexpired portion of the term by the Board of Directors.

Section 9. Duties of Other Subordinate Officers. Other subordinate officers appointed by the Board of Directors shall exercise such powers and perform such duties as may be delegated to them by the resolutions appointing them, or by subsequent resolutions adopted from time to time.

Section 10. Duties of Officers May Be Delegated. In case of the absence or disability of any officer of the Corporation, or for any other reason that the Board may deem sufficient, the Board may delegate, for the time being, the powers or duties, or any of them, of such officer to any other officer, or to any director.

Section 11. Salaries. The salaries of all Officers of the Corporation shall be fixed by the Board of Directors. No Officer shall be ineligible to receive such salary by reason of the fact that he is also a Director of the Corporation and receiving compensation therefore.

Section 12. Checks and Endorsements. All checks and drafts upon the funds to the credit of the Corporation in any of its depositories shall be signed by such of its Officers or agents as shall from time to time be determined by resolution of the Board of Directors which may provide for the use of signatures under specific conditions, and all notes, bills, receivables, trade acceptances, drafts and other evidences of indebtedness payable to the Corporation shall, for the purpose of deposit, discount, or collection be endorsed by such Officers or agents of the Corporation or in such manner as shall from time to time be determined by resolution of the Board of Directors.

ARTICLE V

Stock

Section 1. Certificates. The shares of stock may be represented by certificates signed in the name of the Corporation by its President and the Secretary or may be uncertificated shares that are evidenced by a book entry system maintained by the registrar of such stock, or a combination of both. The signatures of the Corporation's Officers on any such certificate may also be a facsimile engraved or printed if the certificate is countersigned by the transfer agent, or registered by a registrar. In the event any Officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such before the certificate is issued, it may be issued by the Corporation with the same effect as if such Officer had not ceased to be an officer at the date of its issue. Certificates of stock shall be in such form consistent with law as shall be prescribed by the Board of Directors. No certificate shall be issued until the shares represented thereby are fully paid.

Section 2. Consideration for Shares. Shares shall be issued for such consideration as shall be fixed from time to time by the Board of Directors. Treasury shares shall be disposed of for such consideration as may be fixed from time to time by the Board. Such consideration may consist in whole or in part of money, other property, tangible or intangible, or such other consideration as shall be permitted under the Act.

Section 3. Lost, Destroyed or Stolen Certificates. No certificates for shares of stock in the Corporation shall be issued in place of any certificate alleged to have been lost, destroyed

or stolen except on production of evidence satisfactory to the Board of Directors of such loss, destruction or theft; and if the Board of Directors so requires, upon the furnishing of an indemnity bond in such amount and with such terms and such surety as the Board of Directors may, in its discretion, require.

Section 4. Transfer of Shares.

A. Upon surrender to the Corporation of a certificate of stock duly endorsed or accompanied by proper evidence of succession, assignment, or authority to transfer, or upon receipt of proper documentation of transfer if such shares are uncertificated, it shall be the duty of the Corporation to transfer the shares to the person entitled thereto, and cancel the old certificate, as applicable. Every such transfer of stock shall be entered on the stock book of the Corporation which shall be kept either at the offices of the Corporation's legal counsel, at the Corporation's principal office or by its registered duly appointed agent.

B. The Corporation shall be entitled to treat the holder of record of any share of stock as the holder in fact thereof, and, accordingly, shall not be bound to recognize any equitable or other claim to interest in such share on the part of any other person whether or not it shall have express or other notice thereof, except as may be required by the laws of the State of Colorado.

Section 5. Voting on Stock. All stock owned by the Corporation, other than stock of the Corporation, shall be voted, in person or by proxy, by the President of the Corporation on behalf of the Corporation upon resolution and approval by the board.

ARTICLE VI
Indemnification

Section 1. Right to Indemnification. The Corporation shall indemnify and hold harmless, to the fullest extent permitted by applicable law as it currently exists or may hereafter be amended, any person who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "proceeding") by reason of the fact that he, or a person for whom he is the legal representative, is or was a director or officer of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, enterprise or nonprofit entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses (including attorneys' fees) reasonably incurred by such person in such capacity. The corporation shall be required to indemnify a person in connection with a proceeding (or part thereof) initiated by such person only if the proceeding (or part thereof) was authorized by the Board of Directors of the corporation.

Section 2. Prepayment of Expenses. The Corporation may, in its discretion and subject to limitations imposed by the Act, pay the expenses (including attorneys' fees) incurred in defending any proceeding in advance of its final disposition, provided, however, that the payment of expenses incurred by a director or officer in advance of the final disposition of the proceeding shall be made only upon receipt of an undertaking by the director or officer to repay all amounts advanced if it should be ultimately determined that the director or officer is not entitled to be indemnified under this Section or otherwise.

Section 3. Claims. If a claim for indemnification or payment of expenses under this Section is not paid in full within sixty (60) days after a written claim therefor has been received by the corporation, the claimant may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expense of prosecuting such claim. In any such action the corporation shall have the burden of proving that the claimant was not entitled to the requested indemnification or payment of expenses under applicable law.

Section 4. Non-Exclusivity of Rights. The rights conferred on any person by this Article VI shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision of the certificate of incorporation, these bylaws, agreement, vote of shareholders or disinterested directors or otherwise.

Section 5. Other Indemnification. The Corporation's obligation, if any, to indemnify any person who was or is serving at its request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, enterprise or nonprofit entity shall be reduced by any amount such person may collect as indemnification from such other corporation, partnership, joint venture, trust, enterprise or nonprofit enterprise.

Section 6. Amendment or Repeal. Any repeal or modification of the foregoing provisions of this Article VI shall not adversely affect any right or protection hereunder of any person in respect of any act or omission occurring prior to the time of such repeal or modification.

ARTICLE VII

Contracts, Loans, Checks and Deposits

Section 1. Contracts. The Board of Directors may authorize any officer or agent to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

Section 2. Loans. No loans shall be contracted on behalf of the Corporation and no evidence of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors. Such authority may be general or confined to specific instances.

Section 3. Checks, Drafts, etc. All checks, drafts, or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or agent of the Corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors.

Section 4. Deposits. The money of the Corporation shall be deposited in the name of the Corporation in such banks, trust companies, or other depositories, as the Board of Directors may designate and shall be subject to the order of the Corporation signed by such officer or agent of the Corporation, and in such manner as shall from time to time be determined by resolution of the Board of Directors.

ARTICLE VIII
Amendment of Bylaws

Section 1. By Shareholders. All Bylaws of the Corporation shall be subject to alteration or repeal and new Bylaws may be made by the requisite vote of shareholders, a quorum being present in person or by proxy, provided that the notice or waiver of notice of such meeting shall have summarized or set forth in full therein the proposed amendment.

Section 2. By Directors. Except to the extent such power is reserved exclusively to the shareholders pursuant to the Corporation's Articles of Incorporation or the Act, the Board of Directors shall have power to make, adopt, amend or repeal, from time to time, these Bylaws of the Corporation by a majority of the directors present at any meeting of the Board of Directors of the Corporation at which a quorum is present.

ARTICLE IX
Fiscal Year

The fiscal year end of the Corporation shall be as determined by the Board of Directors.

ARTICLE X
Waiver of Notice

Whenever any notice is required to be given under the provisions of these Bylaws or under the provisions of the Articles of Incorporation of the Corporation or under the provisions of the Act, or otherwise, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the event or other circumstance requiring such notice, shall be deemed equivalent to the giving of such notice.

ARTICLE XI
Approval

The undersigned hereby certifies that the foregoing Bylaws constitute a true and complete copy of the Bylaws of PetroShare Corp. and the same have been approved, ratified and accepted by the Board of Directors as the Bylaws of the Corporation.

Dated: November 30, 2012

/s/ Steve Garrison

Steve Garrison, Secretary

PETROSHARE CORP.
EQUITY INCENTIVE PLAN
Effective November 30, 2012

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PETROSHARE CORP.
EQUITY INCENTIVE PLAN

ARTICLE I
INTRODUCTION

1.1 **Establishment**

PetroShare Corp., a Colorado corporation (hereinafter referred to, together with its Affiliated Corporations (as defined in subsection 2.1(a)) as the **Company**" except where the context otherwise requires), hereby establishes the PetroShare Corp. Equity Incentive Plan (the "**Plan**") for certain key employees, directors, consultants and other persons rendering substantial service to the Company. The Plan permits the grant of Incentive Options (defined below) within the meaning of Section 422 of the Code (defined below), Non-Qualified Options (defined below), Restricted Stock Awards (defined below), Stock Bonuses (defined below), and other stock grants to certain key employees of the Company and others providing valuable service to the Company.

1.2 **Purposes**

The purposes of the Plan are to provide those who are selected for participation in the Plan with added incentives to continue in the long-term service of the Company and to create in such persons a more direct interest in the future success of the operations of the Company by relating incentive compensation to increases in shareholder value, so that the remuneration of those participating in the Plan is more closely aligned with the value of the Company's stock. The Plan is also designed to provide a financial incentive that will help the Company attract, retain and motivate the most qualified employees and consultants.

ARTICLE II
DEFINITIONS

2.1 **Definitions**

The following terms shall have the meanings set forth below:

- (a) "**Affiliated Corporation**" means any corporation or other entity that is affiliated with the Company through stock ownership or otherwise and is designated as an "Affiliated Corporation" by the Board, provided, however, that for purposes of Incentive Options granted pursuant to the Plan, an "Affiliated Corporation" means any parent or subsidiary of the Company as defined in Section 424 of the Code.
- (b) "**Award**" means an Option, grant of Stock pursuant to ARTICLE VIII or other issuances of Stock hereunder.
- (c) "**Board**" means the Board of Directors of the Company.
- (d) "**Change in Control**" shall be deemed to have occurred if either (i) any individual, entity, or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company, acquires beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of fifty percent (50%) or more of either (a) the then-outstanding shares of Stock ("**Outstanding Shares**") or (b) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors ("**Voting Power**") or (ii) at any time during any period of two consecutive years (not including any period prior to the Effective Date), individuals who at the beginning of such period constitute the Board (and any new director whose election by the Board or whose nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority thereof.

(e) **"Code"** means the Internal Revenue Code of 1986, as it may be amended from time to time.

(f) **"Committee"** means a committee consisting of members of the Board who are empowered hereunder to take actions in the administration of the Plan. If applicable, the Committee shall be so constituted at all times as to permit the Plan to comply with Rule 16b-3 or any successor rule promulgated under the Exchange Act. Except as provided in Section 3.2, the Committee shall select Participants from Eligible Directors, Eligible Employees and Eligible Consultants of the Company and shall determine the awards to be made pursuant to the Plan and the terms and conditions thereof.

(g) **"Company"** means PetroShare Corp., a Colorado corporation, and its Affiliated Corporations.

(h) **"Disabled"** or **"Disability"** shall have the meaning given to such terms in Section 22(e)(3) of the Code.

(i) **"Effective Date"** means the effective date of the Plan, November 30, 2012.

(j) **"Eligible Consultants"** means those consultants and advisors to the Company who are determined, by the Committee, to be individuals whose services are important to the Company and who are eligible to receive Awards, other than Incentive Options, under the Plan.

(k) **"Eligible Directors"** means those members of the Board who are determined by the Board to be individuals whose services are important to the Company and who are eligible to receive Awards under the Plan. Eligible Directors who are not also Eligible Employees may not receive Incentive Options.

(l) **"Eligible Employees"** means those employees (including, without limitation, officers and directors who are also employees) of the Company or any subsidiary or division thereof, upon whose judgment, initiative and efforts the Company is, or will become, largely dependent for the successful conduct of its business. For purposes of the Plan, an employee is any individual who provides services to the Company or any subsidiary or division thereof as a common law employee and whose remuneration is subject to the withholding of federal income tax pursuant to Section 3401 of the Code.

(m) **"Exchange Act"** shall mean the Securities Exchange Act of 1934, as it may be amended from time to time.

(n) **"Fair Market Value"** means, as of a given date, (i) the closing price of a Share on the principal stock exchange on which Shares are then trading, if any (or as reported on any composite index that includes such principal exchange) on such date, or if Shares were not traded on such date, then on the next preceding date on which a trade occurred; or (ii) if the Stock is not traded on an exchange but is quoted on the OTC Bulletin Board or a successor quotation system, the mean between the closing representative bid and asked prices for the Stock on such date as reported by the OTC Bulletin Board or such successor quotation system; or (iii) if the Stock is not publicly traded on an exchange and not quoted on an electronic quotation system, the Fair Market Value of a Share shall be determined by the Committee acting in good faith.

- (o) **"Incentive Option"** means an Option designated as such and granted in accordance with Section 422 of the Code.
- (p) **"Non-Qualified Option"** means any Option other than an Incentive Option.
- (q) **"Option"** means a right to purchase Stock at a stated or formula price for a specified period of time. Options granted under the Plan shall be either Incentive Options or Non-Qualified Options.
- (r) **"Option Agreement"** shall have the meaning given to such term in Section 7.2 hereof.
- (s) **"Option Holder"** means a Participant who has been granted one or more Options under the Plan.
- (t) **"Option Period"** means the period of time, determined by the Committee, during which an Option may be exercised by the Option Holder.
- (u) **"Option Price"** means the price at which each share of Stock subject to an Option may be purchased, determined in accordance with subsections 7.2(b) and 7.3(b).
- (v) **"Participant"** means an Eligible Director, Eligible Employee or Eligible Consultant designated by the Committee from time to time during the term of the Plan to receive one or more of the Awards provided under the Plan.
- (w) **"Restricted Stock Award"** means an award of Stock granted to a Participant pursuant to [ARTICLE VIII](#) that is subject to certain restrictions imposed in accordance with the provisions of such Section.
- (x) **"Securities Act"** means the Securities Act of 1933, as it may be amended from time to time.
- (y) **"Share"** means one whole share of Stock.
- (z) **"Stock"** means the common stock of the Company, par value \$0.001.
- (aa) **"Stock Bonus"** means either an outright grant of Stock or a grant of Stock subject to and conditioned upon certain employment or performance related goals.

2.2 **Gender and Number**

Except when otherwise indicated by the context, the masculine gender shall also include the feminine gender, and the definition of any term herein in the singular shall also include the plural.

3.1 **General**

The Plan shall be administered by the Committee, or in the absence of appointment of a Committee, by the entire Board. All references in the Plan to the Committee shall include the entire Board if no Committee is appointed. In accordance with the provisions of the Plan, the Committee shall, in its sole discretion, select the Participants from among the Eligible Directors, Eligible Employees and Eligible Consultants, determine the Awards to be made pursuant to the Plan, or shares of Stock to be issued thereunder and the time at which such Awards are to be made, fix the Option Price, period and manner in which an Option becomes exercisable, establish the duration and nature of Restricted Stock Award restrictions, establish the terms and conditions applicable to Stock Bonuses, and establish such other terms and requirements of the various compensation incentives under the Plan as the Committee may deem necessary or desirable and consistent with the terms of the Plan. The Committee shall determine the form or forms of the agreements with Participants that shall evidence the particular provisions, terms, conditions, rights and duties of the Company and the Participants with respect to Awards granted pursuant to the Plan, which provisions need not be identical except as may be provided herein; provided, however, that Eligible Consultants and Eligible Directors who are not also Eligible Employees shall not be eligible to receive Incentive Options. The Committee may from time to time adopt such rules and regulations for carrying out the purposes of the Plan as it may deem proper and in the best interests of the Company. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any agreement entered into hereunder in the manner and to the extent it shall deem expedient and it shall be the sole and final judge of such expediency. No member of the Committee shall be liable for any action or determination made in good faith. The determinations, interpretations and other actions of the Committee pursuant to the provisions of the Plan shall be binding and conclusive for all purposes and on all persons.

3.2 **Delegation by Committee**

The Committee may, from time to time, delegate, to specified officers of the Company, the power and authority to grant Awards under the Plan to specified groups of Eligible Employees and Eligible Consultants, subject to such restrictions and conditions as the Committee, in its sole discretion, may impose. The delegation shall be as broad or as narrow as the Committee shall determine. To the extent that the Committee has delegated the authority to determine certain terms and conditions of an Award, all references in the Plan to the Committee's exercise of authority in determining such terms and conditions shall be construed to include the officer or officers to whom the Committee has delegated the power and authority to make such determination. The power and authority to grant Awards to any Eligible Employee or Eligible Consultant who is covered by Section 16(b) of the Exchange Act or who is or may become covered by Code Section 162(m) shall not be delegated by the Committee.

ARTICLE IV
STOCK SUBJECT TO THE PLAN

4.1 **Number of Shares**

The maximum aggregate number of Shares issuable under the Plan pursuant to Awards is five million (5,000,000) Shares. Notwithstanding anything to the contrary contained herein, no Award granted hereunder shall become void or otherwise be adversely affected solely because of a change in the number of Shares of the Company that are issued and outstanding from time to time, provided that changes to the issued and outstanding Shares may result in adjustments to outstanding Awards in accordance with the provisions of this ARTICLE IV. The maximum number of Shares that may be issued under Incentive Options is 3,000,000 Shares. The Shares may be either authorized and unissued Shares or previously issued Shares acquired by the Company. Such maximum numbers may be increased from time to time by approval of the Board and by the stockholders of the Company if, in the opinion of counsel for the Company, stockholder approval is required. The Company shall at all times during the term of the Plan and while any Options are outstanding retain as authorized and unissued Stock at least the number of Shares from time to time required under the provisions of the Plan, or otherwise assure itself of its ability to perform its obligations hereunder.

4.2 **Limit on Option Grants**

The maximum number of Shares with respect to which a Participant may receive Options under the Plan during a calendar year is 1,000,000 Shares. The maximum number may be increased from time to time by approval of the Board and by the stockholders of the Company. No Options may be granted with respect to any increased number of Shares until such increase has been approved by the stockholders. Stockholder approval shall not be required for increases solely pursuant to Section 4.4 below.

4.3 **Other Shares of Stock**

Any Shares that are subject to an Option that expires or for any reason is terminated unexercised and any Shares that are subject to an Award (other than an Option) and that are forfeited shall automatically become available for use under the Plan, provided, however, that no more than 3,000,000 Shares may be issued under Incentive Options.

4.4 **Adjustments for Stock Split, Stock Dividend, Etc.**

If the Company shall at any time increase or decrease the number of its outstanding Shares or change in any way the rights and privileges of such Shares by means of the payment of a stock dividend or any other distribution upon such Shares payable in Stock, or through a stock split, subdivision, consolidation, combination, reclassification or recapitalization involving the Stock, then in relation to the Stock that is affected by one or more of the above events, the numbers, rights and privileges of the following shall be increased, decreased or changed in like manner as if they had been issued and outstanding, fully paid and non-assessable at the time of such occurrence: (i) the Shares as to which Awards may be granted under the Plan, (ii) the Shares then included in each outstanding Award granted hereunder, (iii) the exercise price of any Shares subject to an option granted under the Plan; (iv) the maximum number of Shares available for grant to any one person in a calendar year pursuant to Section 4.2, (v) the maximum number of Shares available for grant pursuant to Incentive Options, and (vi) the number of Shares subject to a delegation of authority under Section 3.2 of this Plan.

4.5 **General Adjustment Rules**

No adjustment or substitution provided for in this ARTICLE IV shall require the Company to sell a fractional Share under any Option, or otherwise issue a fractional Share, and the total substitution or adjustment with respect to each Option and other Award shall be limited by deleting any fractional Share. In the case of any such substitution or adjustment, the aggregate Option Price for the total number of Shares then subject to an Option shall remain unchanged but the Option Price per Share under each such Option shall be adjusted by the Committee to reflect the greater or lesser number of Shares or other securities into which the Stock subject to the Option may have been changed, and appropriate adjustments shall be made to other Awards to reflect any such substitution or adjustment. All adjustments to Options shall be made according to Section 1.424-1 of the Treasury Regulations.

4.6 **Determination by the Committee, Etc.**

Adjustments under this ARTICLE IV shall be made by the Committee, whose determinations with regard thereto shall be final and binding upon all parties thereto.

**ARTICLE V
CORPORATE REORGANIZATION; CHANGE IN CONTROL**

5.1 **Adjustment of Awards**

Upon the occurrence of a Corporate Transaction (as defined in Section 5.3), the Committee may take any one or more of the following actions with respect to outstanding Awards:

- (a) Provide that any or all Options shall become fully exercisable regardless of whether all conditions of exercise relating to length of service, attainment of financial performance goals or otherwise have been satisfied;
- (b) Provide that any or all restrictions with respect to Restricted Stock and other Awards shall lapse;
- (c) Provide for the assumption or substitution of any or all Awards as described in Section 5.2; or
- (d) Make any other provision for outstanding Awards as the Committee deems appropriate and consistent with applicable law.

The Committee may also provide that any Awards that are outstanding at the time the Corporate Transaction is closed shall expire at the time of the closing. The Committee need not take the same action with respect to all outstanding Awards or to all outstanding Awards of the same type.

5.2 **Assumption or Substitution of Options and Other Awards**

(a) The Company, or the successor or purchaser, as the case may be, may make adequate provision for the assumption of the outstanding Options or the substitution of new options for the outstanding Options on terms comparable to the outstanding Options or (b) the Company, or the successor or purchaser, as the case may be, may make adequate provision for the equitable adjustment of outstanding Awards (other than Options). Any assumption or substitution of Options shall be made according to Section 1.424-1 of the Treasury Regulations.

5.3 **Corporate Transaction**

A Corporate Transaction shall include the following:

(a) **Merger; Reorganization:** the merger or consolidation of the Company with or into another corporation or other reorganization (other than a reorganization under the United States Bankruptcy Code) of the Company (other than a consolidation, merger, or reorganization in which the Company is the continuing corporation and which does not result in any reclassification or change of outstanding shares of Stock or a merger effected merely to change the place of organization of the Company);

(b) **Sale:** the sale or conveyance of the property of the Company as an entirety or substantially as an entirety (other than a sale or conveyance in which the Company continues as a holding company of an entity or entities that conduct the business or businesses formerly conducted by the Company);

(c) **Liquidation:** the dissolution or liquidation of the Company; or

(d) **Change in Control:** Change in Control.

5 . 4 **Limitation of Payments:** If the provisions of this Article V would result in the receipt by any Participant of a payment within the meaning of Section 280G of the Code and the regulations promulgated thereunder and if the receipt of such payment by any Participant would, in the opinion of independent tax counsel of recognized standing selected by the Company, result in the payment by such Participant of any excise tax provided for in Sections 280G and 4999 of the Code, then the amount of such payment shall be reduced to the extent required, in the opinion of independent tax counsel, to prevent the imposition of such excise tax; provided, however, that the Committee, in its sole discretion, may authorize the payment of all or any portion of the amount of such reduction to the Participant.

ARTICLE VI PARTICIPATION

Participants in the Plan shall be those Eligible Employees who, in the judgment of the Committee, are performing, or during the term of their incentive arrangement will perform, vital services in the management, operation and development of the Company, and significantly contribute, or are expected to significantly contribute, to the achievement of long-term corporate economic objectives. Eligible Consultants shall be selected from those non-employee consultants or advisors to the Company who are performing services important to the operation and growth of the Company. Eligible Directors are those whose services, in the judgment of the Committee, are important to the Company. Participants may be granted from time to time one or more Awards; provided, however, that the grant of each such Award shall be separately approved by the Committee and receipt of one such Award shall not result in automatic receipt of any other Award. Upon determination by the Committee that an Award is to be granted to a Participant, written notice shall be given to such person, specifying the terms, conditions, rights and duties related thereto. Each Participant shall, if required by the Committee, enter into an agreement with the Company, in such form as the Committee shall determine and which is consistent with the provisions of the Plan, specifying such terms, conditions, rights and duties. Awards shall be deemed to be granted as of the date specified in the grant resolution of the Committee, which date shall be the date of any related agreement with the Participant. In the event of any inconsistency between the provisions of the Plan and any such agreement entered into hereunder, the provisions of the Plan shall govern.

ARTICLE VII OPTIONS

7.1 **Grant of Options**

Coincident with or following designation for participation in the Plan, a Participant may be granted one or more Options. The Committee in its sole discretion shall designate whether an Option is an Incentive Option or a Non-Qualified Option; provided, however, that only Non-Qualified Options may be granted to Eligible Consultants and to Eligible Directors who are not also Eligible Employees; and further provided that Incentive Options may be granted only after the shareholders have approved the Plan. The Committee may grant both an Incentive Option and a Non-Qualified Option to an Eligible Employee at the same time or at different times. Incentive Options and Non-Qualified Options, whether granted at the same time or at different times, shall be deemed to have been awarded in separate grants and shall be clearly identified, and in no event shall the exercise of one Option affect the right to exercise any other Option or affect the number of shares for which any other Option may be exercised. An Option shall be considered as having been granted on the date specified in the grant resolution of the Committee.

Each Option granted under the Plan shall be evidenced by a written stock option certificate or agreement (an **Option Agreement**). An Option Agreement shall be issued by the Company in the name of the Participant to whom the Option is granted (the **Option Holder**) and in such form as may be approved by the Committee. The Option Agreement shall incorporate and conform to the conditions set forth in this Section 7.2 as well as such other terms and conditions that are not inconsistent as the Committee may consider appropriate in each case.

(a) **Number of Shares.** Each Option Agreement shall state that it covers a specified number of shares of Stock, as determined by the Committee.

(b) **Price.** The price at which each share of Stock covered by an Option may be purchased shall be determined in each case by the Committee and set forth in the Option Agreement, but in no event shall the price be less than 100% of the Fair Market Value of the Stock on the date the Option is granted. The pricing of certain Incentive Options is further restricted as detailed in Section 7.3.

(c) **Duration of Options; Restrictions on Exercise.** Each Option Agreement shall state the Option Period. The Option Period must end, in all cases, not more than ten years from the date the Option is granted. The Option Agreement shall also set forth any installment or other restrictions on exercise of the Option during such period, if any, as may be determined by the Committee. Each Option shall become exercisable (vest) over such period of time, if any, or upon such events, as determined by the Committee.

(d) **Termination of Services, Death, Disability, Etc.** The Committee may specify the period, if any, during which an Option may be exercised following termination of the Option Holder's services. The effect of this subsection 7.2(d) shall be limited to determining the consequences of a termination and nothing in this subsection 7.2(d) shall restrict or otherwise interfere with the Company's discretion with respect to the termination of any individual's services. If the Committee does not otherwise specify, the following shall apply:

(i) If the services of the Option Holder are terminated within the Option Period for "cause", as determined by the Company, the Option shall thereafter be void for all purposes.

(ii) If the Option Holder becomes Disabled, the Option may be exercised by the Option Holder within one year following the Option Holder's termination of services on account of Disability (provided that such exercise must occur within the Option Period), but not thereafter. In any such case, the Option may be exercised only as to the shares as to which the Option had become exercisable on or before the date of the Option Holder's termination of services because of Disability.

(iii) If the Option Holder dies during the Option Period while still performing services for the Company or within the three-month period referred to in (iv) below, the Option may be exercised by those entitled to do so under the Option Holder's will or by the laws of descent and distribution within one year following the Option Holder's death, (provided that such exercise must occur within the Option Period), but not thereafter. In any such case, the Option may be exercised only as to the shares as to which the Option had become exercisable on or before the date of the Option Holder's death.

(iv) If the services of the Option Holder are terminated (which for this purpose means that the Option Holder is no longer employed by the Company or performing services for the Company) by the Company within the Option Period for any reason other than cause, death, or Disability, the Option may be exercised by the Option Holder within three months following the date of such termination (provided that such exercise must occur within the Option Period), but not thereafter. In any such case, the Option may be exercised only as to the shares as to which the Option had become exercisable on or before the date of termination of employment or services.

(e) **Exercise, Payments, Etc.**

(i) **Manner of Exercise.** The method for exercising each Option granted hereunder shall be by delivery to the Company of written notice specifying the number of Shares with respect to which such Option is exercised. The purchase of such Shares shall take place at the principal offices of the Company within thirty (30) days following delivery of such notice, at which time the Option Price of the Shares shall be paid in full by any of the methods set forth below or a combination thereof. Except as set forth in the next sentence, the Option shall be exercised when the Option Price for the number of shares as to which the Option is exercised is paid to the Company in full. If the Option Price is paid by means of a broker's transaction described in subsection 7.2(e)(ii)(C), in whole or in part, the closing of the purchase of the Stock under the Option shall take place (and the Option shall be treated as exercised) on the date on which, and only if, the sale of Stock upon which the broker's transaction was based has been closed and settled, unless the Option Holder makes an irrevocable written election, at the time of exercise of the Option, to have the exercise treated as fully effective for all purposes upon receipt of the Option Price by the Company regardless of whether or not the sale of the Stock by the broker is closed and settled. A properly executed certificate or certificates representing the Shares shall be delivered to or at the direction of the Option Holder upon payment therefor. If Options on less than all shares evidenced by an Option Certificate are exercised, the Company shall deliver a new Option Certificate evidencing the Option on the remaining shares upon delivery of the Option Certificate for the Option being exercised.

(ii) If the exercise price is \$2,000 or less, the exercise price shall be paid by one or a combination of the methods set forth in subsections 7.2(e)(ii)(A) or (B) below. If the exercise price is more than \$2,000, the exercise price shall be paid by any of the following methods or any combination of the following methods at the election of the Option Holder, or by any other method approved by the Committee upon the request of the Option Holder:

(A) in cash;

(B) by certified check, cashier's check or other check acceptable to the Company, payable to the order of the Company;

(C) by delivery to the Company of a properly executed notice of exercise together with irrevocable instructions to a broker to deliver to the Company promptly the amount of the proceeds of the sale of all or a portion of the Stock or of a loan from the broker to the Option Holder required to pay the Option Price; or

(D) by delivery to the Company for cancellation shares of the Company's Stock previously owned by the Optionee with a Fair Market Value as of the date of the payment equal to the portion of the purchase price for the Option Shares that the Optionee does not pay in cash or by use of attestation of shares already owned by the Optionee to eliminate the need for physical delivery of stock certificate(s) by the Optionee to the Company under this Section 7.2(e). By use of attestation, the Optionee will be issued the number of shares exercised reduced by the number of whole shares necessary to pay the exercise price, or portion thereof.

(f) **Date of Grant.** An Option shall be considered as having been granted on the date specified in the grant resolution of the Committee.

(g) **Withholding.**

(i) **Non-Qualified Options.** Upon exercise of an Option, the Option Holder shall make appropriate arrangements with the Company to provide for the amount of additional withholding required by Sections 3102 and 3402 of the Code and applicable state income tax laws.

(ii) **Incentive Options.** If an Option Holder makes a disposition (as defined in Section 424(c) of the Code) of any Stock acquired pursuant to the exercise of an Incentive Option prior to the expiration of two years from the date on which the Incentive Option was granted or prior to the expiration of one year from the date on which the Option was exercised, the Option Holder shall send written notice to the Company at the Company's principal place of business of the date of such disposition, the number of shares disposed of, the amount of proceeds received from such disposition and any other information relating to such disposition as the Company may reasonably request. The Option Holder shall, in the event of such a disposition, make appropriate arrangements with the Company to provide for the amount of additional withholding, if any, required by Sections 3102 and 3402 of the Code and applicable state income tax laws.

7.3 **Restrictions on Incentive Options.**

(a) **Initial Exercise.** The aggregate Fair Market Value of the Shares with respect to which Incentive Options are exercisable for the first time by an Option Holder in any calendar year, under the Plan or otherwise, shall not exceed \$100,000. For this purpose, the Fair Market Value of the Shares shall be determined as of the date of grant of the Option and Incentive Options shall be taken into account in the order granted.

(b) **Ten Percent Stockholders.** Incentive Options granted to an Option Holder who is the holder of record of more than 10% of the total combined voting power of all classes of stock of the Company shall have an Option Price equal to at least 110% of the Fair Market Value of the Shares on the date of grant of the Option and the Option Period for any such Option shall not exceed five years.

7.4 **Transferability**

(a) **General Rule: No Lifetime Transfers.** An Option shall not be transferable by the Option Holder except by will or pursuant to the laws of descent and distribution. An Option shall be exercisable during the Option Holder's lifetime only by him or her, or in the event of Disability or incapacity, by his or her guardian or legal representative. The Option Holder's guardian or legal representative shall have all of the rights of the Option Holder under this Plan.

(b) **No Assignment.** No right or interest of any Option Holder in an Option granted pursuant to the Plan shall be assignable or transferable during the lifetime of the Option Holder, either voluntarily or involuntarily, or be subjected to any lien, directly or indirectly, by operation of law, or otherwise, including execution, levy, garnishment, attachment, pledge or bankruptcy, except as set forth above.

No Option Holder shall have any rights as a shareholder with respect to any shares of Stock covered by an Option until the Option Holder becomes the holder of record of such Stock, and no adjustments shall be made for dividends or other distributions or other rights as to which there is a record date preceding the date such Option Holder becomes the holder of record of such Stock.

**ARTICLE VIII
RESTRICTED STOCK AWARDS**

8.1 Grant of Restricted Stock Awards

Coincident with or following designation for participation in the Plan, the Committee may grant a Participant one or more Restricted Stock Awards consisting of Shares of Stock. The number of Shares granted as a Restricted Stock Award shall be determined by the Committee.

8.2 Restrictions

A Participant's right to retain a Restricted Stock Award granted to him under Section 8.1 shall be subject to such restrictions, including but not limited to his continuous employment by or performance of services for the Company for a restriction period specified by the Committee or the attainment of specified performance goals and objectives, as may be established by the Committee with respect to such Award. The Committee may in its sole discretion require different periods of service or different performance goals and objectives with respect to different Participants, to different Restricted Stock Awards or to separate, designated portions of the Shares constituting a Restricted Stock Award. In the event of the death or Disability of a Participant, or the retirement of a Participant in accordance with the Company's established retirement policy, all required periods of service and other restrictions applicable to Restricted Stock Awards then held by him shall lapse with respect to a *pro rata* part of each such Award based on the ratio between the number of full months of employment or services completed at the time of termination of services from the grant of each Award to the total number of months of employment or continued services required for such Award to be fully nonforfeitable, and such portion of each such Award shall become fully nonforfeitable. The remaining portion of each such Award shall be forfeited and shall be immediately returned to the Company. If a Participant's employment or consulting services terminate for any other reason, any Restricted Stock Awards as to which the period for which services are required or other restrictions have not been satisfied (or waived or accelerated as provided herein) shall be forfeited, and all shares of Stock related thereto shall be immediately returned to the Company.

8.3 Privileges of a Stockholder, Transferability

A Participant shall have all voting, dividend, liquidation and other rights with respect to Stock in accordance with its terms received by him as a Restricted Stock Award under this ARTICLE VIII upon his becoming the holder of record of such Stock; provided, however, that the Participant's right to sell, encumber, or otherwise transfer such Stock shall be subject to the limitations of Section 11.2.

8.4 Enforcement of Restrictions

The Committee shall cause a legend to be placed on the Stock certificates issued pursuant to each Restricted Stock Award referring to the restrictions provided by Sections 8.2 and 8.3 and, in addition, may in its sole discretion require one or more of the following methods of enforcing the restrictions referred to in Sections 8.2 and 8.3:

- (a) Requiring the Participant to keep the Stock certificates, duly endorsed, in the custody of the Company while the restrictions remain in effect; or
- (b) Requiring that the Stock certificates, duly endorsed, be held in the custody of a third party while the restrictions remain in effect.

**ARTICLE IX
STOCK BONUSES**

The Committee may award Stock Bonuses to such Participants, subject to such conditions and restrictions, as it determines in its sole discretion. Stock Bonuses may be either outright grants of Stock, or may be grants of Stock subject to and conditioned upon certain employment or performance related goals.

**ARTICLE X
OTHER COMMON STOCK GRANTS**

From time to time during the duration of this Plan, the Board may, in its sole discretion, adopt one or more incentive compensation arrangements for Participants pursuant to which the Participants may acquire shares of Stock, whether by purchase, outright grant, or otherwise. Any such arrangements shall be subject to the general provisions of this Plan and all shares of Stock issued pursuant to such arrangements shall be issued under this Plan.

**ARTICLE XI
RIGHTS OF PARTICIPANTS**

11.1 Service

Nothing contained in the Plan or in any Option, or other Award granted under the Plan shall confer upon any Participant any right with respect to the continuation of his employment by, or consulting or advisory relationship with, the Company, or membership on the Board or interfere in any way with the right of the Company, subject to the terms of any separate employment agreement or other contract to the contrary, at any time to terminate such services or to increase or decrease the compensation of the Participant from the rate in existence at the time of the grant of an Award. Whether an authorized leave of absence, or absence in military or government service, shall constitute a termination of service shall be determined by the Committee at the time.

11.2 Nontransferability of Awards Other Than Options

Except as provided otherwise at the time of grant or thereafter, no right or interest of any Participant in a Restricted Stock Award (prior to the completion of the restriction period applicable thereto), or other Award (excluding Options) granted pursuant to the Plan, shall be assignable or transferable during the lifetime of the Participant, either voluntarily or involuntarily, or subjected to any lien, directly or indirectly, by operation of law, or otherwise, including execution, levy, garnishment, attachment, pledge or bankruptcy. The transferability of options, if any, shall be governed by Section 7.4. In the event of a Participant's death, a Participant's rights and interests in Options, Restricted Stock Awards and other Awards shall, to the extent provided in ARTICLE VII, ARTICLE VIII, ARTICLE IX, and ARTICLE X, be transferable by will or the laws of descent and distribution, and payment of any amounts due under the Plan shall be made to, and exercise of any Options may be made by, the Participant's legal representatives, heirs or legatees. If in the opinion of the Committee a person entitled to payments or to exercise rights with respect to the Plan is disabled from caring for his affairs because of mental condition, physical condition or age, payment due such person may be made to, and such rights shall be exercised by, such person's guardian, conservator or other legal personal representative upon furnishing the Committee with evidence satisfactory to the Committee of such status.

Obligations to Participants under the Plan will not be funded, trustee, insured or secured in any manner. The Participants under the Plan shall have no security interest in any assets of the Company, and shall be only general creditors of the Company.

**ARTICLE XII
GENERAL RESTRICTIONS**

12.1 Investment Representations

The Company may require any person to whom an Option, Restricted Stock Award, or Stock Bonus is granted, as a condition of exercising such Option, or receiving such Restricted Stock Award or Stock Bonus, to give written assurances in substance and form satisfactory to the Company and its counsel to the effect that such person is acquiring the Stock for his own account for investment and not with any present intention of selling or otherwise distributing the same, and to such other effects as the Company deems necessary or appropriate in order to comply with Federal and applicable state securities laws. Legends evidencing such restrictions may be placed on the Stock certificates.

12.2 Compliance with Securities Laws

Each Option, Restricted Stock Award, and Stock Bonus grant shall be subject to the requirement that, if at any time counsel to the Company shall determine that the listing, registration or qualification of the shares subject to such Option, Restricted Stock Award or Stock Bonus grant upon any securities exchange or under any state or federal law, or the consent or approval of any governmental or regulatory body, is necessary as a condition of, or in connection with, the issuance or purchase of shares thereunder, such Option, Restricted Stock Award, or Stock Bonus grant may not be accepted or exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained on conditions acceptable to the Committee. Nothing herein shall be deemed to require the Company to apply for or to obtain such listing, registration or qualification.

12.3 Changes in Accounting Rules

Except as provided otherwise at the time an Award is granted, notwithstanding any other provision of the Plan to the contrary, if, during the term of the Plan, any changes in the financial or tax accounting rules applicable to Options, Restricted Stock Awards, or other Awards shall occur which, in the sole judgment of the Committee, may have a material adverse effect on the reported earnings, assets or liabilities of the Company, the Committee shall have the right and power to modify as necessary, any then outstanding and unexercised Options, outstanding Restricted Stock Awards, and other outstanding Awards as to which the applicable services or other restrictions have not been satisfied.

**ARTICLE XIII
OTHER EMPLOYEE BENEFITS**

The amount of any compensation deemed to be received by a Participant as a result of the exercise of an Option, the sale of shares received upon such exercise, the vesting of any Restricted Stock Award, receipt of Stock Bonuses, or the grant of Stock shall not constitute "earnings" or "compensation" with respect to which any other employee benefits of such employee are determined, including without limitation benefits under any pension, profit sharing, life insurance or salary continuation plan.

**ARTICLE XIV
PLAN AMENDMENT, MODIFICATION AND TERMINATION**

The Board may at any time terminate, and from time to time may amend or modify the Plan provided, however, that no amendment or modification may become effective without approval of the amendment or modification by the shareholders if shareholder approval is required to enable the Plan to satisfy any applicable statutory or regulatory requirements, or if the Company, on the advice of counsel, determines that shareholder approval is otherwise necessary or desirable.

No amendment, modification or termination of the Plan shall in any manner adversely affect any Options, Restricted Stock Awards, Stock Bonuses or other Award theretofore granted under the Plan, without the consent of the Participant holding such Options, Restricted Stock Awards, Stock Bonuses or other Awards.

**ARTICLE XV
WITHHOLDING**

14.1 Withholding Requirement

The Company's obligation to deliver shares of Stock upon the exercise of any Option, the vesting of any Restricted Stock Award, or the grant of Stock shall be subject to the Participant's satisfaction of all applicable federal, state and local income and other tax withholding requirements.

14.2 Withholding With Stock

At the time the Committee grants an Option, Restricted Stock Award, Stock Bonus, other Award, or Stock, it may, in its sole discretion, grant the Participant an election to pay all such amounts of tax withholding, or any part thereof, by electing to transfer to the Company, or to have the Company withhold from shares otherwise issuable to the Participant, shares of Stock having a value equal to the amount required to be withheld or such lesser amount as may be elected by the Participant. The value of shares of Stock to be withheld shall be based on the Fair Market Value of the Stock on the date that the amount of tax to be withheld is to be determined (the "Tax Date"). Any such elections by Participants to have shares of Stock withheld for this purpose will be subject to the following restrictions:

- (a) All elections must be made prior to the Tax Date.
- (b) All elections shall be irrevocable.
- (c) If the Participant is an officer or director of the Company within the meaning of Section 16 of the Exchange Act (**Section 16**), the Participant must satisfy the requirements of such Section 16 and any applicable rules thereunder with respect to the use of Stock to satisfy such tax withholding obligation.

**ARTICLE XVI
REQUIREMENTS OF LAW**

15.1 Requirements of Law

The issuance of Stock and the payment of cash pursuant to the Plan shall be subject to all applicable laws, rules and regulations.

15.2 Federal Securities Law Requirements

If a Participant is an officer or director of the Company within the meaning of Section 16, Awards granted hereunder shall be subject to all applicable conditions required under Rule 16b-3, or any successor rule promulgated under the Exchange Act, to qualify the Award for any exception from the provisions of Section 16(b) of the Exchange Act available under that Rule. Such conditions shall be set forth in the agreement with the Participant which describes the Award or other document evidencing or accompanying the Award.

15.3 Governing Law

The Plan and all agreements hereunder shall be construed in accordance with and governed by the laws of the State of Colorado, with regard to the conflict of laws provisions therein that would result in the application of the laws of any other jurisdiction.

**ARTICLE XVII
DURATION OF THE PLAN**

Unless sooner terminated by the Board of Directors, the Plan shall terminate at the close of business on November 30, 2022 and no Option, Restricted Stock Award, Stock Bonus, other Award or Stock shall be granted, or offer to purchase Stock made, after such termination. Options, Restricted Stock Awards, and other Awards outstanding at the time of the Plan termination may continue to be exercised, or become free of restrictions, or paid, in accordance with their terms.

Dated: November 30, 2012.

By: /s/ Frederick J. Witsell
Name: Frederick J. Witsell
Title: President

**PETROSHARE CORP.
STOCK OPTION AGREEMENT**

THIS STOCK OPTION AGREEMENT (the "Agreement") is made and entered into effective _____ (the "Date of Grant") by and between PetroShare Corp., a Colorado corporation (the "Corporation"), and _____ (the "Optionee").

WITNESSETH:

WHEREAS, on _____, the Board of Directors determined that the Optionee should receive an option to purchase shares of the Corporation's common stock under the Corporation's Equity Incentive Plan (the "Plan") in order to provide the Optionee with an opportunity for investment in the Corporation and additional incentive to pursue the success of the Corporation, said option to be for the number of shares, at the price per share and on the terms set forth in this Agreement; and

WHEREAS, Optionee desires to receive an option on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, the parties agree as follows:

1. Grant of Option. The Corporation hereby grants to Optionee, as a matter of separate agreement and not in lieu of salary or any other compensation for service, the right and option (the "Option") to purchase all or any part of an aggregate of _____ shares of reserved, authorized and unissued common stock of the Corporation, par value \$0.001 per share (the "Option Shares") pursuant to the terms and conditions set forth in this Agreement. The Option is granted pursuant to the terms and conditions of the Plan, a copy of which has been provided to Optionee, and shall be subject to all of those terms and conditions.
2. Option Price. At any time when shares are to be purchased pursuant to the Option, the purchase price for each Option Share shall be \$0.25 (the "Option Price"), subject to adjustment as set forth in the Plan.
3. Option Period. The Option period shall commence as of the Date of Grant and shall terminate on _____ unless terminated earlier as provided in the Plan.
4. Exercise of Option.
 - (a) The Option is vested immediately and may be exercised, in whole or in part, during the Option Period set forth in Section 3 above, subject to the remaining provisions of this Section 4.
 - (b) The Option may be exercised by delivering to the Corporation:
 - (i) A Notice and Agreement of Exercise of Option, substantially in the form attached hereto as Exhibit A, specifying the number of Option Shares with respect to which the Option is exercised; and

(ii) Full payment of the Option Price for such shares, and for employees, any applicable withholding or similar taxes, in such manner as provided in the Plan.

(c) Notwithstanding the foregoing, the Option may not be exercised in part unless the Exercise Price is at least \$1,000.00.

(d) Promptly upon receipt of the Notice of Agreement and Exercise and full payment of the Exercise Price by the Optionee (including payment or provision for payment of any applicable withholding or other tax), the Corporation shall deliver to the Optionee a properly executed certificate or certificates representing the Option Shares being purchased.

5. Securities Laws Requirements.

- (a) No Option Shares shall be issued unless and until, in the opinion of the Corporation, any applicable registration requirements of the Securities Act of 1933, as amended (the "Act"), any applicable listing requirements of any securities exchange on which stock of the same class is listed, and any other requirements of law or any regulatory bodies having jurisdiction over such issuance and delivery have been fully complied with.
- (b) Optionee understands that the Corporation is under no obligation to register the Option Shares under the Act and that in the absence of any such registration, the Option Shares cannot be sold unless they are sold pursuant to an exemption from registration under the Act. The Optionee understands that in the absence of registration, the certificates representing any unregistered Option Shares issued to the Optionee shall bear a legend restricting the underlying shares from transfer in accordance with the Act and the Corporation may refuse to transfer the shares unless it is satisfied that the requirements of the Act have been satisfied.
- (c) The Corporation is under no obligation to comply, or to assist the Optionee in complying with, any exemption from such registration requirements, including supplying the Optionee with any information necessary to permit routine sales of the Stock under Rule 144 of the Act. Optionee also understands that with respect to Rule 144, routine sales of securities made in reliance upon such Rule can only be made in limited amounts in accordance with the terms and conditions of the Rule, and that in cases in which the Rule is inapplicable, compliance with either Regulation A or another disclosure exemption under the Act will be required. Thus, the Option Shares will have to be held indefinitely in the absence of registration under the Act or an exemption from registration.
- (d) Pursuant to the terms of the Notice of Agreement of Exercise that shall be delivered to the Corporation upon each exercise of the Option, the Optionee shall acknowledge, represent, warrant and agree as follows:
 - (i) Unless the underlying shares have been registered under the Act, all Option Shares shall be acquired solely for the account of the Optionee for investment purposes only and with no view to their resale or other distribution of any kind;

- (ii) No Option Share shall be sold or otherwise distributed in violation of the Act or any other applicable federal or state securities laws; and
- (iii) If the Optionee is subject to reporting requirements under Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Optionee shall:
- (A) Be aware that the actual accrual of any right under the Option to purchase Option Shares is an event that requires reporting on Forms 3, 4 or 5 under Section 16(a) of the Exchange Act;
 - (B) Consult with counsel for Optionee regarding the application of Section 16(b) of the Exchange Act prior to any exercise of the Option, and prior to any sale of the Company's Common Stock; and
 - (C) Timely file all reports required under the federal securities laws.

6. Transferability of Option. The Option shall not be transferable except by will or the laws of descent and distribution, and any attempt to do so shall void the Option.

7. Privilege of Ownership. Optionee shall not have any of the rights of a shareholder with respect to the Option Shares except to the extent that one or more certificates for such shares shall be delivered to him upon exercise of the Option.

8. Notices. Any notices required or permitted to be given under this Agreement shall be in writing and they shall be deemed to be given upon receipt by sender of sender's return receipt for acknowledgement of delivery of said notice by (i) Facsimile, or (ii) postage prepaid registered mail. Such notice shall be addressed to the party to be notified as shown below:

Corporation: PetroShare Corp.

Fax: _____

Optionee: At the address listed below his name on the last page of this Agreement.

Any party may change its address for purposes of this paragraph by giving the other parties written notice of the new address in the manner set forth above.

9. General Provisions. This instrument: (a) together with the Plan, contains the entire agreement among the parties, (b) may not be amended nor may any rights hereunder be waived except by an instrument in writing signed by the parties sought to be charged with such amendment or waiver, (c) shall be constructed in accordance with, and governed by, the laws of the State of Colorado, (d) shall be binding upon and shall inure to the benefit of the parties and their respective personal representatives and assigns, except as above set forth.

IN WITNESS WHEREOF, the parties have executed this Agreement to be effective as of the date and year first above written.

PETROSHARE CORP.:

By: _____
Stephen J. Foley, Chief Executive Officer

OPTIONEE:

By: _____
Name: _____
Address: _____

**EXHIBIT A
TO PETROSHARE CORP.
STOCK OPTION AGREEMENT**

NOTICE AND AGREEMENT OF EXERCISE OF OPTION

I hereby exercise my Stock Option granted pursuant to that Stock Option Agreement dated _____ (the "Agreement") as to _____ shares of PetroShare Corp. common stock (the "Option Shares").

Enclosed are the documents and payment specified in Paragraph 4 of the Agreement.

I understand that no Option Shares will be issued unless and until, in the opinion of PetroShare Corp. (the "Corporation"), any applicable registration requirements of the Securities Act of 1933, as amended (the "Act"), and any applicable listing requirements of any securities exchange on which stock of the same class is then listed, and any other requirements of law or any regulatory bodies having jurisdiction over such issuance and delivery, shall have been fully complied with. I hereby acknowledge, represent, warrant and agree, to and with the Corporation as follows:

- a. Unless the shares have been registered, the Option Shares I am purchasing are being acquired for my own account for investment purposes only and with no view to their resale or other distribution of any kind, and no other person (except, if I am married, my spouse) will own any interest therein.
- b. I will not sell or dispose of my Option Shares in violation of the Act or any other applicable federal or state securities laws.
- c. If and so long as I am subject to reporting requirements under Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), I agree to make any required filings with the SEC in connection with the exercise of the option.
- d. I have consulted with counsel regarding the application of Section 16(b) to this exercise of my option.
- e. I will consult with counsel before I make any sale of the Corporation's common stock, including the Option Shares.
- f. I agree that the Company may, without liability for its good faith actions, place legend restrictions upon my Option Shares and issue "stop transfer" instructions requiring compliance with applicable securities laws and the terms of the Agreement.

The number of Option Shares specified above are to be issued in the following registration:

(Date)

(Print Full Name)

(Signature)

(Optional—Spouse's full name if
you wish joint registration)

(Address)

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement"), effective as of the 1st day of November 2013, by and between PETROSHARE CORP., a Colorado corporation with its principal place of business located at 7200 S. Alton Way, #B-220, Centennial, Co 80111 (the "Company" or "Employer") and Stephen J. Foley, an individual residing in the State of Colorado (the "Employee").

RECITALS

WHEREAS, to induce Employee to serve as CEO and to oversee the operations of the Company, the Company desires to provide Employee with compensation and other benefits on the terms and conditions contained in this Agreement.

WHEREAS, Employee is willing to accept such employment and perform services for the Company on the terms and conditions contained in this Agreement.

NOW THEREFORE, in consideration of the Recitals and the mutual covenants, promises, agreements, representations and warranties contained in this Agreement, the parties hereby accept employment on the terms and conditions hereinafter set forth.

1. Term.

a) Subject to the provisions for termination hereinafter provided, the initial one- year term of this Agreement shall commence on November 1, 2013 and terminate on October 31, 2014 (the "Initial Term").

b) Notwithstanding subparagraph 1(a), the effectiveness of this Agreement shall automatically be extended for an additional one-year term on each successive anniversary of the last day of the Initial Term (each a "Renewal Term"), unless and until either party terminates the Agreement as provided herein.

c) The Initial Term and any Renewal Terms shall be referred to below collectively as the "Term" of this Agreement.

2. Compensation and Performance Review.

a) For all services rendered by the Employee under this Agreement, commencing November 1, 2013, the Company shall be obligated to pay the Employee a salary of \$12,500.00 per month (\$150,000 per annum, "Base Salary"), payable in accordance with the Employer's regular payroll procedure. All payments to the Employee under this Agreement will be subject to withholding as required by law.

b) At the end of every yearly period after the commencement of the Term of this Agreement, the Company shall grant the Employee a performance and salary review for the purposes of gauging the performance of the Employee for the preceding year and adjusting the salary of the Employee hereunder, looking to the results of such review and the Company's financial progress, among other things, as guides in such adjustments.

3. Duties. Employee is engaged as the Chief Executive Officer (CEO) of the Company. In such capacity, the Employee shall perform all duties incident to the title of CEO and such other duties, responsibilities, and authorities as from time to time may be reasonably assigned to him by the Board of Directors.

4. Best Efforts of Employee. During the Term of this Agreement, the Employee shall faithfully, with diligence and to the best of his ability, experience and talents, perform all the duties that may be required of and from him pursuant to the express and implied terms hereof to the reasonable satisfaction of the Board of Directors. Such services shall be rendered in Centennial, CO and at such other place or places as the Board of Directors shall in good faith require or as the interest, needs, business or opportunity of the Company shall require. During the Term of this Agreement, the Employee shall not hold outside interests or engage in other business activities independent of the Company that are inconsistent or competitive with the Company's business or interests, unless the Employee obtains prior written consent from the Board of Directors of the Company.

5. Existing Personal Investment/Corporate Opportunity. The provisions in Section 4 shall not apply to (a) any existing personal oil and gas investments owned by Employee, his family members, and his affiliates as of the date of this Agreement ("Existing Personal Investments") as described on **Schedule 5**; (b) future expenditures made by Employee, his family members and his affiliates that are required to maintain, but not increase, their respective current ownership interests in the Existing Personal Investments, excluding however, any expenditure to participate in the acquisition, exploration, or development of any acreage that is not currently included in the Existing Personal Investments as of the Effective Date; and (c) any corporate opportunity that is first offered to, and subsequently declined by, the Company (acting through the Board or its designee).

6. Working Facilities. The Employee shall be furnished with all such facilities and services suitable to his position and adequate for the performance of his duties.

7. Expenses. The Employee is authorized to incur reasonable expenses for promoting the business of the Company, including his out-of-pocket expenses for entertainment, travel and similar items. The Company shall reimburse the Employee for all such expenses on the presentation by the Employee, from time to time, of an itemized account of such expenditures in accordance with the guidelines set forth by the Internal Revenue Service for travel and entertainment.

8. Benefits. The Employee shall be entitled to receive any and all health, insurance, disability or any other benefit plan adopted by the Board of Directors from time to time for the benefit of its employees.

9. Vacation. Any vacation shall be taken at the reasonable and mutual convenience of the Company and Employee. If permitted under the Company's vacation or paid time off policy, any accrued and unused vacation may be carried over from year to year and shall be paid to Employee upon the termination of his employment, regardless of the reason for such termination.

10. Termination.

a) *Disability.* Should the Employee, by reason of illness or incapacity, be unable to perform his job for a period of up to and including a maximum of three (3) months, the compensation payable for and during such period under this Agreement shall be unabated. The Board of Directors shall have the right to determine the incapacity of the Employee for the purposes of this provision, relying where necessary on the advice of qualified medical providers, and any such determination shall be evidenced by its written opinion delivered to the Employee and shall be final and binding on Employee. Such written opinion shall specify with particularity the reasons supporting such opinion and be signed by at least a majority of the Board. Should the Board of Directors determine the Employee incapable of the performance of his duties and such period has or is expected to last in excess of three months, the Employee's compensation thereafter shall be reduced to zero. If the Employee is able to return to work prior to the expiration of one year from the date the disability began, the Employee shall receive full compensation upon his return to employment and regular discharge of his full duties hereunder. Upon termination under this subsection a), Employee will receive accrued but unpaid Base Salary and accrued benefits through the date of termination and/or any payments under applicable employee benefit plans or programs, and except as set forth in this subsection a), the obligations of the Company under this Agreement to make any further payments or to provide any further benefits to employee will cease and terminate.

b) *Death.* In the event of Employee's death during the Term, Employee's estate or designated beneficiaries will receive or commence receiving, as soon as practicable, accrued but unpaid Base Salary and bonus through the date of death and any payments under applicable employee benefit plans or programs. Upon termination of Employee's employment by death, except as set forth in this subsection b), the obligations of the Company under this Agreement to make any further payments or to provide any further benefits to Employee will cease and terminate.

c) *For Cause.* The Company may terminate this Agreement with cause at any time immediately upon notice to the Employee thereof, and such notice having been given, this Agreement shall terminate in accordance therewith. For the purpose of this section, "cause" shall be defined as follows: (i) Employee has failed or refused to substantially perform his duties, responsibilities, or obligations under this Agreement (other than refusal or failure resulting from the disability of the Employee); (ii) any conviction by Employee of a felony or other crime of moral turpitude; (iii) Employee has engaged in misconduct in the course and scope of his employment under this Agreement, including but not limited to gross incompetence, disloyalty, disorderly conduct, improper disclosure of Confidential Information, or any other violation of the Company's policies; (iv) Employee has engaged in any act or omission that is contrary to the Company's best interests or likely to damage the Company's Business, including without limitation the Company's reputation; (v) Employee has committed any act of fraud, embezzlement, theft, dishonesty, misrepresentation, or falsification of records against the Company or its affiliates; or (vi) Employee commits an act which constitutes in fact and/or law a breach of fiduciary duty. In the event that Employee's employment is terminated by the Company for cause, Employee will be entitled to receive only accrued but unpaid Base Salary and accrued benefits through the date of termination. Upon termination of Employee's employment for cause, except as set forth in this subsection c), the obligations of the Company under this Agreement to make any further payments or to provide any further benefits to Employee will cease and terminate.

d) *Without Cause.* The Company may terminate this Agreement without cause by giving thirty (30) days written notice to the Employee, and such notice having been given, this Agreement shall terminate in accordance therewith. In the event of termination under this subsection (d), Employee will be entitled to accrued but unpaid Base Salary and bonus and accrued benefits through the date of termination plus he will be entitled to receive as severance payments equal to twelve months of Base Salary from the Date of Termination (hereinafter defined; the "Severance Payment"), such amount to be paid monthly in accordance with the Company's then current payroll practices; provided however, that if termination without cause is in within 6 months before or at any time following a Change in Control as defined in subparagraph (g) hereof, the Severance Payment shall be paid in full upon the Date of Termination. Upon termination of Employee's employment without cause, except for the obligations set forth in this subsection d), the obligation of the Company to make any further payments or to provide any further benefits to Employee under this Agreement will cease and terminate.

Notwithstanding the foregoing, in no event shall Employee be entitled to receive any Severance Payment described in subparagraph (d) (the "Conditional Severance") unless he executes a General Release and Agreement prepared by the Company in customary form (the "Release") and such Release is not revoked. Employee shall be eligible for Conditional Severance only if the executed Release is returned to the Company and becomes irrevocable within 60 days after the Date of Termination. Until the Release has become irrevocable, any such Conditional Severance shall be held and not provided by the Company. Any Conditional Severance that would have been payable in the absence of the foregoing Release requirement, but which is not paid because such Release has not yet become irrevocable, will be paid after such Release becomes irrevocable, and thereafter, all of the Conditional Severance shall be paid in accordance with the applicable provisions of subparagraph (d). If Employee fails to return the Release to the Company in sufficient time so that it becomes irrevocable within 60 days after the Date of Termination, Employee's rights to the Conditional Severance shall be forfeited, the Company shall have the right to cease providing any part of the Conditional Severance, and Employee shall be required to immediately repay the Company for any Conditional Severance already provided.

e) *By Resignation.* If Employee resigns for any reason, Employee will be entitled to accrued but unpaid Base Salary and accrued benefits through the effective date of Employee's resignation. Upon termination of Employee's employment by resignation, except for the obligations set forth in this subsection e), the obligations of the Company to make any further payments or to provide any further benefits to Employee under this Agreement will cease and terminate.

f) *Suspension of Duties.* Notwithstanding the foregoing provisions of paragraph (d) or (e), the Company may suspend Employee from performing his duties, responsibilities, and authorities under this Agreement (including, without limitation, his duties, responsibilities, and authorities as a member of the Board of Directors of the Company or any Affiliate) following the delivery by Employee of a notice of termination providing for Employee's resignation, or delivery by the Company of a notice of termination providing for Employee's termination of employment for any reason; provided, however, that during the period of suspension (which shall end on or before the Date of Termination), and subject to the legal rules applicable to such payment and benefits, including, without limitation, the rules applicable to qualified plans under Code Section 401(a) and the rules applicable to nonqualified deferred compensation plans under Code Section 409A, Employee shall continue to be treated as employed by the Company for other purposes, and his rights to compensation or benefits shall not be reduced by reason of the suspension; and further provided that any such suspension shall not affect the determination of whether the termination was with Cause or without Cause. The Company may suspend Employee with pay pending an investigation authorized by the Company or a governmental authority or a determination by the Company whether Employee has engaged in acts or omissions constituting Cause, and such paid suspension shall not constitute a termination of this Agreement or Employee's employment.

g) *Change in Control.* Change in Control means (A) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's common stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of the Company's common stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all, of the assets of the Company and its subsidiaries to any other person or entity (other than an Affiliate of the Company), (C) the stockholders of the Company approve any plan or proposal for liquidation or dissolution of the Company, (D) any person or entity, including a "group" as contemplated by Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, acquires or gains ownership or control (including, without limitation, power to vote) of more than 50% of the outstanding shares of the Company's voting stock (based upon voting power) or (E) as a result of or in connection with a contested election of directors, the persons who were directors of the Company before such election shall cease to constitute a majority of the Board. Notwithstanding the foregoing, a Change in Control shall not include a public offering of the Company's common stock or a transaction with its sole purpose to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

h) *Conditions on Receipt of Severance Benefits*

i) Compliance with Post-Termination Obligations. Notwithstanding any contrary provision in this Agreement, the Company shall have the right to cease providing any part of the Severance Payment, and Employee shall be required to immediately repay the Company for any Severance Payment already provided, but all other provisions of this Agreement shall remain in full force and effect, if Employee does not fully comply with his post-termination covenants under paragraphs 12, 13, and 14 of this Agreement.

ii) Separation From Service Requirement. Notwithstanding any other provision of this Agreement, Employee shall be entitled to any Severance Payment only if Employee's termination of employment constitutes a "Separation from Service" which for purposes of this Agreement means "separation from service" (within the meaning of Section 409A).

i) Other Provisions Relating to Termination

i) Notice of Termination. Any Termination of this Agreement by the Company or by Employee (other than termination because of Death) shall be communicated by written Notice of Termination to the other party thereto. For purposes of this Agreement, a "Notice of Termination" shall mean a notice that indicates the specific termination provisions in this Agreement relied upon and sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the provision so indicated; provided, however, that any failure to provide such detail shall not delay the effectiveness of the termination.

ii) Date of Termination. For purposes of this Agreement, "Date of Termination" shall mean (i) if Employee's employment is terminated by Death, the date of death; (ii) if Employee's employment is terminated because of Employee becoming Permanently Disabled, then 30 days after Notice of Termination is given; (iii) if Employee's employment is terminated by the Company with or without Cause, the date specified in the Notice of Termination, which shall comply with the applicable notice requirements in paragraph 11; and (iv) if this Agreement is not renewed, the last date of the Initial Term or the Renewal Term as applicable.

j) Business Opportunities and Intellectual Property.

i) Prompt Disclosure Required. Employee shall promptly disclose to the President in writing all Business Opportunities and Intellectual Property.

ii) Definition of Business Opportunities. For purposes of this Agreement "Business Opportunities" shall mean all business ideas, prospects, proposals or other opportunities pertaining to the Business or the lease, acquisition, exploration, production, gathering or marketing of hydrocarbons and related products and the exploration potential of geographical areas on which hydrocarbon exploration prospects are located, that are or were developed by Employee during his employment with the Company or originated by any third party and brought to the attention of Employee during his employment with the Company, together with information relating thereto (including, without limitation, geological and seismic data and interpretations thereof, whether in the form of maps, charts, logs, seismographs, calculations, summaries, memoranda, opinions, or other written or charted means).

iii) Definition of Intellectual Property. For purposes of this Agreement, "Intellectual Property" shall mean all ideas, inventions, discoveries, processes, designs, methods, substances, articles, computer programs, and improvements (including, without limitation, enhancements to, or further interpretation or processing of, information that was in the possession of Employee prior to the date of this Agreement), whether or not patentable or copyrightable, that do not fall within the definition of Business Opportunities, that Employee discovers, conceives, invents, creates, or develops (or discovered, conceived, invented, created, or developed), alone or with others, during this employment with the Company, if such discovery, conception, invention, creation or development (i) occurs or occurred in the course of Employee's employment with the Company or its Affiliates or (i) occurs or occurred with the use of any time, materials, or facilities of the Company or its Affiliates.

11. Notices.

All notices, demands, elections, opinions or requests (however characterized or described) required or authorized hereunder shall be deemed given sufficiently if in writing and sent by overnight courier or registered or certified mail, return receipt requested and postage prepaid, in the case of the Company:

PETROSHARE CORP
Frederick J. Witsell, President

and in the case of the Employee:

Stephen J. Foley
9754 Sunset Hill Drive
Lone Tree, CO 80124
(303) 591-1321 cell

12. Confidential Information. Prior to and during the Term of this Agreement, the Employee will have access to certain confidential information and materials, including but not limited to oil and gas property and lease information, originated by the Company or disclosed to the Company by others under agreements to hold the same confidential ("Confidential Information"). Confidential Information further includes, but is not limited to, all technical, engineering, property and lease information, financial, business practices, customer lists, customer identities and commercial information heretofore or hereafter disclosed or transmitted by the Company in any form and manner to the Employee or otherwise received by the Employee, whether orally or in writing. Employee acknowledges that Employee shall not either directly or indirectly use, disclose or communicate to any person or entity any Confidential Information except for a valid purposes of the Company consistent with Employee's duties, whether during or after the Term of this Agreement, except to the extent any such information was known by Employee prior to employment with the Company or becomes generally known to the public through no fault of Employee. The terms of this provision survive the Term of this Agreement, or any termination thereof for a period of one year. Employee acknowledges that this Section 12 survives the termination of Employee's employment and is enforceable by the Company at any time, regardless of whether the Employee continues to be employed by the Company.

13. Non-Compete. For one year after the termination of this Agreement pursuant to Section 10(a), 10(c) or Section 10(e) hereof, Employee agrees that, without the prior written consent of the Board of Directors, he will not (i) engage in or have any direct or indirect interest in, as an employee, officer, director, agent, subcontractor, consultant, security holder, partner, creditor or otherwise, any business in competition with the Company, other than his Existing Personal Investments; or (ii) solicit, divert or take away, or attempt to take away, the business or patronage of any client, customer or account, or prospective client, customer or account, of the Company. For purposes of this Section 13, a business will be deemed to be in competition with the Company if it is in the business of leasing, exploring for, developing or producing oil and/or gas with operations in Colorado. Employee acknowledges that this Section 13 survives the termination of Employee's employment for a period of one year and is enforceable by the Company during that time. Employee and the Company agree that this covenant not to compete is a reasonable covenant under the circumstances with respect to both scope and duration, and further agree that if in the opinion of any court of competent jurisdiction such restraint is not reasonable in any respect, such court will have the right, power and authority to exercise or modify such provision or provisions of this covenant as to the court appear reasonable and to enforce the remainder of the covenant as so amended.

14. Non-Solicitation. Employee also agrees that he will not, directly or indirectly, during the Term of this Agreement or for so long as Employee receives any Severance Payment or benefits under this Agreement in respect of the termination of his employment, for any reason, in any manner, either (a) employ, or permit an entity by which he becomes employed or of which he becomes an officer or director, to employ, any person who was employed by the Company on the date of termination or 45 days prior to the date of termination; or (b) encourage, persuade, or induce any other employee of the Company to terminate his employment, or any person or entity engaged by the Company as a vendor, contractor, consultant to terminate that relationship without the express written approval of the Company. It is expressly agreed that the remedy at law for breach of this covenant is inadequate and that injunctive relief shall be available to prevent the breach thereof.

15. Common Law and Other Contractual Duties. Employee acknowledges and agrees that his obligations concerning confidentiality, non-competition, and non-solicitation under this Agreement shall supplement, rather than supplant, his common law duties of confidentiality and loyalty owed to the Company and its affiliates and any obligations under any confidentiality, non-competition, non-solicitation, proprietary information and inventions, intellectual property, or similar agreement he entered into with the Company or its affiliates.

16. Remedies. Employee acknowledges that any failure to carry out an obligation under this Agreement, or a breach by the Employee of any provision herein, will constitute immediate and irreparable damage to the Company, which cannot be fully and adequately compensated in money damages and which will warrant preliminary and other injunctive relief, an order for specific performance, and other equitable relief, in addition to any other relief to which the Company may be entitled. Employee also understands that other actions may be taken and remedies enforced against the Employee, including termination of any other agreements the Employee may have with the Company.

17. Entire Agreement. This Agreement contains the entire agreement between the Company and the Employee, regarding employment of the Employee. This Agreement shall not be modified except by written agreement signed by both parties.

18. Headings. The subject headings of the articles and sections contained in this Agreement are included for convenience purposes only and shall not control or affect the meaning, construction or interpretation of any provision hereof.

19. Assigns. This Agreement shall be binding upon the Company and Employee, their respective heirs, executors, legal representatives, successors and assigns.

20. Waiver and Severability. No waiver by either party of any breach or default hereof by the other shall be deemed to be a waiver of any preceding or succeeding breach or default hereof, and no waiver shall be operative unless the same shall be in writing. Should any provision of this Agreement be declared invalid by a court of competent jurisdiction, the remaining provisions hereof shall remain in full force and effect regardless of such declaration.

21. Arbitration. Any dispute regarding the subject matter of this Agreement shall be resolved by binding arbitration to be conducted by a single arbitrator upon mutual written agreement of the parties under the rules of the Colorado Uniform Arbitration Act. The prevailing party shall be entitled to an award of attorney's fees, costs and expenses. The award may be converted to an order of a court of competent jurisdiction, and each party voluntarily submits to personal jurisdiction in the federal and state courts located in Colorado. Notwithstanding the aforementioned, the Company shall be entitled to seek injunctive relief for violation of the provisions of Sections 12, 13, 14 and 15 of this Agreement, as provided in Section 16 of this Agreement.

19. Counterparts. This Agreement may be executed in several counterparts and shall constitute one Agreement, binding on all parties hereto, notwithstanding that all parties are not signatory as to other original or the same counterpart. Facsimile and e-mail (PDF) signatures are acceptable and binding as originals for all purposes.

20. Time. Time is of the essence.

21. Governing Law. This Agreement shall be construed under the laws of the State of Colorado.

IN WITNESS WHEREOF, the parties have executed this Agreement to be effective on the day and year first above written.

THE COMPANY:

THE EMPLOYEE:

PETROSHARE CORP.

By:

/s/ Bill M. Conrad

Bill M. Conrad, Chairman

/s/ Stephen J. Foley

Stephen J. Foley

Schedule 5

Existing Personal Investment

1. I have a working interest in 12 shallow oil wells in Warren County, PA with Noel Dilapo and Steve Garrison and their company-Axis Resources.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement"), effective as of the 1st day of March, 2013, by and between PETROSHARE CORP, a Colorado corporation with its principal place of business located at 7200 S. Alton Way #B-220, Centennial, Co 80111 (hereinafter referred to as "Company" or "Employer") and Frederick J. Witsell (hereinafter referred to as the "Employee").

RECITALS

NOW THEREFORE, in consideration of the Recitals and the mutual covenants, promises, agreements, representations and warranties contained in this Agreement, the parties hereby accept employment on the terms and conditions hereinafter set forth.

1. Term. Subject to the provisions for termination hereinafter provided, the initial one (1) year term of this Agreement shall commence on March 1, 2013 and terminate on February 28, 2014, and shall continue thereafter on a year to year basis unless terminated by the Company by delivery of written notice to the Employee not later than thirty (30) days prior to the date for termination as indicated in said notice.

2. Compensation and Performance Review.

a) For all services rendered by the Employee under this Agreement, commencing March 1, 2013, the Company shall be obligated to pay the Employee a salary of \$12,500.00 per month, payable in accordance with the Employer's regular payroll procedure.

b) At the end of every yearly period after the commencement of the term of this agreement, the Company shall grant the Employee a performance and salary review for the purposes of gauging the performance of the Employee for the preceding year and adjusting the salary of the Employee hereunder looking to the results of such review and the Company's financial progress, among other things, as guides in such adjustments.

3. Duties. Employee is engaged as the President and Director of Operations and Geosciences of the Company. In such capacity, Employee shall exercise detailed supervision over the operations of the Company subject, however, to control by the Board of Directors. The Employee shall perform all duties incident to the title of President and such other duties as from time to time may be assigned to him by the Board of Directors.

4. Best Efforts of Employee. The Employee shall devote his full time efforts to the business of the Company and to all of the duties that may be required by the terms of this Agreement to the reasonable satisfaction of the Company. The Employee shall at all times faithfully, with diligence and to the best of his ability, experience and talents, perform all the duties that may be required of and from his pursuant to the express and implicit terms hereof to the reasonable satisfaction of the Company. Such services shall be rendered at such other place or places as the Company shall in good faith require or as the interest, needs, business or opportunity of the Company shall require. The Employee agrees not to engage in any employment or consulting work or any trade or business for his account or for or on behalf of any other person, firm or corporation, unless the Employee obtains prior written consent from the Board of Directors of the Company.

Notwithstanding anything to the contrary contained herein, Exhibit A attached hereto is a disclosure of Employee's current oil and gas properties which were acquired prior to the date of this Agreement and as such, the Company agrees that Employees ownership and passive activities associated with these properties do not constitute a violation of this paragraph or Agreement.

5. Working Facilities. The Employee shall be furnished with all such facilities and services suitable to his position and adequate for the performance of his duties.
6. Expenses. The Employee is authorized to incur reasonable expenses for promoting the business of the Company, including his out-of-pocket expenses for entertainment, travel and similar items. The Company shall reimburse the Employee for all such expenses on the presentation by the Employee, from time to time, of an itemized account of such expenditures in accordance with the guidelines set forth by the Internal Revenue Service for travel and entertainment.
7. Benefits. The Employee shall be entitled to receive any and all health, insurance, disability or any other benefit plan adopted by the Board of Directors from time to time for the benefit of its employees.
8. Vacation. The Employee shall be entitled each year to a vacation of a reasonable amount during which time his compensation shall be paid in full.
9. Disability.
 - c) Should the Employee, by reason of illness or incapacity, be unable to perform his job for a period of up to and including a maximum of three (3) months, the compensation payable for and during such period under this Agreement shall be unabated. The Board of Directors shall have the right to determine the incapacity of the Employee for the purposes of this provision, and any such determination shall be evidenced by its written opinion delivered to the Employee. Such written opinion shall specify with particularity the reasons supporting such opinion and be manually signed by at least a majority of the Board. Should the Board of Directors determine the Employee incapable of the performance of his duties, the Employee's compensation thereafter shall be reduced to zero.
 - d) The Employee shall receive full compensation upon his return to employment and regular discharge of his full duties hereunder. Should the Employee be absent from his employment for whatever cause for a continuous period of more than 365 calendar days, the Company may terminate this Agreement and all obligations of the Company hereunder shall cease upon such termination.

10. Termination.

a) The Company may terminate this Agreement with cause at any time with immediate notice to the Employee thereof, and such notice having been given, this Agreement shall terminate in accordance therewith. For the purpose of this section, "cause" shall be defined as meaning such conduct by the Employee which constitutes in fact and/or law a breach of fiduciary duty or felonious conduct having the effect, in the opinion of the Board of Directors, of materially adversely affecting the Company and/or its reputation.

b) The Company may terminate this Agreement without cause by giving thirty (30) days written notice to the Employee, and such notice having been given, this Agreement shall terminate in accordance therewith.

c) The Employee may terminate this Agreement without cause by giving thirty (30) days written notice to the Company, and such notice having been given, this Agreement shall terminate in accordance therewith.

d) In the event of termination without cause or being asked to resign as part of a merger, acquisition, buyout or any corporate restructure, the Employee shall be entitled to receive compensation through the original term specified in paragraph one (1). Such compensation shall be paid in full at the date of termination only if the Employment Agreement is terminated without cause. After the date of termination, all benefit and incentive programs of any kind or nature then in place shall terminate.

11. Notices. All notices, demands, elections, opinions or requests (however characterized or described) required or authorized hereunder shall be deemed given sufficiently if in writing and sent by registered or certified mail, return receipt requested and postage prepaid, or by tested telex, telegram or cable to, in the case of the Company:

PETROSHARE CORP
Mr. Steve Foley, CEO
7200 South Alton Way, Ste #B-220
Centennial, Co 80111
Sfoley43@msn.com
(303) 591-1321 cell

and in the case of the Employee:

Frederick J. Witsell

12. Confidential Information. During the term of this Agreement, the Employee will have access to certain confidential information and materials, including but not limited to oil and gas property and lease information, originated by the Company or disclosed to the Company by others under agreements to hold the same confidential ("Confidential Information"). Confidential Information further includes, but is not limited to, all technical, engineering, property and lease information, financial, business practices, customer lists, customer identities and commercial information heretofore or hereafter disclosed or transmitted by the Company in any form and manner to the Employee or otherwise received by the Employee, whether orally or in writing. Employee acknowledges that Employee shall not either directly or indirectly use, disclose or communicate to any person or entity any Confidential Information for any purpose at all whether during or after the term of this Agreement, except to the extent any such information was known to Employee prior to the date of this Agreement or becomes generally known to the public through no fault of Employee. Furthermore, the terms of this provision survive the Term of this Agreement, or any termination thereof for a period of one (1) year.

13. Remedies. Employee acknowledges that any failure to carry out an obligation under this Agreement, or a breach by the Employee of any provision herein, will constitute immediate and irreparable damage to the Company, which cannot be fully and adequately compensated in money damages and which will warrant preliminary and other injunctive relief, an order for specific performance, and other equitable relief. Employee also understands that other actions may be taken and remedies enforced against the Employee, including termination of any other agreements the Employee may have with the Company.

14. Entire Agreement. This Agreement contains the entire agreement between the Company and the Employee, regarding employment of the Employee. This Agreement shall not be modified except by written agreement signed by both parties.

15. Headings. The subject headings of the articles and sections contained in this Agreement are included for convenience purposes only and shall not control or affect the meaning, construction or interpretation of any provision hereof.

16. Assigns. This Agreement shall be binding upon the Company and Employee, their respective heirs, executors, legal representatives, successors and assigns.

17. Waiver and Severability. No waiver by either party of any breach or default thereof by the other shall be deemed to be a waiver of any preceding or succeeding breach or default hereof, and no waiver shall be operative unless the same shall be in writing. Should any provision of this Agreement be declared invalid by a court of competent jurisdiction, the remaining provisions hereof shall remain in full force and effect regardless of such declaration.

18. Arbitration. Any dispute regarding the subject matter of this Agreement shall be resolved by binding arbitration to be conducted by an arbitration association upon mutual written agreement of the parties. The prevailing party shall be entitled to an award of attorney's fees, costs and expenses. The award may be converted to an order of a court of competent jurisdiction, and each party voluntarily submits to personal jurisdiction in the federal and state courts located in Colorado. Notwithstanding the aforementioned, the Company shall be entitled to seek injunctive relief for violation of the provisions of Section 12 herein, as provided in Section 13 herein.

19. Counterparts. This Agreement may be executed in several counterparts and shall constitute one Agreement, binding on all parties hereto, notwithstanding that all parties are not signatory as to other original or the same counterpart. Facsimile signatures are acceptable.

20. Time. Time is of the essence.

21. Governing Law. This Agreement shall be construed under the laws of the State of Colorado.

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

THE EMPLOYEE:

PETROSHARE CORP

By: /s/ Steve Foley
Steve Foley, CEO

By: /s/ Frederick J. Witsell
Frederick J. Witsell

Attached to that certain Employment Agreement dated _____, 2013 by and between
Frederick J. Witsell (Employee) and Petro Share Corp (Company)

Disclosure of Oil & Gas Properties Owned by Employee

Bar X Field Area — Working Interest Ownership
Located generally in Grand Co. UT and Mesa Co. Colorado

Sulphur Gulch Field Area — Overriding Royalty Interest Ownership
Located in and around Township 9 South, Range 98 West, Mesa County, Colorado

Buck Peak Field Area — Overriding Royalty Interest Ownership
Located in and around Township 6 North, Range 90 West, Moffat Co. Colorado

**IMPORTANT: PLEASE READ CAREFULLY BEFORE SIGNING.
SIGNIFICANT REPRESENTATIONS ARE CALLED FOR HEREIN.**

SUBSCRIPTION AGREEMENT
and
LETTER OF INVESTMENT INTENT

PetroShare Corp.
7200 S. Alton Way, Suite B-220
Centennial, CO 80112

Gentlemen:

The undersigned ("Subscriber") wishes to subscribe for common stock of PetroShare Corp. (the "Company"). The Subscriber understands that once this Subscription Agreement is completed, it should be returned to the Company at the address set forth above, together with a check or wire transfer for the amount of the subscription.

1. Subscription Commitment. The Subscriber hereby subscribes for the purchase of _____ shares of common stock at a purchase price of \$0.50 per share for an aggregate purchase price set forth below. No subscription will be accepted for less than 50,000 shares, with an aggregate purchase price of at least \$25,000 except in the sole discretion of the Company. The full purchase price is paid contemporaneously in the form of cashier's check or by wire transfer to "PetroShare Corp."

\$ _____
Amount of Subscription

The Subscriber understands that this subscription is not binding on the Company until accepted by the Company, which acceptance is at the sole discretion of the Company and is to be evidenced by the Company's execution of this Subscription Agreement where indicated. If the subscription is rejected, the Company shall return to the Subscriber, without interest or deduction, any payment tendered by the Subscriber, and the Company and the Subscriber shall have no further obligation to each other hereunder. Unless and until rejected by the Company, this subscription shall be irrevocable by the Subscriber. The Subscriber acknowledges that the Company has the right to close the subscription books at any time without notice and to accept or reject any subscription, in whole or in part, in its sole discretion.

The subscriber further understands that the shares are being sold on a "best efforts" basis. Accordingly, the proceeds from any sale of common stock from this offering will be retained by us and deposited into our bank account and made available for all valid corporate purposes.

2. Representations and Warranties. In order to induce the Company to accept this subscription, the Subscriber hereby represents and warrants to, and covenants with, the Company as follows:

(a) Receipt of Document and Access To Information. Subscriber has been provided with a copy of the Company's Confidential Private Placement Memorandum (the "Memorandum") dated May 6, 2014. Subscriber has carefully reviewed and is familiar with the terms of the Memorandum, including the "Risk Factors" contained therein. The Subscriber has been given access to full and complete information regarding the Company, and has utilized such access to the Subscriber's satisfaction for the purpose of obtaining such information as the Subscriber has reasonably requested; and, particularly, the Subscriber has been given reasonable opportunity to ask questions of, and receive answers from, representatives of the Company concerning the terms and conditions of the offering and to obtain any additional information, to the extent reasonably available.

(b) Reliance. The Subscriber has relied on nothing other than the Memorandum in deciding whether to make an investment in the Company. Except as set forth in the Memorandum, no representations or warranties have been made to the Subscriber by the Company, any selling agent of the Company, or any agent, employee, or affiliate of the Company or such selling agent.

(c) Economic Loss. The Subscriber believes that an investment in the shares is suitable for the Subscriber based upon the Subscriber's investment objectives and financial needs. The Subscriber (i) has adequate means for providing for the Subscriber's current financial needs and personal contingencies; (ii) has no need for liquidity in this investment; (iii) at the present time, can afford a complete loss of such investment; and (iv) does not have overall commitments to investments which are not readily marketable and disproportionate to the Subscriber's net worth, and the Subscriber's investment in the shares will not cause such overall commitments to become excessive.

(d) Sophistication. The Subscriber, in reaching a decision to subscribe, has such knowledge and experience in financial and business matters that the Subscriber is capable of reading and interpreting financial statements and evaluating the merits and risk of an investment in the shares and has the net worth to undertake such risks.

(e) No General Solicitation. The Subscriber was not offered or sold the shares, directly or indirectly, by means of any form of general advertising or general solicitation, including, but not limited to, the following: (1) any advertisement, article, notice or other communication published in any newspaper, magazine, or similar medium or broadcast over television or radio; or (2) any seminar or meeting whose attendees had been invited by any general solicitation or general advertising.

(f) Seek Advice. The Subscriber has obtained, to the extent the Subscriber deems necessary, the Subscriber's own professional advice with respect to the risks inherent in the investment in the securities, and the suitability of an investment in the shares in light of the Subscriber's financial condition and investment need.

(g) Investment Risks. The Subscriber recognizes that the shares as an investment involves a high degree of risk, including those set forth under the Risk Factors contained in the Memorandum.

(h) Effect and Time of Representations. The information provided by the Subscriber contained in this Subscription Agreement is true, complete and correct in all material respects as of the date hereof. The Subscriber understands that the Company's determination that the exemption from the registration provisions of the Securities Act of 1933, as amended (the "Securities Act"), is based, in part, upon the representations, warranties, and agreements made by the Subscriber herein. The Subscriber consents to the disclosure of any such information, and any other information furnished to the Company, to any governmental authority or self-regulatory organization, or, to the extent required by law, to any other person.

(i) Restrictions on Transfer: No Market For Shares. The Subscriber acknowledges that (i) the purchase of the shares is a long-term investment; (ii) the Subscriber must bear the economic risk of investment for an indefinite period of time because the shares have not been registered under the Securities Act or under the securities laws of any state and, therefore, the shares cannot be resold unless they are subsequently registered under said laws or exemptions from such registrations are available; (iii) no representation has been made as to the required holding period for the shares; (iv) there is presently no public market for the shares and the Subscriber may be unable to liquidate the Subscriber's investment in the event of an emergency, or pledge the shares as collateral for a loan; and (v) the transferability of the shares is restricted and requires conformity with the restrictions contained in paragraph 3 below and (B) legends will be placed on the certificate(s) representing the shares referring to the applicable restrictions on transferability.

(j) No Backup Withholding. The Subscriber certifies, under penalties of perjury, that the Subscriber is NOT subject to the backup withholding provisions of Section 3406(a)(1)(C) of the Internal Revenue Code.

(k) Restrictive Legend. Stop transfer instructions will be placed with the transfer agent for the shares, and a legend will be placed on any certificate representing the shares substantially to the following effect:

This security has not been registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Act"), in reliance upon the exemptions from registration provided in the act and Regulation D under the Act and have not been registered under any state securities laws. As such, the purchase of this security was necessarily with the intent of investment and not with a view for distribution. Therefore, any subsequent transfer of this security or any interest therein will be unlawful unless it is registered under the Act and any state securities laws or unless an exemption from registration is available. Furthermore, it is unlawful to consummate a sale or transfer of this security or any interest therein, without an opinion of counsel acceptable to the Company that the proposed transfer or sale does not affect the exemptions relied upon by the Company in originally distributing the security and that registration is not required.

(l) Notice of Change. The Subscriber agrees that it will notify the Company in writing promptly (but in all events within thirty (30) days after the applicable change) of any actual or anticipated change in any facts or circumstances, which change would make any of the representations and warranties in this Subscription Agreement untrue if made as of the date of such change (after giving effect thereto).

3. Restricted Nature of the Shares, Investment Intent. The Subscriber has been advised and understands that (a) the shares have not been registered under the Securities Act or applicable state securities laws and that the securities are being offered and sold pursuant to exemptions from such laws; (b) the Memorandum has not been filed with or reviewed by any federal, state or local securities administrators because of the limited nature of the offering; and (c) the Company is under no obligation to register the shares under the Act or any state securities laws, or to take any action to make any exemption from any such registration provisions available. The Subscriber represents and warrants that the shares are being purchased for the Subscriber's own account and for investment purposes only, and without the intention of reselling or redistributing the same; the Subscriber has made no agreement with others regarding any of the shares; and the Subscriber's financial condition is such that it is not likely that it will be necessary to dispose of any of such shares in the foreseeable future. The Subscriber is aware that, in the view of the SEC, a purchase of such securities with an intent to resell by reason of any foreseeable specific contingency or anticipated change in market value, or any change in the condition of the Company, or in connection with a contemplated liquidation settlement of any loan obtained for the acquisition of such securities and for which such securities were pledged, would represent an intent inconsistent with the representations set forth above. The Subscriber further represents and agrees that if, contrary to the foregoing intentions, the Subscriber should later desire to dispose of or transfer any of such shares in any manner, the Subscriber shall not do so unless and until (i) said shares shall have first been registered under the Act and all applicable securities laws; or (ii) the Subscriber shall have first delivered to the Company a written notice declaring such holder's intention to effect such transfer and describe in sufficient detail the manner and circumstances of the proposed transfer, which notice shall be accompanied either by a written opinion of legal counsel who shall be reasonably satisfactory to the Company, which opinion shall be addressed to the Company and reasonably satisfactory in form and substance to the Company's counsel, to the effect that the proposed sale or transfer is exempt from the registration provisions of the Act and all applicable state securities laws, or by a "no action" letter from the SEC to the effect that the transfer of the shares without registration will not result in recommendation by the staff of the Commission that action be taken with respect thereto.

4. Residence. The Subscriber represents and warrants that the Subscriber is a bona fide resident of, is domiciled in and received the offer and made the decision to invest in the shares in the state set forth on the signature page hereof, and the shares are being purchased by the Subscriber in the Subscriber's name solely for the Subscriber's own beneficial interest and not as nominee for, or on behalf of, or for the beneficial interest of, or with the intention to transfer to, any other person, trust or organization, except as specifically set forth in this Subscription Agreement.

5. Investor Qualification. The Subscriber represents and warrants that the Subscriber is an "accredited investor" as that term is defined in Regulation D under the Securities Act because the Subscriber comes within at least one category marked below. The Subscriber further represents and warrants that the information set forth below is true and correct. ALL INFORMATION IN RESPONSE TO THIS PARAGRAPH WILL BE KEPT STRICTLY CONFIDENTIAL EXCEPT AS REQUIRED BY LAW. The Subscriber agrees to furnish any additional information which the Company deems necessary in order to verify the answers set forth below. **(Please initial all that apply)**

Category I The Subscriber is an individual (not a partnership, corporation, etc.) whose individual net worth, or joint net worth with the Subscriber's spouse, presently exceeds \$1,000,000.

Explanation. In calculation of net worth the Subscriber may include cash, short term investments, stocks and securities, and equity in property and real estate (excluding the Subscriber's principal residence). Equity in personal property and real estate should be based on the fair market value of such property less debt secured by such property.

Category II The Subscriber is an individual (not a partnership, corporation, etc.) who had an individual net income in excess of \$200,000 in each of the last two years, or joint income with his/her spouse in excess of \$300,000 in each of the last two years, and has a reasonable expectation of reaching the same income level in the current year.

Category III The Subscriber is an executive officer or director of the Company.

Category IV The Subscriber is a bank as defined in Section 3(a)(2) of the Securities Act; a savings and loan as defined in Section 3(a)(5)(A) of the Securities Act; an insurance company as defined in Section 2(13) of the Securities Act; a broker or dealer registered pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"); an investment company registered under the Investment Company Act of 1940, as amended (the "Investment Company Act"), or a business development company as defined in Section 2(a)(48) of the Investment Company Act; a Small Business Investment Company licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958; a plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, if such plan has total assets in excess of \$5,000,000; an employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), if the investment decision is made by a plan fiduciary, as defined in Section 3(21) of ERISA, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of \$5,000,000, or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors (this includes IRAs). (Note: If you check this category, the Company may request additional information regarding investment company and ERISA issues.)

(describe entity)

Category V _____

The Subscriber is a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940, as amended.

(describe entity)

Category VI _____

The Subscriber is an entity with total asset in excess of \$5,000,000 which was not formed for the purpose of investing in the shares and which is one of the following:

- _____ a corporation; or
- _____ a partnership; or
- _____ a business trust; or
- _____ a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended.

(describe entity)

Category VII _____

The Subscriber is an entity all the equity owners of which are "accredited investors" within one or more of the above categories. **If relying upon this category alone, each equity owner must complete a separate copy of this Agreement.**

(describe entity)

6. Authority. The undersigned, if other than an individual, makes the following additional representations:
- (a) The Subscriber was not organized for the specific purpose of acquiring the shares;
 - (b) The Subscriber is fully authorized, empowered and qualified to execute and deliver this Subscription Agreement, to subscribe for and purchase the shares and to perform its obligations under, and to consummate the transactions that are contemplated by the Subscription Agreement; and
 - (c) This Subscription Agreement has been duly authorized by all necessary action on the part of the Subscriber, has been duly executed by an authorized officer or representative of the Subscriber, and is a legal, valid and binding obligation of the Subscriber enforceable in accordance with its terms.
7. Use of Proceeds. The Subscriber acknowledges that any proceeds from the sale of the shares will be used by the Company as described in the Memorandum.
8. Compliance with Laws; No Conflict The execution and delivery of the Subscription Agreement by or on behalf of the Subscriber and the performance of the Subscriber's obligation under and the consummation of the transactions contemplated by, the Subscription Agreement do not and will not conflict with or result in any violation of, or default under, any provision of any charter, bylaws, trust agreement, partnership agreement or other governing instrument applicable to the Subscriber, or other agreement or instrument to which the Subscriber is a party, or by which the Subscriber is, or any of its assets are, bound, or any permit, franchise, judgment, decree, statute, rule, regulation or other law applicable to the Subscriber or the business or assets of the Subscriber.
9. Reliance on Representations. The Subscriber understands the meaning and legal consequences of the representations, warranties, agreements, covenants, and confirmations set out above and agrees that the subscription made hereby may be accepted in reliance thereon. The Subscriber acknowledges that the Company has relied and will rely upon the representations and warranties of the Subscriber in this Subscription Agreement. The Subscriber agrees to indemnify and hold harmless the Company and any selling agent (including for this purpose their employees, and each person who controls either of them within the meaning of Section 20 of the Exchange Act) from and against any and all loss, damage, liability or expense, including reasonable costs and attorneys' fees and disbursements, which the Company, or such other persons may incur by reason of, or in connection with, any representation or warranty made herein not having been true when made, any misrepresentation made by the Subscriber or any failure by the Subscriber to fulfill any of the covenants or agreements set forth herein, or in any other document provided by the Subscriber to the Company.

10. Transferability and Assignability. Neither this Subscription Agreement nor any of the rights of the Subscriber hereunder may be transferred or assigned by the Subscriber. The Subscriber agrees that the Subscriber may not cancel, terminate, or revoke this Subscription Agreement or any agreement of the Subscriber made hereunder (except as otherwise specifically provided herein) and that this Subscription Agreement shall survive the death or disability of the Subscriber and shall be binding upon the Subscriber's heirs, executors, administrators, successors, and assigns.

11. Survival. The representation and warranties of the Subscriber set forth herein shall survive the sale of the shares pursuant to this Subscription Agreement.

12. Notice. All notices or other communications hereunder shall be in writing and shall be deemed to have been duly given if delivered personally or mailed by first class mail, postage prepaid, as follows: if to the Subscriber, to the address set forth below; and if to the Company to the address at the beginning of this Subscription Agreement, or to such other address as the Company or the Subscriber shall have designated to the other by like notice.

13. Counterparts. This Subscription Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same document.

14. Governing Law. This Subscription Agreement shall be governed by and construed in accordance with the internal laws (and not the law of conflicts) of the State of Colorado. The parties hereby consent to the non-exclusive jurisdiction of the courts of the State of Colorado and any federal or state court located in Denver, Colorado for any action arising out of this Subscription Agreement.

15. Entire Agreement. This Agreement, including the appendices hereto, constitutes the entire agreement, and supersedes all prior agreements or understandings, among the parties hereto with respect to the subject matter hereof.

In no event will the Company, or their affiliates or the professional advisors engaged by them be liable if for any reason results of operations of the Company are not as projected in the Memorandum. Investors must look solely to, and rely on, their own advisors with respect to the financial, tax and other consequences of investing in the securities.

16. Title. Manner in which title is to be held.

Place an "X" in one space below:

- (a) Individual Ownership
- (b) Community Property
- (c) Joint Tenant with Right of Survivorship (both parties must sign)
- (d) Partnership
- (e) Tenants in Common
- (f) Corporation
- (g) Trust
- (h) Other (Describe

Please print above the exact name(s) in which the shares are to be held.

17. Date of Birth. (If an individual) – The Subscriber's date of birth is _____.

SIGNATURES

The Subscriber hereby represents that it has read the entire Subscription Agreement:

Dated: _____

INDIVIDUAL (includes Community Property, Joint Tenants, Tenants-in-Common)

Address to which correspondence should be directed:

Signature (Individual)

City, State and Zip Code

Signature
(All record holders should sign)

Tax Identification or Social Security Number

Name(s) Typed or Printed

Telephone Number

Email Address

CORPORATION, PARTNERSHIP, TRUST, RETIREMENT ACCOUNT OR OTHER ENTITY

Name of Entity

Address to Which Correspondence Should Be Directed

By: _____
* Signature

City, State and Zip Code

Its: _____
Title

Tax Identification or Social Security Number

Name(s) Typed or Printed

Telephone Number

Email Address

*If shares are being subscribed for by an entity, the Certificate of Signatory must also be completed.

CERTIFICATE OF SIGNATORY

To be completed if Shares are being subscribed for by an entity.

I, _____, am the _____ of _____ (the "Entity").

I certify that I am empowered and duly authorized by the Entity to execute and carry out the terms of the Subscription Agreement and Letter of Investment Intent and to purchase and hold the shares, and certify that the Subscription Agreement and Letter of Investment Intent has been duly and validly executed on behalf of the Entity and constitutes a legal and binding obligation of the Entity.

IN WITNESS WHEREOF, I have hereto set my hand this _____ day of _____, 2014.

Signature

ACCEPTANCE

This Subscription Agreement is accepted as of _____, 2014.

PETROSHARE CORP.

By: _____
Stephen J. Foley
Chief Executive Officer

Date: _____

SUBSCRIPTION INSTRUCTIONS

All persons who wish to subscribe for the securities of PetroShare Corp. (the "Company") in accordance with the terms of the Subscription Agreement (attached) must carefully read and execute the attached documents according to the following instructions and return them to PetroShare Corp., 7200 S. Alton Way, Suite B-220, Centennial, CO 80112, Attention: Stephen J. Foley.

INSTRUCTIONS

1. Complete and execute the Subscription Agreement as follows:
 - A. Complete the information on pages 1 and 4-6, if appropriate.
 - B. Date and sign in the appropriate spaces on page 8 if subscribing as an individual (includes Community Property, Joint Tenants, Tenants-in-Common) or on page 9 if subscribing as a Corporation, Partnership, Trust, Retirement Account or other entity.
 - C. Be sure to complete the information on the signature page, including address, telephone number, and Social Security or Tax Identification Number.
2. Return the completed documents to 7200 S. Alton Way, Suite B-220, Centennial, CO 80112 along with your check payable to "PetroShare Corp."; or wire your subscription funds to the PetroShare Corp. account as follows:

Receiving Bank Name: Wells Fargo
ABA Routing Number:
Account Number:
Name on Account: PetroShare Corp.

If you have any questions, please call Steve Foley at 303-591-1321.

**SETTLEMENT AGREEMENT AND
MUTUAL GENERAL RELEASE**

This Settlement Agreement and Mutual General Release (hereinafter, this "**Agreement**") is made and entered into as of the 5th day of May 2014, by and between Rancher Energy Corp., a Nevada corporation ("**Rancher**") and PetroShare Corp., a Colorado corporation ("**PetroShare**"). Rancher and PetroShare are referred to jointly herein as the "**Parties**" and individually as a "**Party**."

RECITALS

- A. On or about September 12, 2013, Rancher and PetroShare entered into a non-binding letter of intent by which the Parties expressed their intent to negotiate and pursue a business combination (the "**LOI**"). On October 3, 2013 (effective September 30, 2013), Rancher executed a Participation Agreement (the "**Participation Agreement**") and Operating Agreement on Model Form 610 ("**JOA**") with PetroShare for the purposes of drilling at least one and up to two oil and/or gas wells in Moffatt County, Colorado on prospect known as the "Buck Peak" prospect ("**Prospect**"). On October 7, 2013, Rancher paid 30% of a portion of the costs of drilling two wells on the Prospect in exchange for an interest in the wells and associated oil and gas interests, production and other assets described in the JOA (the "**Oil and Gas Interests**"), subject to a reduction of the working interest (and a proportional reduction of the net revenue interest) if Rancher and PetroShare did not complete a business combination;
- B. On or about March 10, 2014, PetroShare notified Rancher of Rancher's alleged default under the JOA for failure to pay Rancher's share of drilling and completion costs of the two wells. On or about March 12, 2014, PetroShare notified Rancher in writing that PetroShare thereby terminated the LOI and all negotiations for the proposed business combination with Rancher;
- C. On or about March 14, 2014, Rancher (through its counsel) notified PetroShare (through its counsel) of certain allegations by Rancher against PetroShare as described therein;
- D. This situation has given rise to certain disputes and differences and may give rise to other disputes and differences, whether foreseen or unforeseen (collectively referred to herein as the "**Disputes**") between the Parties;
- E. Pursuant to the terms and conditions set forth in this Agreement, the Parties desire, without admitting any fault or liability, to terminate the Participation Agreement and the JOA and to settle completely and for all time any and all disputes or differences between them regarding any matters, including (but without limitation) those which arose from or were related to or which may arise in the future from or which may in the future be related to the Disputes, and the circumstances and relationships attendant thereto; and

NOW THEREFORE, in consideration of the following covenants and promises and for other valuable consideration, this Agreement is entered into by the Parties.

AGREEMENT

1. Simultaneously with the execution of this Agreement, PetroShare shall pay to Rancher the sum of One Hundred Thousand Dollars and 00/100 (\$100,000.00) which amount shall be non-refundable (the "Non-Refundable Payment"). To complete the transactions contemplated hereunder, PetroShare shall pay to Rancher One Million, Forty-Two Thousand, Two Hundred Thirty-Seven Dollars and 00/100 (\$1,042,237.00; hereinafter referred to as the "**Final Payment**" and, together with the Non-Refundable Payment, the "**Settlement Funds**"). In both cases, the Non-Refundable Payment and the Final Payment will be in United States currency in immediately available funds by wire transfer to Rancher's attorney's trust account. The Final Payment will be made on or before June 16, 2014.
2. [Intentionally omitted.]
3. Upon the receipt of the Final Payment, Rancher's working interest in the Oil and Gas Interests shall be reduced to 0.00%.
4. Notwithstanding anything in this Agreement to the contrary, PetroShare agrees that it shall not seek any damages or other monetary liability from or against Rancher or any Rancher Releasee (hereinafter defined) arising from the Participation Agreement or the JOA once the final payment has been made.
5. Upon PetroShare's performance of its obligations under or arising from this Agreement (including, without limitation, payment in full of the Settlement Funds), the Parties agree that the Participation Agreement shall be terminated effective with the date of this Final Payment and that Rancher, upon receipt of the Final Payment, waives any rights that it may have under the JOA.
6. (a) Rancher, for itself, its directors, officers, shareholders, attorneys, accountants, agents, consultants, affiliates, heirs, successors, assigns, family members and related entities (the "**Rancher Releasors**"), shall and hereby does release, acquit, and forever discharge PetroShare, its directors, officers, shareholders, attorneys, accountants, agents, consultants, affiliates, heirs, successors and assigns, family members and related entities (the "**PetroShare Releasees**"), of and from any and all obligations or liability which Rancher or any Rancher Releasor now has, has had, or may have, and from all claims, demands, liens, actions, administrative proceedings, and causes of action, and from all damages, injuries, losses, contributions, indemnities, compensation, costs, attorney's fees and expenses of every kind and nature whatsoever, whether known or unknown, fixed or contingent, whether in law or in equity, whether asserted or unasserted, whether sounding in tort or in contract, from the beginning of the world to the date of this Agreement, including those related to, arising from, or which may in the future arise from, the Disputes (which term, includes any disputes under the LOI, the Participation Agreement and the JOA), except for the obligations contained in this Agreement.

(b) Rancher, on behalf of itself and the other Rancher Releasors, agrees not to initiate or maintain any claim, suit or cause of action, of any kind whatsoever, in or by way of any legal proceedings or otherwise, against any of the PetroShare Releasees based on any obligation or liability arising directly or indirectly out of, or relating in any way to the Disputes. Rancher will defend and hold PetroShare and each other PetroShare Releasee harmless from all costs, damages, and liabilities (including without limitation payment to or for the benefit of PetroShare and each PetroShare Releasee all of its attorneys' fees incurred in defending such action) should any person included within the definition of "Rancher Releasors" threaten or bring any action against PetroShare or any PetroShare Releasee.

7.

(a) PetroShare, for itself, its directors, officers, shareholders, attorneys, accountants, agents, consultants, affiliates, heirs, successors and assigns, family members and related entities (the "**PetroShare Releasors**"), shall and hereby does release, acquit, and forever discharge Rancher, its directors, officers, shareholders, attorneys, accountants, agents, consultants, affiliates, heirs, successors and assigns, family members and related entities (the "**Rancher Releasees**"), of and from any and all obligations or liability which PetroShare or any PetroShare Releasor now has, has had, or may have, and from all claims, demands, liens, actions, administrative proceedings, and causes of action, and from all damages, injuries, losses, contributions, indemnities, compensation, costs, attorney's fees and expenses of every kind and nature whatsoever, whether known or unknown, fixed or contingent, whether in law or in equity, whether asserted or unasserted, whether sounding in tort or in contract, from the beginning of the world to the date of this Agreement, including those related to, arising from, or which may in the future arise from, the Disputes (which term includes any disputes under the LOI, the Participation Agreement and the JOA for which any Rancher Releasee may have personal liability), except for: (i) the obligations contained in this Agreement and (ii) claims that may be made in a JOA Enforcement Action as defined in and to the extent set forth in Paragraph 7(b) hereof.

(b) PetroShare, on behalf of itself and the other PetroShare Releasors and on behalf of each other party to the JOA agrees not to initiate or maintain any claim, suit or cause of action, of any kind whatsoever, in or by way of any legal proceedings or otherwise, against any of the Rancher Releasees based on any obligation or liability arising directly or indirectly out of, or relating in any way to the subject matter of the Disputes except that on or after the later of (i) June 16, 2014 or (ii) such later date as the Parties may mutually agree within which the Settlement Funds may be paid, PetroShare may enforce any rights it may have under the Participation Agreement or the JOA to terminate Rancher's rights and property interests thereunder (the "**JOA Enforcement Action**"), and Rancher agrees not to defend any such JOA Enforcement Action. Except with respect to the JOA Enforcement Action, PetroShare will defend and hold Rancher and each other Rancher Releasee harmless from all costs, damages, and liabilities (including without limitation payment to or for the benefit of Rancher and each Rancher Releasee all of its attorneys' fees incurred in defending such action) should any person included within the definition of "PetroShare Releasors" or any other party to the JOA threaten or bring any action against Rancher (except with respect to the JOA Enforcement Action and in accordance with the limitations thereto) or any Rancher Releasee.

8. If the Final Payment is not paid by PetroShare by the date set forth in the last sentence of paragraph 1 hereof (or such later date as may be mutually agreed by the Parties), the releases and covenants not to sue contained in paragraphs 6 and 7 (and any related references in this Agreement) shall immediately become null and void and of no further effect.
9. The Parties warrant that they have had the opportunity to be represented by legal counsel regarding this Agreement and freely and voluntarily entered into this Agreement.
10. This Agreement, and compliance with this Agreement, shall not be construed as an admission of liability on the part of the Parties, such liability being hereby expressly denied. The Parties' intent in this Agreement is to resolve the Disputes and avoid any further differences or conflicts. The Parties hereby represent that they have neither filed nor caused to be filed any pending charges, suits, claims, grievances or other action (hereinafter referred to as "Claims") which in any way arise from or relate to the Disputes. Each Party further represent to each other that such Party has not directly or indirectly assigned any claim related to the Disputes or released hereby to any other person.
11. This Agreement and the releases contained herein, may be pleaded as a full and complete defense, counterclaim or cross-claim to, and may be used as a basis for an injunction against, any action, suit, or other proceeding which may be instituted, prosecuted or attempted in breach of this Agreement or the releases contained herein. In the event of any action by any Party hereto to enforce this Agreement, the releases contained herein, or any other agreement delivered pursuant hereto, the prevailing party shall be entitled to recover reasonable attorneys' fees and costs.
12. Each of the Parties shall be responsible to pay his or its respective attorneys' fees incurred in connection with the negotiation and drafting of this Agreement. Each Party shall release and forever hold the other harmless from any liability to their attorneys for payment of such fees pursuant to any agreement or understanding between each Party and his or its attorneys.
13. The Parties warrant to each other that in agreeing to the terms of this Agreement, they have not relied in any way upon any representations or statements of the other party regarding the subject matter hereof for the basis or effect of this Agreement other than those representations or statements contained herein. In entering into this Agreement,
- (a) Each Party represents that in entering into this Agreement and completing the transactions hereunder, he or it has done so after completing such investigation as he or it has determined to be necessary or appropriate in the circumstances, and after having consulted with and taken advice from such Party's legal, financial, tax, investment, and other advisors to the extent such Party has determined such consultation to be necessary or appropriate in the circumstances;

(b) Each Party assumes the risk of any misrepresentation, concealment or mistake. If any Party should subsequently discover that any fact relied upon by he or it in entering into this Agreement was untrue, or that any fact was concealed from him or it, or that his or its understanding of the facts or of the law was incorrect, such Party shall not be entitled to any relief in connection therewith, including without limitation, any alleged right or claim to set aside or rescind this Agreement;

(c) This Agreement is intended to be, and is, final and binding between the Parties hereto, regardless of any claims or misrepresentation, promise made without the intention of performing, concealment of fact, mistake of fact or law, or any other circumstance whatsoever; and

(d) Each of the Parties represents that this Agreement and all of its terms and conditions have been authorized and approved by all necessary corporate action and that the Agreement has been duly authorized, executed and delivered by such Party.

14. This Agreement shall be governed by the laws of Colorado. Each of the Parties consents to the jurisdiction of the state and federal courts whose districts encompass any part of the County of Arapahoe, Colorado, in connection with any dispute arising under this Agreement and hereby waives, to the maximum extent permitted by law, any objection, including any objection based on *forum non conveniens*, to the bringing of any such proceeding in such jurisdictions.
15. If any part of this Agreement shall be determined to be illegal, invalid or unenforceable, the remaining part shall not be affected thereby, and the illegal, unenforceable or invalid parts shall be deemed not to be a part of this Agreement. Each Party represents and warrants that he or it has full capacity and authority to settle, compromise, and release his or its claims and to enter into this Agreement and that no other person or entity has acquired, or will in the future acquire or have any right to assert, against any person or entity released by this Agreement any portion of that Party's claims released herein.
16. This Agreement constitutes a single integrated contract expressing the entire agreement of the Parties with respect to the resolution of all disputes between them, including the Disputes, compromising any and all rights and obligations of the Parties, and supersedes all prior and contemporaneous oral and written agreements and discussions with respect to the Disputes. This Agreement may be amended or modified only by an agreement in writing signed by the Parties. The failure by a Party to declare a breach or otherwise to assert its rights under this Agreement shall not be construed as a waiver of any right the Party has under this Agreement.
17. The Parties agree that this Agreement, the releases contained herein, and the agreements delivered pursuant hereto, shall remain confidential between and among the Parties except as required to be disclosed under applicable law, governmental regulation, as may be necessary to permit an accountant or other advisor to prepare tax filings or pursuant to judicial order or decree. If any inquiry is made of the Parties concerning this Agreement, the Parties may only disclose that the disputes between and among them have been resolved to the Parties' mutual satisfaction.

18. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

19. All written notices required by this Agreement or any document delivered pursuant hereto or as contemplated herein, must be delivered to the following addresses (or to such other address as may be specified by a Party) by a means evidenced by a delivery receipt and will be effective upon receipt.

If to Rancher:	If to PetroShare:
Jon C. Nicolaysen, President and CEO c/o A.L. (Sid) Overton, Esq. 6950 E. Belleview Ave., Suite 202 Greenwood Village, CO 80111	Stephen J. Foley, CEO PetroShare Corp. 7200 S. Alton Way, Suite B-220 Centennial, CO 80112

20. The Parties agree that the obligations, representations and warranties contained herein shall indefinitely survive the execution of this Agreement, the delivery of all documents hereunder, and the completion of the transactions contemplated herein.

21. It is the agreement of the Parties that all obligations of Rancher under this Agreement are subject to final receipt of the payment described in paragraph 1.

22. The Parties agree to execute and deliver all such other and further agreements, certificates, instruments, or documents to accomplish the actions contemplated by this Agreement.

[Remainder of this page intentionally left blank]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the date first mentioned above.

THE UNDERSIGNED HAVE CAREFULLY READ THE FOREGOING SETTLEMENT AGREEMENT AND MUTUAL GENERAL RELEASE OF ALL CLAIMS, KNOW THE CONTENTS THEREOF, FULLY UNDERSTAND IT, AND SIGN THE SAME AS HIS OR ITS OWN FREE ACT.

CAUTION! READ BEFORE SIGNING

Rancher Energy Corp.

BY: /s/ Jon C. Nicolaysen
Jon C. Nicolaysen, President & CEO
And as one of the Rancher Releasors

STATE OF COLORADO)
) ss.
COUNTY OF ARAPAHOE)

Subscribed, sworn to, and acknowledged before me by Jon C. Nicolaysen on this 5th day of May 2014.

Witness my hand and official seal.

My commission expires: 4/10/2015

/s/ Nichole Parsons
Notary Public

• CAUTION! READ BEFORE SIGNING

PetroShare Corp.

BY: /s/ Stephen J. Foley
Stephen J. Foley, CEO
And as one of the PetroShare Releasors

STATE OF COLORADO)
) ss.
COUNTY OF ARAPAHOE)

Subscribed, sworn to, and acknowledged before me by Stephen J. Foley on this 5th day of May 2014.

Witness my hand and official seal.

My commission expires: August 7, 2017

/s/ Sarah J. Morris
Notary Public

ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement (this "Agreement") dated April 18, 2013 (the "Effective Date"), by and between Premier Energy Partners (I) LLC, a Colorado limited liability company ("Seller"), and PetroShare Corp., a Colorado corporation ("Buyer"). Seller and Buyer shall hereinafter be referred to collectively as the "Parties" and individually as a "Party".

ARTICLE I
CERTAIN DEFINITIONS

Section 1.1 Defined Terms. Unless the context otherwise requires:

- (a) the terms defined in this Agreement shall have the meanings specified, with each definition to be equally applicable both to the singular and the plural forms of the terms;
- (b) all references in this Agreement to an "Article," "Section," or "subsection" shall be to an Article, Section, or subsection of this Agreement;
- (c) the words "this Agreement," "hereof," "hereunder," "herein," "hereby," or words of similar import shall refer to this Agreement as a whole and not to a particular Article, Section, subsection, clause or other subdivision; and
- (d) the words used herein shall include the masculine, feminine, and neuter gender.

Section 1.2 Interpretation. In construing this Agreement:

- (a) examples shall not be construed to limit, expressly or by implication, the matter they illustrate;
- (b) the word "includes" and its derivatives means "includes, but is not limited to" and corresponding derivative expressions;
- (c) a defined term has its defined meaning throughout this Agreement and each exhibit, attachment, and schedule to this Agreement, regardless of whether it appears before or after the place where it is defined;
- (d) each Exhibit to this Agreement is a part of this Agreement, but if there is any conflict or inconsistency between the main body of this Agreement and any Exhibit, the provisions of the main body of this Agreement shall prevail; and
- (e) canons of construction or rules of interpretation that would construe any provision of this Agreement against the drafter, whether due to ambiguity or otherwise, shall not apply.

SALE AND PURCHASE: DUE DILIGENCE

Section 2.1 Sale and Purchase. Subject to the terms and conditions of this Agreement, Seller agrees to sell and convey to Buyer, and Buyer agrees to purchase from Seller, an undivided 100.00% of Seller's right, title and interest in the following described assets and properties (together, the "Assets");

(a) the oil, gas and mineral leases and the leasehold estates created thereby, described in Schedule 2.1(a), together with corresponding interests in and to all related property and rights;

(b) the oil, gas and mineral leases and the leasehold estates created thereby, described in Schedule 2.1(b), together with corresponding interests in and to all related property and rights. Together the leases described in Schedule 2.1(a) and Schedule 2.1(b) are referred to herein as the "Leases". Buyer has conducted Due Diligence comprised of land contract work, Abstracts and Attorney Drilling Title Opinion used in providing Schedule 2.1(b). Buyer acknowledges that they will rely on Buck Peak LLC or its designee to provide documents delivering the NRI covering Section 25, T6N-R9OW, Moffat County, Colorado as follows:

- All Leases in W/2 Section 25, T6N-R9OW — 78.5% NRI delivered;
- Keith family Leases — 77.5% NRI delivered;
- Remaining Leases E/2 Section 25, T6N-R9OW — 78.5% NRI delivered

(c) all right, title and interest of Seller in and to the lands covered by, or subject to, or pooled or unitized with the Leases (together, the "Lands");

(d) all contracts and contractual rights, obligations, and interests described in Schedule 2.1(d), and to the extent transferable, all other material contracts and contractual rights, obligations, and interests, including but not limited to all farmout and farmin agreements, operating agreements, surface use agreements, lease agreements, and other contracts or agreements covering or affecting any of the Assets (together, the "Contracts");

(e) all data and information described in Schedule 2.1(e), and copies of all other 2D seismic data and interpretations thereof covering the Lands, together with the shot records and digital data suitable for reprocessing. In addition, Seller shall provide and assign to Buyer any planned or permitted 2D or 3D seismic shoot covering the Lands or parts thereof;

(f) all right, title and interest of Seller in and to or derived from the following insofar as the same are attributable to the Leases, Lands, or Contracts: (i) all rights with respect to the use and occupancy of the surface of and the subsurface depths under the Lands; (ii) all agreements and contracts, easements, rights-of-way, servitudes, and other estates; (iii) all real and personal property located in or upon the Lands or used in connection with the exploration, development or operation of the

Leases; and (iv) any and all lease files, title files, land files, division order files, marketing files, well files, abstracts, title opinions, production records, seismic, geological, geophysical and engineering data, and all other files, maps and data (in whatever form) arising out of or relating to the Leases or Lands or the ownership, use, development, maintenance or operation of the other Assets (the "Records"); and

(g) Notwithstanding the foregoing, the transfer of the Assets pursuant

to this Agreement shall not include the assumption of any liability related to the Assets unless Buyer expressly assumes that liability herein.

Section 2.2 Review Period. With respect to Assets listed on Schedule 2.1(a) and Schedule 2.1(b), from the Effective Date up to and including April 19, 2013 (the Review Period), Buyer shall have the right to review the Records in the Seller's possession and confirm that no Defects exist with respect to the Assets.

(a) "Defects" shall consist of one or more Title Defects or Environmental Defects.

(b) "Title Defects" means encumbrances, encroachments, irregularities, or defects in title to the Assets that causes Seller's title to be less than Good and Marketable Title.

(c) "Good and Marketable Title" means such right, title or interest held by Seller that will entitle Buyer, in Buyer's sole discretion, to: (i) an interest in each Lease covering the number of net mineral acres described in the column marked "Net Mineral Acres" in Schedules 2.1(a) and 2.1(b); (ii) receive no less than the net revenue interest listed on Schedules 2.1(a) and 2.1(b) in each Lease; (iii) Leases with primary terms expiring on the dates set out for each of the Leases in Schedules 2.1(a) and 2.1(b); and (iv) sufficient rights under the Leases to allow Buyer to fully develop the oil, gas, and minerals covered by the Leases.

(d) "Environmental Defects" means the (i) failure of the Assets to comply with Environmental Laws, or (ii) the existence of any physical condition related to prior oil and gas operations that, in Buyer's discretion, would require Buyer to be responsible for taking corrective or remedial action with respect to such condition as a consequence of Buyer acquiring title to the Leases (referred to herein as a "Nonconforming Physical Condition"). To the extent that Buyer accepts a Lease (and the Lands covered thereby) as being free from Environmental Defects pursuant to the foregoing, Seller shall have no liability to Buyer with respect to the presence on such Lease (or Lands) of an Existing Well.

(e) "Environmental Laws" shall mean all applicable Laws relating to: (a) the control of any pollutant or potential pollutant or protection of the air, water, land or the environment, (b) solid, gaseous or liquid waste generation, handling, treatment, storage, disposal or transportation or (c) exposure to hazardous, toxic, explosive, corrosive or other substances alleged to be harmful. Environmental Laws shall include, but not be limited to, the Clean Air Act, 42 U.S.C. § 7401 et seq., the Clean Water Act, 33 U.S.C. § 1251 et seq., the Resource Conservation Recovery Act, 42 U.S.C. § 6901

et seq., the Superfund Amendments and Reauthorization Act, 42 U.S.C. § 11001 et seq., the Water Pollution Control Act, 33 U.S.C. § 1251 et seq., the Safe Drinking Water Act, 42 U.S.C. § 300f et seq. and the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. § 9601 et seq.

(f) "Laws" shall mean all applicable statutes, laws, ordinances, regulations, rules, rulings, orders, restrictions, requirements, writs, injunctions, decrees or other official acts of or by any Governmental Authority.

(g) "Governmental Authority" shall mean shall mean (i) the United States of America; (ii) any state, county, municipality or other governmental subdivision within the United States of America; and (iii) any court or any governmental department, commission, board, bureau, agency or other instrumentality of the United States of America or of any state, county, municipality or other governmental subdivision within the United States of America.

Section 2.3 Confirmation of Defects. In order to confirm that no Defects exist with respect to the Assets, Buyer shall, during the Review Period, have the right:

(a) to examine the Leases, Contracts, Records, and all other materials in Seller's possession or under Seller's control relating to the Assets, including, without limitation, geologic and engineering data, seismic data, unrecorded Contracts, revenue and expense records, suspense account records, division order files, well files and land and lease files (collectively, the "Data");

(b) to examine title to the Assets, based upon the Data and the public records of the county and state in which the Leases and Lands are located, at its sole cost, risk and expense;

(c) to physically inspect the Assets in order to ascertain the condition of the Leases and Lands and to determine the presence or absence of any wellbores, naturally occurring radioactive materials, environmental contaminations, materials of environmental concern, or violations of Environmental Laws.

Section 2.4 Cooperation. Seller shall cooperate with Buyer and provide Buyer with access to the Data in Seller's offices at reasonable hours. Buyer shall have the right, at its own expense, to photocopy any of such Data; provided, however, that if Closing does not occur Buyer shall, upon notice to Seller, return all copies of the Data to Seller.

Section 2.5 Access. Seller shall provide Buyer reasonable access to the Leases and Lands at Buyer's sole cost and expense.

Section 2.6 Defect Notices. On or before the expiration of the Review Period, Buyer shall provide notice to Seller regarding all Defects (each, a "Defect Notice"). A Defect Notice shall be in writing and shall include: (i) a description of the Assets affected by the Defect; and (ii) an explanation of the basis for the Defect.

Section 2.7 Cure Period. Upon receiving a Defect Notice, Seller shall have the right to remedy the Defect, to the reasonable satisfaction of Buyer, within six days following the expiration of the Review Period (the "Cure Period") unless extended by mutual agreement of the Parties. If Seller is unable to remedy any Defect to the satisfaction of Buyer prior to the expiration of the Cure Period, Buyer shall have the right to either (i) accept the uncured Defect and proceed to Closing, or (ii) terminate this Agreement, in which event each Party shall have no further obligation to the other hereunder. Buyer shall give Seller written notice of its election within three business days following the end of the Cure Period (the failure of Buyer to give notice within such three-day period shall be deemed to be its election to terminate this Agreement). Notwithstanding the foregoing, the parties shall always have the right to mutually agree to a new Purchase Price (as defined below) for the Assets to take into account the effect of uncured Defects.

ARTICLE III
CONSIDERATION AND PAYMENT

Section 3.1 Consideration. In consideration for the sale and conveyance of the Assets to Buyer, the Buyer shall pay the total purchase price described in this Section 3.1(a) and (b) (the "Purchase Price") and, at the direction of Seller, the Purchase Price shall be distributed directly to Seller's Members in the following manner:

- (a) The sum of two hundred and twenty-three thousand four hundred dollars (\$223,400.00) shall be due and payable at Closing to Seller's Members as described in the table in Section 3.2; and
- (b) Buyer shall issue 67,000 shares of restricted common stock of Buyer (the "Shares"), valued at \$1 per share, at Closing to the Seller's Members as described in the table in Section 3.2.

Section 3.2 Members Purchase Price Allocation Table.

<i>Member</i>	<i>Purchase Price Allocation</i>
Frederick J. Witsell	Allocation pursuant to Letter Offer signed February 22, 2013
John H. Carpenter	Allocation pursuant to Letter Offer signed February 28, 2013
David L. Witsell	Allocation pursuant to Letter Offer signed March 11, 2013
Kyle A. Worsham	Allocation pursuant to Letter Offer signed March 15, 2013

Section 3.3 Seller's Members. The Members of Seller listed in Section 3.2 (together "Seller's Members" or individually a "Member") shall each join in the representations and warranties in Sections 4.1 and 4.2 of this Agreement and shall execute this Agreement as provided on the signature page.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES

Section 4.1 Representations and Warranties of Seller. Seller and Seller's Members represent and warrant to Buyer as follows:

(a) Seller is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Colorado and has the requisite corporate power to carry on its business as it is now being conducted. Seller is duly qualified to do business, and is in good standing, in each jurisdiction in which the Assets owned, leased or operated by it makes such qualification necessary.

(b) Seller has all requisite power and authority to execute and deliver this Agreement and to perform its obligations under this Agreement. The execution, delivery and performance of this Agreement and the transactions contemplated hereby have been duly and validly authorized by all requisite corporate action on the part of Seller.

(c) This Agreement constitutes a valid and binding agreement of Seller enforceable against Seller in accordance with its terms, subject to: (i) applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws of general application with respect to creditors; (ii) general principles of equity; and (iii) the power of a court to deny enforcement of remedies generally based upon public policy.

(d) Neither the execution and delivery of this Agreement nor the consummation of the transactions and performance of the terms and conditions contemplated hereby by Seller will: (i) conflict with or result in any breach of any provision of the articles of organization, operating agreement or other similar governing documents of Seller; (ii) conflict with, be rendered void or ineffective by or under the terms, conditions or provisions of any agreement, instrument or obligation to which Seller is a party or is subject or by which any of its properties or assets are bound; (iii) result in or give rise to (or with notice or the passage of time or both could result in or give rise to) a default, the creation or imposition of any lien, charge, penalty, restriction, security interest or encumbrance or any change in terms, termination, cancellation or acceleration under the terms, conditions or provisions of any Asset (or of any agreement, instrument or obligation relating to or burdening Seller or any Asset); or (iv) violate or be rendered void or ineffective under any Laws or result in or give rise to (or with notice or the passage of time or both could result in or give rise to) the creation or imposition of any lien, charge, penalty, restriction, security interest or encumbrance on or with respect to any Asset under any Law.

(e) Except for the Transfer Requirements expressly described and set forth in Schedule 4.1(e), none of the Assets or any portion thereof are subject to any Transfer Requirements. "Transfer Requirements" shall mean any consent, approval, authorization or permit of, or filing with or notification to, any Person which must be obtained, made or complied with for or in connection with the execution and delivery of this Agreement by Seller or any sale, assignment, transfer or encumbrance of any Asset or any interest therein in order (i) for such sale, assignment, transfer or encumbrance to

be effective, (ii) to prevent any termination, cancellation, default, acceleration or change in terms (or any right thereof from arising) under any terms, conditions or provisions of any Asset (or of any agreement, instrument or obligation relating to or burdening any Asset) as a result of such sale, assignment, transfer or encumbrance, or (iii) to prevent the creation or imposition of any lien, charge, penalty, restriction, security interest or encumbrance on or with respect to any Asset (or any right thereof from arising) as a result of such sale, assignment, transfer or encumbrance; excluding, however, from the definition of Transfer Requirements consents and approvals of assignments by any Governmental Authority (other than consents and approvals by any Governmental Authority in connection with the assignment of any lease from a city, county, state or federal government that is included in the Assets) that are customarily obtained after closing the transactions contemplated by this Agreement.

(f) There are no actions, suits, arbitrations, proceedings, investigations or claims pending or threatened relating to or affecting any of the Assets or the transactions contemplated by this Agreement.

(g) Seller has not received any notice of any violation or alleged violation (or of any fact or circumstance which with notice or the passage of time or both would constitute a violation) of any Laws (including any Environmental Laws) applicable to the Assets, and the Assets comply with all Laws (including any Environmental Laws).

(h) Schedule 2.1(d) sets forth a true and correct description of each Contract, agreement or similar arrangement which is included in the Assets or by which any of the Assets is bound. Seller is in compliance with all terms and provisions of all contracts or agreements included in or by which any of the Assets is subject. All such contracts and agreements are in full force and effect and, to the knowledge of Seller, there are no violations or breaches thereof or existing facts or circumstances which upon notice or the passage of time or both will constitute a violation or breach thereof by any other party thereto.

(i) Seller has Good and Marketable Title to the Assets;

(j) Neither Seller nor any Affiliate of Seller has incurred any obligation or entered into any agreement for any investment banking, brokerage or finder's fee or commission in respect of the transactions contemplated by this Agreement for which Buyer or any Affiliate of Buyer shall incur any liability. "Affiliate" shall mean, as to the Person specified, any Person controlling, controlled by or under common control with such specified Person. The concept of control, controlling or controlled as used in the aforesaid context means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of another, whether through the ownership of voting securities, by contract or otherwise.

(k) Seller has paid all Taxes on or relating to the Assets, which are currently due and payable as required by Law prior to delinquency. Seller is not a nonresident alien or foreign corporation (as those terms are defined in Internal Revenue Code of 1986, as amended, and any successor thereto, together with all regulations promulgated thereunder (together, the "Code").

(l) There are no bankruptcy, reorganization or arrangement proceedings pending against, being contemplated by, or threatened against Seller.

(m) Seller is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended, or is otherwise subject to regulation under or the restrictions of such Act.

(n) All licenses, permits, certificates, orders, approvals and authorizations of Governmental Authority necessary for the ownership or operation of the Assets have been obtained and all such licenses, permits, certificates, orders, approvals and authorizations are in full force and effect and all fees and charges relating thereto have been paid.

(o) None of the Assets are subject to or are bound by any futures, hedge, swap, collar, put, call, option or other commodities contract or agreement.

(p) Seller has knowledge, skill and experience in financial, business and investment matters relating to the transactions contemplated by this Agreement and is capable of evaluating the merits and risks of such transactions. To the extent deemed necessary by Seller, Seller has retained, at its own expense, and relied upon, appropriate professional advice regarding the investment, tax and legal merits and consequences of its execution of this Agreement.

(q) To the best of Seller's knowledge, none of Seller's statements or representations in this Agreement contain any untrue statement of any fact or omit to state any fact necessary to be stated in order to make the statements or representations made not misleading.

(r) The Assets to be transferred under this Agreement constitute substantially of Seller's assets.

(s) The transactions contemplated in this Agreement have been undertaken by the Seller in good faith, considering its obligations to any person or entity to whom Seller owes a right to payment, and has undertaken these transactions without any intent to hinder, delay or defraud any of Seller's creditors. The Seller has not been sued or threatened with suit by any creditor prior to the execution of this Agreement and have not moved or concealed any assets from creditors. Seller believes in good faith that Seller will receive consideration reasonably equivalent to the value of the assets transferred under this Agreement.

(t) Seller is an "accredited investor" as that term is defined in Regulation D under the Securities Act.

Section 4.2 Representations and Warranties of Seller's Members, Seller's Members represent and warrant to Buyer as follows:

(a) Each Member of Seller is acquiring the Shares described in Subsection 3.1(b) for the Member's own account and for investment purposes only, and without the intention of reselling or redistributing the same.

(b) Each Member of Seller represents that he is an "accredited investor" as that term is defined in Regulation D under the Securities Act.

(c) The Shares shall be subject to statutory resale restrictions under the securities laws. The Shares have not been and will not be registered under the Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold in the U.S. or to any U.S. Person, unless the Shares are registered under the Securities Act and all applicable state securities laws or an exemption from such registrations requirement is available. No representation has been made by or on behalf of Buyer as to the period of time during which Seller's Members will be required to hold the Shares prior to resale. Buyer is under no obligation to register the Shares or to take any other action to allow Seller's Members to sell the Shares.

(d) The certificates representing the Shares will bear a legend substantially in the following form:

THIS SECURITY HAS NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), IN RELIANCE UPON THE EXEMPTIONS FROM REGISTRATION PROVIDED IN THE ACT AND REGULATION D UNDER THE ACT AND HAVE NOT BEEN REGISTERED UNDER ANY STATE SECURITIES LAWS. THEREFORE, ANY SUBSEQUENT TRANSFER OF THIS SECURITY OR ANY INTEREST THEREIN WILL BE UNLAWFUL UNLESS IT IS REGISTERED UNDER THE ACT AND ANY STATE SECURITIES LAWS OR UNLESS AN EXEMPTION FROM REGISTRATION IS AVAILABLE. FURTHERMORE, IT IS UNLAWFUL TO CONSUMMATE A SALE OR TRANSFER OF THIS SECURITY OR ANY INTEREST THEREIN, WITHOUT THE OPINION OF COUNSEL ACCEPTABLE TO THE COMPANY THAT THE PROPOSED TRANSFER OR SALE DOES NOT AFFECT THE EXEMPTIONS RELIED UPON BY THE COMPANY IN ORIGINALLY DISTRIBUTING THE SECURITY AND THAT REGISTRATION IS NOT REQUIRED.

Section 4.3 Representations and Warranties of Buyer. Buyer represents and warrants to Seller as follows:

(a) Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Colorado and has the requisite corporate power to carry on its business as it is now being conducted. Buyer is duly qualified to do business, and is in good standing, in each jurisdiction in which the Assets to be acquired by it makes such qualification necessary.

(b) Buyer has all requisite corporate power and authority to execute and deliver this Agreement and to perform its obligations under this Agreement. The execution, delivery and performance of this Agreement and the transactions contemplated hereby have been duly and validly authorized by all requisite corporate action on the part of Buyer.

(c) This Agreement constitutes a valid and binding agreement of Buyer enforceable against Buyer in accordance with its terms, subject to: (i) applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws of general application with respect to creditors; (ii) general principles of equity; and (iii) the power of a court to deny enforcement of remedies generally based upon public policy.

(d) Neither the execution and delivery of this Agreement nor the consummation of the transactions and performance of the terms and conditions contemplated hereby by Buyer will (i) conflict with or result in any breach of any provision of the certificate of incorporation, bylaws and other similar governing documents of Buyer; (ii) be rendered void or ineffective by or under the terms, conditions or provisions of any agreement, instrument or obligation to which Buyer is a party or is subject; or (iii) violate or be rendered void or ineffective under any Law.

(e) No consent, approval, authorization or permit of, or filing with or notification to, any Person is required for or in connection with the execution and delivery of this Agreement by Buyer or for or in connection with the consummation of the transactions and performance of the terms and conditions contemplated hereby by Buyer.

(f) Neither Buyer nor any Affiliate of Buyer has incurred any obligation or entered into any agreement for any investment banking, brokerage or finder's fee or commission in respect of the transactions contemplated by this Agreement for which Seller or any Affiliate of Seller shall incur any liability.

ARTICLE V
COVENANTS OF SELLER AND BUYER

Section 5.1 General Conveyance. Upon the terms and subject to the conditions of this Agreement, at Closing, Seller shall execute and deliver the General Conveyance, in substantially the form attached hereto as Exhibit 5.1 (the "Conveyance"), to Buyer together with all assignment forms as may be required by Law to be executed in connection with the conveyance of specific Assets; provided that the terms and provisions of the Conveyance shall control as to any conflict between the Conveyance and any such special assignment forms.

Section 5.2 Public Announcements. Without the prior written approval of the other Party, which approval shall not be unreasonably withheld, no Party will issue, or permit any agent or Affiliate to issue, any press releases or otherwise make, or cause any agent or Affiliate to make, any public statements with respect to this Agreement and the transactions contemplated hereby, except where such release or statement is deemed in good faith by the releasing Party to be required by Law or any national

securities exchange, in which case the Party or Parties will use its or their, as the case may be, commercially reasonable efforts to provide a copy to the other Party prior to any release or statement.

Section 5.3 Further Assurances. Seller and Buyer each agree that, from time to time, whether before, at or after the Closing Date, each of them will execute and deliver or cause their respective Affiliates to execute and deliver such further instruments of conveyance and transfer and take such other action as may be necessary to carry out the purposes and intents of this Agreement. Any separate or additional assignment of the Assets or any portion thereof required pursuant to this Section 5.3: (a) shall evidence the conveyance and assignment of the Assets made or intended to be made in the Conveyance; (b) shall not modify or be deemed to modify any of the terms, covenants and conditions set forth in the Conveyance or in this Agreement; and (c) shall be deemed to contain all of the terms and provisions of the Conveyance, as fully as though the same were set forth at length in such separate or additional assignment.

Section 5.4 Negative Covenant. Between the date of this Agreement and the Closing Date, Seller shall not, without the prior written consent of Buyer, make any modification to any of the Assets or enter into any compromise or settlement of any litigation, proceeding or governmental investigation relating to the Assets. Notwithstanding the above, Seller shall be allowed to file and record any necessary documents which are required to cure title matters as set forth in Section 2.7 or as may be necessary to deliver the 8/8ths net revenue interests as listed in Schedules 2.1(a)(b) and as further set forth in Section 2.2(c).

ARTICLE VI
CLOSING

Section 6.1 Closing. Unless extended pursuant to the terms of this Agreement, the closing of this transaction shall be held on or before April 30, 2013 at 10:00 a.m. Colorado time, or such other mutually agreed upon date. The Closing may occur by fax or email as may be the case. The actual date on which the Closing occurs shall be known as the "Closing Date". At Closing, the obligations in Section 6.2 and Section 6.3 shall occur, each being a condition precedent to the others and each being deemed to have occurred simultaneously with the other.

Section 6.2 Seller's Closing Obligations. At Closing, Seller shall execute and deliver, or cause to be executed and delivered, to Buyer the following:

- (a) the Conveyance, Assignment and Bill of Sale in the form attached as Exhibit 5.1;
- (b) an Affidavit of Non-foreign Status substantially in the form attached as Exhibit 6.2(b);
- (c) the Records; and

(d) such other documents as may be reasonably necessary to convey

all of Seller's interests in the Assets to Buyer in accordance with the terms and provisions of this Agreement.

Section 6.3 Buyer's Closing Obligations. At Closing, Buyer shall:

(a) deliver, or cause to be delivered, the cash portion of the Purchase Price in immediately available funds; and

(b) deliver, or cause to be delivered, a duly authorized share certificate in the name of each of Seller's Members as provided in Article III of this Agreement (the "Share Certificates").

Section 6.4 Buyer's Conditions of Closing. Buyer's obligations under this Agreement are subject, at the option of Buyer, to the satisfaction at Closing of the following conditions:

(a) All representations and warranties of Seller and Seller's Members contained in this Agreement shall be true in all material respects at and as of the Closing as if such representations and warranties were made at and as of the Closing; and

(b) Seller shall have performed and satisfied all covenants required by this Agreement to be performed and satisfied by Seller at or prior to the Closing.

Should the above conditions not be satisfied to Buyer's satisfaction as of the Closing, Buyer may, as its sole and exclusive remedy, terminate this Agreement without further liability between the Buyer and Seller.

Section 6.5 Survival. The representations and warranties of the Parties and Seller's Members contained in Article IV of this Agreement shall survive for six (6) months after the Closing Date. All of the covenants and agreements made by each Party in this Agreement shall survive the consummation of the transactions contemplated herein and shall continue in full force and effect after the Closing indefinitely until all obligations with respect to any such covenants are fulfilled in their entirety.

ARTICLE VII
Termination and Confidentiality

Section 7.1 Right of Termination This Agreement may be terminated at any time at or prior to the Closing:

(a) by mutual written consent of the Parties;

(b) by Buyer on the Closing Date if the obligations set forth in Section 7.2 or the conditions set forth in Section 7.5 have not been

satisfied in all material respects or waived by Buyer in writing by the Closing Date;

(c) by Seller on the Closing Date if the obligations set forth in Section 7.3 or the conditions set forth in Section 7.4 have not been satisfied in all material respects or waived by Seller in writing by the Closing Date; or

(d) by either Buyer or Seller if the Closing has not occurred by April 30, 2013 unless agreed to by the Parties in writing.;

provided, however, that no Party shall have the right to terminate this Agreement pursuant to Sections 7.1(b), 7.1(c), or 7.1(d) if such Party is at such time in breach of any provision of this Agreement.

Section 7.2 Effect of Termination. In the event that the Closing does not

occur because a Party exercises its right to terminate this Agreement under Section 2.7 or Section 7.1, then except as set forth in Section 3.2, this Agreement shall be null and void and no Party shall have any further rights or obligations under this Agreement; provided that, nothing herein shall relieve any Party from any liability for any breach hereof. Further, upon the failure of Seller to meet a material condition to Closing set forth in Section 6.4, Buyer, at its sole discretion, may enforce whatever legal or equitable rights may be appropriate and applicable, including, without limitation specific performance of this Agreement.

Section 7.3 Confidentiality: The Parties agree that the amount of the

Purchase Price shall remain confidential. Notwithstanding the immediately preceding sentence, the Parties agree that the Purchase Price may be disclosed by the Parties to their affiliates and each of their respective officers, directors, employees, partners, attorneys, representatives, accountants, brokers, and lenders. In addition, the Purchase Price may be disclosed as required by discovery process, court order, law, rule or regulation of a governmental authority or stock exchange. The Parties recognize that the Conveyance will be filed in the public record and consent to such filing. Nothing in this Section 7.1 shall prevent either Party from disclosing the other provisions of this Agreement or the fact that the Parties have entered into this Agreement.

ARTICLE VIII MISCELLANEOUS

Section 8.1 Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each of the Parties and delivered to the other Party.

Section 8.2 Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF COLORADO WITHOUT REFERENCE TO THE CONFLICT OF LAW PRINCIPLES THEREOF.

Section 8.3 Entire Agreement. This Agreement (including the Exhibits, Schedules, and other agreements expressly contemplated by or incorporated herein) contains the entire agreement between the Parties with respect to the subject matter hereof and there are no agreements, understandings, representations or warranties between the Parties other than those set forth or referred to herein.

Section 8.4 Expenses. Buyer shall be responsible for all recording fees relating to the filing of instruments transferring title to Buyer from Seller. Seller shall be responsible for (a) all recording and other fees relating to title curative documents, (b) any sales Taxes which may become due and owing by reason of the sale of the Assets hereunder, (c) all transfer, stamp, documentary and similar Taxes imposed on the Parties with respect to the property transfer contemplated pursuant to this Agreement and (d) all income and other Taxes incurred by or imposed on Seller with respect to the transactions contemplated hereby. All other costs and expenses incurred by each Party in connection with all things required to be done by it hereunder, including attorney's fees, accountant fees and the expense of title examination, shall be borne by the Party incurring same.

Section 8.5 Notices. All notices hereunder shall be sufficiently given for all purposes hereunder if in writing and delivered personally, sent by documented overnight delivery service or, to the extent receipt is confirmed, by United States Mail, telecopy, telefax, email or other similar electronic transmission service to the appropriate address or number as set forth below. Notices to Seller shall be addressed as follows:

Premier Energy Partners (I) LLC
PO Box 2328
Littleton, CO 80161
Attn: Frederick J. Witsell
Email: fwitsellpremier@comcast.net

or at such other address and to the attention of such other Person as Seller may designate by written notice to Buyer. The party Seller designated above is authorized to receive any notice contemplated by this Agreement on behalf of all parties Seller and is also authorized to make any response or election required hereunder with respect to such notice on behalf of all parties Seller.

Notices to Buyer shall be addressed to:

PetroShare Corp.
7200 S. Alton Way, Suite B220
Centennial, Colorado 80111
Attention: Stephen J. Foley
Phone number: 303-591-1321
Email: sfoley43@msn.com

or at such other address and to the attention of such other Person as Buyer may designate by written notice to Seller.

Section 8.6 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns. Neither this Agreement nor the obligations of any Party shall be assignable or transferable by such Party without the prior written consent of the other Party, which consent shall not be unreasonably withheld.

Section 8.7 Headings. The headings to Articles, Sections and othersubdivisions of this Agreement are inserted for convenience of reference only and will not affect the meaning or interpretation of this Agreement.

Section 8.8 Amendments and Waivers. This Agreement may not be modified or amended except by an instrument or instruments in writing signed by the Party against whom enforcement of any such modification or amendment is sought. Any Party may, only by an instrument in writing, waive compliance by another Party with any term or provision of this Agreement on the part of such other Party to be performed or complied with. The waiver by any Party of a breach of any term or provision of this Agreement shall not be construed as a waiver of any subsequent breach.

Section 8.9 Exhibits and Schedules. The Exhibits and Schedules hereto which are referred to herein are hereby made a part hereof and incorporated herein by such reference.

Section 8.10 Purchase Price Allocation for Tax Purposes. Seller and Buyer agree that the Purchase Price shall be allocated to the various Assets for federal and state income tax purposes as shown on Exhibit 8.10. The Parties further agree that the allocations set forth on Exhibit 8.10 represent reasonable estimates of the fair market values of the Assets described therein.

Section 8.11 Agreement for the Parties' Benefit Only. Except as specified in Article VII, this Agreement is not intended to confer upon any Person not a Party any rights or remedies hereunder, and no Person, other than the Parties, is entitled to rely on any representation, warranty, covenant or agreement contained herein.

Section 8.12 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any adverse manner to any Party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the extent possible.

Section 8.13 Limitation of Damages. NOTWITHSTANDING ANYTHING CONTAINED HEREIN TO THE CONTRARY, IN NO EVENT SHALL ANY PARTY

AND/OR ITS AFFILIATES BE LIABLE FOR ANY CONSEQUENTIAL, SPECIAL, INDIRECT OR PUNITIVE DAMAGES CLAIMED BY A PARTY ARISING FROM OR RELATING TO ANY ACTIONS FOR ANY BREACH OR ALLEGED BREACH OF THIS AGREEMENT.

[Signatures on Following Page]

IN WITNESS WHEREOF, this Agreement has been signed by or on behalf of each of the Parties and Seller's Members as of the day first above written.

BUYER:

PetroShare Corp.

By: /s/ Stephen J. Foley
Name: Stephen J. Foley
Title: Chief Executive Officer

SELLER:

Premier Energy Partners (I) LLC

By: /s/ Frederick J. Witsell
Name: Frederick J. Witsell
Title: Managing Member

MEMBERS:

/s/ Fred J. Witsell
Fred J. Witsell

/s/ John H. Carpenter
John H. Carpenter

/s/ David L. Witsell
David L. Witsell

/s/ Kyle A. Worsham
Kyle A. Worsham

SCHEDULE 2.1(a) with Lease Valuation Summary

Assignment of Leases dated April ____, 2013

LESSOR	LESSEE	DESCRIPTION	EFFECTIVE DATE	EXPIRATION DATE	GROSS ACRES	NET ACRES	NET ACRES CONVEYED	NET REVENUE INTEREST to be delivered 8/8ths	RECORDING
Richard J. Colby	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 21: Lots 11, 14, 15 & 16 Sec 22: Lots 12 & 13 Sec 27: Lots 3 & 4 Sec 28: Lot 1	11/20/2010	11/19/2015 5 yr lease, 3 yr ext (2018)	369.39	15.40	0.69	4.50%	20103284
David Colby	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 21: Lots 11, 14, 15 & 16 Sec 22: Lots 12 & 13 Sec 27: Lots 3 & 4 Sec 28: Lot 1	11/20/2010	11/19/2015 5 yr lease, 3 yr ext (2013)	369.39	15.40	0.69	80.00%	20103286
Douglas Van Tassel, Diana Lynn Hamilton, Donna Lee Sweet, DeLaine Brown and Debbie Lou Van Tassel, PO Box 335, Craig, CO 81626-0335	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 35: Lots 4 & 5 Sec 34: Lots 1,7,8,9,10,11,12,13,14,15,16	1/10/2011	1/09/2014 3 yr lease, 3 yr ext (2017)	534.62	89.10	4.01	80.00%	20103146
Florence Van Tassel	Laramie & Associates	T6N-R90W, 6th P.M. Sec 35: Lots 4 & 5 Sec 34: Lots 1,7,8,9,10,11,12,13,14,15,16	1/10/2011	1/09/2016 5 yr lease, 3 yr ext (2019)	534.62	89.10	4.01	80.00%	20103022
Gregory J. Knez, Trustee of the Raymond M. & Hellen M. Knez Family Trust	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 19: Lots 5, 6, 11 & 12 Sec 20: N2 less tract (see lease)	3/21/2011	3/20/2016 5 yr lease, 3 yr ext (2019)	270.31	271.07	12.20	80.00%	20103026
Gregory J. Knez, Trustee of the Raymond M. & Hellen M. Knez Family Trust	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 20: A tract in E 55 acres of E2NEN2 (see lease)	3/21/2011	3/20/2016 5 yr lease, 3 yr ext (2019)	11.45	11.45	0.52	80.00%	20103024
Marlene Henderson	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 21: Lots 11, 14, 15 & 16 Sec 22: Lots 12 & 13 Sec 27: Lots 3 & 4 Sec 28: Lot 1	3/30/2011	3/29/2016 5 yr lease, 3 yr ext (2019)	369.39	15.40	0.69	80.00%	20102819
Barbara Martin	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 21: Lots 11, 14, 15 & 16 Sec 22: Lots 12 & 13 Sec 27: Lots 3 & 4 Sec 28: Lot 1	3/30/2011	3/29/2016 5 yr lease, 3 yr ext (2019)	369.39	15.40	0.69	80.00%	20102820
Edward Rutherford	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 21: Lots 11, 14, 15 & 16 Sec 22: Lots 12 & 13 Sec 27: Lots 3 & 4 Sec 28: Lot 1	3/30/2011	3/29/2016 5 yr lease, 3 yr ext (2019)	369.39	15.40	0.69	80.00%	20102821

Larry Rutherford	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 21: Lots 11, 14, 15 & 16 Sec 22: Lots 12 & 13 Sec 27: Lots 3 & 4 Sec 28: Lot 1	3/30/2011	3/29/2016 5 yr lease, 3 yr ext (2019)	369.39	15.40	0.69	80.00%	20102822
Mark A Voloshin	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7, 8, 9, 10 less tract (see lease) Sec 2: 15,16,17,18	5/12/2011	5/11/2016 5 yr lease, no ext	333.57	15.41	0.69	80.00%	20103150
Mark A Voloshin	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7 & 10	5/12/2011	5/11/2016 5 yr lease, no ext	164.88	47.11	2.12	80.00%	20103151
Mark A Voloshin	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	5/12/2011	5/11/2016 5 yr lease, no ext	82.44	24.43	1.10	80.00%	20103152
Mark A Voloshin	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessors Tract # 83 Sec 27: Lots 5,6,10,11,12,14,15,16 Sec 34: Lots 2,3 less the acreage in Sec 35 and the additional lands in Sec 34	5/12/2011	5/11/2016 5 yr lease, 2 yr ext (2018)	409.65	100.52	4.52	80.00%	20103155
Mark A Voloshin	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1,2,8 & 9	5/12/2011	5/11/2016 5 yr lease, 2 yr ext (2018)	164.97	80.96	3.64	80.00%	20103156
Mark A Voloshin	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessors Tract #82 Sec 26: Lots 4,5,6,11,12,13 & 14 Sec 27: Lots 1,2,5,6,7,8,9,10,11,12,14,15,16	5/12/2011	5/11/2016 5 yr lease, no ext	330.85	162.36	7.31	80.00%	20103154
Betty Annone	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7,8,9,10 Less Tract (see lease) Sec 2: 15,16,17 & 18	5/12/2011	5/11/2016 5 yr lease, 2 yr ext (2018)	333.57	11.56	0.52	80.00%	20102829
Betty Annone	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7, & 10	5/12/2011	5/11/2016 5 yr lease, no ext	164.88	17.59	0.79	80.00%	20102830
Betty Annone	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	5/12/2011	5/11/2016 5 yr lease, no ext	82.44	9.16	0.41	80.00%	20102831

Betty Annone	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, 14 Sec 27: Lots 2, 7, 8, 9	5/12/2011	5/11/2016 5 yr lease, no ext	330.85	26.04	1.17	80.00%	20102833
Betty Annone	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5,6,10,11,12,14,15,16 Sec 34: Lots 2,3 Less acreage (see lease)	5/12/2011	5/11/2016 5 yr lease, no ext	409.65	16.12	0.73	80.00%	20102834
Betty Annone	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1, 2, 8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	164.97	12.98	0.58	80.00%	20102835
Betty Jo Lott & Michelle K. McKee	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7,8,9,10 less tract (see lease) Sec 2: 15,16,17,18	5/12/2011	5/11/2016 5 yr lease, no ext	333.57	11.56	0.52	80.00%	20102836
Betty Jo Lott & Michelle K. McKee	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7, & 10	5/12/2011	5/11/2016 5 yr lease, no ext	164.88	17.6	0.79	80.00%	20102837
Betty Jo Lott & Michelle K. McKee	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	5/12/2011	5/11/2016 5 yr lease, no ext	82.44	9.16	0.41	80.00%	20102838
Betty Jo Lott & Michelle K. McKee	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, & 14 Sec 27: Lots 2, 7, 8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	330.85	26.04	1.17	80.00%	20102840
Betty Jo Lott & Michelle K. McKee	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5, 6, 10, 11, 12, 14, 15 & 16 Sec 34: Lots 2, 3 Less acreage (see lease)	5/12/2011	5/11/2016 5 yr lease, no ext	409.65	16.12	0.73	80.00%	20102841
Betty Jo Lott & Michelle K. McKee	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1, 2, 8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	164.97	12.98	0.58	80.00%	20102842
Gary R Semro and Robert W. Semro, 6522 Trailhead Rd, Highlands Ranch, CO 80130	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7, & 10	5/12/2011	5/11/2016 5 yr lease, no ext	164.88	17.59	0.79	80.00%	20102845
Gary R Semro and Robert W. Semro	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	5/12/2011	5/11/2016 5 yr lease, no ext	82.44	9.16	0.41	80.00%	20102846

Gary R Semro and Robert W. Semro	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, & 14 Sec 27: Lots 2, 7, 8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	330.85	26.04	1.17	80.00%	20102848
Gary R Semro and Robert W. Semro	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5, 6, 10, 11, 12, 14, 15 & 16 Sec 34: Lots 2, 3 Less acreage (see lease)	5/12/2011	5/11/2016 5 yr lease, no ext	409.65	16.12	0.73	80.00%	20102849
Gary R Semro and Robert W. Semro	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1, 2, 8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	164.97	12.98	0.58	80.00%	20102844
Gary R Semro and Robert W. Semro	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7, 8, 9, 10 Less Tract (see lease) Sec 2: 15, 16, 17 & 18	5/12/2011	5/11/2016 5 yr lease, no ext	333.57	11.56	0.52	80.00%	20102843
Sharon A. Fitzgerald	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7, 8, 9, 10 less tract (see lease) Sec 2: 15, 16, 17, 18	5/12/2011	5/11/2016 5 yr lease, no ext	333.57	11.56	0.52	80.00%	20103144
Sharon A. Fitzgerald	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7 & 10	5/12/2011	5/11/2016 5 yr lease, no ext	164.88	17.59	0.79	80.00%	20103138
Sharon A. Fitzgerald	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	5/12/2011	5/11/2016 5 yr lease, no ext	82.44	9.16	0.41	80.00%	20103139
Sharon A. Fitzgerald	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, & 14 Sec 27: Lots 2, 7, 8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	330.85	26.04	1.17	80.00%	20103141
Sharon A. Fitzgerald	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5, 6, 10, 11, 12, 14, 15, 16 Sec 34: Lots 2, 3 less acreage Sec 35, (see lease)	5/12/2011	5/11/2016 5 yr lease, no ext	409.65	16.12	0.73	80.00%	20103142
Sharon A. Fitzgerald	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1, 2, 8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	164.97	12.98	0.58	80.00%	20103143

Eugena Grace Voloshin Buck Peak, LLC	T6N-R103W, 6th P.M. Sec 31: Lots 7,8,9, NESW, SE T6N-R90W, 6th P.M. Sec 14: Lots 3, 4, 6 T6N-R91W, 6th P.M. Sec 9: Lots 8, 9, 16 Sec 10: Lots 4, 5 T6N-R92W, 6th P.M. Sec 13: SW T6N-R93W, 6th P.M. Sec 13: S2N2, N2S2 T6N-R94W, 6th P.M. Sec 12: E2SE T6N-R99W, 6th P.M. Sec 27: SWSE, SESW Sec 34: NENW	5/12/2011	5/11/2016 5 yr lease, no ext	1320.3	18.748	0.84	80.00%	20102850
Eugena Grace Voloshin Buck Peak, LLC	T10N-R90W, 6th P.M. Sec 13: Lot 18 Sec 30: Lots 6 & 8	5/12/2011	5/11/2016 5 yr lease, no ext	117.16	1.663	0.07	80.00%	20102851
Eugena Grace Voloshin Buck Peak, LLC	T3N-R91W, 6th P.M. Sec 8: Lots 9 & 16 Sec 9: SW/4SW/4 Sec 16: NW/4, NE/4SW/4	5/12/2011	5/11/2016 5 yr lease, no ext	323.43	4.593	0.21	80.00%	20102852
Eugena Grace Voloshin Buck Peak, LLC	T4N-R91W, 6th P.M. Sec 10: Tract in SESW (0.42 acres) T4N-R92W, 6th P.M. Sec 7: Lots 9 & 10 Sec 8: Lots 5, 9, 10, 11, 12, 13, 14 Sec 17: Lot 2 T4N-R101W, 6th P.M. Sec 14: W2NE, NW, N2SW T4N-R102W, 6th P.M. Sec 27: SE Sec 34: NE	5/12/2011	5/11/2016 5 yr lease, no ext	799.7	11.356	0.51	80.00%	20102853
Eugena Grace Voloshin Buck Peak, LLC	T5N-R94W, 6th P.M. Sec 7: S2SE Sec 8: SW Sec 17: N2NW, Sec 18: NENE T5N-R94W, 6th P.M. Sec 9: SWNE, NWSE, S2SE T5N-R97W, 6th P.M. Sec 3: N2SE, SWSE, E2SW Sec 10: N2NE, NENW	5/12/2011	5/11/2016 5 yr lease, no ext	840	11.93	0.54	80.00%	20102854
Eugena Grace Voloshin Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7, 8, 9, 10 less tract (see lease) Sec 2: 15,16,17,18	5/12/2011	5/11/2016 5 yr lease, no ext	333.57	71.30	3.21	80.00%	20102855
Eugena Grace Voloshin Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7 & 10	5/12/2011	5/11/2016 5 yr lease, no ext	164.88	0.73	0.03	80.00%	20102857
Eugena Grace Voloshin Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1,2,8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	164.97	0.76	0.03	80.00%	20102858
Eugena Grace Voloshin Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5, 6, 10, 11, 12, 14, 15 & 16 Sec 34: Lots 2, 3 Less acreage (see lease)	5/12/2011	5/11/2016 5 yr lease, no ext	409.65	0.95	0.04	80.00%	20102859
Eugena Grace Voloshin Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, & 14 Sec 27: Lots 2, 7, 8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	330.85	1.53	0.07	80.00%	20102860
Eugena Grace Voloshin Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	5/12/2011	5/11/2016 5 yr lease, no ext	82.44	0.38	0.02	80.00%	20102861

R. Kirk Lyons	Buck Peak, LLC	T5N-R89W, 6th P.M. Sec 6: Lots 3, 5 SE4NW4 T6N-R89W, 6th P.M. Sec 29: Lot 13 Sec 31: Lot 3,5,6,11 SW4NE4, NW4SE4, NE4SW4, SE4SW4 Sec 32: Lot 4	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	425.23	47.24	2.13	80.00%	701711
Ralph C. Lyons & Anna M. Lyons	Buck Peak, LLC	T5N-R89W, 6th P.M. Sec 6: Lots 3, 5 SE4NW4 T6N-R89W, 6th P.M. Sec 29: Lot 13 Sec 31: Lot 3,5,6,11 SW4NE4, NW4SE4, NE4SW4, SE4SW4 Sec 32: Lot 4	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	425.23	141.74	6.38	80.00%	701713
Leora L. Smith	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 12: Lots 5,6,8,9,10,13,14,15 Sec 24: Lots 1,2,7,8,9,10,14,15,16	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	673.54	154.304	6.94	80.00%	20102588
R. Kirk Lyons	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 12: Lots 5,6,8,9,10,13,14,15 Sec 24: Lots 1,2,7,8,9,10,14,15,16	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	673.54	51.43	2.31	80.00%	20102589
Ralph C. Lyons & Anna M. Lyons	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 12: Lots 5,6,8,9,10,13,14,15 Sec 24: Lots 1,2,7,8,9,10,14,15,16	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	673.54	154.30	6.94	80.00%	20102587
Mark E. Lyons	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 12: Lots 5,6,8,9,10,13,14,15 Sec 24: Lots 1,2,7,8,9,10,14,15,16	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	673.54	51.43	2.31	80.00%	20102586
Terri Lee Smedra	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 12: Lots 5,6,8,9,10,13,14,15 Sec 24: Lots 1,2,7,8,9,10,14,15,16	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	673.54	51.43	2.31	80.00%	20102585
Leora L. Smith	Buck Peak, LLC	T5N-R89W, 6th P.M. Sec 6: Lots 3, 5 SE4NW4 T6N-R89W, 6th P.M. Sec 29: Lot 3 Sec 31: Lot 3,5,6,11 SW4NE4,NW4SE4, NE4SW4, SE4SW4 Sec 32: Lot 4	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	425.23	141.72	6.38	80.00%	701715
Terri Lee Smedra	Buck Peak, LLC	T5N-R89W, 6th P.M. Sec 6: Lots 3, 5 SE4NW4 T6N-R89W, 6th P.M. Sec 29: Lot 3 Sec 31: Lot 3,5,6,11 SW4NE4, NW4SE4, NE4SW4, SE4SW4 Sec 32: Lot 4	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	425.23	47.24	2.13	80.00%	701712
Mark E. Lyons	Buck Peak, LLC	T5N-R89W, 6th P.M. Sec 6: Lots 3, 5 SE4NW4 T6N-R89W, 6th P.M. Sec 29: Lot 13 Sec 31: Lot 3,5,6,11 SW4NE4, NW4SE4, NE4SW4, SE4SW4 Sec 32: Lot 4	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	425.23	51.43	2.31	80.00%	701714

Thomas J. Knez	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 21: Lot 16 Sec 22: Lots 12 & 13	7/10/2011	7/09/2016 5 yr lease, 3 yr ext (2019)	122.97	20.50	0.92	80.00%	20102823
Helen P. Knez	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 27: Lots 3 & 4 Sec 28: Lot 1	7/17/2011	7/16/2016 5 yr lease, 3 yr ext (2019)	122.93	20.5	0.92	80.00%	20103517
Gregory J. Knez, Trustee of the Raymond M. & Hellen M. Knez Family Trust	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 21: Lots 11, 14, 15 & 16 Sec 22: Lots 12 & 13 Sec 27: Lots 3 & 4 Sec 28: Lot 1	3/21/2011	3/20/2016 5 yr lease, 3 yr ext (2019)	369.39	61.58	2.77	80.00%	20103025
Kathy Peters	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 35: Lots 9,10 11,12,13,14,15,16 (S/2)	7/31/2011	7/30/2014 3 yr lease, 3 yr ext (2017)	331.00	110.56	4.98	80.00%	20103518
Barbara L. Wilaby	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 12: Lots 1,2,3,5,6,7,8,9,10,12,13,14,15	10/31/2008 3 years + 2 year ext option	10/30/2013	493.56	208.12	9.37	80.00%	20090483
Barbara L. Wilaby	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 13: Lots 2,3,4, less tract	10/31/2008 3 years + 2 year ext option	10/30/2013	130.10	30.23	1.36	80.00%	20090484
Rex Ross Walker	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 34: Lots 1, 7,8,9,10,11,12,13,14,15,16	12/18/2008 3 years + 2 year ext option	12/17/2013	351.36	26.24	1.18	80.00%	20090151
							EXTENDED	128.32	
Margaret Keith	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7,8,9,10 less tract (see lease) Sec 2: 15,16,17,18	9/30/2008 5 years + 3 year ext option	9/29/2013	333.57	11.560	0.52	80.00%	20084242
Margaret Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1, 2, 6, and 9	9/30/2008 5 years + 3 year ext option	9/29/2013	164.97	12.98	0.58	80.00%	20084243
Margaret Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5, 6, 10, 11, 12, 14, 15 & 16 Sec 34: Lots 2, 3 Less acreage (see lease)	9/30/2008 5 years + 3 year ext option	9/29/2013	409.65	16.12	0.73	80.00%	20084244
Margaret Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, & 14 Sec 27: Lots 2, 7, 8 & 9	9/30/2008 5 years + 3 year ext option	9/29/2013	330.85	26.04	1.17	80.00%	20084245

Margaret Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	9/30/2008 5 years + 3 year ext option	9/29/2013	82.44	9.16	0.41	80.00%	20084246
Margaret Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7 & 10	9/30/2008 5 years + 3 year ext option	9/29/2013	164.88	17.59	0.79	80.00%	20084247
James W. Keith	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7,8,9,10 less tract (see lease) Sec 2: 15,16,17,18	9/30/2008 5 years + 3 year ext option	9/29/2013	333.57	3.86	0.17	80.00%	20084241
James W. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1, 2, 8, and 9	9/30/2008 - 2013 5 years + 3 year ext option	9/29/2013	164.97	4.33	0.19	80.00%	20084240
James W. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5, 6, 10, 11, 12, 14, 15 & 16 Sec 34: Lots 2, 3 Less acreage (see lease)	9/30/2008 5 years + 3 year ext option	9/29/2013	409.65	5.37	0.24	80.00%	20084239
James W. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, & 14 Sec 27: Lots 2, 7, 8 & 9	9/30/2008 5 years + 3 year ext option	9/29/2013	330.85	8.68	0.39	80.00%	20084238
James W. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	9/30/2008 5 years + 3 year ext option	9/29/2013	82.44	3.05	0.14	80.00%	20084237
James W. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7 & 10	9/30/2008 5 years + 3 year ext option	9/29/2013	164.88	5.86	0.26	80.00%	20084236
Charles S. Keith	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7,8,9,10 less tract (see lease) Sec 2: 15,16,17,18	9/30/2008 5 years + 3 year ext option	9/29/2013	333.57	3.86	0.17	80.00%	20084235
Charles S. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1, 2, 8, and 9	9/30/2008 5 years + 3 year ext option	9/29/2013	164.97	4.33	0.19	80.00%	20084234
Charles S. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5, 6, 10, 11, 12, 14, 15 & 16 Sec 34: Lots 2, 3 Less acreage (see lease)	9/30/2008 5 years + 3 year ext option	9/29/2013	409.65	5.37	0.24	80.00%	20084233

Charles S. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, & 14 Sec 27: Lots 2, 7, 8 & 9	9/30/2008 5 years + 3 year ext option	9/29/2013	330.85	8.68	0.39	80.00%	20084232
Charles S. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	9/30/2008 5 years + 3 year ext option	9/29/2013	82.44	3.05	0.14	80.00%	20084231
Charles S. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7 & 10	9/30/2008 5 years + 3 year ext option	9/29/2013	164.88	5.86	0.26	80.00%	20084230
Debra A Ziehm	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7,8,9,10 less tract (see lease) Sec 2: 15,16,17,18	9/30/2008 5 years + 3 year ext option	9/29/2013	333.57	3.86	0.17	80.00%	20084253
Debra A Ziehm	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1, 2, 8, and 9	9/30/2008 - 2013 5 years + 3 year ext option	9/29/2013	164.97	4.33	0.19	80.00%	20084252
Debra A Ziehm	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5, 6, 10, 11, 12, 14, 15 & 16 Sec 34: Lots 2, 3 Less acreage (see lease)	9/30/2008 5 years + 3 year ext option	9/29/2013	409.65	5.37	0.24	80.00%	20084251
Debra A Ziehm	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, & 14 Sec 27: Lots 2, 7, 8 & 9	9/30/2008 5 years + 3 year ext option	9/29/2013	330.85	8.68	0.39	80.00%	20084250
Debra A Ziehm	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	9/30/2008 5 years + 3 year ext option	9/29/2013	82.44	3.05	0.14	80.00%	20084249
Debra A Ziehm	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7 & 10	9/30/2008 5 years + 3 year ext option	9/29/2013	164.88	5.86	0.26	80.00%	20084248
Jim F. Kowach	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 12: Lots 1,2,3,5,6,7,8,9,10,12,13,14,15 Sec 13: Lots 2,3,4, less tract (see lease)	10/31/2008	10/30/2013	635.00	238.35	10.73	80.00%	20084634
Robert Deakins	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 35: S/2	12/8/2008 5 years + 3 year ext option	12/7/2013	331.70	6.91	0.31	80.00%	20090152
Richard Deakins	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 35: S/2	12/8/2008 5 years + 3 year ext option	12/7/2013	331.70	6.91	0.31	80.00%	20090482

Kathleen Seely Brennise	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 28: Tract in Lots 11, 12, 14 Sec 31: Lots 5,6,11-14, 19,20, W/2 Sec 32: Lots 7,10-14 Sec 33: Tract in E2W2 Sec 34: Lots 1, 7-16	1/29/2009 5 years + 3 year ext option	1/28/2014	1507.93	145.69	6.56	80.00%	20091152
Bruce H. and Ann C. Seely	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 28: Tract in Lots 11, 12, 14 Sec 31: Lots 5,6,11-14, 19,20, W/2 Sec 32: Lots 7,10-14 Sec 33: Tract in E2W2 Sec 34: Lots 14, -15, 16	3/1/2009 5 years + 3 year ext option	2/28/2014	1179.60	15.00	0.68	80.00%	20091997
Bruce H. Seely	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 28: Tract in Lots 11, 12, 14 Sec 31: Lots 5,6,11-14, 19,20, W/2 Sec 32: Lots 7,10-14 Sec 33: Tract in E2W2 Sec 34: Lots 1, 7-16 Sec 35: Lots 4, 5	3/1/2009 5 years + 3 year ext option	2/28/2014	1590.92	146.56	6.60	80.00%	20091998
David R. and Shirley M. Seely	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 6: Lot 7 Sec 31: Lots 5,6,11-14, 19,20, W/2 Sec 32: Lots 7,10-14 Sec 33: Tract in E2W2 Sec 34: Lots 1, 7-16 Sec 35: Lots 4, 5	3/1/2009 5 years + 3 year ext option	2/28/2014	1465.72	292.60	13.17	80.00%	20092472
Walter D. Spetter	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 35: Lots 9,10 11,12,13,14,15,16 (S/2)	3/5/2009 5 years + 3 year ext option	3/4/2014	331.70	13.820	0.62	80.00%	20092059
Donna McMullen	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 35: Lots 9,10 11,12,13,14,15,16 (S/2)	3/5/2009 5 years + 3 year ext option	3/4/2014	331.70	13.82	0.62	80.00%	20092058
DR Seely, LLC an Idaho Limited Liability Company	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 31: Lots 5,6,11-14, 19,20, W/2 Sec 32: Lots 7,10-14 Sec 34: Lots 1, 7-16 Sec 35: Lots 4, 5	3/5/2009 5 years + 3 year ext option	3/4/2014	1436.46	169.85	7.64	80.00%	20092471
Kathleen Seely Brennise	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 3: Lots 6,7,8,9 Sec 4: Lots 5 -13, 15, 16, 18-20 Sec 6: Lots 12,13,14,17,18,19	7/9/2010	7/8/2015	1067.93	123.54	5.56	80.00%	20102826

Bruce and Ann Seely	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 3: Lots 6,7,8,9 Sec 4: Lots 5 -13, 15, 16, 18-20 Sec 6: Lots 12,13,14,17,18,19	7/9/2010	7/8/2015	1067.93	12.99	0.58	80.00%	20102591
Bruce Seely, Individually	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 3: Lots 6,7,8,9 Sec 4: Lots 5 -13, 15, 16, 18-20 Sec 6: Lots 12,13,14,17,18,19	7/9/2010	7/8/2015	1067.93	123.54	5.56	80.00%	20102590
David and Shirley Seely	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 3: Lots 6,7,8,9 Sec 4: Lots 5 -13, 15, 16, 18-20 Sec 6: Lots 12,13,14,17,18,19	7/9/2010	7/8/2015	1067.93	260.18	11.71	80.00%	20102827
D.R. Seely, LLC	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 3: Lots 6,7,8,9 Sec 4: Lots 5 -13, 15, 16, 18-20 Sec 6: Lots 12,13,14,17,18,19	7/9/2010	7/8/2015	1067.93	52.04	2.34	80.00%	20102825
Lease Serial No. COC- 73459	Impact Energy Resources, LLC	T5N-R90W, 6th P.M. Section 1: Lot 5, 12, 13	3/1/2009	2/28/2019	125.15	125.15	5.63	80.00%	
							1,933.86	87.02	

**Total Schedule
2.1 (a)** **215.35**

SCHEDULE 2.1(b)

Assignment of Leases dated April ____, 2013

BUCK PEAK LEASES AND EXPIRATION DATES

LESSOR NAME AND ADDRESS	DESCRIPTION	DATE AND TERM	GROSS ACRES	NET ACRES	NET ACRES		NET REVENUE INTEREST to be delivered 8/8ths	RECORDING
					Buck Peak LLC	CONVEYED		
West Half of Section 25					62.5%	100%		
Jim F. Kowach	T6N-R90W, 6th P.M. Sec 25: W/2	10/31/2008 - 2014 6 years	335.54	167.77	104.86	104.86	78.5000%	20104936
Barbara Wilaby	T6N-R90W, 6th P.M. Sec 25: W/2	10/31/2011 - 2014 3 years	335.54	167.77	104.86	104.86	78.5000%	20103288
Sub Total - Kowach / Wilaby	W/2 Section 25, T6N R90W	100.00%	335.54	335.54	209.7125	209.71	78.5000%	
East Half of Section 25								
Mark A Voloshin, PO Box 981, Craig, CO 81626	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9,10,15,16	5/12/2011 - 2016 Five (5) Years	335.61	52.83	33.02	33.02	78.5000%	20103153
Betty Arnone, 1713 South Vancouver Ct, Lakewood, CO 80228	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1,2,7,8,9,10,15 & 16	5/12/2011 - 2016 Five (5) Years	335.61	26.41	16.51	16.51	78.5000%	20102832
Helen McKee, 10436 Jacob Place, Littleton, CO 80125-8932	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15 & 16	5/12/2011 - 2016 Five (5) Years	335.61	26.41	16.51	16.51	78.5000%	20102839
Gary R Semro and Robert W. Semro, 6522 Trailhead Rd, Highlands Ranch, CO 80130	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15 & 16	5/12/2011 - 2016 Five (5) Years	335.61	26.41	16.51	16.51	78.5000%	20102847
Sharon Fitzgerald (Hebenstreit), 337 Coronado Drive, Sedalia, CO 80135	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9,10,15,16	5/12/2011 - 2016 Five (5) Years	335.61	26.41	16.51	16.51	78.5000%	20103140
Brad Ocker (Eugena Grace Voloshin), 9591 County Rd 33, Craig, CO 81625	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9,10,15,16	5/12/2011 - 2016 Five (5) Years	335.61	8.55	5.34	5.34	78.5000%	20102856
Sub Total - Semro / Voloshin	E/2 Section 25, T6N R90W	49.7661%	335.61	167.02	104.3875	104.39	78.5000%	
BCK LLC Charles S Keith	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9,10,15,16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	41.43	25.90	25.90	77.5000%	20111728
Strontia springs Resources, LLC James Keith	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9,10,15,16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	41.43	25.90	25.90	77.5000%	20111730
JTZ LLC Debra Ann Ziehm	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9,10,15,16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	41.43	25.90	25.90	77.5000%	20111729
MKRESOURCES LLC Margaret Keith	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9,10,15,16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	26.41	16.51	16.51	77.5000%	20111731
Sub Total - Keith	E/2 Section 25, T6N R90W	44.9075%	335.61	150.71	94.20	94.20	77.5000%	
			Ownership %	Gross Acres	Net Acres	Buck Peak Net	Conveyed	NRI% Delivered
West Half of Section 25			100.0000%	335.54	335.54	209.71	209.71	78.5000%
East Half of Section 25			94.6736%	335.61	317.73	198.58	198.58	78.0257%
SECTION 25 TOTAL			97.3365%	671.15	653.27	408.30	408.30	78.2693%

Schedule 2.1(d) - Contracts

That certain Joint Operating Agreement by and between Premier Energy Partners (and others) and Quicksilver Resources Inc. dated July 27, 2010.

Schedule 2.1(e) - Seismic Data & Interpretations

2D Petrel Line 101
2D Line 0-2
2D Line 0-27
2D Gulfport BP6

and all associated geologic, engineering, seismic data and work papers associated with the lands

Schedule 4.1(e)
Transfer Requirements

None.

CONVEYANCE, ASSIGNMENT AND BILL OF SALE

THIS CONVEYANCE, ASSIGNMENT AND BILL OF SALE (this "Conveyance"), entered into as of April __, 2013, by and between Premier Energy Partners (I), LLC, a Colorado limited liability company ("Assignor"), and PetroShare Corp., a Colorado corporation ("Assignee"). Assignor and Assignee are referred to collectively herein as the "Parties."

RECITALS:

WHEREAS, Assignor is a party to the Leases attached hereto as Exhibit A (the "Leases");

WHEREAS, Assignor, as "Seller," and Assignee, as "Buyer," are parties to an Asset Purchase Agreement dated April __, 2013 (the "Purchase Agreement"), pursuant to which, subject to the terms and conditions set forth therein, Assignee will purchase substantially all of the assets of Assignor, including all of Seller's right, title and interest in, under and to the Leases; and

WHEREAS, simultaneously with the closing of the transactions contemplated by the Purchase Agreement, the Parties mutually desire that Assignor assign all of its right, title and interest in, under and to the Leases to Assignee on the terms and conditions hereinafter set forth.

NOW, THEREFORE, for and in consideration of Ten Dollars (\$10.00) and other good and valuable consideration, the receipt and adequacy of which are expressly acknowledged, the Parties agree as follows:

1. **Effective Date**. For all purposes under this Agreement, the term "Effective Date" shall mean that date, if any, on which the closing of the transactions contemplated by the Purchase Agreement is consummated.

2. **Assignment and Conveyance**. Effective as of the Effective Date, Assignor hereby assigns, bargains, sells, grants, transfers and conveys unto Assignee all of Assignor's right, title and interest in, under and to the following:

- (a) the Leases more particularly described on **Exhibit A** attached hereto and incorporated herein by this reference;
- (b) the land covered by, or subject to, or pooled or unitized with the Leases (the "Land");
- (c) the oil, gas and other hydrocarbons ("Hydrocarbons") in, on, under or produced from or attributable to the Land;

(d) the contracts and contractual rights, obligations, and interests described in Exhibit B, and to the extent transferable, all other material contracts and contractual rights, obligations, and interests, including but not limited to all farmout and farmin agreements, operating agreements, surface use agreements, lease agreements, and other contracts or agreements covering or affecting the Land or the Leases (collectively the "Contracts"); and

(e) to the extent attributable to the Leases, Land, or Contracts: (i) all rights with respect to the use and occupancy of the surface of and the subsurface depths under the Lands; (ii) all agreements and contracts, easements, rights-of-way, servitudes, and other estates; and (iii) all real and personal property located in or upon the Land or used in connection with the exploration, development or operation of the Leases.

3. **Bill of Sale.** Effective as of the Effective Date, Assignor hereby assigns, bargains, sells, grants, transfers and conveys unto Assignee all of Assignor's right, title and interest in, under and to the following (the "Records");

(a) data and information and copies of all 2D seismic data and interpretations thereof covering the Land, together with the shot records and digital data suitable for reprocessing, any planned or permitted 2D or 3D seismic shoot covering the Lands or parts thereof; and

(b) any and all lease files, title files, land files, division order files, marketing files, well files, abstracts, title opinions, production records, seismic, geological, geophysical and engineering data, and all other files, maps and data (in whatever form) arising out of or relating to the Leases, Land, or Contracts.

4. **Assignor's Representations & Warranties.** Assignor represents and warrants to Assignee that:

(a) Assignor is the lawful owner of and has good and marketable title to the Leases;

(b) Assignor will forever defend title to the Leases unto Assignee against the claims and demands of all persons claiming, or to claim the same, or any part thereof, by, through or under Assignor, but not otherwise;

(c) Assignor has the power and authority to convey the Leases; and

(d) the Leases are valid and subsisting leases.

5. **Purchase Agreement.** The Purchase Agreement contains certain representations, warranties, covenants and agreements between the parties, some of which survive the delivery of this Assignment, as provided therein and shall not be merged into this Conveyance or be otherwise negated by the execution or delivery of this Conveyance. This Conveyance shall not be construed to amend the Purchase Agreement or vary the rights or obligations of either Assignor or Assignee from those set forth in the Purchase Agreement. In the event of any conflict between this Conveyance and the Purchase Agreement, the terms of the Purchase Agreement shall control.

6. **Miscellaneous.**

(a) Headings. The section headings used herein are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

(b) Governing law. This Agreement shall be governed by and construed in accordance with the laws of the State of Colorado.

(c) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument.

(d) Binding Effect. The terms, covenants and conditions hereof shall be binding upon, and shall inure to the benefit of, Assignor and Assignee and their respective heirs, successors and assigns. Such terms, covenants and conditions shall be covenants running with the land described herein and with the Leases and with each transfer or assignment of said land or the Leases.

TO HAVE AND TO HOLD unto the Assignee, its successors and assigns forever.

ASSIGNOR:

PREMIER ENERGY PARTNERS (I), LLC, a
Colorado limited liability company

By: _____
Name:
Title:

[ACKNOWLEDGEMENTS ON FOLLOWING PAGE]

STATE OF _____)
COLORADO _____)
COUNTY OF _____)

The foregoing instrument was acknowledged before me this _____ day of April, 2013 by _____, as _____ of Premier Energy Partners (I), LLC, on behalf of the company.

Notary Public

My commission expires: _____.

EXHIBIT A

Leases

See Attached

EXHIBIT B

Contracts

That certain Joint Operating Agreement by and between Premier Energy Partners (and others) and Quicksilver Resources Inc. dated July 27, 2010.

Exhibit 6.2(b)

AFFIDAVIT OF NONFOREIGN STATUS

Section 1445 of the Internal Revenue Code provides that a buyer of a United States real property interest must withhold tax if the seller is a foreign person. To inform PetroShare Corp ("Buyer") that withholding of tax is not required upon the disposition of a United States real property interest owned by Premier Energy Partners (I) LLC, the undersigned hereby certifies the following on behalf of Premier Energy Partners (I) LLC:

1. Premier Energy Partners (I) LLC is not a non-resident alien, foreign corporation, foreign partnership, foreign trust, or foreign estate (as those terms are defined in the Internal Revenue Code and Income Tax Regulations);
2. The United States employer identification number of Premier Energy Partners (I) LLC is _____; and
3. The office address of Premier Energy Partners (I) LLC is:

P.O. Box 2328
Littleton, CO 80161

It is understood that this certification may be disclosed to the Internal Revenue Service by Buyer and that any false statement contained herein could be punished by fine, imprisonment, or both.

Under penalties of perjury I declare that I have examined this certification and it is true, correct and complete, and I further declare that I have authority to sign this document on behalf of Premier Energy Partners (I) LLC.

Executed on _____, 2013.

Premier Energy Partners (I) LLC

Name: _____
Title: _____

Exhibit 8.10

Allocation of Purchase Price

100% to leasehold interests

ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement (this "Agreement") dated April 16, 2013 (the "Effective Date"), by and between **Buck Peak, LLC**, a Colorado limited liability company ("Seller"), and **PetroShare Corp.**, a Colorado corporation ("Buyer"). Seller and Buyer shall hereinafter be referred to collectively as the "Parties" and individually as a "Party".

ARTICLE I
CERTAIN DEFINITIONS

Section 1.1 **Defined Terms.** Unless the context otherwise requires:

- (a) the terms defined in this Agreement shall have the meanings specified, with each definition to be equally applicable both to the singular and the plural forms of the terms;
- (b) all references in this Agreement to an "Article," "Section," or "subsection" shall be to an Article, Section, or subsection of this Agreement;
- (c) the words "this Agreement," "hereof," "hereunder," "herein," "hereby," or words of similar import shall refer to this Agreement as a whole and not to a particular Article, Section, subsection, clause or other subdivision; and
- (d) the words used herein shall include the masculine, feminine, and neuter gender.

Section 1.2 **Interpretation.** In construing this Agreement:

- (a) examples shall not be construed to limit, expressly or by implication, the matter they illustrate;
 - (b) the word "includes" and its derivatives means "includes, but is not limited to" and corresponding derivative expressions;
 - (c) a defined term has its defined meaning throughout this Agreement and each exhibit, attachment, and schedule to this Agreement, regardless of whether it appears before or after the place where it is defined;
 - (d) each Exhibit to this Agreement is a part of this Agreement, but if there is any conflict or inconsistency between the main body of this Agreement and any Exhibit, the provisions of the main body of this Agreement shall prevail; and
 - (e) canons of construction or rules of interpretation that would construe any provision of this Agreement against the drafter, whether due to ambiguity or otherwise, shall not apply.
-

ARTICLE II
SALE AND PURCHASE: DUE DILIGENCE

Section 2.1 Sale and Purchase. Subject to the terms and conditions of this Agreement, Seller agrees to sell and convey to Buyer, and Buyer agrees to purchase from Seller, an undivided 100.00% of Seller's Oil, Gas and Coalbed Methane leasehold interest and or operating rights affecting the following described Leasehold (together, herein referred to as the "Assets"), with Seller reserving an Overriding Royalty Interest as set forth in Schedule 2.1(a), Schedule 2.1(b), Schedule 2.1(c) :

(a) the oil, gas and mineral leases and the leasehold estates created thereby, described in **Schedule 2.1(a)**, together with corresponding interests in and to all related property and rights;

(b) the oil, gas and mineral leases and the leasehold estates created thereby, described in **Schedule 2.1(b)**, together with corresponding interests in and to all related property and rights; Buyer has conducted a Due Diligence comprised of land contract work, Abstracts and Attorney Drilling Title Opinion used in providing a Schedule 2.1(b). Copies of any such data that explains and justifies a change of net revenue interest shall be provided to Seller prior to Defect Submission and mutually acceptable change in the NRI covering Section 25, T6N-R9OW, Moffat County, Colorado as follows:

- All Leases in W/2 Section 25, T6N-R9OW — 78.5% NRI delivered;
- Keith family Leases — 77.5% NRI delivered;
- Remaining Leases E/2 Section 25, T6N-R9OW — 78.5% NRI delivered

(c) the oil, gas and mineral leases and the leasehold estates created thereby, described in **Schedule 2.1(c)**, together with corresponding interests in and to all related property and rights. Together the leases described in **Schedule 2.1(a)**, **Schedule 2.1(b)** and **Schedule 2.1(c)** are referred to herein as the "Leases";

(d) all leasehold interest of Seller in and to the lands covered by, or subject to, or pooled or unitized with the Leases (together, the "Lands");

(e) all contracts and contractual rights, obligations, and interests described in **Schedule 2.1(d)**, and to the extent transferable, all other material contracts and contractual rights, obligations, and interests, including but not limited to all farmout and farmin agreements, operating agreements, surface use agreements, lease agreements, and other contracts or agreements covering or affecting any of the Assets (together, the "Contracts");

(f) (g) to the extent Buyer does not already have in its possession, all right, title and Oil, Gas and Coalbed Methane leasehold interest of Seller in and to or derived from the following insofar as the same are attributable to the Leases, Lands, or Contracts: (i) all rights with respect to the use and occupancy of the surface of and the subsurface depths under the Lands; (ii) all agreements and contracts, easements, rights-of-way, servitudes, and other estates; (iii) all real and personal property located in or upon the Lands or used in connection with the exploration, development or operation of the Leases. Buyer acknowledges that by its acquisition of Premier Energy Partners (I) LLC leasehold interests it has acquired a copy of the records of Seller relating to the Lands and Leases in Schedules 2.1(a) and 2.1(b). Seller agrees to provide any and all lease, title, land files or other pertinent records associated with Lands and Leases in Schedule 2.1(c); all of which are referred to herein as the "Records". Notwithstanding the foregoing, the transfer of the Assets pursuant to this Agreement shall not include the assumption of any current liability related to the Assets unless Buyer expressly assumes that liability herein.

Section 2.2 Review Period. With respect to Assets listed on **Schedule 2.1(a)**, **Schedule 2.1(b)**, and **Schedule 2.1(c)**, from the Effective Date of March 20, 2013 of the Executed offer to Purchase Oil and gas Leases by and between PetroShare Corp., as Buyer and Buck Peak, LLC., as Seller up to and including April 19, 2013 (the "Review Period"), Buyer shall have the right to review the Records in the Seller's possession and confirm that no Defects exist with respect to the Assets.

(a) "Defects" shall consist of one or more Title Defects or Environmental Defects.

(b) "Title Defects" means encumbrances, encroachments, irregularities, or defects in title to the Assets that causes Seller's title to be less than Good and Marketable Title.

(c) "Good and Marketable Title" means such right, title or interest held by Seller that will entitle Buyer, in Buyer's sole discretion, to: (i) an interest in each Lease covering the number of net mineral acres described in the column marked "Net Acres Conveyed" on Schedules 2.1(a), 2.1(b), and 2.1(c); (ii) receive no less than an 80% net revenue interest listed on Schedules 2.1(a) and 2.1(c) in each Lease, all without reduction, suspension, or termination of such interest throughout the term of any of the Leases; under Schedule 2.1(b) the net revenue interest delivered is described for each Lease for the Section 25 properties; (iii) Leases with primary terms expiring on the dates set out for each of the Leases in Schedules 2.1(a), 2.1(b) and 2.1(c), subject to the terms and conditions of prior Assignments. (iv) bear not greater than the percentage set forth in Schedules 2.1(a), 2.1(b) and 2.1(c) as Seller's working interest (shown in the column titled Net Acres Buck Peak, LLC) of the costs and expenses relating to the maintenance, development, and operation of such Leases, all without increase throughout the term of any of the Leases; (v) sufficient

rights under the Leases to allow Buyer to fully develop the oil, gas, and minerals covered by the Leases; and (vi) the Leases free and clear of all liens, encumbrances and defects in title.

(d) "Environmental Defects" means the (i) failure of the Assets to comply with Environmental Laws, or (ii) the existence of any physical condition related to prior oil and gas operations that, in Buyer's discretion, would require Buyer to be responsible for taking corrective or remedial action with respect to such condition as a consequence of Buyer acquiring title to the Leases (referred to herein as a "Non-Conforming Physical Condition").

(e) "Environmental Laws" shall mean all applicable Laws relating to: (a) the control of any pollutant or potential pollutant or protection of the air, water, land or the environment, (b) solid, gaseous or liquid waste generation, handling, treatment, storage, disposal or transportation or (c) exposure to hazardous, toxic, explosive, corrosive or other substances alleged to be harmful. Environmental Laws shall include, but not be limited to, the Clean Air Act, 42 U.S.C. § 7401 et seq., the Clean Water Act, 33 U.S.C. § 1251 et seq., the Resource Conservation Recovery Act, 42 U.S.C. § 6901 et seq., the Superfund Amendments and Reauthorization Act, 42 U.S.C. § 11001 et seq., the Water Pollution Control Act, 33 U.S.C. § 1251 et seq., the Safe Drinking Water Act, 42 U.S.C. § 300f et seq. and the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. § 9601 et seq.

(f) "Laws" shall mean all applicable statutes, laws, ordinances, regulations, rules, rulings, orders, restrictions, requirements, writs, injunctions, decrees or other official acts of or by any Governmental Authority

(g) "Governmental Authority" shall mean (i) the United States of America; (ii) any state, county, municipality or other governmental subdivision within the United States of America; and (iii) any court or any governmental department, commission, board, bureau, agency or other instrumentality of the United States of America or of any state, county, municipality or other governmental subdivision within the United States of America.

Section 2.3 Confirmation of Defects. In order to confirm that no Defectsexist with respect to the Assets, Buyer shall, during the Review Period, have the right:

(a) to examine the Leases, Contracts, Records, and allother materials in Seller's possession or under Seller's control relating to the Assets, including, without limitation, geologic and engineering data, seismic data, unrecorded Contracts, revenue and expense records, suspense account records, division order files, well files and land and lease files (collectively, the "Data");

(b) to examine title to the Assets, based upon the Data and the public records of the county and state in which the Leases and Lands are located, at its sole cost, risk and expense; and

(c) to physically inspect the Assets in order to ascertain the condition of the Leases and Lands and to determine the presence or absence of any wellbores, naturally occurring radioactive materials, environmental contaminations, materials of environmental concern, or violations of Environmental Laws.

Section 2.4 Cooperation. Seller shall cooperate with Buyer and provide Buyer with access to the Data in Seller's offices at reasonable hours. Buyer shall have the right, at its own expense, to photocopy any of such Data; provided, however, that if Closing does not occur Buyer shall, upon notice to Seller, return all copies of the Data to Seller.

Section 2.5 Access. Seller shall provide Buyer reasonable access to the Leases and Lands at Buyer's sole cost and expense.

Section 2.6 Defect Notices. On or before the expiration of the Review Period, Buyer shall provide notice to Seller regarding all Defects (each, a "Defect Notice"). A Defect Notice shall be in writing and shall include: (i) a description of the Assets affected by the Defect; and (ii) an explanation of the basis for the Defect.

Section 2.7 Cure Period. Upon receiving a Defect Notice, Seller shall have the right to remedy the Defect, to the reasonable satisfaction of Buyer, within six calendar days following the expiration of the Review Period (the "Cure Period") unless extended by mutual agreement of the Parties. If Seller is unable to remedy any Defect to the satisfaction of Buyer prior to the expiration of the Cure Period, Buyer shall have the right to either (i) accept the uncured Defect and proceed to Closing, or (ii) remove the Defected Lands and Leasehold out of the Agreement from Closing and reduce the consideration of the purchase price accordingly or (iii) in the event the Defected properties constitute more than 50% of the total Lands and Leaseholds set forth on Schedule 2.1(a)(b)(c) in aggregate, terminate this Agreement, in which event each Party shall have no further obligation to the other hereunder, except for Seller's obligation to return the Deposit to Buyer as provided under Section 3.2. Buyer shall give Seller written notice of its election within three business days following the end of the Cure Period (the failure of Buyer to give notice within such three-day period shall be deemed to be its election to terminate this Agreement). Notwithstanding the foregoing, the parties shall always have the right to mutually agree to a new Purchase Price for the Assets to take into account the effect of uncured Defects.

ARTICLE III CONSIDERATION AND PAYMENT

Section 3.1 Purchase Price. In consideration for the sale and conveyance of the Assets to Buyer, the Buyer shall pay to Seller the sum of Three

Hundred Forty-one Thousand Nine Hundred Sixty Eight Dollars (\$341,968.00) (the Purchase Price) as follows:

(a) \$100 per net acre for 134.59 net acres in T6N R9OW, Moffat Co., CO being the balance of all other acreage in the Buck Peak area previously involved in the Quicksilver 2010 sale described on Schedule 2.1(a); and

(b) \$1,050 per net acre for 244.98 net acres in Schedule 25 T6N R9OW, Moffat Co., CO described on Schedule 2.1(b), and

(c) \$800 per net acres for 89.10 net acres in Sections 34 & 35, T6N R9OW, Moffat Co., CO described on Schedule 2.1(c)

Section 3.2 Deposit. Within two (2) business day from PetroShare's receipt of a fully executed copy of this Agreement, Buyer shall pay Seller an earnest money deposit of \$50,000.00 (the "Deposit"), which shall be applied against the Purchase Price at Closing. In the event this Agreement is terminated by Buyer or Seller of reason provided for in this Agreement, Seller shall promptly return the Deposit to Buyer within three (3) days of notice of termination.

Section 3.3 Purchase Price Allocation for Tax Purposes. Seller and Buyer agree that the Purchase Price shall be allocated to the various Assets for federal and state income tax purposes as shown on Exhibit A. The Parties further agree that the allocations set forth on Exhibit A represent reasonable estimates of the fair market values of the Assets described therein.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES

Section 4.1 Representations and Warranties of Seller. Seller and Seller's Members, David M. Laramie and David J. Steyaert (together David M. Laramie and David J. Steyaert are referred to herein as "Seller's Members") represent and warrant to Buyer as follows:

(a) Seller is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Colorado and has the requisite power to carry on its business as it is now being conducted. Seller is duly qualified to do business, and is in good standing, in each jurisdiction in which the Assets owned, leased or operated by it makes such qualification necessary.

(b) Seller has all requisite power and authority to execute and deliver this Agreement and to perform its obligations under this Agreement. The execution, delivery and performance of this Agreement and the transactions contemplated hereby have been duly and validly authorized by all requisite corporate action on the part of Seller.

(c) This Agreement constitutes a valid and binding agreement of Seller enforceable against Seller in accordance with its terms, subject to: (i) applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws of general application with respect to creditors; (ii) general principles of equity; and (iii) the power of a court to deny enforcement of remedies generally based upon public policy.

(d) Neither the execution and delivery of this Agreement nor the consummation of the transactions and performance of the terms and conditions contemplated hereby by Seller will: (i) conflict with or result in any breach of any provision of the articles of organization, operating agreement or other similar governing documents of Seller; (ii) conflict with, be rendered void or ineffective by or under the terms, conditions or provisions of any agreement, instrument or obligation to which Seller is a party or is subject or by which any of its properties or assets are bound; (iii) result in or give rise to (or with notice or the passage of time or both could result in or give rise to) a default, the creation or imposition of any lien, charge, penalty, restriction, security interest or encumbrance or any change in terms, termination, cancellation or acceleration under the terms, conditions or provisions of any Asset (or of any agreement, instrument or obligation relating to or burdening Seller or any Asset); or (iv) violate or be rendered void or ineffective under any Laws or result in or give rise to (or with notice or the passage of time or both could result in or give rise to) the creation or imposition of any lien, charge, penalty, restriction, security interest or encumbrance on or with respect to any Asset under any Law.

(e) Except for the Transfer Requirements expressly described and set forth in **Schedule 4.1(e)**, none of the Assets or any portion thereof are subject to any Transfer Requirements. "**Transfer Requirements**" shall mean any consent, approval, authorization or permit of, or filing with or notification to, any person which must be obtained, made or complied with for or in connection with the execution and delivery of this Agreement by Seller or any sale, assignment, transfer or encumbrance of any Asset or any interest therein in order (i) for such sale, assignment, transfer or encumbrance to be effective, (ii) to prevent any termination, cancellation, default, acceleration or change in terms (or any right thereof from arising) under any terms, conditions or provisions of any Asset (or of any agreement, instrument or obligation relating to or burdening any Asset) as a result of such sale, assignment, transfer or encumbrance, or (iii) to prevent the creation or imposition of any lien, charge, penalty, restriction, security interest or encumbrance on or with respect to any Asset (or any right thereof from arising) as a result of such sale, assignment, transfer or encumbrance; excluding, however, from the definition of Transfer Requirements consents and approvals of assignments by any Governmental Authority (other than consents and approvals by any Governmental Authority in connection with the assignment of any lease from a city, county, state or federal government

that is included in the Assets) that are customarily obtained after closing the transactions contemplated by this Agreement.

(f) There are no actions, suits, arbitrations, proceedings, investigations or claims pending or threatened relating to or affecting any of the Assets or the transactions contemplated by this Agreement.

(g) Seller has not received any notice of any violation or alleged violation (or of any fact or circumstance which with notice or the passage of time or both would constitute a violation) of any Laws (including any Environmental Laws) applicable to the Assets, and the Assets comply with all Laws (including any Environmental Laws).

(h) **Schedule 2.1(d)** sets forth a true and correct description of each contract, agreement or similar arrangement, which relates to the Leases, the Lands or by which any of the Assets is bound. Seller is in compliance with all terms and provisions of all Contracts or agreements included in or by which any of the Assets is subject. All such Contracts and agreements are in full force and effect and, to the knowledge of Seller, there are no violations or breaches thereof or existing facts or circumstances which upon notice or the passage of time or both will constitute a violation or breach thereof by any other party thereto.

(i) Seller has Good and Marketable Title to the Assets;

(j) Neither Seller nor any Affiliate of Seller has incurred any obligation or entered into any agreement for any investment banking, brokerage or finder's fee or commission in respect of the transactions contemplated by this Agreement for which Buyer or any Affiliate of Buyer shall incur any liability. "Affiliate" shall mean, as to the person specified, any person controlling, controlled by or under common control with such specified person. The concept of control, controlling or controlled as used in the aforesaid context means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of another, whether through the ownership of voting securities, by contract or otherwise.

(k) Seller has paid all Taxes on or relating to the Assets, which are currently due and payable as required by Law prior to delinquency. Seller is not a non-resident alien or foreign corporation (as those terms are defined in Internal Revenue Code of 1986, as amended, and any successor thereto, together with all regulations promulgated thereunder (together, the "Code").

(l) There are no bankruptcy, reorganization or arrangement proceedings pending against, being contemplated by, or threatened against Seller.

(m) Seller is not an "investment company" or a company "controlled" by an investment company within the meaning of the Investment Company Act of 1940, as amended, or is otherwise subject to regulation under or the restrictions of such Act.

(n) All licenses, permits, certificates, orders, approvals and authorizations of Governmental Authority necessary for the ownership or operation of the Assets have been obtained and all such licenses, permits, certificates, orders, approvals and authorizations are in full force and effect and all fees and charges relating thereto have been paid.

(o) To the best of Seller's knowledge, none of Seller's statements or representations in this Agreement contain any untrue statement of any fact or omit to state any fact necessary to be stated in order to make the statements or representations made not misleading.

(p) The Assets to be transferred under this Agreement constitute substantially all of Seller's assets.

(q) The transactions contemplated in this Agreement have been undertaken by the Seller in good faith, considering its obligations to any person or entity to whom Seller owes a right to payment, and has undertaken these transactions without any intent to hinder, delay or defraud any of Seller's creditors. The Seller has not been sued or threatened with suit by any creditor prior to the execution of this Agreement and has not moved or concealed any assets from creditors. Seller believes in good faith that Seller will receive consideration reasonably equivalent to the value of the assets transferred under this Agreement.

Section 4.2 Representations and Warranties of Buyer. Buyer represents and warrants to Seller as follows:

(a) Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Colorado and has the requisite corporate power to carry on its business as it is now being conducted. Buyer is duly qualified to do business, and is in good standing, in each jurisdiction in which the Assets to be acquired by it makes such qualification necessary.

(b) Buyer has all requisite corporate power and authority to execute and deliver this Agreement and to perform its obligations under this Agreement. The execution, delivery and performance of this Agreement and the transactions contemplated hereby have been duly and validly authorized by all requisite corporate action on the part of Buyer.

(c) This Agreement constitutes a valid and binding agreement of Buyer enforceable against Buyer in accordance with its terms, subject to: (i) applicable bankruptcy, insolvency, reorganization, moratorium

and other similar laws of general application with respect to creditors; (ii) general principles of equity; and (iii) the power of a court to deny enforcement of remedies generally based upon public policy.

(d) Neither the execution and delivery of this Agreement nor the consummation of the transactions and performance of the terms and conditions contemplated hereby by Buyer will (i) conflict with or result in any breach of any provision of the certificate of incorporation, bylaws and other similar governing documents of Buyer; (ii) be rendered void or ineffective by or under the terms, conditions or provisions of any agreement, instrument or obligation to which Buyer is a party or is subject; or (iii) violate or be rendered void or ineffective under any Law.

(e) No consent, approval, authorization or permit of, or filing with or notification to, any person is required for or in connection with the execution and delivery of this Agreement by Buyer or for or in connection with the consummation of the transactions and performance of the terms and conditions contemplated hereby by Buyer.

(f) Neither Buyer nor any Affiliate of Buyer has incurred any obligation or entered into any agreement for any investment banking, brokerage or finder's fee or commission in respect of the transactions contemplated by this Agreement for which Seller or any Affiliate of Seller shall incur any liability.

ARTICLE V
COVENANTS OF SELLER AND BUYER

Section 5.1 Assignment, Bill of Sale & Conveyance. Upon the terms and subject to the conditions of this Agreement, at Closing, Seller shall execute and deliver the Assignment, Bill of Sale and Conveyance, in substantially the form attached hereto as **Exhibit B** (the "Conveyance"), to Buyer together with all assignment forms as may be required by Law to be executed in connection with the conveyance of specific Assets; provided that the terms and provisions of the Conveyance shall control as to any conflict between the Conveyance and any such special assignment forms.

Section 5.2 Public Announcements. Without the prior written approval of the other Party, which approval shall not be unreasonably withheld, no Party will issue, or permit any agent or Affiliate to issue, any press releases or otherwise make, or cause any agent or Affiliate to make, any public statements with respect to this Agreement and the transactions contemplated hereby, except where such release or statement is deemed in good faith by the releasing Party to be required by Law or any national securities exchange, in which case the Party or Parties will use commercially reasonable efforts to provide a copy to the other Party prior to any release or statement.

Section 5.3 Further Assurances. Seller and Buyer each agree that, from time to time, whether before, at or after the Closing Date, each of them will execute and deliver or cause their respective Affiliates to execute and deliver such further instruments of conveyance and transfer and take such other action as may be necessary to carry out the purposes and intents of this Agreement. Any separate or additional assignment of the Assets or any portion thereof required pursuant to this Section 5.3: (a) shall evidence the conveyance and assignment of the Assets made or intended to be made in the Conveyance; (b) shall not modify or be deemed to modify any of the terms, covenants and conditions set forth in the Conveyance or in this Agreement; and (c) shall be deemed to contain all of the terms and provisions of the Conveyance, as fully as though the same were set forth at length in such separate or additional assignment.

Section 5.4 Negative Covenant. Beginning on the Effective Date and ending on and including the Closing Date, Seller shall not, without the prior written consent of Buyer, make any modification to any of the Assets or enter into any compromise or settlement of any litigation, proceeding or governmental investigation relating to the Assets. Notwithstanding the above, Seller shall be allowed to file and record any necessary documents which are required to cure title matters as set forth in Section 2.7 or as may be necessary to deliver the 8/8ths net revenue interests as listed in Schedules 2.1(a)(b) (c) and as further set forth in Section 2.2(c).

ARTICLE VI
POST CLOSING COVENANTS

Section 6.1 Operational Costs. Buyer and Seller acknowledge that Premier Energy Partners (I) LLC ("Premier") has invoiced Seller for Seller's share of costs for work performed on the subject Lands (the "Invoices"). If Buyer acquires the leases owned by Premier relating to the Lands and this Agreement closes, Buyer will cancel such amounts owed by Seller under the Invoices.

Section 6.2 Indemnification. Notwithstanding Seller's representation in **Section 4.1(e)**, Buyer agrees to indemnify and hold Seller harmless from and against any and all claims caused by, resulting from, or incidental to the Leases described in **Schedule 2.1(a)**.

Section 6.3 Operation of the Assets after the Closing. If Buyer has not commenced drilling activities on or before December 31, 2013 on the Lands described on **Schedule 2.1(b)**, Buyer will use commercially reasonable efforts to renew or extend any of the Leases described on Schedule 2.1(b), at Buyer's sole cost and expense, at least 30 days prior to the expiration date of such Lease as such expiration date exists on the Closing Date.

ARTICLE VII
CLOSING

Section 7.1 Closing. If the conditions referred to in Section 7.4 and Section 7.5 are satisfied or waived in writing, the closing of the transactions

contemplated by this Agreement (the "Closing") shall be held on or before April 30, 2013 at 9:00 a.m. Colorado time, or such other mutually agreed upon date and time. The Closing may occur by fax or email. The actual date on which the Closing occurs shall be known as the "Closing Date". At Closing, the obligations in Section 7.2 and Section 7.3 shall occur, each being a condition precedent to the others and each being deemed to have occurred simultaneously with the other.

Section 7.2 Seller's Closing Obligations. At Closing, Seller shall execute and deliver, or cause to be executed and delivered, to Buyer the following:

- (a) the Conveyance in the form attached as **Exhibit B**;
- (b) an Affidavit of Non-foreign Status substantially in the form attached as **Exhibit C**;
- (c) the Records and such other documents as may be reasonably necessary to convey all of Seller's interests in the Assets to Buyer in accordance with the terms and provisions of this Agreement.

Section 7.3 Buyer's Closing Obligations. At Closing, Buyer shall deliver, or cause to be delivered to Seller, the balance of the Purchase Price owed to Seller in immediately available funds via cashier's check.

Section 7.4 Seller's Conditions of Closing. Seller's obligations under this Agreement are subject, at the option of Seller, to the satisfaction at Closing of the following conditions:

- (a) All representations and warranties of Buyer contained in this Agreement shall be true in all material respects at and as of the Closing as if such representations and warranties were made at and as of the Closing Date; and
- (b) Buyer shall have performed and satisfied in all material respects all covenants required by this Agreement to be performed and satisfied by Buyer at or prior to the Closing.

Section 7.5 Buyer's Conditions of Closing. Buyer's obligations under this Agreement are subject, at the option of Buyer, to the satisfaction at Closing of the following conditions:

- (a) All representations and warranties of Seller and Seller's Members contained in this Agreement shall be true in all material respects at and as of the Closing as if such representations and warranties were made at and as of the Closing Date; and
- (b) Seller shall have performed and satisfied all covenants required by this Agreement to be performed and satisfied by Seller at or prior to the Closing.

Section 7.6 Survival. The representations and warranties of the Parties and Seller's Members contained in Article IV of this Agreement shall survive for six (6) months after the Closing Date. All of the covenants and agreements made by each Party in this Agreement shall survive the consummation of the transactions contemplated herein and shall continue in full force and effect after the Closing indefinitely until all obligations with respect to any such covenants are fulfilled in their entirety.

ARTICLE VIII
Termination and Confidentiality

Section 8.1 Right of Termination This Agreement may be terminated at any time at or prior to the Closing:

- (a) by mutual written consent of the Parties;
- (b) by Buyer on the Closing Date if the obligations set forth in Section 7.2 or the conditions set forth in Section 7.5 have not been satisfied in all material respects or waived by Buyer in writing by the Closing Date;
- (c) by Seller on the Closing Date if the obligations set forth in Section 7.3 or the conditions set forth in Section 7.4 have not been satisfied in all material respects or waived by Seller in writing by the Closing Date; or
- (d) by either Buyer or Seller if the Closing has not occurred by April 30, 2013 unless agreed to by the Parties in writing.;

provided, however, that no Party shall have the right to terminate this Agreement pursuant to **Sections 8.1(b), 8.1(c), or 8.1(d)** if such Party is at such time in breach of any provision of this Agreement.

Section 8.2 Effect of Termination. In the event that the Closing does not occur because a Party exercises its right to terminate this Agreement under Section 2.7 or Section 8.1, then except as set forth in Section 3.2, this Agreement shall be null and void and no Party shall have any further rights or obligations under this Agreement; provided that, nothing herein shall relieve any Party from any liability for any breach hereof. Further, upon the failure of Seller to meet a material condition to Closing set forth in Section 7.5, Buyer, at its sole discretion, may enforce whatever legal or equitable rights may be appropriate and applicable, including, without limitation specific performance of this Agreement.

Section 8.3 Confidentiality: The Parties agree that the amount of the Purchase Price shall remain confidential. Notwithstanding the immediately preceding sentence, the Parties agree that the Purchase Price may be disclosed by the Parties to their affiliates and each of their respective officers, directors, employees, partners, attorneys, representatives, accountants, brokers, and lenders. In addition, the

Purchase Price may be disclosed as required by discovery process, court order, law, rule or regulation of a governmental authority or stock exchange. The Parties recognize that the Conveyance will be filed in the public record and consent to such filing. Nothing in this Section 8.1 shall prevent either Party from disclosing the other provisions of this Agreement or the fact that the Parties have entered into this Agreement.

ARTICLE IX
MISCELLANEOUS

Section 9.1 Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each of the Parties and delivered to the other Party.

Section 9.2 Governing Law. **THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF COLORADO WITHOUT REFERENCE TO THE CONFLICT OF LAW PRINCIPLES THEREOF.**

Section 9.3 Entire Agreement. This Agreement (including the Exhibits, Schedules, and other agreements expressly contemplated by or incorporated herein) contains the entire agreement between the Parties with respect to the subject matter hereof and there are no agreements, understandings, representations or warranties between the Parties other than those set forth or referred to herein.

Section 9.4 Expenses. Buyer shall be responsible for all recording fees relating to the filing of instruments transferring title to Buyer from Seller. Seller shall be responsible for (a) all recording and other fees relating to title curative documents, (b) any sales Taxes which may become due and owing by reason of the sale of the Assets hereunder, (c) all transfer, stamp, documentary and similar Taxes imposed on the Parties with respect to the property transfer contemplated pursuant to this Agreement and (d) all income and other Taxes incurred by or imposed on Seller with respect to the transactions contemplated hereby. All other costs and expenses incurred by each Party in connection with all things required to be done by it hereunder, including attorney's fees, accountant fees and the expense of title examination, shall be borne by the Party incurring same.

Section 9.5 Notices. All notices hereunder shall be sufficiently given for all purposes hereunder if in writing and delivered personally, sent by documented overnight delivery service or, to the extent receipt is confirmed, by United States Mail, telecopy, telefax, email or other similar electronic transmission service to the appropriate address or number as set forth below. Notices to Seller shall be addressed as follows:

Buck Peak, LLC
621 17th Street, Suite 1445

Denver, CO 80293
Attn: David M. Laramie
Email: davelaramie@aol.com

or at such other address and to the attention of such other person as Seller may designate by written notice to Buyer. The person Seller designated above is authorized to receive any notice contemplated by this Agreement on behalf of Seller and is also authorized to make any response or election required hereunder with respect to such notice on behalf of Seller.

Notices to Buyer shall be addressed to:

PetroShare Corp.
7200 S. Alton Way, Suite B220
Centennial, Colorado 80111
Attention: Stephen J. Foley
Phone number: 303-591-1321
Email: sfoley43@msn.com

or at such other address and to the attention of such other person as Buyer may designate by written notice to Seller. The person Buyer designated above is authorized to receive any notice contemplated by this Agreement on behalf of Buyer and is also authorized to make any response or election required hereunder with respect to such notice on behalf of Buyer.

Section 9.6 Successors and Assigns. This Agreement shall be binding on and inure to the benefit of the Parties and their respective successors and permitted assigns. Neither this Agreement nor the obligations of any Party shall be assignable or transferable by such Party without the prior written consent of the other Party, which consent shall not be unreasonably withheld.

Section 9.7 Headings. The headings to Articles, Sections and other subdivisions of this Agreement are inserted for convenience of reference only and will not affect the meaning or interpretation of this Agreement.

Section 9.8 Amendments and Waivers. This Agreement may not be modified or amended except by an instrument or instruments in writing signed by the Party against whom enforcement of any such modification or amendment is sought. Any Party may, only by an instrument in writing, waive compliance by another Party with any term or provision of this Agreement on the part of such other Party to be performed or complied with. The waiver by any Party of a breach of any term or provision of this Agreement shall not be construed as a waiver of any subsequent breach.

Section 9.9 Exhibits and Schedules. The Exhibits and Schedules hereto are made a part hereof and incorporated herein by this reference.

Section 9.10 Agreement for the Parties' Benefit Only. This Agreement is not intended to confer upon any person not a Party any rights or remedies hereunder, and no person, other than the Parties, is entitled to rely on any representation, warranty, covenant or agreement contained herein.

Section 9.11 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any adverse manner to any Party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the extent possible.

Section 9.12 Limitation of Damages. NOTWITHSTANDING ANYTHING CONTAINED HEREIN TO THE CONTRARY, IN NO EVENT SHALL ANY PARTY AND/OR ITS AFFILIATES BE LIABLE FOR ANY CONSEQUENTIAL, SPECIAL, INDIRECT OR PUNITIVE DAMAGES CLAIMED BY A PARTY ARISING FROM OR RELATING TO ANY ACTIONS FOR ANY BREACH OR ALLEGED BREACH OF THIS AGREEMENT.

[Signatures on Following Page]

IN WITNESS WHEREOF, this Agreement has been signed by or on behalf of each of the Parties and Seller's Members as of the day first above written.

BUYER:

PetroShare Corp.

By: /s/ Stephen J. Foley
Name: Stephen J. Foley
Title: Chief Executive Officer

Buck Peak, LLC

By: /s/ David J. Steyaert
Name: David J. Steyaert
Title: Co-Owner

MEMBERS:

/s/ David M. Laramie
David M. Laramie

/s/ David J. Steyaert
David J. Steyaert

SCHEDULE 2.1(a) with Lease Valuation Summary

Assignment of Leases dated April ____, 2013

LESSOR	LESSEE	DESCRIPTION	EFFECTIVE DATE	EXPIRATION DATE	GROSS ACRES	NET ACRES	NET ACRES CONVEYED	NET REVENUE INTEREST	RECORDING
Richard J. Colby	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 21: Lots 11, 14, 15 & 16 Sec 22: Lots 12 & 13 Sec 27: Lots 3 & 4 Sec 28: Lot 1	11/20/2010	11/19/2015 5 yr lease, 3 yr ext (2018)	369.39	15.40	0.42	80.00% to be delivered 8/8ths	20103284
David Colby	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 21: Lots 11, 14, 15 & 16 Sec 22: Lots 12 & 13 Sec 27: Lots 3 & 4 Sec 28: Lot 1	11/20/2010	11/19/2015 5 yr lease, 3 yr ext (2013)	369.39	15.40	0.42	80.00%	20103286
Douglas Van Tassel, Diana Lynn Hamilton, Donna Lee Sweet, DeLaine Brown and Debbie Lou Van Tassel, PO Box 335, Craig, CO 81626-0335	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 35: Lots 4 & 5 Sec 34: Lots 1,7,8,9,10,11,12,13,14,15,16	1/10/2011	1/09/2014 3 yr lease, 3 yr ext (2017)	534.62	89.10	2.41	80.00%	20103146
Florence Van Tassel	Laramie & Associates	T6N-R90W, 6th P.M. Sec 35: Lots 4 & 5 Sec 34: Lots 1,7,8,9,10,11,12,13,14,15,16	1/10/2011	1/09/2016 5 yr lease, 3 yr ext (2019)	534.62	89.10	2.41	80.00%	20103022
Gregory J. Knez, Trustee of the Raymond M. & Hellen M. Knez Family Trust	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 19: Lots 5, 6, 11 & 12 Sec 20: N2 less tract (see lease)	3/21/2011	3/20/2016 5 yr lease, 3 yr ext (2019)	270.31	271.07	7.32	80.00%	20103026
Gregory J. Knez, Trustee of the Raymond M. & Hellen M. Knez Family Trust	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 20: A tract in E 55 acres of E2NEN2 (see lease)	3/21/2011	3/20/2016 5 yr lease, 3 yr ext (2019)	11.45	11.45	0.31	80.00%	20103024
Marlene Henderson	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 21: Lots 11, 14, 15 & 16 Sec 22: Lots 12 & 13 Sec 27: Lots 3 & 4 Sec 28: Lot 1	3/30/2011	3/29/2016 5 yr lease, 3 yr ext (2019)	369.39	15.40	0.42	80.00%	20102819
Barbara Martin	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 21: Lots 11, 14, 15 & 16 Sec 22: Lots 12 & 13 Sec 27: Lots 3 & 4 Sec 28: Lot 1	3/30/2011	3/29/2016 5 yr lease, 3 yr ext (2019)	369.39	15.40	0.42	80.00%	20102820
Edward Rutherford	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 21: Lots 11, 14, 15 & 16 Sec 22: Lots 12 & 13 Sec 27: Lots 3 & 4 Sec 28: Lot 1	3/30/2011	3/29/2016 5 yr lease, 3 yr ext (2019)	369.39	15.40	0.42	80.00%	20102821

Larry Rutherford	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 21: Lots 11,14,15 & 16 Sec 22: Lots 12 & 13 Sec 27: Lots 3 & 4 Sec 28: Lot 1	3/30/2011	3/29/2016 5 yr lease, 3 yr ext (2019)	369.39	15.40	0.42	80.00%	20102822
Mark A Voloshin	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7, 8, 9, 10 less tract (see lease) Sec 2: 15,16,17,18	5/12/2011	5/11/2016 5 yr lease, no ext	333.57	15.41	0.42	80.00%	20103150
Mark A Voloshin	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7 & 10	5/12/2011	5/11/2016 5 yr lease, no ext	164.88	47.11	1.27	80.00%	20103151
Mark A Voloshin	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	5/12/2011	5/11/2016 5 yr lease, no ext	82.44	24.43	0.66	80.00%	20103152
Mark A Voloshin	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5,6,10,11,12,14,15,16 Sec 34: Lots 2,3 less the acreage in Sec 35 and the additional lands in Sec 34	5/12/2011	5/11/2016 5 yr lease, 2 yr ext (2018)	409.65	100.52	2.71	80.00%	20103155
Mark A Voloshin	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1,2,8 & 9	5/12/2011	5/11/2016 5 yr lease, 2 yr ext (2018)	164.97	80.96	2.19	80.00%	20103156
Mark A Voloshin	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract #82 Sec 26: Lots 4,5,6,11,12,13 & 14 Sec 27: Lots 1,2,5,6,7,8,9,10,11,12,14,15,16	5/12/2011	5/11/2016 5 yr lease, no ext	330.85	162.36	4.38	80.00%	20103154
Betty Annone	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7,8,9,10 Less Tract (see lease) Sec 2: 15,16,17 & 18	5/12/2011	5/11/2016 5 yr lease, 2 yr ext (2018)	333.57	11.56	0.31	80.00%	20102829
Betty Annone	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7, & 10	5/12/2011	5/11/2016 5 yr lease, no ext	164.88	17.59	0.47	80.00%	20102830
Betty Annone	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	5/12/2011	5/11/2016 5 yr lease, no ext	82.44	9.16	0.25	80.00%	20102831

Betty Arnone	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, 14 Sec 27: Lots 2, 7, 8, 9	5/12/2011	5/11/2016 5 yr lease, no ext	330.85	26.04	0.70	80.00%	20102833
Betty Arnone	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5,6,10,11,12,14,15,16 Sec 34: Lots 2,3 Less acreage (see lease)	5/12/2011	5/11/2016 5 yr lease, no ext	409.65	16.12	0.44	80.00%	20102834
Betty Arnone	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1, 2, 8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	164.97	12.98	0.35	80.00%	20102835
Betty Jo Lott & Michelle K. McKee	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7,8,9,10 less tract (see lease) Sec 2: 15,16,17,18	5/12/2011	5/11/2016 5 yr lease, no ext	333.57	11.56	0.31	80.00%	20102836
Betty Jo Lott & Michelle K. McKee	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7, & 10	5/12/2011	5/11/2016 5 yr lease, no ext	164.88	17.6	0.48	80.00%	20102837
Betty Jo Lott & Michelle K. McKee	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	5/12/2011	5/11/2016 5 yr lease, no ext	82.44	9.16	0.25	80.00%	20102838
Betty Jo Lott & Michelle K. McKee	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, & 14 Sec 27: Lots 2, 7, 8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	330.85	26.04	0.70	80.00%	20102840
Betty Jo Lott & Michelle K. McKee	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5, 6, 10, 11, 12, 14, 15 & 16 Sec 34: Lots 2, 3 Less acreage (see lease)	5/12/2011	5/11/2016 5 yr lease, no ext	409.65	16.12	0.44	80.00%	20102841
Betty Jo Lott & Michelle K. McKee	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1, 2, 8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	164.97	12.98	0.35	80.00%	20102842
Gary R Semro and Robert W. Semro, 6522 Trailhead Rd, Highlands Ranch, CO 80130	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7, & 10	5/12/2011	5/11/2016 5 yr lease, no ext	164.88	17.59	0.47	80.00%	20102845
Gary R Semro and Robert W. Semro	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	5/12/2011	5/11/2016 5 yr lease, no ext	82.44	9.16	0.25	80.00%	20102846

Gary R Semro and Robert W. Semro	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, & 14 Sec 27: Lots 2, 7, 8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	330.85	26.04	0.70	80.00%	20102848
Gary R Semro and Robert W. Semro	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5, 6, 10, 11, 12, 14, 15 & 16 Sec 34: Lots 2, 3 Less acreage (see lease)	5/12/2011	5/11/2016 5 yr lease, no ext	409.65	16.12	0.44	80.00%	20102849
Gary R Semro and Robert W. Semro	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1, 2, 8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	164.97	12.98	0.35	80.00%	20102844
Gary R Semro and Robert W. Semro	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7,8,9,10 Less Tract (see lease) Sec 2: 15,16,17 & 18	5/12/2011	5/11/2016 5 yr lease, no ext	333.57	11.56	0.31	80.00%	20102843
Sharon A. Fitzgerald	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7, 8, 9, 10 less tract (see lease) Sec 2: 15,16,17,18	5/12/2011	5/11/2016 5 yr lease, no ext	333.57	11.56	0.31	80.00%	20103144
Sharon A. Fitzgerald	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7 & 10	5/12/2011	5/11/2016 5 yr lease, no ext	164.88	17.59	0.47	80.00%	20103138
Sharon A. Fitzgerald	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	5/12/2011	5/11/2016 5 yr lease, no ext	82.44	9.16	0.25	80.00%	20103139
Sharon A. Fitzgerald	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, & 14 Sec 27: Lots 2, 7, 8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	330.85	26.04	0.70	80.00%	20103141
Sharon A. Fitzgerald	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5,6,10,11,12,14,15,16 Sec 34: Lots 2,3 less acreage Sec 35, (see lease)	5/12/2011	5/11/2016 5 yr lease, no ext	409.65	16.12	0.44	80.00%	20103142
Sharon A. Fitzgerald	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1,2,8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	164.97	12.98	0.35	80.00%	20103143

Eugena Grace Voloshin Buck Peak, LLC	T6N-R103W, 6th P.M. Sec 31: Lots 7,8,9, NESW, SE T6N-R90W, 6th P.M. Sec 14: Lots 3, 4, 6 T6N-R91W, 6th P.M. Sec 9: Lots 8, 9, 16 Sec 10: Lots 4, 5 T6N-R92W, 6th P.M. Sec 13: SW T6N-R93W, 6th P.M. Sec 13: S2N2, N2S2 T6N-R94W, 6th P.M. Sec 12: E2SE T6N-R99W, 6th P.M. Sec 27: SWSE, SESW Sec 34: NENW	5/12/2011	5/11/2016 5 yr lease, no ext	1320.3	18.748	0.51	80.00%	20102850
Eugena Grace Voloshin Buck Peak, LLC	T10N-R90W, 6th P.M. Sec 19: Lot 18 Sec 30: Lots 6 & 8	5/12/2011	5/11/2016 5 yr lease, no ext	117.16	1.663	0.04	80.00%	20102851
Eugena Grace Voloshin Buck Peak, LLC	T3N-R91W, 6th P.M. Sec 8: Lots 9 & 16 Sec 9: SW/4SW/4 Sec 16: NW/4, NE/4SW/4	5/12/2011	5/11/2016 5 yr lease, no ext	323.43	4.593	0.12	80.00%	20102852
Eugena Grace Voloshin Buck Peak, LLC	T4N-R91W, 6th P.M. Sec 10: Tract in SESW (0.42 acres) T4N-R92W, 6th P.M. Sec 7: Lots 9 & 10 Sec 8: Lots 5, 9, 10, 11, 12, 13, 14 Sec 17: Lot 2 T4N-R101W, 6th P.M. Sec 14: W2NE, NW, N2SW T4N-R102W, 6th P.M. Sec 27: SE Sec 34: NE	5/12/2011	5/11/2016 5 yr lease, no ext	799.7	11.356	0.31	80.00%	20102853
Eugena Grace Voloshin Buck Peak, LLC	T5N-R94W, 6th P.M. Sec 7: S2SE Sec 8: SW Sec 17: N2NW Sec 18: NENE T5N-R94W, 6th P.M. Sec 9: SWNE, NWSE, S2SE T5N-R97W, 6th P.M. Sec 3: N2SE, SWSE, E2SW Sec 10: N2NE, NENW	5/12/2011	5/11/2016 5 yr lease, no ext	840	11.93	0.32	80.00%	20102854
Eugena Grace Voloshin Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7, 8, 9, 10 less tract (see lease) Sec 2: 15,16,17,18	5/12/2011	5/11/2016 5 yr lease, no ext	333.57	71.30	1.93	80.00%	20102855
Eugena Grace Voloshin Buck Peak, LLC	T6N-R90W, 6th P.M. A Assessor's Tract # 69 Sec 21: Lots 3, 6, 7 & 10	5/12/2011	5/11/2016 5 yr lease, no ext	164.88	0.73	0.02	80.00%	20102857
Eugena Grace Voloshin Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1, 2, 8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	164.97	0.76	0.02	80.00%	20102858
Eugena Grace Voloshin Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5, 6, 10, 11, 12, 14, 15 & 16 Sec 34: Lots 2, 3 Less acreage (see lease)	5/12/2011	5/11/2016 5 yr lease, no ext	409.65	0.95	0.03	80.00%	20102859
Eugena Grace Voloshin Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, & 14 Sec 27: Lots 2, 7, 8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	330.85	1.53	0.04	80.00%	20102860
Eugena Grace Voloshin Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	5/12/2011	5/11/2016 5 yr lease, no ext	82.44	0.38	0.01	80.00%	20102861

R. Kirk Lyons	Buck Peak, LLC	T5N-R89W, 6th P.M. Sec 6: Lots 3, 5 SE4NW4 T6N-R89W, 6th P.M. Sec 29: Lot 13 Sec 31: Lot 3,5,6,11 SW4NE4, NW4SE4, NE4SW4, SE4SW4 Sec 32: Lot 4	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	425.23	47.24	1.28	80.00%	701711
Ralph C. Lyons & Anna M. Lyons	Buck Peak, LLC	T5N-R89W, 6th P.M. Sec 6: Lots 3, 5 SE4NW4 T6N-R89W, 6th P.M. Sec 29: Lot 13 Sec 31: Lot 3,5,6,11 SW4NE4, NW4SE4, NE4SW4, SE4SW4 Sec 32: Lot 4	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	425.23	141.74	3.83	80.00%	701713
Leora L. Smith	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 12: Lots 5,6,8,9,10,13,14,15 Sec 24: Lots 1,2,7,8,9,10,14,15,16	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	673.54	154.304	4.17	80.00%	20102588
R. Kirk Lyons	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 12: Lots 5,6,8,9,10,13,14,15 Sec 24: Lots 1,2,7,8,9,10,14,15,16	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	673.54	51.43	1.39	80.00%	20102589
Ralph C. Lyons & Anna M. Lyons	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 12: Lots 5,6,8,9,10,13,14,15 Sec 24: Lots 1,2,7,8,9,10,14,15,16	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	673.54	154.30	4.17	80.00%	20102587
Mark E. Lyons	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 12: Lots 5,6,8,9,10,13,14,15 Sec 24: Lots 1,2,7,8,9,10,14,15,16	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	673.54	51.43	1.39	80.00%	20102586
Terri Lee Smedra	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 12: Lots 5,6,8,9,10,13,14,15 Sec 24: Lots 1,2,7,8,9,10,14,15,16	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	673.54	51.43	1.39	80.00%	20102585
Leora L. Smith	Buck Peak, LLC	T5N-R89W, 6th P.M. Sec 6: Lots 3, 5 SE4NW4 T6N-R89W, 6th P.M. Sec 29: Lot 3 Sec 31: Lot 3,5,6,11 SW4NE4,NW4SE4, NE4SW4, SE4SW4 Sec 32: Lot 4	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	425.23	141.72	3.83	80.00%	701715
Terri Lee Smedra	Buck Peak, LLC	T5N-R89W, 6th P.M. Sec 6: Lots 3, 5 SE4NW4 T6N-R89W, 6th P.M. Sec 29: Lot 3 Sec 31: Lot 3,5,6,11 SW4NE4, NW4SE4, NE4SW4, SE4SW4 Sec 32: Lot 4	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	425.23	47.24	1.28	80.00%	701712
Mark E. Lyons	Buck Peak, LLC	T5N-R89W, 6th P.M. Sec 6: Lots 3, 5 SE4NW4 T6N-R89W, 6th P.M. Sec 29: Lot 13 Sec 31: Lot 3,5,6,11 SW4NE4, NW4SE4, NE4SW4, SE4SW4 Sec 32: Lot 4	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	425.23	51.43	1.39	80.00%	701714

Thomas J. Knez	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 21: Lot 16 Sec 22: Lots 12 & 13	7/10/2011	7/09/2016 5 yr lease, 3 yr ext (2019)	122.97	20.50	0.55	80.00%	20102823
Helen P. Knez	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 27: Lots 3 & 4 Sec 28: Lot 1	7/17/2011	7/16/2016 5 yr lease, 3 yr ext (2019)	122.93	20.5	0.55	80.00%	20103517
Gregory J. Knez, Trustee of the Raymond M. & Hellen M. Knez Family Trust	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 21: Lots 11, 14, 15 & 16 Sec 22: Lots 12 & 13 Sec 27: Lots 3 & 4 Sec 28: Lot 1	3/21/2011	3/20/2016 5 yr lease, 3 yr ext (2019)	369.39	61.58	1.66	80.00%	20103025
Kathy Peters	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 35: Lots 9,10 11,12,13,14,15,16 (S/2)	7/31/2011	7/30/2014 3 yr lease, 3 yr ext (2017)	331.00	110.56	2.99	80.00%	20103518
Barbara L. Wilaby	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 12: Lots 1,2,3,5,6,7,8,9,10,12,13,14,15	10/31/2008 3 years + 2 year ext option	10/30/2013	493.56	208.12	5.62	80.00%	20090483
Barbara L. Wilaby	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 13: Lots 2,3,4, less tract	10/31/2008 3 years + 2 year ext option	10/30/2013	130.10	30.23	0.82	80.00%	20090484
Rex Ross Walker	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 34: Lots 1, 7,8,9,10,11,12,13,14,15,16	12/18/2008 3 years + 2 year ext option	12/17/2013	351.36	26.24	0.71	80.00%	20090151
EXTENDED							76.99		
Margaret Keith	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7,8,9,10 less tract (see lease) Sec 2: 15,16,17,19	9/30/2008 5 years + 3 year ext option	9/29/2013	333.57	11.560	0.31	80.00%	20084242
Margaret Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1, 2, 8, and 9	9/30/2008 5 years + 3 year ext option	9/29/2013	164.97	12.98	0.35	80.00%	20084243
Margaret Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5, 6, 10, 11, 12, 14, 15 & 16 Sec 34: Lots 2, 3 Less acreage (see lease)	9/30/2008 5 years + 3 year ext option	9/29/2013	409.65	16.12	0.44	80.00%	20084244
Margaret Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, & 14 Sec 27: Lots 2, 7, 8 & 9	9/30/2008 5 years + 3 year ext option	9/29/2013	330.85	26.04	0.70	80.00%	20084245

Margaret Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	9/30/2008 5 years + 3 year ext option	9/29/2013	82.44	9.16	0.25	80.00%	20084246
Margaret Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7 & 10	9/30/2008 5 years + 3 year ext option	9/29/2013	164.88	17.59	0.47	80.00%	20084247
James W. Keith	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7,8,9,10 less tract (see lease) Sec 2: 15,16,17,18	9/30/2008 5 years + 3 year ext option	9/29/2013	333.57	3.86	0.10	80.00%	20084241
James W. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1, 2, 8, and 9	9/30/2008 - 2013 5 years + 3 year ext option	9/29/2013	164.97	4.33	0.12	80.00%	20084240
James W. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5, 6, 10, 11, 12, 14, 15 & 16 Sec 34: Lots 2, 3 Less acreage (see lease)	9/30/2008 5 years + 3 year ext option	9/29/2013	409.65	5.37	0.15	80.00%	20084239
James W. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, & 14 Sec 27: Lots 2, 7, 8 & 9	9/30/2008 5 years + 3 year ext option	9/29/2013	330.85	8.68	0.23	80.00%	20084238
James W. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	9/30/2008 5 years + 3 year ext option	9/29/2013	82.44	3.05	0.08	80.00%	20084237
James W. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7 & 10	9/30/2008 5 years + 3 year ext option	9/29/2013	164.88	5.86	0.16	80.00%	20084236
Charles S. Keith	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7,8,9,10 less tract (see lease) Sec 2: 15,16,17,18	9/30/2008 5 years + 3 year ext option	9/29/2013	333.57	3.86	0.10	80.00%	20084235
Charles S. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1, 2, 8, and 9	9/30/2008 5 years + 3 year ext option	9/29/2013	164.97	4.33	0.12	80.00%	20084234
Charles S. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5, 6, 10, 11, 12, 14, 15 & 16 Sec 34: Lots 2, 3 Less acreage (see lease)	9/30/2008 5 years + 3 year ext option	9/29/2013	409.65	5.37	0.15	80.00%	20084233

Charles S. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, & 14 Sec 27: Lots 2, 7, 8 & 9	9/30/2008 5 years + 3 year ext option	9/29/2013	330.85	8.68	0.23	80.00%	20084232
Charles S. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	9/30/2008 5 years + 3 year ext option	9/29/2013	82.44	3.05	0.08	80.00%	20084231
Charles S. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7 & 10	9/30/2008 5 years + 3 year ext option	9/29/2013	164.88	5.86	0.16	80.00%	20084230
Debra A Ziehm	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7,8,9,10 less tract (see lease) Sec 2: 15,16,17,18	9/30/2008 5 years + 3 year ext option	9/29/2013	333.57	3.86	0.10	80.00%	20084253
Debra A Ziehm	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1, 2, 8, and 9	9/30/2008 - 2013 5 years + 3 year ext option	9/29/2013	164.97	4.33	0.12	80.00%	20084252
Debra A Ziehm	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5, 6, 10, 11, 12, 14, 15 & 16 Sec 34: Lots 2, 3 Less acreage (see lease)	9/30/2008 5 years + 3 year ext option	9/29/2013	409.65	5.37	0.15	80.00%	20084251
Debra A Ziehm	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, & 14 Sec 27: Lots 2, 7, 8 & 9	9/30/2008 5 years + 3 year ext option	9/29/2013	330.85	8.68	0.23	80.00%	20084250
Debra A Ziehm	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	9/30/2008 5 years + 3 year ext option	9/29/2013	82.44	3.05	0.08	80.00%	20084249
Debra A Ziehm	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7 & 10	9/30/2008 5 years + 3 year ext option	9/29/2013	164.88	5.86	0.16	80.00%	20084248
Jim F. Kowach	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 12: Lots 1,2,3,5,6,7,8,9,10,12,13,14,15 Sec 13: Lots 2,3,4, less tract (see lease)	10/31/2008	10/30/2013	635.00	238.35	6.44	80.00%	20084634
Robert Deakins	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 35: S/2	12/8/2008 5 years + 3 year ext option	12/7/2013	331.70	6.91	0.19	80.00%	20090152
Richard Deakins	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 35: S/2	12/8/2008 5 years + 3 year ext option	12/7/2013	331.70	6.91	0.19	80.00%	20090482

Kathleen Seely Brennise	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 28: Tract in Lots 11, 12, 14 Sec 31: Lots 5,6,11-14, 19,20, W/2 Sec 32: Lots 7,10-14 Sec 33: Tract in E2W2 Sec 34: Lots 1, 7-16	1/29/2009 5 years + 3 year ext option	1/28/2014	1507.93	145.69	3.93	80.00%	20091152
Bruce H. and Ann C. Seely	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 28: Tract in Lots 11, 12, 14 Sec 31: Lots 5,6,11-14, 19,20, W/2 Sec 32: Lots 7,10-14 Sec 33: Tract in E2W2 Sec 34: Lots 14, 15, 16	3/1/2009 5 years + 3 year ext option	2/28/2014	1179.60	15.00	0.41	80.00%	20091997
Bruce H. Seely	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 28: Tract in Lots 11, 12, 14 Sec 31: Lots 5,6,11-14, 19,20, W/2 Sec 32: Lots 7,10-14 Sec 33: Tract in E2W2 Sec 34: Lots 1, 7-16 Sec 35: Lots 4, 5	3/1/2009 5 years + 3 year ext option	2/28/2014	1590.92	146.56	3.96	80.00%	20091998
David R. and Shirley M. Seely	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 6: Lot 7 Sec 31: Lots 5,6,11-14, 19,20, W/2 Sec 32: Lots 7,10-14 Sec 33: Tract in E2W2 Sec 34: Lots 1, 7-16 Sec 35: Lots 4, 5	3/1/2009 5 years + 3 year ext option	2/28/2014	1465.72	292.60	7.90	80.00%	20092472
Walter D. Spetter	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 35: Lots 9,10 11,12,13,14,15,16 (S/2)	3/5/2009 5 years + 3 year ext option	3/4/2014	331.70	13.820	0.37	80.00%	20092059
Donna McMullen	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 35: Lots 9,10 11,12,13,14,15,16 (S/2)	3/5/2009 5 years + 3 year ext option	3/4/2014	331.70	13.82	0.37	80.00%	20092058
DR Seely, LLC an Idaho Limited Liability Company	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 31: Lots 5,6,11-14, 19,20, W/2 Sec 32: Lots 7,10-14 Sec 34: Lots 1, 7-16 Sec 35: Lots 4, 5	3/5/2009 5 years + 3 year ext option	3/4/2014	1436.46	169.85	4.59	80.00%	20092471
Kathleen Seely Brennise	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 3: Lots 6,7,8,9 Sec 4: Lots 5 -13, 15, 16, 18-20 Sec 6: Lots 12,13,14,17,18,19	7/9/2010	7/8/2015	1067.93	123.54	3.34	80.00%	20102826

Bruce and Ann Seely	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 3: Lots 6,7,8,9 Sec 4: Lots 5 -13, 15, 16, 18-20 Sec 6: Lots 12,13,14,17,18,19	7/9/2010	7/8/2015	1067.93	12.99	0.35	80.00%	20102591
Bruce Seely, Individually	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 3: Lots 6,7,8,9 Sec 4: Lots 5 -13, 15, 16, 18-20 Sec 6: Lots 12,13,14,17,18,19	7/9/2010	7/8/2015	1067.93	123.54	3.34	80.00%	20102590
David and Shirley Seely	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 3: Lots 6,7,8,9 Sec 4: Lots 5 -13, 15, 16, 18-20 Sec 6: Lots 12,13,14,17,18,19	7/9/2010	7/8/2015	1067.93	260.18	7.02	80.00%	20102827
D.R. Seely, LLC	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 3: Lots 6,7,8,9 Sec 4: Lots 5 -13, 15, 16, 18-20 Sec 6: Lots 12,13,14,17,18,19	7/9/2010	7/8/2015	1067.93	52.04	1.40	80.00%	20102825
Lease Serial No. COC-73459	Impact Energy Resources, LLC	T5N-R90W, 6th P.M. Section 1: Lot 5, 12, 13	3/1/2009	2/28/2019	125.15	125.15	3.38	80.00%	
							1,933.86	52.21	

<i>Leases Value Allocation</i>	<i>Price per Net Acre</i>	<i>Net Acres</i>	<i>Assigned Value</i>	<i>Total Schedule 2.1 (a)</i>	<i>129.21</i>
Schedule 2.1 (a)	\$100	129.21	\$12,921		
Schedule 2.1 (b)	\$1,050	244.98	\$257,227		
Schedule 2.1 (c)	\$800	89.10	\$71,283		
Total Value		463.29	\$341,430		

SCHEDULE 2.1(b)
Assignment of Leases dated April __, 2013

BUCK PEAK LEASES AND EXPIRATION DATES								
LESSOR NAME AND ADDRESS	DESCRIPTION	DATE AND TERM	GROSS ACRES	NET ACRES	NET ACRES	NET ACRES	NET REVENUE INTEREST to be delivered 8/8ths	RECORDING
					Buck Peak LLC	CONVEYED		
West Half of Section 25					37.5%	100%		
Jim F. Kowach	T6N-R90W, 6th P.M. Sec 25: W/2	10/31/2008 - 2014 6 years	335.54	167.77	62.91	62.91	78.5000%	20104936
Barbara Wilaby	T6N-R90W, 6th P.M. Sec 25: W/2	10/31/2011 - 2014 3 years	335.54	167.77	62.91	62.91	78.5000%	20103288
Sub Total - Kowach / Wilaby	W/2 Section 25, T6N R90W	100.00%	335.54	335.54	125.8275	125.83	78.5000%	
East Half of Section 25								
Mark A Voloshin, PO Box 981, Craig, CO 81626	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15, 16	5/12/2011- 2016 Five (5) Years	335.61	52.83	19.81	19.81	78.5000%	20103153
Betty Arnone, 1713 South Vancouver Ct, Lakewood, CO 80228	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1,2,7,8,9,10,15 & 16	5/12/2011- 2016 Five (5) Years	335.61	26.41	9.90	9.90	78.5000%	20102832
Helen McKee, 10436 Jacob Place, Littleton, CO 80125-8932	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15 & 16	5/12/2011- 2016 Five (5) Years	335.61	26.41	9.90	9.90	78.5000%	20102839
Gary R Semro and Robert W. Semro, 6522 Trailhead Rd, Highlands Ranch, CO 80130	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15 & 16	5/12/2011- 2016 Five (5) Years	335.61	26.41	9.90	9.90	78.5000%	20102847
Sharon Fitzgerald (Hebenstreit), 337 Coronado Drive, Sedalia, CO 80135	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15, 16	5/12/2011- 2016 Five (5) Years	335.61	26.41	9.90	9.90	78.5000%	20103140
Brad Ocker (Eugena Grace Voloshin), 9591 County Rd 33, Craig, CO 81625	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15, 16	5/12/2011- 2016 Five (5) Years	335.61	8.55	3.21	3.21	78.5000%	20102856
Sub Total - Semro / Voloshin	E/2 Section 25, T6N R90W	49.7661%	335.61	167.02	62.6325	62.63	78.5000%	
BCK LLC Charles S Keith	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15, 16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	41.43	15.54	15.54	77.5000%	20111728
Strontia springs Resources, LLC James Keith	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15, 16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	41.43	15.54	15.54	77.5000%	20111730
JTZ LLC Debra Ann Ziehm	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15, 16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	41.43	15.54	15.54	77.5000%	20111729
MKRESOURCES LLC Margaret Keith	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15, 16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	26.41	9.91	9.91	77.5000%	20111731
Sub Total - Keith	E/2 Section 25, T6N R90W	44.9075%	335.61	150.71	56.52	56.52	77.5000%	
		Ownership %	Gross Acres	Net Acres	Buck Peak Net	Conveyed	NRI% Delivered	
West Half of Section 25		100.0000%	335.54	335.54	125.83	125.83	78.5000%	
East Half of Section 25		94.6736%	335.61	317.73	119.15	119.15	78.0257%	
SECTION 25 TOTAL		97.3365%	671.15	653.27	244.98	244.98	78.2693%	

SCHEDULE 2.1(c)

Assignment of Leases dated April __, 2013

BUCK PEAK LEASES AND EXPIRATION DATES

LESSOR NAME AND ADDRESS	DESCRIPTION	DATE AND TERM	GROSS ACRES	NET ACRES		NET REVENUE	RECORDING
				Buck Peak LLC	CONVEYED	to be delivered 8/8ths	
Buck Peak LLC	T6N-R90W, 6th P.M. Sec 34: Lots 1,7,8,9,10,11,12,13,14,15,16 Sec 35: Lots 4,5	1/19/2012 - 2015 3 years plus 2 year option	534.62	100.0%	89.103	100%	80.0000% 20120739

<i>Assigned Lease Value</i>	<i>Price per Net Acre</i>	<i>Net Acres</i>	<i>Assigned Value</i>
Schedule 2.1 (c)	\$800	89.10	\$71,283

Schedule 2.1(d)

Contracts

Quicksilver Resources Inc.
July 27, 2010 Joint Operating Agreement & Exhibits

TRANSFER REQUIREMENTS

None

Exhibit A

Purchase Price Allocation

100% to Leasehold Interests

ASSIGNMENT OF LEASES

For and in consideration of ten dollars (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Buck Peak, LLC (Assignor) does hereby grant, bargain, sell, convey, assign, transfer, set over and deliver to PetroShare Corp. ("Assignee"), its successors and assigns, effective on, _____, 2013 (the "Effective Date"), all of Assignor's right, title and leasehold interest in and to the oil and gas leases (each a "Lease" and together the "Leases") more particularly described on Schedules 2.1(a), 2.1(b) and 2.1(c), attached hereto together with all rights and privileges, including surface rights and privileges, easements, rights-of-way, licenses, authorizations and similar rights and interests owned or exercised by Assignor on, over or pertaining to the Leases. All such rights, titles, interests, and privileges assigned by this Assignment are referred to herein as the "Assigned Interest".

TO HAVE AND TO HOLD, all and singular, the Assigned Interest together with all and singular the rights, privileges, hereditaments and appurtenances thereto in anywise belonging, unto Assignee, its successors and assigns.

Assignor hereby binds itself, its successors and assigns to warrant and forever defend all and singular the Assigned Interest unto Assignee, its successors and assigns, against every person whomsoever lawfully claiming or to claim the same or any part thereof, by, through, and under Assignor, but not otherwise, subject to the following:

1. Assignor and its affiliates are reserving or have reserved unto themselves an overriding royalty interest (Overriding Royalty"), in the amount described on Schedule 2.1(d), attached hereto and made a part of this Assignment, in and to all oil, gas and all other hydrocarbon substances (and any other substances covered by a Lease) produced, saved, and marketed from the lands pursuant to the terms of each Lease or from lands pooled, communitized, or unitized therewith. It is the intent of Schedule 2.1(d) to stipulate and/or reserve the Overriding Royalty interests that yield to Assignee the net revenue interests as set forth in Schedules 2.1(a),(b),(c) as attached hereto and also to the APA as defined below.
2. In so far as it relates to the calculation of net proceeds attributable to such Overriding Royalty Interests, the following are not allowed to be deducted from the ORRI (ie: free and clear of all costs and expense of exploration, drilling, completion, development, operating, and post-production costs including but not limited to, any cost and expense of the treating, processing, compressing, gathering, transporting, delivering or otherwise marketing of the production thereof), but shall be subject to all taxes of every nature which are applicable to the ORRI or the production which is attributable to the ORRI including, without

limitation, all production, severance, gathering, transportation, or similar taxes attributable to the terms of the Leases. Included from the ORRI are all substances (ie: oil, gas and gaseous substances, and all methane, ethane, or propane, or other gaseous substances associated with, and including the liquid hydrocarbons gas, casinghead gas, coalbed methane, sulfur and any and all other substances whether a hydrocarbon or inert material or mineral produced and marketed from the lease). The Overrides assigned by Assignor to Assignee shall bear its proportionate share of applicable taxes. The Override shall be proportionately reduced if it is determined that the Leases cover less than 100% of the mineral estate in the Lands, or Assignor owns less than 100% of the leasehold estate in the Leases.

3. The Overriding Royalty reserved as set forth on Schedule 2.1(d) shall be applicable to and apply to renewed or extended Leases. This Assignment of Leases is subject to that certain Letter Offer dated March 19, 2013, the revised Offer to Purchase Leasehold dated March 19, 2013 and accepted by the parties March 20, 2013 and the Asset Purchase Agreement (APA) dated April 9, 2013, by and between PetroShare Corp., as "Buyer" and Buck Peak LLC as "Seller". In the event of a conflict with the APA, this Assignment shall control but only to the extent as it relates to Schedule 2.1(d) attached hereto, all other provision of the APA will survive in accordance with their terms.
4. This Assignment shall be governed by and construed in accordance with the laws of the State of Colorado.
5. This Assignment may be executed in one or more counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument.

All of the terms, covenants and agreements herein contained shall extend and be binding upon Assignor and Assignee, their respective successors and assigns.

IN WITNESS WHEREOF, this Assignment is executed this ____ day of _____, 2013.

ASSIGNOR:

BUCK PEAK, LLC
A Colorado limited liability company

By: _____
David M. Laramie, Co-Owner

By: _____
David J. Steyaert, Co-Owner

STATE OF _____)
COLORADO _____)ss.
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____, day of April, 2013 by David M. Laramie and David J. Steyaert, as Co-Owners of Buck Peak, LLC, on behalf of said entity.

Notary Public

My Commission Expires: _____



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Lila Herod
 Moffat County Clerk

LESSOR	ROYALTY INTEREST	GROSS ACRES	NET ACRES CONVERTED	LEASE RECORDING	DESCRIPTION	RESERVED OVERRIDING ROYALTY INTEREST	OVERRIDING ROYALTY RESERVATION RECORDING	MRI
Betty Anzore	12.50%	333.57	0.31	20102829	TEMPERSON, BR.P.M. Assessor's Tract # 82 Sec 27, Lots 7,8,9,10 less tract (see base), 15-18	To David M. and Corina M. Laramee To David J. and James F. Stewart Back Peak LLC - an overriding royalty interest equal to the difference between 20% and existing bottom of records as of November 1, 2010 To Westmont Energy, LLC	Effective 5/25/2008 Entry #2010422, Moffat County, CO Entry #852100, Routt County, CO Entry #20103137, Effective 3/1/2005	80.0%
		164.66	0.47	20102830	TEMPERSON, BR.P.M. Assessor's Tract # 83 Sec 21, Lots 5, 6, 7, 8, 9	To David M. and Corina M. Laramee To David J. and James F. Stewart Back Peak LLC - an overriding royalty interest equal to the difference between 20% and existing bottom of records as of November 1, 2010 To Mark Voloshin To Westmont Energy, LLC	Effective 5/25/2008 Entry #2010422, Moffat County, CO Entry #852100, Routt County, CO Entry #20103137, Effective 3/1/2005	80.0%
		82.44	0.25	20102831	TEMPERSON, BR.P.M. Assessor's Tract # 70 Sec 21, Lots 4 & 5	To David M. and Corina M. Laramee To David J. and James F. Stewart Back Peak LLC - an overriding royalty interest equal to the difference between 20% and existing bottom of records as of November 1, 2010 To Mark Voloshin To Westmont Energy, LLC	Effective 5/25/2008 Entry #2010422, Moffat County, CO Entry #852100, Routt County, CO Entry #20103137, Effective 3/1/2005	80.0%
		330.85	0.70	20102833	TEMPERSON, BR.P.M. Assessor's Tract # 82 Sec 27, Lots 5, 6, 10, 11, 12, 14, 15, 18 Sec 34, Lots 1, 2, 3, 4, 5, 6, 7, 8, 9	To David M. and Corina M. Laramee To David J. and James F. Stewart Back Peak LLC - an overriding royalty interest equal to the difference between 20% and existing bottom of records as of November 1, 2010 To Mark Voloshin To Westmont Energy, LLC	Effective 5/25/2008 Entry #2010422, Moffat County, CO Entry #852100, Routt County, CO Entry #20103137, Effective 3/1/2005	80.0%
		409.85	0.44	20102834	TEMPERSON, BR.P.M. Assessor's Tract # 83 Sec 27, Lots 5, 6, 10, 11, 12, 14, 15, 18 Sec 34, Lots 2, 3 less acreage (see base)	To David M. and Corina M. Laramee To David J. and James F. Stewart Back Peak LLC - an overriding royalty interest equal to the difference between 20% and existing bottom of records as of November 1, 2010 To Mark Voloshin To Westmont Energy, LLC	Effective 5/25/2008 Entry #2010422, Moffat County, CO Entry #852100, Routt County, CO Entry #20103137, Effective 3/1/2005	80.0%
		164.87	0.35	20102835	TEMPERSON, BR.P.M. Assessor's Tract # 105 Sec 21, Lots 1, 2, 6, 9	To David M. and Corina M. Laramee To David J. and James F. Stewart Back Peak LLC - an overriding royalty interest equal to the difference between 20% and existing bottom of records as of November 1, 2010 To Mark Voloshin To Westmont Energy, LLC	Effective 5/25/2008 Entry #2010422, Moffat County, CO Entry #852100, Routt County, CO Entry #20103137, Effective 3/1/2005	80.0%
		333.57	0.31	20102836	TEMPERSON, BR.P.M. Assessor's Tract # 82 Sec 27, Lots 7,8,9,10 less tract (see base), 15-18	To David M. and Corina M. Laramee To David J. and James F. Stewart Back Peak LLC - an overriding royalty interest equal to the difference between 20% and existing bottom of records as of November 1, 2010 To Westmont Energy, LLC	Effective 5/25/2008 Entry #2010422, Moffat County, CO Entry #852100, Routt County, CO Entry #20103137, Effective 3/1/2005	80.0%
		164.66	0.48	20102837	TEMPERSON, BR.P.M. Assessor's Tract # 83 Sec 21, Lots 5, 6, 7, 8, 9	To David M. and Corina M. Laramee To David J. and James F. Stewart Back Peak LLC - an overriding royalty interest equal to the difference between 20% and existing bottom of records as of November 1, 2010 To Mark Voloshin To Westmont Energy, LLC	Effective 5/25/2008 Entry #2010422, Moffat County, CO Entry #852100, Routt County, CO Entry #20103137, Effective 3/1/2005	80.0%
		82.44	0.25	20102838	TEMPERSON, BR.P.M. Assessor's Tract # 70 Sec 21, Lots 4 & 5	To David M. and Corina M. Laramee To David J. and James F. Stewart Back Peak LLC - an overriding royalty interest equal to the difference between 20% and existing bottom of records as of November 1, 2010 To Mark Voloshin To Westmont Energy, LLC	Effective 5/25/2008 Entry #2010422, Moffat County, CO Entry #852100, Routt County, CO Entry #20103137, Effective 3/1/2005	80.0%
		330.85	0.70	20102840	TEMPERSON, BR.P.M. Assessor's Tract # 82 Sec 27, Lots 5, 6, 10, 11, 12, 14, 15, 18 Sec 34, Lots 1, 2, 3 less acreage (see base)	To David M. and Corina M. Laramee To David J. and James F. Stewart Back Peak LLC - an overriding royalty interest equal to the difference between 20% and existing bottom of records as of November 1, 2010 To Mark Voloshin To Westmont Energy, LLC	Effective 5/25/2008 Entry #2010422, Moffat County, CO Entry #852100, Routt County, CO Entry #20103137, Effective 3/1/2005	80.0%
		409.85	0.44	20102841	TEMPERSON, BR.P.M. Assessor's Tract # 83 Sec 27, Lots 5, 6, 10, 11, 12, 14, 15, 18 Sec 34, Lots 2, 3 less acreage (see base)	To David M. and Corina M. Laramee To David J. and James F. Stewart Back Peak LLC - an overriding royalty interest equal to the difference between 20% and existing bottom of records as of November 1, 2010 To Mark Voloshin To Westmont Energy, LLC	Effective 5/25/2008 Entry #2010422, Moffat County, CO Entry #852100, Routt County, CO Entry #20103137, Effective 3/1/2005	80.0%
		164.87	0.35	20102842	TEMPERSON, BR.P.M. Assessor's Tract # 105 Sec 21, Lots 1, 2, 6 & 9	To David M. and Corina M. Laramee To David J. and James F. Stewart Back Peak LLC - an overriding royalty interest equal to the difference between 20% and existing bottom of records as of November 1, 2010 To Mark Voloshin To Westmont Energy, LLC	Effective 5/25/2008 Entry #2010422, Moffat County, CO Entry #852100, Routt County, CO Entry #20103137, Effective 3/1/2005	80.0%

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Lila Herod
 Moffat County Clerk

LESSOR	ROYALTY INTEREST	GROSS ACRES	NET ACRES	LEASE RECORDING	DESCRIPTION	RESERVED OVERDRING ROYALTY INTEREST	OVERDRING ROYALTY RESERVATION RECORDING	NET
Gay R. Sarino and Robert W. Sarino	12.50%	164.86	0.47	20102846	TINLARKOV, BLD P.M. Assessor's Tract # 89 Sec 21, Lots 3, 6, 7, & 10	To David M. and Corina M. Laraine Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of records as of November 1, 2010 To M&A Vestition To Winesport Energy, LLC	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO Effective 5/25/2008 Entry #20103137, Effective 3/1/2008	80.0%
		82.44	0.25	20102848	TINLARKOV, BLD P.M. Assessor's Tract # 90 Sec 21, Lots 4 & 5	To David M. and Corina M. Laraine Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of records as of November 1, 2010 To M&A Vestition To Winesport Energy, LLC	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO Effective 5/25/2008 Entry #20103137, Effective 3/1/2008	80.0%
		330.85	0.70	20102848	TINLARKOV, BLD P.M. Assessor's Tract # 89 Sec 28, Lots 11, 12, 14, 15, & 16 Sec 27, Lots 2, 7, 8 & 9	To David M. and Corina M. Laraine Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of records as of November 1, 2010 To M&A Vestition To Winesport Energy, LLC	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO Effective 5/25/2008 Entry #20103137, Effective 3/1/2008	80.0%
		409.85	0.44	20102849	TINLARKOV, BLD P.M. Assessor's Tract # 83 Sec 27, Lots 10, 11, 12, 14, 15, & 16 Sec 24, Lots 2, 3, Lots Average (see base)	To David M. and Corina M. Laraine Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of records as of November 1, 2010 To M&A Vestition To Winesport Energy, LLC	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO Effective 5/25/2008 Entry #20103137, Effective 3/1/2008	80.0%
		164.87	0.35	20102844	TINLARKOV, BLD P.M. Assessor's Tract # 89 Sec 21, Lots 1, 2, 8 & 9	To David M. and Corina M. Laraine Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of records as of November 1, 2010 To M&A Vestition To Winesport Energy, LLC	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO Effective 5/25/2008 Entry #20103137, Effective 3/1/2008	80.0%
		333.57	0.31	20102843	TINLARKOV, BLD P.M. Assessor's Tract # 89 Sec 2, Lots 7, 8, 9, 10 lots (see base), 15-18	To David M. and Corina M. Laraine Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of records as of November 1, 2010 To M&A Vestition To Winesport Energy, LLC	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO Effective 5/25/2008 Entry #20103137, Effective 3/1/2008	80.0%
		333.57	0.31	20103144	TINLARKOV, BLD P.M. Assessor's Tract # 89 Sec 2, Lots 7, 8, 9, 10 lots (see base), 15-18	To David M. and Corina M. Laraine Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of records as of November 1, 2010 To M&A Vestition To Winesport Energy, LLC	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO Effective 5/25/2008 Entry #20103137, Effective 3/1/2008	80.0%
		164.88	0.47	20103136	TINLARKOV, BLD P.M. Assessor's Tract # 89 Sec 21, Lots 3, 6, 7, & 10	To David M. and Corina M. Laraine Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of records as of November 1, 2010 To M&A Vestition To Winesport Energy, LLC	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO Effective 5/25/2008 Entry #20103137, Effective 3/1/2008	80.0%
		82.44	0.25	20103139	TINLARKOV, BLD P.M. Assessor's Tract # 70 Sec 21, Lots 4 & 5	To David M. and Corina M. Laraine Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of records as of November 1, 2010 To M&A Vestition To Winesport Energy, LLC	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO Effective 5/25/2008 Entry #20103137, Effective 3/1/2008	80.0%
		330.85	0.70	20103141	TINLARKOV, BLD P.M. Assessor's Tract # 82 Sec 28, Lots 11, 12, 13, & 14 Sec 27, Lots 2, 7, 8 & 9 Sec 34, Lots 2, 3 less acreage Sec 35, (see base)	To David M. and Corina M. Laraine Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of records as of November 1, 2010 To M&A Vestition To Winesport Energy, LLC	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO Effective 5/25/2008 Entry #20103137, Effective 3/1/2008	80.0%
Sharon A. Fitzgerald,nee to Ann Hebenstreit	12.50%	409.85	0.44	20103142	TINLARKOV, BLD P.M. Assessor's Tract # 83 Sec 27, Lots 5, 6, 10, 11, 12, 14, 15, 16 Sec 34, Lots 2, 3 less acreage Sec 35, (see base)	To David M. and Corina M. Laraine Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of records as of November 1, 2010 To M&A Vestition To Winesport Energy, LLC	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO Effective 5/25/2008 Entry #20103137, Effective 3/1/2008	80.0%
		164.87	0.35	20103143	TINLARKOV, BLD P.M. Assessor's Tract # 105 Sec 21, Lots 1, 2 & 6, 9	To David M. and Corina M. Laraine Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of records as of November 1, 2010 To M&A Vestition To Winesport Energy, LLC	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO Effective 5/25/2008 Entry #20103137, Effective 3/1/2008	80.0%
		1200.30	0.51	20102860	TINLARKOV, BLD P.M. Assessor's Tract # 83 Sec 9, Lots 8, 9, 16 & Sec 10, Lots 4, 5 TINLARKOV, BLD P.M. Assessor's Tract # 89 Sec 13, 20N2, N022 TINLARKOV, BLD P.M. Assessor's Tract # 83 Sec 12, E21E TINLARKOV, BLD P.M. Assessor's Tract # 83W Sec 24, NE30W	To David M. and Corina M. Laraine Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of records as of November 1, 2010 To M&A Vestition To Winesport Energy, LLC	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO Effective 5/25/2008 Entry #20103137, Effective 3/1/2008	80.0%
		117.16	0.04	20102851	TINLARKOV, BLD P.M. Assessor's Tract # 83 Sec 9, Lots 8, 9, 16 & Sec 10, Lots 4, 5	To David M. and Corina M. Laraine Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of records as of November 1, 2010 To M&A Vestition To Winesport Energy, LLC	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO Effective 5/25/2008 Entry #20103137, Effective 3/1/2008	80.0%
		323.43	0.12	20102852	TINLARKOV, BLD P.M. Assessor's Tract # 83 Sec 10, NW4, NE4, SW4	To David M. and Corina M. Laraine Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of records as of November 1, 2010 To M&A Vestition To Winesport Energy, LLC	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO Effective 5/25/2008 Entry #20103137, Effective 3/1/2008	80.0%
						To David M. and Corina M. Laraine Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of records as of November 1, 2010 To M&A Vestition To Winesport Energy, LLC	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO Effective 5/25/2008 Entry #20103137, Effective 3/1/2008	80.0%
						To David M. and Corina M. Laraine Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of records as of November 1, 2010 To M&A Vestition To Winesport Energy, LLC	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO Effective 5/25/2008 Entry #20103137, Effective 3/1/2008	80.0%
						To David M. and Corina M. Laraine Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of records as of November 1, 2010 To M&A Vestition To Winesport Energy, LLC	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO Effective 5/25/2008 Entry #20103137, Effective 3/1/2008	80.0%
						To David M. and Corina M. Laraine Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of records as of November 1, 2010 To M&A Vestition To Winesport Energy, LLC	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO Effective 5/25/2008 Entry #20103137, Effective 3/1/2008	80.0%
						To David M. and Corina M. Laraine Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of records as of November 1, 2010 To M&A Vestition To Winesport Energy, LLC	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO Effective 5/25/2008 Entry #20103137, Effective 3/1/2008	80.0%

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Lila Herod
Moffat County Clerk

LESSOR	ROYALTY INTEREST	ACRES	NET ACRES CONVEYED	LEASE RECORDING	DESCRIPTION	RESERVED OVERRIDING ROYALTY INTEREST	OVERRIDING ROYALTY RESERVATION RECORDING	ROI
Brad Ocker (Formerly Eugene Grace Velasco)	12.50%	799.70	0.31	20102863	TEN-EROW, 801 P.M. Sec 10, Lot 1, 2, 3, 4, 5, 6, 7, 8, 9, 10 Sec 7, Lots 9, 8, 10 Sec 8, Lots 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14 TEN-EROW, 801 P.M. Sec 14, W/2NE, NW, N2SW TEN-EROW, 801 P.M. Sec 27, SE Sec 34, NE	To David J. and James F. Shoyket Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of records as of November 1, 2010	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%
					TEN-EROW, 801 P.M. Sec 7, S2SE	To David M. and Corina M. Laramie	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%
					Sec 17, N2NW Sec 18, NE/4E Sec 19, NE/4E Sec 20, NE/4E Sec 21, NE/4E Sec 22, NE/4E Sec 23, NE/4E Sec 24, NE/4E Sec 25, NE/4E Sec 26, NE/4E Sec 27, NE/4E Sec 28, NE/4E Sec 29, NE/4E Sec 30, NE/4E Sec 31, NE/4E Sec 32, NE/4E Sec 33, NE/4E Sec 34, NE/4E	To David J. and James F. Shoyket	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%
					TEN-EROW, 801 P.M. Sec 2, Lot 7, 8, 9, 10 less tract (see below), 15-18	To David M. and Corina M. Laramie	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%
					TEN-EROW, 801 P.M. Sec 21, Lots 1, 6, 7, 8, 10	To David M. and Corina M. Laramie	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%
					TEN-EROW, 801 P.M. Assessor's Tract # 1105 Sec 21, Lot 1, 2, 3, 4, 5, 6, 7, 8, 9, 10	To David M. and Corina M. Laramie	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%
					TEN-EROW, 801 P.M. Assessor's Tract # 83 Sec 27, Lot 1, 2, 3, 4, 5, 6, 7, 8, 9, 10 Sec 34, Lot 2, 3 less acreage (see above)	To David M. and Corina M. Laramie	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%
					TEN-EROW, 801 P.M. Assessor's Tract # 82 Sec 26, Lot 11, 12, 13, 14, 15 Sec 27, Lot 1, 2, 3, 4, 5, 6, 7, 8, 9	To David M. and Corina M. Laramie	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%
					TEN-EROW, 801 P.M. Assessor's Tract # 70 Sec 21, Lot 8, 9	To David M. and Corina M. Laramie	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%
					TEN-EROW, 801 P.M. Sec 21, Lot 8, 9	To David M. and Corina M. Laramie	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%
R. Kirk Lyons	12.50%	425.23	47.24	701711	TEN-EROW, 801 P.M. Sec 4, E/4S, S, S/4NW/4 Sec 29, Lot 13	To David M. and Corina M. Laramie	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%
					TEN-EROW, 801 P.M. Sec 29, Lot 13	To David M. and Corina M. Laramie	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%
Ralph C. and Anna Lyons	12.50%	425.23	141.74	701713	TEN-EROW, 801 P.M. Sec 29, Lot 13	To David M. and Corina M. Laramie	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%
					TEN-EROW, 801 P.M. Sec 29, Lot 13	To David M. and Corina M. Laramie	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%
Laura L. Smith	12.50%	673.54	154.30	20102568	TEN-EROW, 801 P.M. Sec 12, Lots 5, 6, 8, 9, 10, 13, 14, 15 Sec 24, Lot 1, 2, 7, 8, 9, 10, 14, 15, 16	To David M. and Corina M. Laramie	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%
					TEN-EROW, 801 P.M. Sec 12, Lots 5, 6, 8, 9, 10, 13, 14, 15 Sec 24, Lot 1, 2, 7, 8, 9, 10, 14, 15, 16	To David M. and Corina M. Laramie	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%
R. Kirk Lyons	12.50%	673.54	51.43	20102569	TEN-EROW, 801 P.M. Sec 12, Lots 5, 6, 8, 9, 10, 13, 14, 15 Sec 24, Lot 1, 2, 7, 8, 9, 10, 14, 15, 16	To David M. and Corina M. Laramie	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%
					TEN-EROW, 801 P.M. Sec 12, Lots 5, 6, 8, 9, 10, 13, 14, 15 Sec 24, Lot 1, 2, 7, 8, 9, 10, 14, 15, 16	To David M. and Corina M. Laramie	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%
Ralph C. and Anna Lyons	12.50%	673.54	154.30	20102567	TEN-EROW, 801 P.M. Sec 12, Lots 5, 6, 8, 9, 10, 13, 14, 15 Sec 24, Lot 1, 2, 7, 8, 9, 10, 14, 15, 16	To David M. and Corina M. Laramie	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%
					TEN-EROW, 801 P.M. Sec 12, Lots 5, 6, 8, 9, 10, 13, 14, 15 Sec 24, Lot 1, 2, 7, 8, 9, 10, 14, 15, 16	To David M. and Corina M. Laramie	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%
Mark E. Lyons	12.50%	673.54	51.43	20102566	TEN-EROW, 801 P.M. Sec 12, Lots 5, 6, 8, 9, 10, 13, 14, 15 Sec 24, Lot 1, 2, 7, 8, 9, 10, 14, 15, 16	To David M. and Corina M. Laramie	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%
					TEN-EROW, 801 P.M. Sec 12, Lots 5, 6, 8, 9, 10, 13, 14, 15 Sec 24, Lot 1, 2, 7, 8, 9, 10, 14, 15, 16	To David M. and Corina M. Laramie	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%
Terri Lee Stroda	12.50%	673.54	51.43	20102565	TEN-EROW, 801 P.M. Sec 12, Lots 5, 6, 8, 9, 10, 13, 14, 15 Sec 24, Lot 1, 2, 7, 8, 9, 10, 14, 15, 16	To David M. and Corina M. Laramie	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%
					TEN-EROW, 801 P.M. Sec 12, Lots 5, 6, 8, 9, 10, 13, 14, 15 Sec 24, Lot 1, 2, 7, 8, 9, 10, 14, 15, 16	To David M. and Corina M. Laramie	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%
Laura L. Smith	12.50%	425.23	141.72	701715	TEN-EROW, 801 P.M. Sec 29, Lot 13 Sec 31, Lot 3, 5, 6, 11, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100	To David M. and Corina M. Laramie	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%
					TEN-EROW, 801 P.M. Sec 29, Lot 13 Sec 31, Lot 3, 5, 6, 11, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100	To David M. and Corina M. Laramie	Effective 5/25/2008 Entry #20070422, Moffat County, CO Entry #852100, Routt County, CO	80.0%



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Moffat County Clerk

LESSOR	ROYALTY INTEREST	GROSS ACRES	NET ACRES	NET ACRES CONVEYED	LEASE RECORDING	DESCRIPTION	RESERVED OVERRIDING ROYALTY INTEREST	OVERRIDING ROYALTY RESERVATION RECORDING	NR
Donna McMullen	12.5%	331.70	13.62		20002058	TEN-BROW, 6th P.M. Sec. 25, Lots 10, 11, 12, 13, 14, 15, 16 (E2)	To David M. Laramie and Corne M. Laramie To David M. Laramie and Corne M. Laramie To David J. Shoyart and Jerome F. Shoyart To Fredrick J. Wisell	Entry #20080523, Effective 7/16/2008 Entry #20080521, Effective 7/16/2008	80.0%
DR Seely, LLC an Idaho Limited Liability Company	16.6667%	1438.48	169.80		20002471	TEN-BROW, 6th P.M. Sec. 31, Lots 7, 10-14, 16, 17, 18, 19, 20, W/2 Sec. 34, Lots 1, 2-16	To David M. Laramie and Corne M. Laramie To David J. Shoyart and Jerome F. Shoyart To West Front Energy, LLC	Entry #20080524, Effective 8/16/2008 Entry #20080522, Effective 8/16/2008 Entry #20080521, Effective 8/16/2008	80.0%
Kathleen Seely Brenneke	15.0%	1067.93	123.54		20102268	TEN-BROW, 6th P.M. Sec. 3, Lots 5, 8, 9, 16-20 Sec. 4, Lots 5-13, 15, 16, 18-20 Sec. 8, Lots 12, 13, 14, 17, 18, 19	To West Front Energy, LLC To David M. Laramie and Corne M. Laramie To Impact Energy Resources	Entry #20101316, Effective 8/1/2010	80.0%
Bruce and Ann Seely	15.0%	1067.93	123.89		20102269	TEN-BROW, 6th P.M. Sec. 3, Lots 5, 8, 9, 16-20 Sec. 4, Lots 5-13, 15, 16, 18-20 Sec. 8, Lots 12, 13, 14, 17, 18, 19	To West Front Energy, LLC To David M. Laramie and Corne M. Laramie To Impact Energy Resources	Entry #20101316, Effective 8/1/2010	80.0%
Bruce Seely, Individually	15.0%	1067.93	123.54		20102290	TEN-BROW, 6th P.M. Sec. 3, Lots 6, 7, 8, 9, 16-20 Sec. 4, Lots 5-13, 15, 16, 18-20 Sec. 8, Lots 12, 13, 14, 17, 18, 19	To West Front Energy, LLC To David M. Laramie and Corne M. Laramie To Impact Energy Resources	Entry #20101316, Effective 8/1/2010	80.0%
David and Shiley Seely	15.0%	1067.93	260.16		20102827	TEN-BROW, 6th P.M. Sec. 3, Lots 6, 7, 8, 9, 16-20 Sec. 4, Lots 5-13, 15, 16, 18-20 Sec. 8, Lots 12, 13, 14, 17, 18, 19	To West Front Energy, LLC To David M. Laramie and Corne M. Laramie To Impact Energy Resources	Entry #20101316, Effective 8/1/2010	80.0%
D.R. Seely, LLC	15.0%	1067.93	52.04		20102825	TEN-BROW, 6th P.M. Sec. 4, Lots 5-13, 15, 16, 18-20 Sec. 8, Lots 12, 13, 14, 17, 18, 19	To West Front Energy, LLC To David M. Laramie and Corne M. Laramie To Impact Energy Resources	Entry #20101316, Effective 8/1/2010	80.0%
Lease Serial No. COC-7469	12.5%	125.15	125.15		N/A	TEN-BROW, 6th P.M. Section 1, Lots 5, 12, 13	To Impact Energy Resources To David M. Laramie and Corne M. Laramie To West Front Energy, LLC To David M. Laramie and Corne M. Laramie To Impact Energy Resources	Dealed 11/1/2010	80.0%
Jim F. Kowach	16.6667%	335.54	167.77		20104836	Section 25, Lots 3, 4, 5, 6, 11, 12, 13, 14 (W/2)	To David M. Laramie and Corne M. Laramie an overriding royalty interest equal to the difference between 20% and existing burdens of records as of November 1, 2010 To David M. Laramie and Corne M. Laramie an overriding royalty interest equal to the difference between 20% and existing burdens of records as of November 1, 2010 To Fredrick J. Wisell To David M. and Corne M. Laramie To David J. and Jerome F. Shoyart To Black Peak, LLC an overriding royalty interest equal to the difference of 78.71% and 78.5% (0.21%)	Entry #20091037, Effective 7/16/2008 Entry #20091038, Effective 7/16/2008 Entry #20090420, Effective 8/16/2009 Entry #20130411, Dated 12/4/2013 Effective 4/30/2013	78.5%
Barbara L. Wisely	16.6667%	335.54	167.77		20103288	Section 25, Lots 3, 4, 5, 6, 11, 12, 13, 14 (W/2)	To David M. Laramie and Corne M. Laramie To David M. Laramie and Corne M. Laramie To David J. and Jerome F. Shoyart To Fredrick J. Wisell To David M. and Corne M. Laramie To David J. and Jerome F. Shoyart To Black Peak, LLC an overriding royalty interest equal to the difference of 78.71% and 78.5% (0.21%)	Entry #20091037, Effective 7/16/2008 Entry #20091038, Effective 7/16/2008 Entry #20090420, Effective 8/16/2009 Entry #20130411, Dated 12/4/2013 Effective 4/30/2013	78.5%
MKRESOURCES, LLC	15.00%	335.61	26.41		20111731	TEN-BROW, 6th P.M. Section 25, Lots 1, 2, 7, 8, 9, 10, 15, 16 (E2)	To Prime Energy Partners (II), LLC To David M. Laramie and Corne M. Laramie To David J. and Jerome F. Shoyart	Entry #20115814, Effective 4/1/2011	77.5%
BCK, LLC	15.00%	335.61	41.43		20111728	TEN-BROW, 6th P.M. Section 25, Lots 1, 2, 7, 8, 9, 10, 15, 16 (E2)	To Prime Energy Partners (II), LLC To David M. Laramie and Corne M. Laramie To David J. and Jerome F. Shoyart	Entry #20115814, Effective 4/1/2011	77.5%
JTZ Resources, LLC	15.00%	335.61	41.43		20111729	TEN-BROW, 6th P.M. Section 25, Lots 1, 2, 7, 8, 9, 10, 15, 16 (E2)	To Prime Energy Partners (II), LLC To David M. Laramie and Corne M. Laramie To David J. and Jerome F. Shoyart	Entry #20115814, Effective 4/1/2011	77.5%
Stonora Springs Resources, LLC	15.00%	335.61	41.43		20111730	TEN-BROW, 6th P.M. Section 25, Lots 1, 2, 7, 8, 9, 10, 15, 16 (E2)	To Prime Energy Partners (II), LLC To David M. Laramie and Corne M. Laramie To David J. and Jerome F. Shoyart	Entry #20115814, Effective 4/1/2011	77.5%
Mark A. Voloshin	12.50%	335.61	52.83		20101153	TEN-BROW, 6th P.M. Section 25, Lots 1 (42.50), 2 (42.50), 7 (41.98), 8 (41.98), 9 (41.92), 10 (41.91), 15 (41.86) & 16 (41.86)	To Mark Voloshin To David M. Laramie and Corne M. Laramie To David J. and Jerome F. Shoyart To Black Peak, LLC an overriding royalty interest equal to the difference between 25% and existing burdens of records as of November 1, 2010 To David M. and Corne M. Laramie To David J. and Jerome F. Shoyart	Entry #20101317, Effective 3/1/2005 Effective 9/25/2006 Entry #20070422, Moffat County, CO Entry #652100, Hout County, CO Entry #20130411, Effective 12/4/2013	78.500%



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Lila Herod
 Moffat County Clerk

LESSOR	ROYALTY INTEREST	GROSS ACRES	NET ACRES	NET ACRES CONVERTED	LEASE RECORDING	DESCRIPTION	RESERVED OVERRIDING ROYALTY INTEREST	OVERRIDING ROYALTY RESERVATION RECORDING	NR
Gary R. Sierra & Robert W. Sierra	12.50%	335.61	26.41		20102847	Section 25 Lots 1 (42.50), 2 (42.50), 7 (41.98), 8 (41.98), 9 (41.92), 10 (41.91), 15 (41.85) & 16 (41.86) TELEPHONE, 8th P.M. Assessor's Tract #74	To Mick Vobish To Mick Ford Energy, LLC To David M. and Corinne M. Laramie To David J. and Jennie F. Stewart Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of record as of November 1, 2010. To David M. and Corinne M. Laramie To David J. and Jennie F. Stewart To Francis J. Wisel	Entry #20103137, Effective 3/1/2005 Effective 5/25/2006 Entry #20070422, Moffat County, CO Entry #652100, Rout County, CO Entry #20130411, Effective 12/4/2013	78.500%
Betty Annore	12.50%	335.61	26.41		20102832	Section 25 Lots 1 (42.50), 2 (42.50), 7 (41.98), 8 (41.98), 9 (41.92), 10 (41.91), 15 (41.85) & 16 (41.86) TELEPHONE, 8th P.M. Assessor's Tract #74	To Mick Vobish To Mick Ford Energy, LLC To David M. and Corinne M. Laramie To David J. and Jennie F. Stewart Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of record as of November 1, 2010. To David M. and Corinne M. Laramie To David J. and Jennie F. Stewart To Francis J. Wisel	Entry #20103137, Effective 3/1/2005 Effective 5/25/2006 Entry #20070422, Moffat County, CO Entry #652100, Rout County, CO Entry #20130411, Effective 12/4/2013	78.500%
Brend Ouler (Formerly Eugene Grace Vobish)	12.50%	335.61	8.55		20102856	Section 25 Lots 1 (42.50), 2 (42.50), 7 (41.98), 8 (41.98), 9 (41.92), 10 (41.91), 15 (41.85) & 16 (41.86) TELEPHONE, 8th P.M. Assessor's Tract #74	To Mick Vobish To Mick Ford Energy, LLC To David M. and Corinne M. Laramie To David J. and Jennie F. Stewart Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of record as of November 1, 2010. To David M. and Corinne M. Laramie To David J. and Jennie F. Stewart To Francis J. Wisel	Entry #20103137, Effective 3/1/2005 Effective 5/25/2006 Entry #20070422, Moffat County, CO Entry #652100, Rout County, CO Entry #20130411, Effective 12/4/2013	78.500%
Betty Jo Lott & Michele K. McKee	12.50%	335.61	26.41		20102839	Section 25 Lots 1 (42.50), 2 (42.50), 7 (41.98), 8 (41.98), 9 (41.92), 10 (41.91), 15 (41.85) & 16 (41.86) TELEPHONE, 8th P.M. Assessor's Tract #74	To Mick Vobish To Mick Ford Energy, LLC To David M. and Corinne M. Laramie To David J. and Jennie F. Stewart Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of record as of November 1, 2010. To David M. and Corinne M. Laramie To David J. and Jennie F. Stewart To Francis J. Wisel	Entry #20103137, Effective 3/1/2005 Effective 5/25/2006 Entry #20070422, Moffat County, CO Entry #652100, Rout County, CO Entry #20130411, Effective 12/4/2013	78.500%
Sharon A. Fitzgerald	12.50%	335.61	26.41		20103140	Section 25 Lots 1 (42.50), 2 (42.50), 7 (41.98), 8 (41.98), 9 (41.92), 10 (41.91), 15 (41.85) & 16 (41.86) TELEPHONE, 8th P.M. Assessor's Tract #74	To Mick Vobish To Mick Ford Energy, LLC To David M. and Corinne M. Laramie To David J. and Jennie F. Stewart Black Peak LLC - an overriding royalty interest equal to the difference between 20% and existing burdens of record as of November 1, 2010. To David M. and Corinne M. Laramie To David J. and Jennie F. Stewart To Francis J. Wisel	Entry #20103137, Effective 3/1/2005 Effective 5/25/2006 Entry #20070422, Moffat County, CO Entry #652100, Rout County, CO Entry #20130411, Effective 12/4/2013	78.500%
The Estate of Alice Van Tassel	18.00%	534.82	89.10		20103739	Section 34 Lots 7, 8, 9, 10, 11, 12, 13, 14, 15 & 16 TELEPHONE, 8th P.M. Assessor's Tract 35, Lots 4 & 5	To David M. Laramie and Corinne M. Laramie To David J. Stewart and Jennie F. Stewart	Entry #20131235, Date 3/15/2013	80.0%

EXHIBIT C

AFFIDAVIT OF NONFOREIGN STATUS

Section 1445 of the Internal Revenue Code provides that a buyer of a United States real property interest must withhold tax if the seller is a foreign person. To inform PetroShare Corp ("Buyer") that withholding of tax is not required upon the disposition of a United States real property interest owned by Buck Peak LLC, the undersigned hereby certifies the following on behalf of Buck Peak LLC:

1. Buck Peak LLC is not a non-resident alien, foreign corporation, foreign partnership, foreign trust, or foreign estate (as those terms are defined in the Internal Revenue Code and Income Tax Regulations);
2. The United States employer identification number of Buck Peak LLC is _____; and
3. The office address of Buck Peak LLC is:

621 17th St, Ste 1445
Denver, CO 80293

It is understood that this certification may be disclosed to the Internal Revenue Service by Buyer and that any false statement contained herein could be punished by fine, imprisonment, or both.

Under penalties of perjury I declare that I have examined this certification and it is true, correct and complete, and I further declare that I have authority to sign this document on behalf of Buck Peak LLC.

Executed on _____, 2013.

BUCK PEAK LLC

Name: _____
Title: _____

A.A.P.L. FORM 610 - 1989
MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT
DATED

_____ , 2013
year

OPERATOR PETROSHARECORP.

CONTRACT AREA Township 6 North, Range 90 West, 6th P.M

Section 25: All

COUNTY OR PARISH OF MOFFAT , STATE OF COLORADO

COPYRIGHT 1989 – ALL RIGHTS RESERVED
AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN, 4100 FOSSIL CREEK BLVD. FORT
WORTH, TEXAS, 76137, APPROVED FORM.
A.A.P.L. NO. 610 – 1989

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OPERATING AGREEMENT

1 THIS AGREEMENT, entered into by and between PetroShare Corp.,
 2 hereinafter designated and referred to as "Operator," and the signatory party or parties other than Operator, sometimes
 3 hereinafter referred to individually as "Non-Operator," and collectively as "Non-Operators."

WITNESSETH:

4 WHEREAS, the parties to this agreement are owners of Oil and Gas Leases and/or Oil and Gas Interests in the land
 5 identified in Exhibit "A," and the parties hereto have reached an agreement to explore and develop these Leases and/or Oil
 6 and Gas Interests for the production of Oil and Gas to the extent and as hereinafter provided,
 7 NOW, THEREFORE, it is agreed as follows:

ARTICLE I.**DEFINITIONS**

8 As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

9 A. The term "AFE" shall mean an Authority for Expenditure prepared by a party to this agreement for the purpose of
 10 estimating the costs to be incurred in conducting an operation hereunder.

11 B. The term "Completion" or "Complete" shall mean a single operation intended to complete a well as a producer of Oil
 12 and Gas in one or more Zones, including, but not limited to, the setting of production casing, perforating, well stimulation
 13 and production testing conducted in such operation.

14 C. The term "Contract Area" shall mean all of the lands, Oil and Gas Leases and/or Oil and Gas Interests intended to be
 15 developed and operated for Oil and Gas purposes under this agreement. Such lands, Oil and Gas Leases and Oil and Gas
 16 Interests are described in Exhibit "A."

17 D. The term "Deepen" shall mean a single operation whereby a well is drilled to an objective Zone below the deepest
 18 Zone in which the well was previously drilled, or below the Deepest Zone proposed in the associated AFE, whichever is the
 19 lesser.

20 E. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the
 21 cost of any operation conducted under the provisions of this agreement.

22 F. The term "Drilling Unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal
 23 body having authority. If a Drilling Unit is not fixed by any such rule or order, a Drilling Unit shall be the drilling unit as
 24 established by the pattern of drilling in the Contract Area unless fixed by express agreement of the Drilling Parties.

25 G. The term "Drillsite" shall mean the Oil and Gas Lease or Oil and Gas Interest on which a proposed well is to be
 26 located.

27 H. The term "Initial Well" shall mean the well required to be drilled by the parties hereto as provided in Article VI.A.

28 I. The term "Non-Consent Well" shall mean a well in which less than all parties have conducted an operation as
 29 provided in Article VI.B.2.

30 J. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a
 31 proposed operation.

32 K. The term "Oil and Gas" shall mean oil, gas, casinghead gas, gas condensate, and/or all other liquid or gaseous
 33 hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is
 34 specifically stated.

35 L. The term "Oil and Gas Interests" or "Interests" shall mean unleased fee and mineral interests in Oil and Gas in tracts
 36 of land lying within the Contract Area which are owned by parties to this agreement.

37 M. The terms "Oil and Gas Lease," "Lease" and "Leasehold" shall mean the oil and gas leases or interests therein
 38 covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

39 N. The term "Plug Back" shall mean a single operation whereby a deeper Zone is abandoned in order to attempt a
 40 Completion in a shallower Zone.

41 O. The term "Recompletion" or "Recomplete" shall mean an operation whereby a Completion in one Zone is abandoned
 42 in order to attempt a Completion in a different Zone within the existing wellbore.

43 P. The term "Rework" shall mean an operation conducted in the wellbore of a well after it is Completed to secure,
 44 restore, or improve production in a Zone which is currently open to production in the wellbore. Such operations include, but
 45 are not limited to, well stimulation operations but exclude any routine repair or maintenance work or drilling, Sidetracking,
 46 Deepening, Completing, Recompleting, or Plugging Back of a well.

47 Q. The term "Sidetrack" shall mean the directional control and intentional deviation of a well from vertical so as to
 48 change the bottom hole location unless done to straighten the hole or drill around junk in the hole to overcome other
 49 mechanical difficulties.

50 R. The term "Zone" shall mean a stratum of earth containing or thought to contain a common accumulation of Oil and
 51 Gas separately producible from any other common accumulation of Oil and Gas.

52 Unless the context otherwise clearly indicates, words used in the singular include the plural, the word "person" includes
 53 natural and artificial persons, the plural includes the singular, and any gender includes the masculine, feminine, and neuter.

ARTICLE II.**EXHIBITS**

54 The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

55 X A. Exhibit "A," shall include the following information:

- 56 (1) Description of lands subject to this agreement,
- 57 (2) Restrictions, if any, as to depths, formations, or substances,
- 58 (3) Parties to agreement with addresses and telephone numbers for notice purposes,
- 59 (4) Percentages or fractional interests of parties to this agreement,
- 60 (5) Oil and Gas Leases and/or Oil and Gas Interests subject to this agreement,
- 61 (6) Burdens on production.

62 B. Exhibit "B," Form of Lease.

63 X C. Exhibit "C," Accounting Procedure.

64 X D. Exhibit "D," Insurance.

65 E. Exhibit "E," Gas Balancing Agreement.

66 F. Exhibit "F," Non-Discrimination and Certification of Non-Segregated Facilities.

73 G. Exhibit "G," Tax Partnership.

74 H. Other: Memorandum of Operating Agreement and Financing Statement

1 If any provision of any exhibit, except Exhibits "E," "F" and "G," is inconsistent with any provision contained in
2 the body of this agreement, the provisions in the body of this agreement shall prevail.

3 **ARTICLE III.**
4 **INTERESTS OF PARTIES**

5 **A. Oil and Gas Interests:**

6 If any party owns an Oil and Gas Interest in the Contract Area, that Interest shall be treated for all purposes of this
7 agreement and during the term hereof as if it were covered by the form of Oil and Gas Lease attached hereto as Exhibit "B,"
8 and the owner thereof shall be deemed to own both royalty interest in such lease and the interest of the lessee thereunder.

9 **B. Interests of Parties in Costs and Production:**

10 Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne
11 and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their
12 interests are set forth in Exhibit "A." In the same manner, the parties shall also own all production of Oil and Gas from the
13 Contract Area subject, however, to the payment of royalties and other burdens on production as described hereafter.
14 ~~Regardless of which party has contributed any Oil and Gas Lease or Oil and Gas Interest on which royalty or other~~
15 ~~burdens may be payable and except as otherwise expressly provided in this agreement, each party - Operator / shall pay or deliver, or~~
16 ~~cause to be paid or delivered, all burdens on its share of the production from the Contract Area for the account of all parties. / up to, but not in excess of,~~
17 ~~_____ and shall indemnify, defend and hold the other parties free from any liability therefor.~~

18 ~~Except as otherwise expressly provided in this agreement, if any party has contributed hereto any Lease or Interest which is~~
19 ~~burdened with any royalty, overriding royalty, production payment or other burden on production in excess of the amounts~~
20 ~~stipulated above, such party so burdened shall assume and alone bear all such excess obligations and shall indemnify, defend~~
21 ~~and hold the other parties hereto harmless from any and all claims attributable to such excess burden. However, so long as~~
22 ~~the Drilling Unit for the productive Zone(s) is identical with the Contract Area, each party shall pay or deliver, or cause to~~
23 ~~be paid or delivered, all burdens on production from the Contract Area due under the terms of the Oil and Gas Lease(s)~~
24 ~~which such party has contributed to this agreement, and shall indemnify, defend and hold the other parties free from any~~
25 ~~liability therefor. Operator shall have no liability with respect to the payment of burden except to the extent of its gross negligence.~~

26 ~~No party shall ever be responsible, on a price basis higher than the price received by such party, to any other party's~~
27 ~~lessor or royalty owner, and if such other party's lessor or royalty owner should demand and receive settlement on a higher~~
28 ~~price basis, the party contributing the affected Lease shall bear the additional royalty burden attributable to such higher price.~~

29 Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby,
30 and in the event two or more parties contribute to this agreement jointly owned Leases, the parties' undivided interests in
31 said Leaseholds shall be deemed separate leasehold interests for the purposes of this agreement.

32 **C. Subsequently Created Interests:**

33 If any party has contributed hereto a Lease or Interest that is burdened with an assignment of production given as security
34 for the payment of money, or if, after the date of this agreement, any party creates an overriding royalty, production
35 payment, net profits interest, assignment of production or other burden payable out of production attributable to its working
36 interest hereunder, such burden shall be deemed a "Subsequently Created Interest." Further, if any party has contributed
37 hereto a Lease or Interest burdened with an overriding royalty, production payment, net profits interests, or other burden
38 payable out of production created prior to the date of this agreement, and such burden is not shown on Exhibit "A," such
39 burden also shall be deemed a Subsequently Created Interest to the extent such burden causes the burdens on such party's
40 Lease or Interest to exceed the amount stipulated in Article III.B. above.

41 The party whose interest is burdened with the Subsequently Created Interest (the "Burdened Party") shall assume and
42 alone bear, pay and discharge the Subsequently Created Interest and shall indemnify, defend and hold harmless the other
43 parties from and against any liability therefor. Further, if the Burdened Party fails to pay, when due, its share of expenses
44 chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the Subsequently Created Interest in the
45 same manner as they are enforceable against the working interest of the Burdened Party. If the Burdened Party is required
46 under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the
47 production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of
48 said Subsequently Created Interest, and the Burdened Party shall indemnify, defend and hold harmless said other party, or
49 parties, from any and all claims and demands for payment asserted by owners of the Subsequently Created Interest.

50 **ARTICLE IV.**

51 **TITLES**

52 **A. Title Examination:**

53 Title examination shall be made on the Drillsite of any proposed well prior to commencement of drilling operations and,
54 if a majority in interest of the Drilling Parties so request or Operator so elects, title examination shall be made on the entire
55 Drilling Unit, or maximum anticipated Drilling Unit, of the well. The opinion will include the ownership of the working
56 interest, minerals, royalty, overriding royalty and production payments under the applicable Leases Each party contributing
57 Leases and/or Oil and Gas Interests to be included in the Drillsite or Drilling Unit, if appropriate, shall furnish to Operator
58 all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of
59 charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the
60 examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or
61 by outside attorneys. Copies of all title opinions shall be furnished to each Drilling Party. ~~Costs~~ incurred by Operator in
62 procuring abstracts, fees paid outside attorneys or title examination (including preliminary, supplemental, shut-in royalty
63 opinions and division order title opinions), **(fees paid to outside landmen or brokers)** and other direct charges as provided in Exhibit "C" shall be borne by the Drilling
64 Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such
65 interests appear in Exhibit "A." Operator shall make no charge for services rendered by its staff attorneys or other personnel
66 in the performance of the above functions.

67 ~~Each party - Operator / shall be responsible for securing curative matter and pooling amendments or agreements required in~~
68 ~~connection with any title opinion obtained as set forth above. Lease or Oil and Gas Interests contributed by such party. Operator shall be responsible for the preparation~~
69 ~~and recording of pooling designations or declarations and communitization agreements as well as the conduct of hearings~~
70 ~~before governmental agencies for the securing of spacing or pooling orders or any other orders necessary or appropriate to~~
71 ~~the conduct of operations hereunder. This shall not prevent any party from appearing on its own behalf at such hearings.~~
72 ~~Costs incurred by Operator, including fees paid to outside attorneys, which are associated with hearings before governmental~~

73 agencies, and which costs are necessary and proper for the activities contemplated under this agreement, shall be direct
74 charges to the joint account and shall not be covered by the administrative overhead charges as provided in Exhibit "C."

1 Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above
 2 functions.
 3 No well shall be drilled on the Contract Area until after (1) the title to the Drillsite or Drilling Unit, if appropriate, has
 4 been examined as above provided, and (2) the title has been approved by the examining attorney or title has been accepted by
 5 **Operator. a/H-of-the-Drilling-Parties-insuchwell.**

6 **B. Loss or Failure of Title:**

7 ~~1. Failure of Title: Should any Oil and Gas Interest or Oil and Gas Lease be lost through failure of title, which results in a
 8 reduction of interest from that shown on Exhibit "A," the party credited with contributing the affected Lease or Interest
 9 (including, if applicable, a successor in interest to such party) shall have ninety (90) days from final determination of title
 10 failure to acquire a new lease or other instrument curing the entirety of the title failure, which acquisition will not be subject
 11 to Article VIII.B., and failing to do so, this agreement, nevertheless, shall continue in force as to all remaining Oil and Gas
 12 Leases and Interests; and,~~

13 ~~(a) The party credited with contributing the Oil and Gas Lease or Interest affected by the title failure (including, if
 14 applicable, a successor in interest to such party) shall bear alone the entire loss and it shall not be entitled to recover from
 15 Operator or the other parties any development or operating costs which it may have previously paid or incurred, but there
 16 shall be no additional liability on its part to the other parties hereto by reason of such title failure;~~

17 ~~(b) There shall be no retroactive adjustment of expenses incurred or revenues received from the operation of the
 18 Lease or Interest which has failed, but the interests of the parties contained on Exhibit "A" shall be revised on an acreage
 19 basis, as of the time it is determined finally that title failure has occurred, so that the interest of the party whose Lease or
 20 Interest is affected by the title failure will thereafter be reduced in the Contract Area by the amount of the Lease or Interest failed;~~

21 ~~(c) If the proportionate interest of the other parties hereto in any producing well previously drilled on the Contract
 22 Area is increased by reason of the title failure, the party who bore the costs incurred in connection with such well attributable
 23 to the Lease or Interest which has failed shall receive the proceeds attributable to the increase in such interest (less costs and
 24 burdens attributable thereto) until it has been reimbursed for unrecovered costs paid by it in connection with such well
 25 attributable to such failed Lease or Interest;~~

26 ~~(d) Should any person not a party to this agreement, who is determined to be the owner of any Lease or Interest
 27 which has failed, pay in any manner any part of the cost of operation, development, or equipment, such amount shall be paid
 28 to the party or parties who bore the costs which are so refunded;~~

29 ~~(e) Any liability to account to a person not a party to this agreement for prior production of Oil and Gas which arises
 30 by reason of title failure shall be borne severally by each party (including a predecessor to a current party) who received
 31 production for which such accounting is required based on the amount of such production received, and each such party shall
 32 severally indemnify, defend and hold harmless all other parties hereto for any such liability to account;~~

33 ~~(f) No charge shall be made to the joint account for legal expenses, fees or salaries in connection with the defense of
 34 the Lease or Interest claimed to have failed, but if the party contributing such Lease or Interest hereto elects to defend its title
 35 it shall bear all expenses in connection therewith; and~~

36 ~~(g) If any party is given credit on Exhibit "A" to a Lease or Interest which is limited solely to ownership of an
 37 interest in the wellbore of any well or wells and the production therefrom, such party's absence of interest in the remainder
 38 of the Contract Area shall be considered a Failure of Title as to such remaining Contract Area unless that absence of interest
 39 is reflected on Exhibit "A."~~

40 ~~2. Loss by Non-Payment or Erroneous Payment of Amount Due: If, through mistake or oversight, any rental, shut-in well
 41 payment, minimum royalty or royalty payment, or other payment necessary to maintain all or a portion of an Oil and Gas
 42 Lease or interest is not paid or is erroneously paid, and as a result a Lease or Interest terminates, there shall be no monetary
 43 liability against the party who failed to make such payment. Unless the party who failed to make the required payment
 44 secures a new Lease or Interest covering the same interest within ninety (90) days from the discovery of the failure to make
 45 proper payment, which acquisition will not be subject to Article VIII.B., the interests of the parties reflected on Exhibit "A"
 46 shall be revised on an acreage basis, effective as of the date of termination of the Lease or Interest involved, and the party
 47 who failed to make proper payment will no longer be credited with an interest in the Contract Area on account of ownership
 48 of the Lease or Interest which has terminated. If the party who failed to make the required payment shall not have been fully
 49 reimbursed, at the time of the loss, from the proceeds of the sale of Oil and Gas attributable to the lost Lease or Interest,
 50 calculated on an acreage basis, for the development and operating costs previously paid on account of such Lease or Interest,
 51 it shall be reimbursed for unrecovered actual costs previously paid by it (but not for its share of the cost of any dry hole
 52 previously drilled or wells previously abandoned) from so much of the following as is necessary to effect reimbursement:~~

53 ~~(a) Proceeds of Oil and Gas produced prior to termination of the Lease or Interest, less operating expenses and lease
 54 burdens chargeable hereunder to the person who failed to make payment, previously accrued to the credit of the lost Lease or
 55 Interest, on an acreage basis, up to the amount of unrecovered costs;~~

56 ~~(b) Proceeds of Oil and Gas, less operating expenses and lease burdens chargeable hereunder to the person who failed
 57 to make payment, up to the amount of unrecovered costs attributable to that portion of Oil and Gas thereafter produced and
 58 marketed (excluding production from any wells thereafter drilled) which, in the absence of such Lease or Interest termination,
 59 would be attributable to the lost Lease or Interest on an acreage basis and which as a result of such Lease or Interest
 60 termination is credited to other parties, the proceeds of said portion of the Oil and Gas to be contributed by the other parties
 61 in proportion to their respective interests reflected on Exhibit "A"; and,~~

62 ~~(c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner
 63 of the Lease or Interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.~~

64 ~~3. Other Losses: All losses of Leases or Interests committed to this agreement, other than those set forth in Articles
 65 IV.B.1. and IV.B.2. above, shall be joint losses and shall be borne by all parties in proportion to their interests shown on
 66 Exhibit "A." This shall include but not be limited to the loss of any Lease or Interest through failure to develop or because
 67 express or implied covenants have not been performed (other than performance which requires only the payment of money),
 68 and the loss of any Lease by expiration at the end of its primary term if it is not renewed or extended. There shall be no
 69 readjustment of interests in the remaining portion of the Contract Area on account of any joint loss.~~

70 ~~4. Curing Title: In the event of a Failure of Title/ as set forth under Article IV.B.1. or as set forth under Article IV.B.2. above, any~~

71 Lease or Interest acquired by any party hereto ~~(other than the party whose interest has failed or was lost)~~ during the ninety
72 (90) day period / **following discovery of such failure** ~~provided by Article IV.B.1. and Article IV.B.2. above~~ covering all or a portion of the interest that has failed
73 or was lost shall be offered at cost to the party whose interest has failed or was lost, and the provisions of Article VIII.B.
74 shall not apply to such acquisition.

ARTICLE V.

OPERATOR

3 **A. Designation and Responsibilities of Operator:**

4 PetroShare Corp. shall be the Operator of the Contract Area, and shall conduct
 5 and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of
 6 this agreement. In its performance of services hereunder for the Non-Operators, Operator shall be an independent contractor
 7 not subject to the control or direction of the Non-Operators except as to the type of operation to be undertaken in accordance
 8 with the election procedures contained in this agreement. Operator shall not be deemed, or hold itself out as, the agent of the
 9 Non-Operators with authority to bind them to any obligation or liability assumed or incurred by Operator as to any third
 10 party. Operator shall conduct its activities under this agreement as a reasonable prudent operator, in a good and workmanlike
 11 manner, with due diligence and dispatch, in accordance with good oilfield practice, and in compliance with applicable law and
 12 regulation, but in no event shall it have any liability as Operator to the other parties for losses sustained or liabilities incurred
 13 except such as may result from gross negligence or willful misconduct.

14 **B. Resignation or Removal of Operator and Selection of Successor:**

15 1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators.
 16 If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of
 17 serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a
 18 successor. Operator may be removed only for good cause by the affirmative vote of Non-Operators owning a majority interest
 19 based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator; such vote shall not be
 20 deemed effective until a written notice has been delivered to the Operator by a Non-Operator detailing the alleged default and
 21 Operator has failed to cure the default within thirty (30) days from its receipt of the notice or, if the default concerns an
 22 operation then being conducted, within forty-eight (48) hours of its receipt of the notice. For purposes hereof, "good cause" shall
 23 mean not only gross negligence or willful misconduct but also the material breach of or inability to meet the standards of
 24 operation contained in Article V.A. or material failure or inability to perform its obligations under this agreement.

25 Subject to Article VII.D.1., such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first
 26 day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator
 27 or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of
 28 Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a
 29 Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single
 30 subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

31 2. Selection of Successor Operator: Upon the resignation or removal of Operator under any provision of this agreement, a
 32 successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an
 33 interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the
 34 affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A";
 35 provided, however, if an Operator which has been removed or is deemed to have resigned fails to vote or votes only to
 36 succeed itself, the successor Operator shall be selected by the affirmative vote of the party or parties owning a majority
 37 interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was
 38 removed or resigned. The former Operator shall promptly deliver to the successor Operator all records and data relating to
 39 the operations conducted by the former Operator to the extent such records and data are not already in the possession of the
 40 successor operator. Any cost of obtaining or copying the former Operator's records and data shall be charged to the joint
 41 account.

42 3. Effect of Bankruptcy: If Operator becomes insolvent, bankrupt or is placed in receivership, it shall be deemed to have
 43 resigned without any action by Non-Operators, except the selection of a successor. If a petition for relief under the federal
 44 bankruptcy laws is filed by or against Operator, and the removal of Operator is prevented by the federal bankruptcy court, all
 45 Non-Operators and Operator shall comprise an interim operating committee to serve until Operator has elected to reject or
 46 assume this agreement pursuant to the Bankruptcy Code, and an election to reject this agreement by Operator as a debtor in
 47 possession, or by a trustee in bankruptcy, shall be deemed a resignation as Operator without any action by Non-Operators,
 48 except the selection of a successor. During the period of time the operating committee controls operations, all actions shall
 49 require the approval of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A." In
 50 the event there are only two (2) parties to this agreement, during the period of time the operating committee controls
 51 operations, a third party acceptable to Operator, Non-Operator and the federal bankruptcy court shall be selected as a
 52 member of the operating committee, and all actions shall require the approval of two (2) members of the operating
 53 committee without regard for their interest in the Contract Area based on Exhibit "A."

54 **C. Employees and Contractors:**

55 The number of employees or contractors used by Operator in conducting operations hereunder, their selection, and the
 56 hours of labor and the compensation for services performed shall be determined by Operator, and all such employees or
 57 contractors shall be the employees or contractors of Operator.

58 **D. Rights and Duties of Operator:**

59 1. Competitive Rates and Use of Affiliates: All wells drilled on the Contract Area shall be drilled on a competitive
 60 contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in
 61 the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges

62 shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by

63 Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors
64 who are doing work of a similar nature. All work performed or materials supplied by affiliates or related parties of Operator
65 shall be performed or supplied at competitive rates, pursuant to written agreement, and in accordance with customs and
66 standards prevailing in the industry.

67 2. Discharge of Joint Account Obligations: Except as herein otherwise specifically provided, Operator shall promptly pay
68 and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall
69 charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in Exhibit "C."
70 Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits
71 made and received.

72 3. Protection from Liens: Operator shall pay, or cause to be paid, as and when they become due and payable, all accounts
73 of contractors and suppliers and wages and salaries for services rendered or performed, and for materials supplied on, to or in
74 respect of the Contract Area or any operations for the joint account thereof, and shall keep the Contract Area free from

1 liens and encumbrances resulting therefrom except for those resulting from a bona fide dispute as to services rendered or
2 materials supplied.

3 4. Custody of Funds: Operator shall hold for the account of the Non-Operators any funds of the Non-Operators advanced
4 or paid to the Operator, either for the conduct of operations hereunder or as a result of the sale of production from the
5 Contract Area, and such funds shall remain the funds of the Non-Operators on whose account they are advanced or paid until
6 used for their intended purpose or otherwise delivered to the Non-Operators or applied toward the payment of debts as
7 provided in Article VII.B. Nothing in this paragraph shall be construed to establish a fiduciary relationship between Operator
8 and Non-Operators for any purpose other than to account for Non-Operator funds as herein specifically provided. Nothing in
9 this paragraph shall require the maintenance by Operator of separate accounts for the funds of Non-Operators unless the
10 parties otherwise specifically agree.

11 5. Access to Contract Area and Records: Operator shall, except as otherwise provided herein, permit each Non-Operator
12 or its duly authorized representative, at the Non-Operator's sole risk and cost, full and free access at all reasonable times to
13 all operations of every kind and character being conducted for the joint account on the Contract Area and to the records of
14 operations conducted thereon or production therefrom, including Operator's books and records relating thereto. Such access
15 rights shall not be exercised in a manner interfering with Operator's conduct of an operation hereunder and shall not obligate
16 Operator to furnish any geologic or geophysical data of an interpretive nature unless the cost of preparation of such
17 interpretive data was charged to the joint account. Operator will furnish to each Non-Operator upon request copies of any
18 and all reports and information obtained by Operator in connection with production and related items, including, without
19 limitation, meter and chart reports, production purchaser statements, run tickets and monthly gauge reports, but excluding
20 purchase contracts and pricing information to the extent not applicable to the production of the Non-Operator seeking the
21 information. Any audit of Operator's records relating to amounts expended and the appropriateness of such expenditures
22 shall be conducted in accordance with the audit protocol specified in Exhibit "C."

23 6. Filing and Furnishing Governmental Reports: Operator will file, and upon written request promptly furnish copies to
24 each requesting Non-Operator not in default of its payment obligations, all operational notices, reports or applications
25 required to be filed by local, State, Federal or Indian agencies or authorities having jurisdiction over operations hereunder.
26 Each Non-Operator shall provide to Operator on a timely basis all information necessary to Operator to make such filings.

27 7. Drilling and Testing Operations: The following provisions shall apply to each well drilled hereunder, including but not
28 limited to the Initial Well:

29 (a) Operator will promptly advise Non-Operators of the date on which the well is spudded, or the date on which
30 drilling operations are commenced.

31 (b) Operator will send to Non-Operators such reports, test results and notices regarding the progress of operations on the well
32 as the Non-Operators shall reasonably request, including, but not limited to, daily drilling reports, completion reports, and well logs.

33 (c) Operator shall adequately test all Zones encountered which may reasonably be expected to be capable of producing
34 Oil and Gas in paying quantities as a result of examination of the electric log or any other logs or cores or tests conducted
35 hereunder.

36 8. Cost Estimates: Upon request of any Consenting Party, Operator shall furnish estimates of current and cumulative costs
37 incurred for the joint account at reasonable intervals during the conduct of any operation pursuant to this agreement.
38 Operator shall not be held liable for errors in such estimates so long as the estimates are made in good faith.

39 9. Insurance: At all times while operations are conducted hereunder, Operator shall comply with the workers
40 compensation law of the state where the operations are being conducted; provided, however, that Operator may be a self-
41 insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall
42 be as provided in Exhibit "C." Operator shall also carry or provide insurance for the benefit of the joint account of the parties
43 as outlined in Exhibit "D" attached hereto and made a part hereof. Operator shall require all contractors engaged in work on
44 or for the Contract Area to comply with the workers compensation law of the state where the operations are being conducted
45 and to maintain such other insurance as Operator may require.

46 In the event automobile liability insurance is specified in said Exhibit "D," or subsequently receives the approval of the
47 parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive
48 equipment.

49 **ARTICLE VI.**

50 **DRILLING AND DEVELOPMENT**

51 **A. Initial Well:**

52 On or before the _____ day of _____, _____, Operator shall commence the drilling of the Initial
53 Well at the following location: **a location on the Contract Area of Operator's choosing**

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60 and shall thereafter continue the drilling of the well with due diligence to a **depth sufficient to test the Niobrara formation or to a true vertical depth of 7,855 feet, whichever is the lesser depth.**

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67 The drilling of the Initial Well and the participation therein by all parties is obligatory, subject to Article VI.C.1. as to participation

68 in Completion operations and Article VI.F. as to termination of operations and Article XI as to occurrence of force majeure.

69 **B.Subsequent Operations:**

70 1. Proposed Operations: If any party hereto should desire to drill any well on the Contract Area other than the Initial Well, or

71 if any party should desire to / **complete the Initial Well as a horizontal well or to**Rework, Sidetrack, Deepen, Recomplete or Plug Back a dry hole or a well no longer capable of

72 producing in paying quantities in which such party has not otherwise relinquished its interest in the proposed objective Zone under

73 this agreement, the party desiring to drill, Rework, Sidetrack, Deepen, Recomplete or Plug Back such a well shall give written

74 notice of the proposed operation to the parties who have not otherwise relinquished their interest in such objective Zone

1 under this agreement and to all other parties in the case of a proposal for Sidetracking or Deepening, specifying the work to be
 2 performed, the location, proposed depth, objective Zone and the estimated cost of the operation. The parties to whom such a
 3 notice is delivered shall have thirty (30) days after receipt of the notice within which to notify the party proposing to do the work
 4 whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to
 5 Rework, Sidetrack, Recomplete, Plug Back or Deepen may be given by telephone and the response period shall be limited to forty-
 6 eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party to whom such notice is delivered to reply
 7 within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.
 8 Any proposal by a party to conduct an operation conflicting with the operation initially proposed shall be delivered to all parties
 9 within the time and in the manner provided in Article VI.B.6.

10 If all parties to whom such notice is delivered elect to participate in such a proposed operation, the parties shall be
 11 contractually committed to participate therein provided such operations are commenced within the time period hereafter set
 12 forth, and Operator shall, no later than ninety (90) days after expiration of the notice period of thirty (30) days (or as
 13 promptly as practicable after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case
 14 may be), actually commence the proposed operation and thereafter complete it with due diligence at the risk and expense of
 15 the parties participating therein; provided, however, said commencement date may be extended upon written notice of same
 16 by Operator to the other parties, for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such
 17 additional time is reasonably necessary to obtain permits from governmental authorities, surface rights (including rights-of-
 18 way) or appropriate drilling equipment, or to complete title examination or curative matter required for title approval or
 19 acceptance. If the actual operation has not been commenced within the time provided (including any extension thereof as
 20 specifically permitted herein or in the force majeure provisions of Article XI) and if any party hereto still desires to conduct
 21 said operation, written notice proposing same must be resubmitted to the other parties in accordance herewith as if no prior
 22 proposal had been made. Those parties that did not participate in the drilling of a well for which a proposal to Deepen or
 23 Sidetrack is made hereunder shall, if such parties desire to participate in the proposed Deepening or Sidetracking operation,
 24 reimburse the Drilling Parties in accordance with Article VI.B.4. in the event of a Deepening operation and in accordance
 25 with Article VI.B.5. in the event of a Sidetracking operation.

26 2. Operations by Less Than All Parties

27 (a) Determination of Participation. If any party to whom such notice is delivered as provided in Article VI.B.1. or
 28 VI.C.1. (Option No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this
 29 Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, no
 30 later than ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as practicable after the
 31 expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the
 32 proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting
 33 Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party,
 34 the Consenting Parties shall either: (i) request Operator to perform the work required by such proposed operation for the
 35 account of the Consenting Parties, or (ii) designate one of the Consenting Parties as Operator to perform such work. The
 36 rights and duties granted to and imposed upon the Operator under this agreement are granted to and imposed upon the party
 37 designated as Operator for an operation in which the original Operator is a Non-Consenting Party. Consenting Parties, when
 38 conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this
 39 agreement.

40 If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the
 41 applicable notice period, shall advise all Parties of the total interest of the parties approving such operation and its
 42 recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party,
 43 within forty-eight (48) hours (exclusive of Saturday, Sunday, and legal holidays) after delivery of such notice, shall advise the
 44 proposing party of its desire to (i) limit participation to such party's interest as shown on Exhibit "A" or (ii) carry only its
 45 proportionate part (determined by dividing such party's interest in the Contract Area by the interests of all Consenting Parties in
 46 the Contract Area) of Non-Consenting Parties' interests, or (iii) carry its proportionate part (determined as provided in (ii)) of
 47 Non-Consenting Parties' interests together with all or a portion of its proportionate part of any Non-Consenting Parties'
 48 interests that any Consenting Party did not elect to take. Any interest of Non-Consenting Parties that is not carried by a
 49 Consenting Party shall be deemed to be carried by the party proposing the operation if such party does not withdraw its
 50 proposal. Failure to advise the proposing party within the time required shall be deemed an election under (i). In the event a
 51 drilling rig is on location, notice may be given by telephone, and the time permitted for such a response shall not exceed a
 52 total of forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays). The proposing party, at its election, may
 53 withdraw such proposal if there is less than 100% participation and shall notify all parties of such decision within ten (10)
 54 days, or within twenty-four (24) hours if a drilling rig is on location, following expiration of the applicable response period.
 55 If 100% subscription to the proposed operation is obtained, the proposing party shall promptly notify the Consenting Parties
 56 of their proportionate interests in the operation and the party serving as Operator shall commence such operation within the
 57 period provided in Article VI.B.1., subject to the same extension right as provided therein.

58 (b) Relinquishment of Interest for Non-Participation. The entire cost and risk of conducting such operations shall be
 59 borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding
 60 paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and
 61 encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results
 62 in a dry hole, then subject to Articles VI.B.6. and VI.E.3., the Consenting Parties shall plug and abandon the well and restore

63 the surface location at their sole cost, risk and expense; provided, however, that those Non-Consenting Parties that
64 participated in the drilling, Deepening or Sidetracking of the well shall remain liable for, and shall pay, their proportionate
65 shares of the cost of plugging and abandoning the well and restoring the surface location insofar only as those costs were not
66 increased by the subsequent operations of the Consenting Parties. If any well drilled, Reworked, Sidetracked, Deepened,
67 Recompleted or Plugged Back under the provisions of this Article results in a well capable of producing Oil and/or Gas in
68 paying quantities, the Consenting Parties shall Complete and equip the well to produce at their sole cost and risk, and the
69 well shall then be turned over to Operator (if the Operator did not conduct the operation) and shall be operated by it at the
70 expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, Reworking,
71 Sidetracking, ReCompleting, Deepening or Plugging Back of any such well by Consenting Parties in accordance with the
72 provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the
73 Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-
74 Consenting Party's interest in the well and share of production therefrom or, in the case of a Reworking, Sidetracking,

1 Deepening, Recompleting or Plugging Back, or a Completion pursuant to Article VI.C.1. Option No. 2, all of such Non-
 2 Consenting Party's interest in the production obtained from the operation in which the Non-Consenting Party did not elect
 3 to participate. Such relinquishment shall be effective until the proceeds of the sale of such share, calculated at the well, or
 4 market value thereof if such share is not sold (after deducting applicable ad valorem, production, severance, and excise taxes,
 5 royalty, overriding royalty and other interests not excepted by Article III.C. payable out of or measured by the production
 6 from such well accruing with respect to such interest until it reverts), shall equal the total of the following:

7 (i) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment
 8 beyond the wellhead connections (including but not limited to stock tanks, separators, treaters, pumping equipment and
 9 piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first
 10 production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other
 11 provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that
 12 interest which would have been chargeable to such Non-Consenting Party had it participated in the well from the beginning
 13 of the operations; and

14 (ii) 400% of (a) that portion of the costs and expenses of drilling, Reworking, Sidetracking, Deepening,
 15 Plugging Back, testing, Completing, and Recompleting, after deducting any cash contributions received under Article VIII.C.,
 16 and of (b) that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections),
 17 which would have been chargeable to such Non-Consenting Party if it had participated therein.

18 Notwithstanding anything to the contrary in this Article VI.B., if the well does not reach the deepest objective Zone
 19 described in the notice proposing the well for reasons other than the encountering of granite or practically impenetrable
 20 substance or other condition in the hole rendering further operations impracticable, Operator shall give notice thereof to each
 21 Non-Consenting Party who submitted or voted for an alternative proposal under Article VI.B.6. to drill the well to a
 22 shallower Zone than the deepest objective Zone proposed in the notice under which the well was drilled, and each such Non-
 23 Consenting Party shall have the option to participate in the initial proposed Completion of the well by paying its share of the
 24 cost of drilling the well to its actual depth, calculated in the manner provided in Article VI.B.4. (a). If any such Non-
 25 Consenting Party does not elect to participate in the first Completion proposed for such well, the relinquishment provisions
 26 of this Article VI.B.2. (b) shall apply to such party's interest.

27 (c) Reworking, Recompleting or Plugging Back. An election not to participate in the drilling, Sidetracking or
 28 Deepening of a well shall be deemed an election not to participate in any Reworking or Plugging Back operation proposed in
 29 such a well, or portion thereof, to which the initial non-consent election applied that is conducted at any time prior to full
 30 recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. Similarly, an election not to
 31 participate in the Completing or Recompleting of a well shall be deemed an election not to participate in any Reworking
 32 operation proposed in such a well, or portion thereof, to which the initial non-consent election applied that is conducted at
 33 any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. Any such
 34 Reworking, Recompleting or Plugging Back operation conducted during the recoupment period shall be deemed part of the
 35 cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties ~~400%~~ of
 36 that portion of the costs of the Reworking, Recompleting or Plugging Back operation which would have been chargeable to
 37 such Non-Consenting Party had it participated therein. If such a Reworking, Recompleting or Plugging Back operation is
 38 proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting
 39 Parties in said well.

40 (d) Recoupment Matters. During the period of time Consenting Parties are entitled to receive Non-Consenting Party's
 41 share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all ad valorem,
 42 production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to
 43 Non-Consenting Party's share of production not excepted by Article III.C.

44 In the case of any Reworking, Sidetracking, Plugging Back, Recompleting or Deepening operation, the Consenting
 45 Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all
 46 such equipment shall remain unchanged; and upon abandonment of a well after such Reworking, Sidetracking, Plugging Back,
 46 Recompleting or Deepening, the Consenting Parties shall account for all such equipment to the owners thereof, with each
 48 party receiving its proportionate part in kind or in value, less cost of salvage.

49 Within ninety (90) days after the completion of any operation under this Article, the party conducting the operations
 50 for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to
 51 the well, and an itemized statement of the cost of drilling, Sidetracking, Deepening, Plugging Back, testing, Completing,
 52 Recompleting, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement
 53 of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the
 54 Consenting Parties are being reimbursed as provided above, the party conducting the operations for the Consenting Parties
 55 shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of
 56 the well, together with a statement of the quantity of Oil and Gas produced from it and the amount of proceeds realized from
 57 the sale of the well's working interest production during the preceding month. In determining the quantity of Oil and Gas
 58 produced during any month, Consenting Parties shall use industry accepted methods such as but not limited to metering or
 59 periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with
 60 any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited
 61 against the total unreturned costs of the work done and of the equipment purchased in determining when the interest of such
 62 Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-
 63 Consenting Party.

64 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided
65 for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it as of 7:00 a.m. on the day
66 following the day on which such recoupment occurs, and, from and after such reversion, such Non-Consenting Party shall
67 own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as
68 such Non-Consenting Party would have been entitled to had it participated in the drilling, Sidetracking, Reworking,
69 Deepening, Recompleting or Plugging Back of said well. Thereafter, such Non-Consenting Party shall be charged with and
70 shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this
71 agreement and Exhibit "C" attached hereto.

72 3. Stand-By Costs: When a well which has been drilled or Deepened has reached its authorized depth and all tests have
73 been completed and the results thereof furnished to the parties, or when operations on the well have been otherwise
74 terminated pursuant to Article VI.F., stand-by costs incurred pending response to a party's notice proposing a Reworking,

1 Sidetracking, Deepening, Recompleting, Plugging Back or Completing operation in such a well (including the period required
2 under Article VI.B.6. to resolve competing proposals) shall be charged and borne as part of the drilling or Deepening
3 operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted,
4 whichever first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms
5 of the second grammatical paragraph of Article VI.B.2. (a), shall be charged to and borne as part of the proposed operation,
6 but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by costs shall be allocated
7 between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to the total
8 interest as shown on Exhibit "A" of all Consenting Parties.

9 In the event that notice for a Sidetracking operation is given while the drilling rig to be utilized is on location, any party
10 may request and receive up to five (5) additional days after expiration of the forty-eight hour response period specified in
11 Article VI.B.1. within which to respond by paying for all stand-by costs and other costs incurred during such extended
12 response period; Operator may require such party to pay the estimated stand-by time in advance as a condition to extending
13 the response period. If more than one party elects to take such additional time to respond to the notice, standby costs shall be
14 allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing party's
15 interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties.

16 4. Deepening: If less than all parties elect to participate in a drilling, Sidetracking, or Deepening operation proposed
17 pursuant to Article VI.B.1., the interest relinquished by the Non-Consenting Parties to the Consenting Parties under Article
18 VI.B.2. shall relate only and be limited to the lesser of (i) the total depth actually drilled or (ii) the objective depth or Zone
19 of which the parties were given notice under Article VI.B.1. ("Initial Objective"). Such well shall not be Deepened beyond the
20 Initial Objective without first complying with this Article to afford the Non-Consenting Parties the opportunity to participate
21 in the Deepening operation.

22 In the event any Consenting Party desires to drill or Deepen a Non-Consent Well to a depth below the Initial Objective,
23 such party shall give notice thereof, complying with the requirements of Article VI.B.1., to all parties (including Non-
24 Consenting Parties). Thereupon, Articles VI.B.1. and 2. shall apply and all parties receiving such notice shall have the right to
25 participate or not participate in the Deepening of such well pursuant to said Articles VI.B.1. and 2. If a Deepening operation
26 is approved pursuant to such provisions, and if any Non-Consenting Party elects to participate in the Deepening operation,
27 such Non-Consenting party shall pay or make reimbursement (as the case may be) of the following costs and expenses.

28 (a) If the proposal to Deepen is made prior to the Completion of such well as a well capable of producing in paying
29 quantities, such Non-Consenting Party shall pay (or reimburse Consenting Parties for, as the case may be) that share of costs
30 and expenses incurred in connection with the drilling of said well from the surface to the Initial Objective which Non-
31 Consenting Party would have paid had such Non-Consenting Party agreed to participate therein, plus the Non-Consenting
32 Party's share of the cost of Deepening and of participating in any further operations on the well in accordance with the other
33 provisions of this Agreement; provided, however, all costs for testing and Completion or attempted Completion of the well
34 incurred by Consenting Parties prior to the point of actual operations to Deepen beyond the Initial Objective shall be for the
35 sole account of Consenting Parties.

36 (b) If the proposal is made for a Non-Consent Well that has been previously Completed as a well capable of producing
37 in paying quantities, but is no longer capable of producing in paying quantities, such Non-Consenting Party shall pay (or
38 reimburse Consenting Parties for, as the case may be) its proportionate share of all costs of drilling, Completing, and
39 equipping said well from the surface to the Initial Objective, calculated in the manner provided in paragraph (a) above, less
40 those costs recouped by the Consenting Parties from the sale of production from the well. The Non-Consenting Party shall
41 also pay its proportionate share of all costs of re-entering said well. The Non-Consenting Parties' proportionate part (based
42 on the percentage of such well Non-Consenting Party would have owned had it previously participated in such Non-Consent
43 Well) of the costs of salvable materials and equipment remaining in the hole and salvable surface equipment used in
44 connection with such well shall be determined in accordance with Exhibit "C." If the Consenting Parties have recouped the
45 cost of drilling, Completing, and equipping the well at the time such Deepening operation is conducted, then a Non-
46 Consenting Party may participate in the Deepening of the well with no payment for costs incurred prior to re-entering the
47 well for Deepening

48 The foregoing shall not imply a right of any Consenting Party to propose any Deepening for a Non-Consent Well prior
49 to the drilling of such well to its Initial Objective without the consent of the other Consenting Parties as provided in Article
50 VI.F.

51 5. Sidetracking: Any party having the right to participate in a proposed Sidetracking operation that does not own an
52 interest in the affected wellbore at the time of the notice shall, upon electing to participate, tender to the wellbore owners its
53 proportionate share (equal to its interest in the Sidetracking operation) of the value of that portion of the existing wellbore
54 to be utilized as follows:

55 (a) If the proposal is for Sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs
56 incurred in the initial drilling of the well down to the depth at which the Sidetracking operation is initiated.

57 (b) If the proposal is for Sidetracking a well which has previously produced, reimbursement shall be on the basis of
58 such party's proportionate share of drilling and equipping costs incurred in the initial drilling of the well down to the depth
59 at which the Sidetracking operation is conducted, calculated in the manner described in Article VI.B.4(b) above. Such party's
60 proportionate share of the cost of the well's salvable materials and equipment down to the depth at which the Sidetracking
61 operation is initiated shall be determined in accordance with the provisions of Exhibit "C."

62 6. Order of Preference of Operations. Except as otherwise specifically provided in this agreement, if any party desires to
63 propose the conduct of an operation that conflicts with a proposal that has been made by a party under this Article VI, such

64 party shall have fifteen (15) days from delivery of the initial proposal, in the case of a proposal to drill a well or to perform
65 an operation on a well where no drilling rig is on location, or twenty-four (24) hours, exclusive of Saturday, Sunday and legal
66 holidays, from delivery of the initial proposal, if a drilling rig is on location for the well on which such operation is to be
67 conducted, to deliver to all parties entitled to participate in the proposed operation such party's alternative proposal, such
68 alternate proposal to contain the same information required to be included in the initial proposal. Each party receiving such
69 proposals shall elect by delivery of notice to Operator within five (5) days after expiration of the proposal period, or within
70 twenty-four (24) hours (exclusive of Saturday, Sunday and legal holidays) if a drilling rig is on location for the well that is the
71 subject of the proposals, to participate in one of the competing proposals. Any party not electing within the time required
72 shall be deemed not to have voted. The proposal receiving the vote of parties owning the largest aggregate percentage
73 interest of the parties voting shall have priority over all other competing proposals; in the case of a tie vote, the
74

1 initial proposal shall prevail. Operator shall deliver notice of such result to all parties entitled to participate in the operation
 2 within five (5) days after expiration of the election period (or within twenty-four (24) hours, exclusive of Saturday, Sunday
 3 and legal holidays, if a drilling rig is on location). Each party shall then have two (2) days (or twenty-four (24) hours if a rig
 4 is on location) from receipt of such notice to elect by delivery of notice to Operator to participate in such operation or to
 5 relinquish interest in the affected well pursuant to the provisions of Article VI.B.2.; failure by a party to deliver notice within
 6 such period shall be deemed an election not to participate in the prevailing proposal.

7 7. Conformity to Spacing Pattern. Notwithstanding the provisions of this Article VI.B.2., it is agreed that no wells shall be
 8 proposed to be drilled to or Completed in or produced from a Zone from which a well located elsewhere on the Contract
 9 Area is producing, unless such well conforms to the then-existing well spacing pattern for such Zone.

10 8. Paying Wells. No party shall conduct any Reworking, Deepening, Plugging Back, Completion, Recompletion, or
 11 Sidetracking operation under this agreement with respect to any well then capable of producing in paying quantities except
 12 with the consent of all parties that have not relinquished interests in the well at the time of such operation.

13 C. Completion of Wells; Reworking and Plugging Back:

14 1. Completion: Without the consent of all parties, no well shall be drilled, Deepened or Sidetracked, except any well
 15 drilled, Deepened or Sidetracked pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling,
 16 Deepening or Sidetracking shall include:

- 17 Option No. 1: All necessary expenditures for the drilling, Deepening or Sidetracking, testing, Completing and
 18 equipping of the well, including necessary tankage and/or surface facilities.
- 19 Option No. 2: All necessary expenditures for the drilling, Deepening or Sidetracking and testing of the well. When
 20 such well has reached its authorized depth, and all logs, cores and other tests have been completed, and the results
 21 thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators having the right to
 22 participate in a Completion attempt whether or not Operator recommends attempting to Complete the well,
 23 together with Operator's AFE for Completion costs if not previously provided. The parties receiving such notice
 24 shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect by delivery of
 25 notice to Operator to participate in a recommended Completion attempt or to make a Completion proposal with an
 26 accompanying AFE. Operator shall deliver any such Completion proposal, or any Completion proposal conflicting
 27 with Operator's proposal, to the other parties entitled to participate in such Completion in accordance with the
 28 procedures specified in Article VI.B.6. Election to participate in a Completion attempt shall include consent to all
 29 necessary expenditures for the Completing and equipping of such well, including necessary tankage and/or surface
 30 facilities but excluding any stimulation operation not contained on the Completion AFE. Failure of any party
 31 receiving such notice to reply within the period above fixed shall constitute an election by that party not to
 32 participate in the cost of the Completion attempt; provided, that Article VI.B.6. shall control in the case of
 33 conflicting Completion proposals. If one or more, but less than all of the parties, elect to attempt a Completion, the
 34 provision of Article VI.B.2. hereof (the phrase "Reworking, Sidetracking, Deepening, Recompleting or Plugging
 35 Back" as contained in Article VI.B.2. shall be deemed to include "Completing") shall apply to the operations
 36 thereafter conducted by less than all parties; provided, however, that Article VI.B.2. shall apply separately to each
 37 separate Completion or Recompletion attempt undertaken hereunder, and an election to become a Non-Consenting
 38 Party as to one Completion or Recompletion attempt shall not prevent a party from becoming a Consenting Party
 39 in subsequent Completion or Recompletion attempts regardless whether the Consenting Parties as to earlier
 40 Completions or Recompletion have recouped their costs pursuant to Article VI.B.2.; provided further, that any
 41 recoupment of costs by a Consenting Party shall be made solely from the production attributable to the Zone in
 42 which the Completion attempt is made. Election by a previous Non-Consenting party to participate in a subsequent
 43 Completion or Recompletion attempt shall require such party to pay its proportionate share of the cost of salvable
 44 materials and equipment installed in the well pursuant to the previous Completion or Recompletion attempt,
 45 insofar and only insofar as such materials and equipment benefit the Zone in which such party participates in a
 46 Completion attempt.

47 2. Rework, Recomplete or Plug Back: No well shall be Reworked, Recompleted or Plugged Back except a well Reworked,
 48 Recompleted, or Plugged Back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the Reworking,
 49 Recompleting or Plugging Back of a well shall include all necessary expenditures in conducting such operations and
 50 Completing and equipping of said well, including necessary tankage and/or surface facilities.

51 D. Other Operations:

52 Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of
 53 Twenty-five thousand Dollars (\$ 25,000.00) except in connection with the
 54 drilling, Sidetracking, Reworking, Deepening, Completing, Recompleting or Plugging Back of a well that has been previously
 55 authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden
 56 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion
 57 are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the
 58 emergency to the other parties. If Operator prepares an AFE for its own use, Operator shall furnish any Non-Operator so
 59 requesting an information copy thereof for any single project costing in excess of Twenty-five thousand Dollars
 60 (\$ 25,000.00). Any party who has not relinquished its interest in a well shall have the right to propose that
 61 Operator perform repair work or undertake the installation of artificial lift equipment or ancillary production facilities such as
 62 salt water disposal wells or to conduct additional work with respect to a well drilled hereunder or other similar project (but

63 not including the installation of gathering lines or other transportation or marketing facilities, the installation of which shall
64 be governed by separate agreement between the parties) reasonably estimated to require an expenditure in excess of the
65 amount first set forth above in this Article VI.D. (except in connection with an operation required to be proposed under
66 Articles VI.B.1. or VI.C.1. Option No. 2, which shall be governed exclusively by those Articles). Operator shall deliver such
67 proposal to all parties entitled to participate therein. If within thirty (30) days thereof Operator secures the written consent
68 of any party or parties owning at least **75%** of the interests of the parties entitled to participate in such operation,
69 each party having the right to participate in such project shall be bound by the terms of such proposal and shall be obligated
70 to pay its proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms
71 of the proposal.

72 **E. Abandonment of Wells:**

73 1. Abandonment of Dry Holes: Except for any well drilled or Deepened pursuant to Article VI.B.2., any well which has
74 been drilled or Deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be

1 plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any
 2 party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after
 3 delivery of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the
 4 proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the
 5 cost, risk and expense of the parties who participated in the cost of drilling or Deepening such well. Any party who objects to
 6 plugging and abandoning such well by notice delivered to Operator within forty-eight (48) hours (exclusive of Saturday,
 7 Sunday and legal holidays) after delivery of notice of the proposed plugging shall take over the well as of the end of such
 8 forty-eight (48) hour notice period and conduct further operations in search of Oil and/or Gas subject to the provisions of
 9 Article VI.B.; failure of such party to provide proof reasonably satisfactory to Operator of its financial capability to conduct
 10 such operations or to take over the well within such period or thereafter to conduct operations on such well or plug and
 11 abandon such well shall entitle Operator to retain or take possession of the well and plug and abandon the well. The party
 12 taking over the well shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties against
 13 liability for any further operations conducted on such well except for the costs of plugging and abandoning the well and
 14 restoring the surface, for which the abandoning parties shall remain proportionately liable.

15 2. Abandonment of Wells That Have Produced Except for any well in which a Non-Consent operation has been
 16 conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has
 17 been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to
 18 such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk
 19 and expense of all the parties hereto. Failure of a party to reply within sixty (60) days of delivery of notice of proposed
 20 abandonment shall be deemed an election to consent to the proposal. If, within sixty (60) days after delivery of notice of the
 21 proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its
 22 operation from the Zone then open to production shall be obligated to take over the well as of the expiration of the
 23 applicable notice period and shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties
 24 against liability for any further operations on the well conducted by such parties. Failure of such party or parties to provide
 25 proof reasonably satisfactory to Operator of their financial capability to conduct such operations or to take over the well
 26 within the required period or thereafter to conduct operations on such well shall entitle operator to retain or take possession
 27 of such well and plug and abandon the well.

28 Parties taking over a well as provided herein shall tender to each of the other parties its proportionate share of the value of
 29 the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C," less the estimated cost
 30 of salvaging and the estimated cost of plugging and abandoning and restoring the surface; provided, however, that in the event
 31 the estimated plugging and abandoning and surface restoration costs and the estimated cost of salvaging are higher than the
 32 value of the well's salvable material and equipment, each of the abandoning parties shall tender to the parties continuing
 33 operations their proportionate shares of the estimated excess cost. Each abandoning party shall assign to the non-abandoning
 34 parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all
 35 of its interest in the wellbore of the well and related equipment, together with its interest in the Leasehold insofar and only
 36 insofar as such Leasehold covers the right to obtain production from that wellbore in the Zone then open to production. If the
 37 interest of the abandoning party is or includes an Oil and Gas Interest, such party shall execute and deliver to the non-
 38 abandoning party or parties an oil and gas lease, limited to the wellbore and the Zone then open to production, for a term of
 39 one (1) year and so long thereafter as Oil and/or Gas is produced from the Zone covered thereby, such lease to be on the form
 40 attached as Exhibit "B." The assignments or leases so limited shall encompass the Drilling Unit upon which the well is located.
 41 The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their
 42 respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract
 43 Area of all assignees. There shall be no readjustment of interests in the remaining portions of the Contract Area.

44 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production
 45 from the well in the Zone then open other than the royalties retained in any lease made under the terms of this Article. Upon
 46 request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and
 47 charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate
 48 ownership of the assigned well. Upon proposed abandonment of the producing Zone assigned or leased, the assignor or lessor
 49 shall then have the option to repurchase its prior interest in the well (using the same valuation formula) and participate in
 50 further operations therein subject to the provisions hereof.

51 3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2. above shall be applicable as
 52 between Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided,
 53 however, no well shall be permanently plugged and abandoned unless and until all parties having the right to conduct further
 54 operations therein have been notified of the proposed abandonment and afforded the opportunity to elect to take over the well
 55 in accordance with the provisions of this Article VI.E.; and provided further, that Non-Consenting Parties who own an interest
 56 in a portion of the well shall pay their proportionate shares of abandonment and surface restoration cost for such well as
 57 provided in Article VI.B.2.(b).

58 F. Termination of Operations:

59 Upon the commencement of an operation for the drilling, Reworking, Sidetracking, Plugging Back, Deepening, testing,
 60 Completion or plugging of a well, including but not limited to the Initial Well, such operation shall not be terminated without
 61 consent of parties bearing 75% of the costs of such operation; provided, however, that in the event granite or other
 62 practically impenetrable substance or condition in the hole is encountered which renders further operations impractical,

63 Operator may discontinue operations and give notice of such condition in the manner provided in Article VI.B.1, and the

64 provisions of Article VI.B. or VI.E. shall thereafter apply to such operation, as appropriate.

65 **G. Taking Production in Kind:**

66 ~~**Option No. 1: Gas Balancing Agreement Attached**~~

67 Each party shall take in kind or separately dispose of its proportionate share of all Oil and Gas produced from the
68 Contract Area, exclusive of production which may be used in development and producing operations and in preparing and
69 treating Oil and Gas for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking
70 in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party. Any
71 party taking its share of production in kind shall be required to pay for only its proportionate share of such part of
72 Operator's surface facilities which it uses.

73 Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in
74 production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment

1 directly from the purchaser thereof for its share of all production.

2 If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate
3 share of the Oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by
4 the party owning it, but not the obligation, to purchase such Oil or sell it to others at any time and from time to
5 time, for the account of the non-taking party. Any such purchase or sale by Operator may be terminated by
6 Operator upon at least ten (10) days written notice to the owner of said production and shall be subject always to
7 the right of the owner of the production upon at least ten (10) days written notice to Operator to exercise at any
8 time its right to take in kind, or separately dispose of, its share of all Oil not previously delivered to a purchaser.
9 Any purchase or sale by Operator of any other party's share of Oil shall be only for such reasonable periods of time
10 as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a
11 period in excess of one (1) year.

12 Any such sale by Operator shall be in a manner commercially reasonable under the circumstances but Operator
13 shall have no duty to share any existing market or to obtain a price equal to that received under any existing
14 market. The sale or delivery by Operator of a non-taking party's share of Oil under the terms of any existing
15 contract of Operator shall not give the non-taking party any interest in or make the non-taking party a party to said
16 contract. No purchase shall be made by Operator without first giving the non-taking party at least ten (10) days
17 written notice of such intended purchase and the price to be paid or the pricing basis to be used.

18 All parties shall give timely written notice to Operator of their Gas marketing arrangements for the following
19 month, excluding price, and shall notify Operator immediately in the event of a change in such arrangements.
20 Operator shall maintain records of all marketing arrangements, and of volumes actually sold or transported, which
21 records shall be made available to Non-Operators upon reasonable request.

22 In the event one or more parties' separate disposition of its share of the Gas causes split stream deliveries to separate
23 pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportion-
24 ate share of total Gas sales to be allocated to it, the balancing or accounting between the parties shall be in accordance with
25 any Gas balancing agreement between the parties hereto, whether such an agreement is attached as Exhibit "E" or is a
26 separate agreement. Operator shall give notice to all parties of the first sales of Gas from any well under this agreement.

27 Option No. 2: No Gas Balancing Agreement:

28 Each party shall ~~not~~ may take in kind or separately dispose of its proportionate share of all Oil and Gas produced from
29 the Contract Area, exclusive of production which may be used in development and producing operations and in
30 preparing and treating Oil and Gas for marketing purposes and production unavoidably lost. Any extra expenditures
31 incurred in the taking in kind or separate disposition by any party of its proportionate share of the production shall
32 be borne by such party. Any party taking its share of production in kind shall be required to pay for only its
33 proportionate share of such part of Operator's surface facilities which it uses.

34 Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in
35 production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment
36 directly from the purchaser thereof for its share of all production.

37 If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate
38 share of the Oil and/or Gas produced from the Contract Area, Operator ~~shall have the right~~, subject to the
39 revocation at will by the party owning it ~~but not the obligation, to purchase such Oil and/or Gas or sell~~ such Oil and/or Gas ~~sell~~ ~~to~~ ~~it~~ to others
40 at any time and from time to time, for the account of the non-taking party. Any such purchase or sale by Operator
41 may be terminated by Operator upon at least ten (10) days written notice to the owner of said production and shall
42 be subject always to the right of the owner of the production upon at least ten (10) days written notice to Operator
43 to exercise its right to take in kind, or separately dispose of, its share of all Oil and/or Gas not previously delivered
44 to a purchaser; provided, however, that the effective date of any such revocation may be deferred at Operator's
45 election for a period not to exceed ninety (90) days if Operator has committed such production to a purchase
46 contract having a term extending beyond such ten (10) -day period. Any purchase or sale by Operator of any other
47 party's share of Oil and/or Gas shall be only for such reasonable periods of time as are consistent with the
48 minimum needs of the industry under the particular circumstances, but in no event for a period in excess of one (1)
49 year.

50 Any such sale by Operator shall be in a manner commercially reasonable under the circumstances, but Operator
51 shall have no duty to share any existing market or transportation arrangement or to obtain a price or transportation
52 fee equal to that received under any existing market or transportation arrangement. The sale or delivery by
53 Operator of a non-taking party's share of production under the terms of any existing contract of Operator shall not
54 give the non-taking party any interest in or make the non-taking party a party to said contract. No purchase of Oil
55 and Gas and no sale of Gas shall be made by Operator without first giving the non-taking party ten days written
56 notice of such intended purchase or sale and the price to be paid or the pricing basis to be used. Operator shall give
57 notice to all parties of the first sale of Gas from any well under this Agreement.

58 All parties shall give timely written notice to Operator of their Gas marketing arrangements for the following
59 month, excluding price, and shall notify Operator immediately in the event of a change in such arrangements.
60 Operator shall maintain records of all marketing arrangements, and of volumes actually sold or transported, which
61 records shall be made available to Non-Operators upon reasonable request.

64 A. Liability of Parties:

65 The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations,
66 and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the
67 liens granted among the parties in Article VII.B. are given to secure only the debts of each severally, and no party shall have
68 any liability to third parties hereunder to satisfy the default of any other party in the payment of any expense or obligation
69 hereunder. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other
70 partnership, joint venture, agency relationship or association, or to render the parties liable as partners, co-venturers, or
71 principals. In their relations with each other under this agreement, the parties shall not be considered fiduciaries or to have
72 established a confidential relationship but rather shall be free to act on an arm's-length basis in accordance with their own
73 respective self-interest, subject, however, to the obligation of the parties to act in good faith in their dealings with each other
74 with respect to activities hereunder.

1 B. Liens and Security Interests:

2 Each party grants to the other parties hereto a lien upon any interest it now owns or hereafter acquires in Oil and Gas
3 Leases and Oil and Gas Interests in the Contract Area, and a security interest and/or purchase money security interest in any
4 interest it now owns or hereafter acquires in the personal property and fixtures on or used or obtained for use in connection
5 therewith, to secure performance of all of its obligations under this agreement including but not limited to payment of expense,
6 interest and fees, the proper disbursement of all monies paid hereunder, the assignment or relinquishment of interest in Oil
7 and Gas Leases as required hereunder, and the proper performance of operations hereunder. Such lien and security interest
8 granted by each party hereto shall include such party's leasehold interests, working interests, operating rights, and royalty and
9 overriding royalty interests in the Contract Area now owned or hereafter acquired and in lands pooled or unitized therewith or
10 otherwise becoming subject to this agreement, the Oil and Gas when extracted therefrom and equipment situated thereon or
11 used or obtained for use in connection therewith (including, without limitation, all wells, tools, and tubular goods), and accounts
12 (including, without limitation, accounts arising from gas imbalances or from the sale of Oil and/or Gas at the wellhead),
13 contract rights, inventory and general intangibles relating thereto or arising therefrom, and all proceeds and products of the
14 foregoing.

15 To perfect the lien and security agreement provided herein, each party hereto shall execute and acknowledge the recording
16 supplement and/or any financing statement prepared and submitted by any party hereto in conjunction herewith or at any time
17 following execution hereof, and Operator is authorized to file this agreement or the recording supplement executed herewith as
18 a lien or mortgage in the applicable real estate records and as a financing statement with the proper officer under the Uniform
19 Commercial Code in the state in which the Contract Area is situated and such other states as Operator shall deem appropriate
20 to perfect the security interest granted hereunder. Any party may file this agreement, the recording supplement executed
21 herewith, or such other documents as it deems necessary as a lien or mortgage in the applicable real estate records and/or a
22 financing statement with the proper officer under the Uniform Commercial Code.

23 Each party represents and warrants to the other parties hereto that the lien and security interest granted by such party to
24 the other parties shall be a first and prior lien, and each party hereby agrees to maintain the priority of said lien and security
25 interest against all persons acquiring an interest in Oil and Gas Leases and Interests covered by this agreement by, through or
26 under such party. All parties acquiring an interest in Oil and Gas Leases and Oil and Gas Interests covered by this agreement,
27 whether by assignment, merger, mortgage, operation of law, or otherwise, shall be deemed to have taken subject
28 to the lien and security interest granted by this Article VII.B. as to all obligations attributable to such interest hereunder
29 whether or not such obligations arise before or after such interest is acquired.

30 To the extent that parties have a security interest under the Uniform Commercial Code of the state in which the
31 Contract Area is situated, they shall be entitled to exercise the rights and remedies of a secured party under the Code.
32 The bringing of a suit and the obtaining of judgment by a party for the secured indebtedness shall not be deemed an
33 election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof in
34 addition, upon default by any party in the payment of its share of expenses, interests or fees, or upon the improper use
35 of funds by the Operator, the other parties shall have the right, without prejudice to other rights or remedies, to collect
36 from the purchaser the proceeds from the sale of such defaulting party's share of Oil and Gas until the amount owed by
37 such party, plus interest as provided in "Exhibit C," has been received, and shall have the right to offset the amount
38 owed against the proceeds from the sale of such defaulting party's share of Oil and Gas. All purchasers of production
39 may rely on a notification of default from the non-defaulting party or parties stating the amount due as a result of the
40 default, and all parties waive any recourse available against purchasers for releasing production proceeds as provided in
41 this paragraph.

42 If any party fails to pay its share of cost within one hundred twenty (120) days after rendition of a statement therefor by
43 Operator, the non-defaulting parties, including Operator, shall upon request by Operator, pay the unpaid amount in the
44 proportion that the interest of each such party bears to the interest of all such parties. The amount paid by each party so
45 paying its share of the unpaid amount shall be secured by the liens and security rights described in Article VII.B., and each
46 paying party may independently pursue any remedy available hereunder or otherwise.

47 If any party does not perform all of its obligations hereunder, and the failure to perform subjects such party to foreclosure
48 or execution proceedings pursuant to the provisions of this agreement, to the extent allowed by governing law, the defaulting
49 party waives any available right of redemption from and after the date of judgment, any required valuation or appraisalment
50 of the mortgaged or secured property prior to sale, any available right to stay execution or to require a marshaling of assets
51 and any required bond in the event a receiver is appointed. In addition, to the extent permitted by applicable law, each party
52 hereby grants to the other parties a power of sale as to any property that is subject to the lien and security rights granted
53 hereunder, such power to be exercised in the manner provided by applicable law or otherwise in a commercially reasonable
54 manner and upon reasonable notice.

55 Each party agrees that the other parties shall be entitled to utilize the provisions of Oil and Gas lien law or other lien
56 law of any state in which the Contract Area is situated to enforce the obligations of each party hereunder. Without limiting
57 the generality of the foregoing, to the extent permitted by applicable law, Non-Operators agree that Operator may invoke or
58 utilize the mechanics' or materialmen's lien law of the state in which the Contract Area is situated in order to secure the
59 payment to Operator of any sum due hereunder for services performed or materials supplied by Operator.

60 C. Advances:

61 Operator, at its election, shall have the right from time to time to demand and receive from one or more of the other
62 parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations
63 hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an

64 itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice
65 for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month.
66 Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and
67 invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as
68 provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end
69 that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

70 **D. Defaults and Remedies:**

71 If any party fails to discharge any financial obligation under this agreement, including without limitation the failure to
72 make any advance under the preceding Article VII.C. or any other provision of this agreement, within the period required for
73 such payment hereunder, then in addition to the remedies provided in Article VII.B. or elsewhere in this agreement, the
74 remedies specified below shall be applicable. For purposes of this Article VII.D., all notices and elections shall be delivered

1 only by Operator, except that Operator shall deliver any such notice and election requested by a non-defaulting Non-Operator,
2 and when Operator is the party in default, the applicable notices and elections can be delivered by any Non-Operator.
3 Election of any one or more of the following remedies shall not preclude the subsequent use of any other remedy specified
4 below or otherwise available to a non-defaulting party.

5 1. Suspension of Rights: Any party may deliver to the party in default a Notice of Default, which shall specify the default,
6 specify the action to be taken to cure the default, and specify that failure to take such action will result in the exercise of one
7 or more of the remedies provided in this Article. If the default is not cured within thirty (30) days of the delivery of such
8 Notice of Default, all of the rights of the defaulting party granted by this agreement may upon notice be suspended until the
9 default is cured, without prejudice to the right of the non-defaulting party or parties to continue to enforce the obligations of
10 the defaulting party previously accrued or thereafter accruing under this agreement. If Operator is the party in default, the
11 Non-Operators shall have in addition the right, by vote of Non-Operators owning a majority in interest in the Contract Area
12 after excluding the voting interest of Operator, to appoint a new Operator effective immediately. The rights of a defaulting
13 party that may be suspended hereunder at the election of the non-defaulting parties shall include, without limitation, the right
14 to receive information as to any operation conducted hereunder during the period of such default, the right to elect to
15 participate in an operation proposed under Article VI.B. of this agreement, the right to participate in an operation being
16 conducted under this agreement even if the party has previously elected to participate in such operation, and the right to
17 receive proceeds of production from any well subject to this agreement.

18 2. Suit for Damages: Non-defaulting parties or Operator for the benefit of non-defaulting parties may sue (at joint
19 account expense) to collect the amounts in default, plus interest accruing on the amounts recovered from the date of default
20 until the date of collection at the rate specified in Exhibit "C" attached hereto. Nothing herein shall prevent any party from
21 suing any defaulting party to collect consequential damages accruing to such party as a result of the default.

22 3. Deemed Non-Consent: The non-defaulting party may deliver a written Notice of Non-Consent Election to the
23 defaulting party at any time after the expiration of the thirty-day cure period following delivery of the Notice of Default, in
24 which event if the billing is for the drilling a new well or the Plugging Back, Sidetracking, Reworking or Deepening of a
25 well which is to be or has been plugged as a dry hole, or for the Completion or Recompletion of any well, the defaulting
26 party will be conclusively deemed to have elected not to participate in the operation and to be a Non-Consenting Party with
27 respect thereto under Article VI.B. or VI.C., as the case may be, to the extent of the costs unpaid by such party,
28 notwithstanding any election to participate theretofore made. If election is made to proceed under this provision, then the
29 non-defaulting parties may not elect to sue for the unpaid amount pursuant to Article VII.D.2.

30 Until the delivery of such Notice of Non-Consent Election to the defaulting party, such party shall have the right to cure
31 its default by paying its unpaid share of costs plus interest at the rate set forth in Exhibit "C," provided, however, such
32 payment shall not prejudice the rights of the non-defaulting parties to pursue remedies for damages incurred by the non-
33 defaulting parties as a result of the default. Any interest relinquished pursuant to this Article VII.D.3. shall be offered to the
34 non-defaulting parties in proportion to their interests, and the non-defaulting parties electing to participate in the ownership
35 of such interest shall be required to contribute their shares of the defaulted amount upon their election to participate therein.

36 4. Advance Payment: If a default is not cured within thirty (30) days of the delivery of a Notice of Default, Operator, or
37 Non-Operators if Operator is the defaulting party, may thereafter require advance payment from the defaulting
38 party of such defaulting party's anticipated share of any item of expense for which Operator, or Non-Operators, as the case may
39 be, would be entitled to reimbursement under any provision of this agreement, whether or not such expense was the subject of
40 the previous default. Such right includes, but is not limited to, the right to require advance payment for the estimated costs of
41 drilling a well or Completion of a well as to which an election to participate in drilling or Completion has been made. If the
42 defaulting party fails to pay the required advance payment, the non-defaulting parties may pursue any of the remedies provided
43 in the Article VII.D. or any other default remedy provided elsewhere in this agreement. Any excess of funds advanced remaining
44 when the operation is completed and all costs have been paid shall be promptly returned to the advancing party.

45 5. Costs and Attorneys' Fees: In the event any party is required to bring legal proceedings to enforce any financial
46 obligation of a party hereunder, the prevailing party in such action shall be entitled to recover all court costs, costs of
47 collection, and a reasonable attorney's fee, which the lien provided for herein shall also secure.

48 **E. Rentals, Shut-in Well Payments and Minimum Royalties:**

49 Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid
50 by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties
51 own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to
52 make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper
53 evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or
54 minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which
55 results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.

56 Operator shall notify Non-Operators of the anticipated completion of a shut-in well, or the shutting in or return to
57 production of a producing well, at least five (5) days (excluding Saturday, Sunday, and legal holidays) prior to taking such
58 action, or at the earliest opportunity permitted by circumstances, but assumes no liability for failure to do so. In the event of
59 failure by Operator to so notify Non-Operators, the loss of any lease contributed hereto by Non-Operators for failure to make
60 timely payments of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article 61
61 IV.B.3.

62 **F. Taxes:**

63 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all

64 property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed
65 thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as
66 to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on Leases and Oil and
67 Gas Interests contributed by such Non-Operator. If the assessed valuation of any Lease is reduced by reason of its being
68 subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes
69 resulting therefrom shall inure to the benefit of the owner or owners of such Lease, and Operator shall adjust the charge to
70 such owner or owners so as to reflect the benefit of such reduction. If the ad valorem taxes are based in whole or in part
71 upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to
72 the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's
73 working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner
74 provided in Exhibit "C."

1 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner
 2 prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final
 3 determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes
 4 and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for
 5 the joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be
 6 paid by them, as provided in Exhibit "C."

7 Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect
 8 to the production or handling of such party's share of Oil and Gas produced under the terms of this agreement.

9 ARTICLE VIII.

10 ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST

11 A. Surrender of Leases:

12 The Leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole
 13 or in part unless all parties consent thereto.

14 However, should any party desire to surrender its interest in any Lease or in any portion thereof, such party shall give written
 15 notice of the proposed surrender to all parties, and the parties to whom such notice is delivered shall have thirty (30) days after
 16 delivery of the notice within which to notify the party proposing the surrender whether they elect to consent thereto. Failure of a
 17 party to whom such notice is delivered to reply within said 30-day period shall constitute a consent to the surrender of the Leases
 18 described in the notice. If all parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or
 19 implied warranty of title, all of its interest in such Lease, or portion thereof, and any well, material and equipment which may be
 20 located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. If the interest of the
 21 assigning party is or includes an Oil and Gas Interest, the assigning party shall execute and deliver to the party or parties not
 22 consenting to such surrender an oil and gas lease covering such Oil and Gas Interest for a term of one (1) year and so long
 23 thereafter as Oil and/or Gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B."
 24 Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore
 25 accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party
 26 shall have no further interest in the assigned or leased premises and its equipment and production other than the royalties retained
 27 in any lease made under the terms of this Article. The party assignee or lessee shall pay to the party assignor or lessor the
 28 reasonable salvage value of the latter's interest in any well's salvable materials and equipment attributable to the assigned or leased
 29 acreage. The value of all salvable materials and equipment shall be determined in accordance with the provisions of Exhibit "C," less
 30 the estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface. If such value is less
 31 than such costs, then the party assignor or lessor shall pay to the party assignee or lessee the amount of such deficit. If the
 32 assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the
 33 interest of each bears to the total interest of all such parties. If the interest of the parties to whom the assignment is to be made
 34 varies according to depth, then the interest assigned shall similarly reflect such variances.

35 Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering
 36 party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage
 37 assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this
 38 agreement but shall be deemed subject to an Operating Agreement in the form of this agreement.

39 B. Renewal or Extension of Leases:

40 If any party secures a renewal or replacement of an Oil and Gas Lease or Interest subject to this agreement, then all other parties
 41 shall be notified promptly upon such acquisition or, in the case of a replacement Lease taken before expiration of an existing Lease,
 42 promptly upon expiration of the existing Lease. The parties notified shall have the right for a period of thirty (30) days following
 43 delivery of such notice in which to elect to participate in the ownership of the renewal or replacement Lease, insofar as such Lease
 44 affects lands within the Contract Area, by paying to the party who acquired it their proportionate shares of the acquisition cost
 45 allocated to that part of such Lease within the Contract Area, which shall be in proportion to the interest held at that time by the
 46 parties in the Contract Area. Each party who participates in the purchase of a renewal or replacement Lease shall be given an
 47 assignment of its proportionate interest therein by the acquiring party.

48 If some, but less than all, of the parties elect to participate in the purchase of a renewal or replacement Lease, it shall be owned
 49 by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in
 50 the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the
 51 purchase of such renewal or replacement Lease. The acquisition of a renewal or replacement Lease by any or all of the parties hereto
 52 shall not cause a readjustment of the interests of the parties stated in Exhibit "A," but any renewal or replacement Lease in which
 53 less than all parties elect to participate shall not be subject to this agreement but shall be deemed subject to a separate Operating
 54 Agreement in the form of this agreement.

55 If the interests of the parties in the Contract Area vary according to depth, then their right to participate proportionately in
 56 renewal or replacement Leases and their right to receive an assignment of interest shall also reflect such depth variances.

57 The provisions of this Article shall apply to renewal or replacement Leases whether they are for the entire interest covered by
 58 the expiring Lease or cover only a portion of its area or an interest therein. Any renewal or replacement Lease taken before the
 59 expiration of its predecessor Lease, or taken or contracted for or becoming effective within six (6) months after the expiration of the
 60 existing Lease, shall be subject to this provision so long as this agreement is in effect at the time of such acquisition or at the time
 61 the renewal or replacement Lease becomes effective; but any Lease taken or contracted for more than six (6) months after the
 62 expiration of an existing Lease shall not be deemed a renewal or replacement Lease and shall not be subject to the provisions of this
 63 agreement.

65 C. Acreage or Cash Contributions:

66 While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other
67 operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall
68 be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom
69 the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the
70 proportions said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the
71 extent possible, be governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any
72 acreage or cash contributions it may obtain in support of any well or any other operation on the Contract Area. The above
73 provisions shall also be applicable to optional rights to earn acreage outside the Contract Area which are in support of well drilled
74 inside Contract Area.

1 If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder,
2 such consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

3 **D. Assignment; Maintenance of Uniform Interest:**

4 For the purpose of maintaining uniformity of ownership in the Contract Area in the Oil and Gas Leases, Oil and Gas
5 Interests, wells, equipment and production covered by this agreement no party shall sell, encumber, transfer or make other
6 disposition of its interest in the Oil and Gas Leases and Oil and Gas Interests embraced within the Contract Area or in wells,
7 equipment and production unless such disposition covers either:

- 8 1. the entire interest of the party in all Oil and Gas Leases, Oil and Gas Interests, wells, equipment and production; or
- 9 2. an equal undivided percent of the party's present interest in all Oil and Gas Leases, Oil and Gas Interests, wells,
10 equipment and production in the Contract Area.

11 Every sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement
12 and shall be made without prejudice to the right of the other parties, and any transferee of an ownership interest in any Oil and
13 Gas Lease or Interest shall be deemed a party to this agreement as to the interest conveyed from and after the effective date of
14 the transfer of ownership; provided, however, that the other parties shall not be required to recognize any such sale,
15 encumbrance, transfer or other disposition for any purpose hereunder until thirty (30) days after they have received a copy of the
16 instrument of transfer or other satisfactory evidence thereof in writing from the transferor or transferee. No assignment or other
17 disposition of interest by a party shall relieve such party of obligations previously incurred by such party hereunder with respect
18 to the interest transferred, including without limitation the obligation of a party to pay all costs attributable to an operation
19 conducted hereunder in which such party has agreed to participate prior to making such assignment, and the lien and security
20 interest granted by Article VII.B. shall continue to burden the interest transferred to secure payment of any such obligations.

21 If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion,
22 may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures,
23 receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to
24 bind, the co-owners of such party's interest within the scope of the operations embraced in this agreement; however, all such co-
25 owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of
26 the Oil and Gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale
27 proceeds thereof.

28 **E. Waiver of Rights to Partition:**

29 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an
30 undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its
31 undivided interest therein.

32 **F. Preferential Right to Purchase:**

33 (Optional; Check if applicable.)

34 ~~Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract
35 Area, it shall promptly give written notice to the other parties, with full information concerning its proposed disposition, which
36 shall include the name and address of the prospective transferee (who must be ready, willing and able to purchase), the purchase
37 price, a legal description sufficient to identify the property, and all other terms of the offer. The other parties shall then have an
38 optional prior right, for a period of ten (10) days after the notice is delivered, to purchase for the stated consideration on the
38 same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the
40 purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all
41 purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage
42 its interests, or to transfer title to its interests to its mortgagee in lieu of or pursuant to foreclosure of a mortgage of its interests,
43 or to dispose of its interests by merger, reorganization, consolidation, or by sale of all or substantially all of its Oil and Gas assets
44 to any party, or by transfer of its interests to a subsidiary or parent company or to a subsidiary of a parent company, or to any
45 company in which such party owns a majority of the stock.~~

46 **ARTICLE IX.**

47 **INTERNAL REVENUE CODE ELECTION**

48 If, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, and if the
49 parties have not otherwise agreed to form a tax partnership pursuant to Exhibit "G" or other agreement between them, each
50 party thereby affected elects to be excluded from the application of all of the provisions of Subchapter "K," Chapter 1, Subtitle
51 "A," of the Internal Revenue Code of 1986, as amended ("Code"), as permitted and authorized by Section 761 of the Code and
52 the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected
53 such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal
54 Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by
55 Treasury Regulation §1.761. Should there be any requirement that each party hereby affected give further evidence of this
56 election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal
57 Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action
58 inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract
59 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K," Chapter
60 1, Subtitle "A," of the Code, under which an election similar to that provided by Section 761 of the Code is permitted, each party
61 hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each
62 such party states that the income derived by such party from operations hereunder can be adequately determined without the
63 computation of partnership taxable income.

CLAIMS AND LAWSUITS

66 Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure
67 does not exceed **Fifty thousand** Dollars (**\$ 50,000.00**) and if the payment is in complete settlement
68 of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over
69 the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling settling,
70 or otherwise discharging such claim or suit shall be a the joint expense of the parties participating in the operation from which the
71 claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations
72 hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall
73 immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder. 74
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ARTICLE XI.**FORCE MAJEURE**

If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other than the obligation to indemnify or make money payments or furnish security, that party shall give to all other parties prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the continuance of the force majeure. The term "force majeure," as here employed, shall mean an act of God, strike, lockout, or other industrial disturbance, act of the public enemy, war, blockade, public riot, lightening, fire, storm, flood or other act of nature, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable. The requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall be entirely within the discretion of the party concerned.

ARTICLE XII.**NOTICES**

All notices authorized or required between the parties by any of the provisions of this agreement, unless otherwise specifically provided, shall be in writing and delivered in person or by United States mail, courier service, telegram, telex, telecopier or any other form of facsimile, postage or charges prepaid, and addressed to such parties at the addresses listed on Exhibit "A." All telephone or oral notices permitted by this agreement shall be confirmed immediately thereafter by written notice. The originating notice given under any provision hereof shall be deemed delivered only when received by the party to whom such notice is directed, and the time for such party to deliver any notice in response thereto shall run from the date the originating notice is received. "Receipt" for purposes of this agreement with respect to written notice delivered hereunder shall be actual delivery of the notice to the address of the party to be notified specified in accordance with this agreement, or to the telecopy, facsimile or telex machine of such party. The second or any responsive notice shall be deemed delivered when deposited in the United States mail or at the office of the courier or telegraph service, or upon transmittal by telex, telecopy or facsimile, or when personally delivered to the party to be notified, provided, that when response is required within 24 or 48 hours, such response shall be given orally or by telephone, telex, telecopy or other facsimile within such period. Each party shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other parties. If a party is not available to receive notice orally or by telephone when a party attempts to deliver a notice required to be delivered within 24 or 48 hours, the notice may be delivered in writing by any other method specified herein and shall be deemed delivered in the same manner provided above for any responsive notice.

ARTICLE XIII.**TERM OF AGREEMENT**

This agreement shall remain in full force and effect as to the Oil and Gas Leases and/or Oil and Gas Interests subject hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title or interest in or to any Lease or Oil and Gas Interest contributed by any other party beyond the term of this agreement.

- Option No. 1: So long as any of the Oil and Gas Leases subject to this agreement remain or are continued in force as to any part of the Contract Area, whether by production, extension, renewal or otherwise.
- Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision of this agreement, results in the Completion of a well as a well capable of production of Oil and/or Gas in paying quantities, this agreement shall continue in force so long as any such well is capable of production, and for an additional period of 90 days thereafter; provided, however, if, prior to the expiration of such additional period, one or more of the parties hereto are engaged in drilling, Reworking, Deepening, Sidetracking, Plugging Back, testing or attempting to Complete or Re-complete a well or wells hereunder, this agreement shall continue in force until such operations have been completed and if production results therefrom, this agreement shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well drilled hereunder, results in a dry hole, and no other well is capable of producing Oil and/or Gas from the Contract Area, this agreement shall terminate unless drilling, Deepening, Sidetracking, Completing, Re-completing, Plugging Back or Reworking operations are commenced within 180 days from the date of abandonment of said well. "Abandonment" for such purposes shall mean either (i) a decision by all parties not to conduct any further operations on the well or (ii) the elapse of 180 days from the conduct of any operations on the well, whichever first occurs.

The termination of this agreement shall not relieve any party hereto from any expense, liability or other obligation or any remedy therefor which has accrued or attached prior to the date of such termination.

Upon termination of this agreement and the satisfaction of all obligations hereunder, in the event a memorandum of this Operating Agreement has been filed of record, Operator is authorized to file of record in all necessary recording offices a notice of termination, and each party hereto agrees to execute such a notice of termination as to Operator's interest, upon request of Operator, if Operator has satisfied all its financial obligations.

ARTICLE XIV.**COMPLIANCE WITH LAWS AND REGULATIONS**

63 **A. Laws, Regulations and Orders:**

64 This agreement shall be subject to the applicable laws of the state in which the Contract Area is located, to the valid rules,
65 regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state,
66 and local laws, ordinances, rules, regulations and orders.

67 **B. Governing Law:**

68 This agreement and all matters pertaining hereto, including but not limited to matters of performance, non-
69 performance, breach, remedies, procedures, rights, duties, and interpretation or construction, shall be governed and
70 determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states,
71 the law of the state of Colorado shall govern.

72 **C. Regulatory Agencies:**

73 Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any
74 rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or

1 orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or
2 production of wells, on tracts offsetting or adjacent to the Contract Area.

3 With respect to the operations hereunder, Non-Operators agree to release Operator from any and all losses, damages,
4 injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation
5 or application of rules, rulings, regulations or orders of the Department of Energy or Federal Energy Regulatory Commission
6 or predecessor or successor agencies to the extent such interpretation or application was made in good faith and does not
7 constitute gross negligence. Each Non-Operator further agrees to reimburse Operator for such Non-Operator's share of
8 production or any refund, fine, levy or other governmental sanction that Operator may be required to pay as a result of such
9 an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such
10 incorrect interpretation or application.

11 **ARTICLE XV.**

12 **MISCELLANEOUS**

13 **A. Execution:**

14 This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been
15 executed by such Non-Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of
16 the parties to which it is tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which
17 own, in fact, an interest in the Contract Area. Operator may, however, by written notice to all Non-Operators who have
18 become bound by this agreement as aforesaid, given at any time prior to the actual spud date of the Initial Well but in no
19 event later than five days prior to the date specified in Article VI.A. for commencement of the Initial Well, terminate this
20 agreement if Operator in its sole discretion determines that there is insufficient participation to justify commencement of
21 drilling operations. In the event of such a termination by Operator, all further obligations of the parties hereunder shall cease
22 as of such termination. In the event any Non-Operator has advanced or prepaid any share of drilling or other costs
23 hereunder, all sums so advanced shall be returned to such Non-Operator without interest. In the event Operator proceeds
24 with drilling operations for the Initial Well without the execution hereof by all persons listed on Exhibit "A" as having a
25 current working interest in such well, Operator shall indemnify Non-Operators with respect to all costs incurred for the
26 Initial Well which would have been charged to such person under this agreement if such person had executed the same and
27 Operator shall receive all revenues which would have been received by such person under this agreement if such person had
28 executed the same.

29 **B. Successors and Assigns:**

30 This agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs,
31 devisees, legal representatives, successors and assigns, and the terms hereof shall be deemed to run with the Leases or
32 Interests included within the Contract Area.

33 **C. Counterparts:**

34 This instrument may be executed in any number of counterparts, each of which shall be considered an original for all
35 purposes.

36 **D. Severability:**

37 For the purposes of assuming or rejecting this agreement as an executory contract pursuant to federal bankruptcy laws,
38 this agreement shall not be severable, but rather must be assumed or rejected in its entirety, and the failure of any party to
39 this agreement to comply with all of its financial obligations provided herein shall be a material default.

40 **ARTICLE XVI.**

41 **OTHER PROVISIONS**

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43 **SEE ATTACHED PAGE 17**

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1 IN WITNESS WHEREOF, this agreement shall be effective as of the 30th day of September,

2 2013.

3 _____, who has prepared and circulated this form for execution, represents and warrants that the form was printed from and, with the exception(s) listed below, is identical to the
AAPL Form 610-1989 Model Form

4 Operating Agreement, as published in computerized form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those made by strikethrough and/or insertion and that are
clearly recognizable as changes
in ~~Articles~~

5 ~~have been made to the form.~~

6 **ATTEST OR WITNESS:**

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8 /s/ Fredrick J. Witsell
9 Secretary

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OPERATOR

PETROSHARE CORP.

By: /s/ Stephen J. Foley
Stephen J. Foley
Type or print name

Title CFO
Date 9/30/2013
Tax ID or S.S. 46-1454523
No. _____

NON-OPERATORS

ROYALE INVESTMENTS, LLC

By: /s/ William W. Reid
William W. Reid
Type or print name

Title Manager
Date 10/03/13
Tax ID or S.S. _____
No. _____

RANCHER ENERGY CORP.

By: /s/ Jon Nicolaysen
Jon Nicolaysen
Type or print name

Title President & CEO
Date 10/2/13
Tax ID or S.S. 98-0422451
No. _____

U.S. Energy Development Co.

By: /s/ Douglas K. Walch
Douglas K. Walch
Type or print name MAW

Title President
Date 9/30/2013
Tax ID or S.S. 16-1142489
No. _____

ACKNOWLEDGMENTS

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Note: The following forms of acknowledgment are the short forms approved by the Uniform Law on Notarial Acts.

The validity and effect of these forms in any state will depend upon the statutes of that state.

Individual acknowledgment:

State of Colorado)

) ss.

County of Denver)

This instrument was acknowledged before me on

October 3, 2013 by William Reid, Manager of Royale Investments

(Seal, if any) JESSICA M. BROWNE

/s/ Jessica M. Browne

NOTARY PUBLIC

Title (and Rank) Notary Public

STATE OF COLORADO

My commission expires: 5/16/2016

NOTARY ID 20124030931 / MY COMMISSION EXPIRES MAY 16, 2016

Acknowledgment in representative capacity:

State of New York)

) ss.

County of Erie)

This instrument was acknowledged before me on

September 30, 2013 by Douglas K. Walch as

President of U. S. Energy Development Corporation

(Seal, if any)

/s/ Michelle Anne Chambers

Title (and Rank) _____

My commission expires: 11/14/13

Michele Anne Chambers

NOTARY PUBLIC, STATE OF NEW YORK

QUALIFIED IN ERIE COUNTY

NO 6136845

MY COMMISSION EXPIRES NOV 14, 2013



EXHIBIT A

Attached to that certain Operating Agreement dated effective September 30, 2013, between PetroShare Corp, as Operator, and Royale Investments LLC, Rancher Energy Corp, US Energy Development Co., as Non-Operators.

I. Oil and Gas Leases Subject to Agreement:

The Oil and Gas Leases more particularly described on Exhibit "A-1" attached hereto.

II. Participants and Addresses:

	<u>ExpenseInterest</u>
PetroShare Corp 7200 S. Alton Way, Suite B220 Centennial, CO 80111 Attn: Frederick J. Witsell (303) 500-1168 Office (303) 881-2157 Cell fwitsell@petrosharecorp.com	35.0000%
Rancher Energy Corp c/o A.L. (Sid) Overton, Esq. 6950 E. Belleview Ave., Ste 202 Greenwood Village, CO 80111 Attn: Jon Nicolaysen, President (303) 779-5900 Office (303) 779-6006 Fax sidoverton@oalaw.net	30.0000%
US Energy Development Co. 2350 North Forest Road Getzville, NY 14068 Attn: Douglas K. Walsh (716) 636-0401 ext. 310 (716) 636-0418 Fax	25.0000%
Royale Investments, LLC <hr/> Attn: Bill Reid (303) 520-5127 Main Email: billreid@goldresourcecorp.com	10.0000%

EXHIBIT A-1
Buck Peak Participation Agreement Leases dated September 30, 2013

BUCK PEAK LEASES AND EXPIRATION DATES

LESSOR NAME AND ADDRESS	DESCRIPTION	DATE AND TERM	GROSS ACRES	NET ACRES	NET REVENUE INTEREST to be delivered 8/8ths	RECORDING
West Half of Section 25						
Jim F. Kowach	T6N-R90W, 6th P.M. Sec 25: W/2	10/31/2008 - 2014 6 years	335.54	167.77	78.5000%	20104936
Barbara Wilaby	T6N-R90W, 6th P.M. Sec 25: W/2	10/31/2011 - 2014 3 years	335.54	167.77	78.5000%	20103288
Sub Total - Kowach / Wilaby	W/2 Section 25, T6N R90W	100.00%	335.54	335.54	78.5000%	
East Half of Section 25						
Mark A Voloshin, PO Box 981, Craig, CO 81626	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15, 16	5/12/2011- 2016 Five (5) Years	335.61	52.83	78.5000%	20103153
Betty Arnone, 1713 South Vancouver Ct, Lakewood, CO 80228	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15 & 16	5/12/2011- 2016 Five (5) Years	335.61	26.41	78.5000%	20102832
Helen McKee, 10436 Jacob Place, Littleton, CO 80125-8932	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15 & 16	5/12/2011- 2016 Five (5) Years	335.61	26.41	78.5000%	20102839
Gary R Semro and Robert W. Semro, 6522 Trailhead Rd, Highlands Ranch, CO 80130	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15 & 16	5/12/2011- 2016 Five (5) Years	335.61	26.41	78.5000%	20102847
Sharon Fitzgerald (Hebenstreit), 337 Coronado Drive, Sedalia, CO 80135	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15, 16	5/12/2011- 2016 Five (5) Years	335.61	26.41	78.5000%	20103140
Brad Ocker (Eugena Grace Voloshin), 9591 County Rd 33, Craig, CO 81625	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15, 16	5/12/2011- 2016 Five (5) Years	335.61	8.55	78.5000%	20102856
Sub Total - Semro / Voloshin	E/2 Section 25, T6N R90W	49.7661%	335.61	167.02	78.5000%	
BCK LLC Charles S Keith	T6N-R90W, 6th P.M. A ssessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15, 16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	41.43	77.5000%	20111728
Strontia springs Resources, LLC James Keith	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15, 16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	41.43	77.5000%	20111730
JZTZ LLC Debra Ann Ziehm	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15, 16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	41.43	77.5000%	20111729
MKRESOURCES LLC Margaret Keith	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15, 16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	26.41	77.5000%	20111731
Sub Total - Keith	E/2 Section 25, T6N R90W	44.9075%	335.61	150.71	77.5000%	
Quicksilver Resources Joanie Voloshin	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15, 16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	8.94	82.5000%	20111728
SWEPI thru Quicksilver Resources Joanie Voloshin	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15, 16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	8.94	81.0000%	20111728
		Ownership %	Gross Acres	Net Acres	NRI% Delivered	
West Half of Section 25		100.000%	335.54	335.54	78.5000%	
East Half of Section 25		100.000%	335.61	335.61	78.2247%	
SECTION 25 TOTAL		100.000%	671.15	671.15	78.3623%	



Exhibit "C"
ACCOUNTING PROCEDURE
JOINT OPERATIONS

Attached to and made part of that certain Operating Agreement dated _____, 2013, between PetroShare Corp, as Operator, and
Rancher Energy Corp. a Nevada Corporation, US Energy Development Co., Royale Investments, LLC as Non-Operator(s).

I. GENERAL PROVISIONS

**IF THE PARTIES FAIL TO SELECT EITHER ONE OF COMPETING "ALTERNATIVE" PROVISIONS, OR SELECT ALL THE
COMPETING "ALTERNATIVE" PROVISIONS, ALTERNATIVE 1 IN EACH SUCH INSTANCE SHALL BE DEEMED TO HAVE
BEEN ADOPTED BY THE PARTIES AS A RESULT OF ANY SUCH OMISSION OR DUPLICATE NOTATION.**

**IN THE EVENT THAT ANY "OPTIONAL" PROVISION OF THIS ACCOUNTING PROCEDURE IS NOT ADOPTED BY THE
PARTIES TO THE AGREEMENT BY A TYPED, PRINTED OR HANDWRITTEN INDICATION, SUCH PROVISION SHALL NOT
FORM A PART OF THIS ACCOUNTING PROCEDURE, AND NO INFERENCE SHALL BE MADE CONCERNING THE INTENT
OF THE PARTIES IN SUCH EVENT.**

1. DEFINITIONS

All terms used in this Accounting Procedure shall have the following meaning, unless otherwise expressly defined in the Agreement:

"Affiliate" means for a person, another person that controls, is controlled by, or is under common control with that person. In this definition, (a) control means the ownership by one person, directly or indirectly, of more than fifty percent (50%) of the voting securities of a corporation or, for other persons, the equivalent ownership interest (such as partnership interests), and (b) "person" means an individual, corporation, partnership, trust, estate, unincorporated organization, association, or other legal entity.

"Agreement" means the operating agreement, farmout agreement, or other contract between the Parties to which this Accounting Procedure is attached.

"Controllable Material" means Material that, at the time of acquisition or disposition by the Joint Account, as applicable, is so classified in the Material Classification Manual most recently recommended by the Council of Petroleum Accountants Societies (COPAS).

"Equalized Freight" means the procedure of charging transportation cost to the Joint Account based upon the distance from the nearest Railway Receiving Point to the property.

"Excluded Amount" means a specified excluded trucking amount most recently recommended by COPAS.

"Field Office" means a structure, or portion of a structure, whether a temporary or permanent installation, the primary function of which is to directly serve daily operation and maintenance activities of the Joint Property and which serves as a staging area for directly chargeable field personnel.

"First Level Supervision" means those employees whose primary function in Joint Operations is the direct oversight of the Operator's field employees and/or contract labor directly employed On-site in a field operating capacity. First Level Supervision functions may include, but are not limited to:

- Responsibility for field employees and contract labor engaged in activities that can include field operations, maintenance, construction, well remedial work, equipment movement and drilling
- Responsibility for day-to-day direct oversight of rig operations
- Responsibility for day-to-day direct oversight of construction operations
- Coordination of job priorities and approval of work procedures
- Responsibility for optimal resource utilization (equipment, Materials, personnel)
- Responsibility for meeting production and field operating expense targets
- Representation of the Parties in local matters involving community, vendors, regulatory agents and landowners, as an incidental part of the supervisor's operating responsibilities
- Responsibility for all emergency responses with field staff
- Responsibility for implementing safety and environmental practices
- Responsibility for field adherence to company policy
- Responsibility for employment decisions and performance appraisals for field personnel
- Oversight of sub-groups for field functions such as electrical, safety, environmental, telecommunications, which may have group or team leaders.

"Joint Account" means the account showing the charges paid and credits received in the conduct of the Joint Operations that are to be shared by the Parties, but does not include proceeds attributable to hydrocarbons and by-products produced under the Agreement.

"Joint Operations" means all operations necessary or proper for the exploration, appraisal, development, production, protection, maintenance, repair, abandonment, and restoration of the Joint Property.



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1 **"Joint Property"** means the real and personal property subject to the Agreement.
2
3 **"Laws"** means any laws, rules, regulations, decrees, and orders of the United States of America or any state thereof and all other
4 governmental bodies, agencies, and other authorities having jurisdiction over or affecting the provisions contained in or the transactions
5 contemplated by the Agreement or the Parties and their operations, whether such laws now exist or are hereafter amended, enacted,
6 promulgated or issued.
7
8 **"Material"** means personal property, equipment, supplies, or consumables acquired or held for use by the Joint Property.
9
10 **"Non-Operators"** means the Parties to the Agreement other than the Operator.
11
12 **"Offshore Facilities"** means platforms, surface and subsea development and production systems, and other support systems such as oil and
13 gas handling facilities, living quarters, offices, shops, cranes, electrical supply equipment and systems, fuel and water storage and piping,
14 heliport, marine docking installations, communication facilities, navigation aids, and other similar facilities necessary in the conduct of
15 offshore operations, all of which are located offshore.
16
17 **"Off-site"** means any location that is not considered On-site as defined in this Accounting Procedure.
18
19 **"On-site"** means on the Joint Property when in direct conduct of Joint Operations. The term "On-site" shall also include that portion of
20 Offshore Facilities, Shore Base Facilities, fabrication yards, and staging areas from which Joint Operations are conducted, or other
21 facilities that directly control equipment on the Joint Property, regardless of whether such facilities are owned by the Joint Account.
22
23 **"Operator"** means the Party designated pursuant to the Agreement to conduct the Joint Operations.
24
25 **"Parties"** means legal entities signatory to the Agreement or their successors and assigns. Parties shall be referred to individually as
26 "Party."
27
28 **"Participating Interest"** means the percentage of the costs and risks of conducting an operation under the Agreement that a Party agrees,
29 or is otherwise obligated, to pay and bear.
30
31 **"Participating Party"** means a Party that approves a proposed operation or otherwise agrees, or becomes liable, to pay and bear a share of
32 the costs and risks of conducting an operation under the Agreement.
33
34 **"Personal Expenses"** means reimbursed costs for travel and temporary living expenses.
35
36 **"Railway Receiving Point"** means the railhead nearest the Joint Property for which freight rates are published, even though an actual
37 railhead may not exist.
38
39 **"Shore Base Facilities"** means onshore support facilities that during Joint Operations provide such services to the Joint Property as a
40 receiving and transshipment point for Materials; debarkation point for drilling and production personnel and services; communication,
41 scheduling and dispatching center; and other associated functions serving the Joint Property.
42
43 **"Supply Store"** means a recognized source or common stock point for a given Material item.
44
45 **"Technical Services"** means services providing specific engineering, geoscience, or other professional skills, such as those performed by
46 engineers, geologists, geophysicists, and technicians, required to handle specific operating conditions and problems for the benefit of Joint
47 Operations; provided, however, Technical Services shall not include those functions specifically identified as overhead under the second
48 paragraph of the introduction of Section III (*Overhead*). Technical Services may be provided by the Operator, Operator's Affiliate, Non-
49 Operator, Non-Operator Affiliates, and/or third parties.
50

51 2. **STATEMENTS AND BILLINGS**

52
53 The Operator shall bill Non-Operators on or before the last day of the month for their proportionate share of the Joint Account for the
54 preceding month. Such bills shall be accompanied by statements that identify the AFE (authority for expenditure), lease or facility, and all
55 charges and credits summarized by appropriate categories of investment and expense. Controllable Material shall be separately identified
56 and fully described in detail, or at the Operator's option, Controllable Material may be summarized by major Material classifications.
57 Intangible drilling costs, audit adjustments, and unusual charges and credits shall be separately and clearly identified.
58

59 The Operator may make available to Non-Operators any statements and bills required under Section 1.2 and/or Section 1.3.A (*Advances*
60 *and Payments by the Parties*) via email, electronic data interchange, internet websites or other equivalent electronic media in lieu of paper
61 copies. The Operator shall provide the Non-Operators instructions and any necessary information to access and receive the statements and
62 bills within the timeframes specified herein. A statement or billing shall be deemed as delivered twenty-four (24) hours (exclusive of
63 weekends and holidays) after the Operator notifies the Non-Operator that the statement or billing is available on the website and/or sent via
64 email or electronic data interchange transmission. Each Non-Operator individually shall elect to receive statements and billings
65 electronically, if available from the Operator, or request paper copies. Such election may be changed upon thirty (30) days prior written
66 notice to the Operator.



1 **3. ADVANCES AND PAYMENTS BY THE PARTIES**

- 2
- 3 A. Unless otherwise provided for in the Agreement, the Operator may require the Non-Operators to advance their share of the estimated
- 4 cash outlay for the succeeding month's operations within fifteen (15) days after receipt of the advance request or by the first day of
- 5 the month for which the advance is required, whichever is later. The Operator shall adjust each monthly billing to reflect advances
- 6 received from the Non-Operators for such month. If a refund is due, the Operator shall apply the amount to be refunded to the
- 7 subsequent month's billing or advance, unless the Non-Operator sends the Operator a written request for a cash refund. The Operator
- 8 shall remit the refund to the Non-Operator within fifteen (15) days of receipt of such written request.
- 9
- 10 B. Except as provided below, each Party shall pay its proportionate share of all bills in full within fifteen (15) days of receipt date. If
- 11 payment is not made within such time, the unpaid balance shall bear interest compounded monthly at the prime rate published by the
- 12 *Wall Street Journal* on the first day of each month the payment is delinquent plus three percent (3%), per annum, or the maximum
- 13 contract rate permitted by the applicable usury Laws governing the Joint Property, whichever is the lesser, plus attorney's fees, court
- 14 costs, and other costs in connection with the collection of unpaid amounts. If the *Wall Street Journal* ceases to be published or
- 15 discontinues publishing a prime rate, the unpaid balance shall bear interest compounded monthly at the prime rate published by the
- 16 Federal Reserve plus three percent (3%), per annum. Interest shall begin accruing on the first day of the month in which the payment
- 17 was due. Payment shall not be reduced or delayed as a result of inquiries or anticipated credits unless the Operator has agreed.
- 18 Notwithstanding the foregoing, the Non-Operator may reduce payment, provided it furnishes documentation and explanation to the
- 19 Operator at the time payment is made, to the extent such reduction is caused by:
- 20
- 21 (1) being billed at an incorrect working interest or Participating Interest that is higher than such Non-Operator's actual working
- 22 interest or Participating Interest, as applicable; or
- 23 (2) being billed for a project or AFE requiring approval of the Parties under the Agreement that the Non-Operator has not approved
- 24 or is not otherwise obligated to pay under the Agreement; or
- 25 (3) being billed for a property in which the Non-Operator no longer owns a working interest, provided the Non-Operator has
- 26 furnished the Operator a copy of the recorded assignment or letter in-lieu. Notwithstanding the foregoing, the Non-Operator
- 27 shall remain responsible for paying bills attributable to the interest it sold or transferred for any bills rendered during the thirty
- 28 (30) day period following the Operator's receipt of such written notice; or
- 29 (4) charges outside the adjustment period, as provided in Section I.4 (*Adjustments*).

30

31 **4. ADJUSTMENTS**

- 32
- 33 A. Payment of any such bills shall not prejudice the right of any Party to protest or question the correctness thereof; however, all bills
- 34 and statements, including payout statements, rendered during any calendar year shall conclusively be presumed to be true and correct,
- 35 with respect only to expenditures, after twenty-four (24) months following the end of any such calendar year, unless within said
- 36 period a Party takes specific detailed written exception thereto making a claim for adjustment. The Operator shall provide a response
- 37 to all written exceptions, whether or not contained in an audit report, within the time periods prescribed in Section I.5 *Expenditure*
- 38 *Audits*.
- 39
- 40 B. All adjustments initiated by the Operator, except those described in items (1) through (4) of this Section I.4.B, are limited to the
- 41 twenty-four (24) month period following the end of the calendar year in which the original charge appeared or should have appeared
- 42 on the Operator's Joint Account statement or payout statement. Adjustments that may be made beyond the twenty-four (24) month
- 43 period are limited to adjustments resulting from the following:
- 44
- 45 (1) a physical inventory of Controllable Material as provided for in Section V (*Inventories of Controllable Material*), or
- 46 (2) an offsetting entry (whether in whole or in part) that is the direct result of a specific joint interest audit exception granted by the
- 47 Operator relating to another property, or
- 48 (3) a government/regulatory audit, or
- 49 (4) a working interest ownership or Participating Interest adjustment.

50

51 **5. EXPENDITURE AUDITS**

- 52
- 53 A. A Non-Operator, upon written notice to the Operator and all other Non-Operators, shall have the right to audit the Operator's
- 54 accounts and records relating to the Joint Account within the twenty-four (24) month period following the end of such calendar year in
- 55 which such bill was rendered; however, conducting an audit shall not extend the time for the taking of written exception to and the
- 56 adjustment of accounts as provided for in Section I.4 (*Adjustments*). Any Party that is subject to payout accounting under the
- 57 Agreement shall have the right to audit the accounts and records of the Party responsible for preparing the payout statements, or of
- 58 the Party furnishing information to the Party responsible for preparing payout statements. Audits of payout accounts may include the
- 59 volumes of hydrocarbons produced and saved and proceeds received for such hydrocarbons as they pertain to payout accounting
- 60 required under the Agreement. Unless otherwise provided in the Agreement, audits of a payout account shall be conducted within the
- 61 twenty-four (24) month period following the end of the calendar year in which the payout statement was rendered.

62

63 Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a

64 manner that will result in a minimum of inconvenience to the Operator. The Operator shall bear no portion of the Non-Operators'

65 audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year

66 without prior approval of the Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of



1 those Non-Operators approving such audit.

2

3 The Non-Operator leading the audit (hereinafter "lead audit company") shall issue the audit report within ninety (90) days after
4 completion of the audit testing and analysis; however, the ninety (90) day time period shall not extend the twenty-four (24) month
5 requirement for taking specific detailed written exception as required in Section 1.4.A (*Adjustments*) above. All claims shall be
6 supported with sufficient documentation.

7

8 A timely filed written exception or audit report containing written exceptions (hereinafter "written exceptions") shall, with respect to
9 the claims made therein, preclude the Operator from asserting a statute of limitations defense against such claims, and the Operator
10 hereby waives its right to assert any statute of limitations defense against such claims for so long as any Non-Operator continues to
11 comply with the deadlines for resolving exceptions provided in this Accounting Procedure. If the Non-Operators fail to comply with
12 the additional deadlines in Section 1.5.B or 1.5.C, the Operator's waiver of its rights to assert a statute of limitations defense against
13 the claims brought by the Non-Operators shall lapse, and such claims shall then be subject to the applicable statute of limitations,
14 provided that such waiver shall not lapse in the event that the Operator has failed to comply with the deadlines in Section 1.5.B or
15 1.5.C.

16

17 B. The Operator shall provide a written response to all exceptions in an audit report within one hundred eighty (180) days after Operator
18 receives such report. Denied exceptions should be accompanied by a substantive response. If the Operator fails to provide substantive
19 response to an exception within this one hundred eighty (180) day period, the Operator will owe interest on that exception or portion
20 thereof, if ultimately granted, from the date it received the audit report. Interest shall be calculated using the rate set forth in Section
21 1.3.B (*Advances and Payments by the Parties*).

22

23 C. The lead audit company shall reply to the Operator's response to an audit report within ninety (90) days of receipt, and the Operator
24 shall reply to the lead audit company's follow-up response within ninety (90) days of receipt; provided, however, each Non-Operator
25 shall have the right to represent itself if it disagrees with the lead audit company's position or believes the lead audit company is not
26 adequately fulfilling its duties. Unless otherwise provided for in Section 1.5.E, if the Operator fails to provide substantive response
27 to an exception within this ninety (90) day period, the Operator will owe interest on that exception or portion thereof, if ultimately
28 granted, from the date it received the audit report. Interest shall be calculated using the rate set forth in Section 1.3.B (*Advances and
29 Payments by the Parties*).

30

31 D. If any Party fails to meet the deadlines in Sections 1.5.B or 1.5.C or if any audit issues are outstanding fifteen (15) months after
32 Operator receives the audit report, the Operator or any Non-Operator participating in the audit has the right to call a resolution
33 meeting, as set forth in this Section 1.5.D or it may invoke the dispute resolution procedures included in the Agreement, if applicable.
34 The meeting will require one month's written notice to the Operator and all Non-Operators participating in the audit. The meeting
35 shall be held at the Operator's office or mutually agreed location, and shall be attended by representatives of the Parties with
36 authority to resolve such outstanding issues. Any Party who fails to attend the resolution meeting shall be bound by any resolution
37 reached at the meeting. The lead audit company will make good faith efforts to coordinate the response and positions of the
38 Non-Operator participants throughout the resolution process; however, each Non-Operator shall have the right to represent itself.
39 Attendees will make good faith efforts to resolve outstanding issues, and each Party will be required to present substantive information
40 supporting its position. A resolution meeting may be held as often as agreed to by the Parties. Issues unresolved at one meeting may
41 be discussed at subsequent meetings until each such issue is resolved.

42

43 If the Agreement contains no dispute resolution procedures and the audit issues cannot be resolved by negotiation, the dispute shall
44 shall choose a mutually acceptable mediator and share the costs of mediation services equally. The Parties shall each have present
45 be submitted to mediation. In such event, promptly following one Party's written request for mediation, the Parties to the dispute
46 at the mediation at least one individual who has the authority to settle the dispute. The Parties shall make reasonable efforts to
47 ensure that the mediation commences within sixty (60) days of the date of the mediation request. Notwithstanding the above, any
48 Party may file a lawsuit or complaint (1) if the Parties are unable after reasonable efforts, to commence mediation within sixty (60)
49 days of the date of the mediation request, (2) for statute of limitations reasons, or (3) to seek a preliminary injunction or other
50 provisional judicial relief, if in its sole judgment an injunction or other provisional relief is necessary to avoid irreparable damage or
51 to preserve the status quo. Despite such action, the Parties shall continue to try to resolve the dispute by mediation.

52

53 E. (**Optional Provision- Forfeiture Penalties**)

54 *If the Non-Operators fail to meet the deadline in Section 1.5.C, any unresolved exceptions that were not addressed by the Non*
55 *Operators within one (1) year following receipt of the last substantive response of the Operator shall be deemed to have been*
56 *withdrawn by the Non-Operators. If the Operator fails to meet the deadlines in Section 1.5.B or 1.5.C, any unresolved exceptions that*
57 *were not addressed by the Operator within one (1) year following receipt of the audit report or receipt of the last substantive response*
58 *of the Non-Operators, whichever is later, shall be deemed to have been granted by the Operator and adjustments shall be made,*
59 *without interest, to the Joint Account.*

60

61 6. APPROVAL BY PARTIES

62

63 A. GENERAL MATTERS

64

65 Where an approval or other agreement of the Parties or Non-Operators is expressly required under other Sections of this Accounting
66 Procedure and if the Agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the

1 Operator shall notify all Non-Operators of the Operator's proposal and the agreement or approval of a majority in interest of the
2 Non-Operators shall be controlling on all Non-Operators.
3

4 This Section I.6.A applies to specific situations of limited duration where a Party proposes to change the accounting for charges from
5 that prescribed in this Accounting Procedure. This provision does not apply to amendments to this Accounting Procedure, which are
6 covered by Section I.6.B.
7

8 **B. AMENDMENTS**
9

10 If the Agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, this Accounting
11 Procedure can be amended by an affirmative vote of One (1) or more Parties, one of which is the Operator,
12 having a combined working interest of at least Seventy Six percent (76 %), which approval shall be binding on all Parties,
13 provided, however, approval of at least one (1) Non-Operator shall be required.
14

15 **C. AFFILIATES**
16

17 For the purposes of administering the voting procedures in Section I.6.A and I.6.B, if Parties to this Agreement are Affiliates of each
18 other, then such Affiliates shall be combined and treated as a single Party having the combined working interest or Participating
19 Interest of such Affiliates.
20

21 For the purposes of administering the voting procedures in Section I.6.A, if a Non-Operator is an Affiliate of the Operator, votes
22 under Section I.6.A shall require the majority in interest of the Non-Operator(s) after excluding the interest of the Operator's
23 Affiliate.
24

25 **II. DIRECT CHARGES**
26

27 The Operator shall charge the Joint Account with the following items:
28

29 **1. RENTALS AND ROYALTIES**
30

31 Lease rentals and royalties paid by the Operator, on behalf of all Parties, for the Joint Operations.
32

33 **2. LABOR**
34

35 A. Salaries and wages, including incentive compensation programs as set forth in COPAS MFI-37 ("Chargeability of Incentive
36 Compensation Programs"), for
37

- 38 (1) Operator's field employees directly employed On-site in the conduct of Joint Operations,
39
- 40 (2) Operator's employees directly employed on Shore Base Facilities, Offshore Facilities, or other facilities serving the Joint
41 Property if such costs are not charged under Section II.6 (*Equipment and Facilities Furnished by Operator*) or are not a
42 function covered under Section III (*Overhead*),
43
- 44 (3) Operator's employees providing First Level Supervision,
45
- 46 (4) Operator's employees providing On-site Technical Services for the Joint Property if such charges are excluded from the
47 overhead rates in Section III (*Overhead*),
48
- 49 (5) Operator's employees providing Off-site Technical Services for the Joint Property if such charges are excluded from the
50 overhead rates in Section III (*Overhead*).
51

52 Charges for the Operator's employees identified in Section II.2.A may be made based on the employee's actual salaries and wages,
53 or in lieu thereof, a day rate representing the Operator's average salaries and wages of the employee's specific job category.
54

55 Charges for personnel chargeable under this Section II.2.A who are foreign nationals shall not exceed comparable compensation paid
56 to an equivalent U.S. employee pursuant to this Section II.2, unless otherwise approved by the Parties pursuant to Section
57 I.6.A (*General Matters*).
58

59 B. Operator's cost of holiday, vacation, sickness, and disability benefits, and other customary allowances paid to employees whose
60 salaries and wages are chargeable to the Joint Account under Section II.2.A, excluding severance payments or other termination
61 allowances. Such costs under this Section II.2.B may be charged on a "when and as-paid basis" or by "percentage assessment" on the
62 amount of salaries and wages chargeable to the Joint Account under Section II.2.A. If percentage assessment is used, the rate shall
63 be based on the Operator's cost experience.
64

65 C. Expenditures or contributions made pursuant to assessments imposed by governmental authority that are applicable to costs
66 chargeable to the Joint Account under Sections II.2.A and B



- 1 D. Personal Expenses of personnel whose salaries and wages are chargeable to the Joint Account under Section II.2.A when the
- 2 expenses are incurred in connection with directly chargeable activities.
- 3
- 4 E. Reasonable relocation costs incurred in transferring to the Joint Property personnel whose salaries and wages are chargeable to the
- 5 Joint Account under Section 11.2.A. Notwithstanding the foregoing, relocation costs that result from reorganization or merger of a
- 6 Party, or that are for the primary benefit of the Operator, shall not be chargeable to the Joint Account. Extraordinary relocation
- 7 costs, such as those incurred as a result of transfers from remote locations, such as Alaska or overseas, shall not be charged to the
- 8 Joint Account unless approved by the Parties pursuant to Section I.6.A (*General Matters*).
- 9
- 10 F. Training costs as specified in COPAS MFI-35 ("Charging of Training Costs to the Joint Account") for personnel whose salaries and
- 11 wages are chargeable under Section II.2.A. This training charge shall include the wages, salaries, training course cost, and Personal
- 12 Expenses incurred during the training session. The training cost shall be charged or allocated to the property or properties directly
- 13 benefiting from the training. The cost of the training course shall not exceed prevailing commercial rates, where such rates are
- 14 available.
- 15
- 16 G. Operator's current cost of established plans for employee benefits, as described in COPAS MFI-27 ("Employee Benefits Chargeable
- 17 to Joint Operations and Subject to Percentage Limitation"), applicable to the Operator's labor costs chargeable to the Joint Account
- 18 under Sections II.2.A and B based on the Operator's actual cost not to exceed the employee benefits limitation percentage most
- 19 recently recommended by COPAS.
- 20
- 21 H. Award payments to employees, in accordance with COPAS MFI-49 ("Awards to Employees and Contractors") for personnel whose
- 22 salaries and wages are chargeable under Section II.2.A.

23

24 **3. MATERIAL**

25

26 Material purchased or furnished by the Operator for use on the Joint Property in the conduct of Joint Operations as provided under Section

27 IV (*Material Purchases, Transfers, and Dispositions*). Only such Material shall be purchased for or transferred to the Joint Property as

28 may be required for immediate use or is reasonably practical and consistent with efficient and economical operations. The accumulation

29 of surplus stocks shall be avoided.

30

31 **4. TRANSPORTATION**

32

- 33 A. Transportation of the Operator's, Operator's Affiliate's, or contractor's personnel necessary for Joint Operations.
- 34
- 35 B. Transportation of Material between the Joint Property and another property, or from the Operator's warehouse or other storage point
- 36 to the Joint Property, shall be charged to the receiving property using one of the methods listed below. Transportation of Material
- 37 from the Joint Property to the Operator's warehouse or other storage point shall be paid for by the Joint Property using one of the
- 38 methods listed below:
- 39
- 40 (1) If the actual trucking charge is less than or equal to the Excluded Amount the Operator may charge actual trucking cost or a
- 41 theoretical charge from the Railway Receiving Point to the Joint Property. The basis for the theoretical charge is the per
- 42 hundred weight charge plus fuel surcharges from the Railway Receiving Point to the Joint Property. The Operator shall
- 43 consistently apply the selected alternative.
- 44
- 45 (2) If the actual trucking charge is greater than the Excluded Amount the Operator shall charge Equalized Freight. Accessorial
- 46 charges such as loading and unloading costs, split pick-up costs, detention, call out charges, and permit fees shall be charged
- 47 directly to the Joint Property and shall not be included when calculating the Equalized Freight.
- 48

49 **5. SERVICES**

50

51 The cost of contract services, equipment, and utilities used in the conduct of Joint Operations, except for contract services, equipment, and

52 utilities covered by Section III (*Overhead*), or Section II.7 (*Affiliates*), or excluded under Section II.9 (*Legal Expense*). Awards paid to

53 contractors shall be chargeable pursuant to COPAS MFI-49 ("Awards to Employees and Contractors").

54

55 The costs of third party Technical Services are chargeable to the extent excluded from the overhead rates under Section III (*Overhead*).

56

57 **6. EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR**

58

59 In the absence of a separately negotiated agreement, equipment and facilities furnished by the Operator will be charged as follows:

60

- 61 A. The Operator shall charge the Joint Account for use of Operator-owned equipment and facilities, including but not limited to
- 62 production facilities, Shore Base Facilities, Offshore Facilities, and Field Offices, at rates commensurate with the costs of ownership
- 63 and operation. The cost of Field Offices shall be chargeable to the extent the Field Offices provide direct service to personnel who
- 64 are chargeable pursuant to Section II.2.A (*Labor*). Such rates may include labor, maintenance, repairs, other operating expense,
- 65 insurance, taxes, depreciation using straight line depreciation method, and interest on gross investment less accumulated depreciation
- 66 not to exceed ten percent (10 %) per annum; provided, however, depreciation shall not be charged when the

1 equipment and facilities investment have been fully depreciated. The rate may include an element of the estimated cost for
2 abandonment, reclamation, and dismantlement. Such rates shall not exceed the average commercial rates currently prevailing in the
3 immediate area of the Joint Property.

- 4
5 B. In lieu of charges in Section II.6.A above, the Operator may elect to use average commercial rates prevailing in the immediate area
6 of the Joint Property, less twenty percent (20%). If equipment and facilities are charged under this Section II.6.B, the Operator shall
7 adequately document and support commercial rates and shall periodically review and update the rate and the supporting
8 documentation. For automotive equipment, the Operator may elect to use rates published by the Petroleum Motor Transport
9 Association (PMTA) or such other organization recognized by COPAS as the official source of rates.

10 7. AFFILIATES

- 11
12 A. Charges for an Affiliate's goods and/or services used in operations requiring an AFE or other authorization from the Non-Operators
13 may be made without the approval of the Parties provided (i) the Affiliate is identified and the Affiliate goods and services are
14 specifically detailed in the approved AFE or other authorization, and (ii) the total costs for such Affiliate's goods and services billed
15 to such individual project do not exceed \$ 5200.000.00. If the total costs for an Affiliate's goods and services charged to such
16 individual project are not specifically detailed in the approved AFE or authorization or exceed such amount, charges for such
17 Affiliate shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*).
- 18
19 B. For an Affiliate's goods and/or services used in operations not requiring an AFE or other authorization from the Non-Operators,
20 charges for such Affiliate's goods and services shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*), if the
21 charges exceed \$ 5200.000.00 in a given calendar year.
- 22
23 C. The cost of the Affiliate's goods or services shall not exceed average commercial rates prevailing in the area of the Joint Property,
24 unless the Operator obtains the Non-Operators' approval of such rates. The Operator shall adequately document and support
25 commercial rates and shall periodically review and update the rate and the supporting documentation; provided, however,
26 documentation of commercial rates shall not be required if the Operator obtains Non-Operator approval of its Affiliate's rates or
27 charges prior to billing Non-Operators for such Affiliate's goods and services. Notwithstanding the foregoing, direct charges for
28 Affiliate-owned communication facilities or systems shall be made pursuant to Section II.12 (*Communications*).

29
30
31 If the Parties fail to designate an amount in Sections II.7.A or II.7.B, in each instance the amount deemed adopted by the Parties as a
32 result of such omission shall be the amount established as the Operator's expenditure limitation in the Agreement. If the Agreement
33 does not contain an Operator's expenditure limitation, the amount deemed adopted by the Parties as a result of such omission shall be
34 zero dollars (\$ 0.00).

35 8. DAMAGES AND LOSSES TO JOINT PROPERTY

36
37 All costs or expenses necessary for the repair or replacement of Joint Property resulting from damages or losses incurred, except to the
38 extent such damages or losses result from a Party's or Parties' gross negligence or willful misconduct, in which case such Party or Parties
39 shall be solely liable.

40
41 The Operator shall furnish the Non-Operator written notice of damages or losses incurred as soon as practicable after a report has been
42 received by the Operator.

43 9. LEGAL EXPENSE

44
45 Recording fees and costs of handling, settling, or otherwise discharging litigation, claims, liens and title and regulatory work / incurred in or resulting from
46 operations under the Agreement, or necessary to protect or recover the Joint Property, to the extent permitted under the Agreement. Costs
47 of the Operator's or Affiliate's legal staff or outside attorneys, including fees and expenses, are not chargeable unless approved by the
48 Parties pursuant to Section I.6.A (*General Matters*) or otherwise provided for in the Agreement.

49
50 Notwithstanding the foregoing paragraph, costs for procuring abstracts, fees paid to outside attorneys for title examinations (including
51 preliminary, supplemental, shut-in royalty opinions, division order title opinions), and curative work shall be chargeable to the extent
52 permitted as a direct charge in the Agreement.

53 10. TAXES AND PERMITS

54
55 All taxes and permitting fees of every kind and nature, assessed or levied upon or in connection with the Joint Property, or the production
56 therefrom, and which have been paid by the Operator for the benefit of the Parties, including penalties and interest, except to the extent the
57 penalties and interest result from the Operator's gross negligence or willful misconduct.

58
59 If ad valorem taxes paid by the Operator are based in whole or in part upon separate valuations of each Party's working interest, then
60 notwithstanding any contrary provisions, the charges to the Parties will be made in accordance with the tax value generated by each Party's
61 working interest.



1 Costs of tax consultants or advisors, the Operator's employees, or Operator's Affiliate employees in matters regarding ad valorem or other
2 tax matters, are not permitted as direct charges unless approved by the Parties pursuant to Section I.6.A (*General Matters*).

3
4 Charges to the Joint Account resulting from sales/use tax audits, including extrapolated amounts and penalties and interest, are permitted,
5 provided the Non-Operator shall be allowed to review the invoices and other underlying source documents which served as the basis for
6 tax charges and to determine that the correct amount of taxes were charged to the Joint Account. If the Non-Operator is not permitted to
7 review such documentation, the sales/use tax amount shall not be directly charged unless the Operator can conclusively document the
8 amount owed by the Joint Account.

9
10 **11. INSURANCE**

11 Net premiums paid for insurance required to be carried for Joint Operations for the protection of the Parties. If Joint Operations are
12 conducted at locations where the Operator acts as self-insurer in regard to its worker's compensation and employer's liability insurance
13 obligation, the Operator shall charge the Joint Account manual rates for the risk assumed in its self-insurance program as regulated by the
14 jurisdiction governing the Joint Property. In the case of offshore operations in federal waters, the manual rates of the adjacent state shall be
15 used for personnel performing work On-site, and such rates shall be adjusted for offshore operations by the U.S. Longshoreman and
16 Harbor Workers (USL&H) or Jones Act surcharge, as appropriate.

17
18
19 **12. COMMUNICATIONS**

20 Costs of acquiring, leasing, installing, operating, repairing, and maintaining communication facilities or systems, including satellite, radio
21 and microwave facilities, between the Joint Property and the Operator's office(s) directly responsible for field operations in accordance
22 with the provisions of COPAS MFI-44 ("Field Computer and Communication Systems"). If the communications facilities or systems
23 serving the Joint Property are Operator-owned, charges to the Joint Account shall be made as provided in Section II.6 (*Equipment and*
24 *Facilities Furnished by Operator*). If the communication facilities or systems serving the Joint Property are owned by the Operator's
25 Affiliate, charges to the Joint Account shall not exceed average commercial rates prevailing in the area of the Joint Property. The Operator
26 shall adequately document and support commercial rates and shall periodically review and update the rate and the supporting
27 documentation.

28
29
30 **13. ECOLOGICAL, ENVIRONMENTAL, AND SAFETY**

31 Costs incurred for Technical Services and drafting to comply with ecological, environmental and safety Laws or standards recommended by
32 Occupational Safety and Health Administration (OSHA) or other regulatory authorities. All other labor and functions incurred for
33 ecological, environmental and safety matters, including management, administration, and permitting, shall be covered by Sections II.2
34 (*Labor*), II.5 (*Services*), or Section III (*Overhead*), as applicable.

35
36 Costs to provide or have available pollution containment and removal equipment plus actual costs of control and cleanup and resulting
37 responsibilities of oil and other spills as well as discharges from permitted outfalls as required by applicable Laws, or other pollution
38 containment and removal equipment deemed appropriate by the Operator for prudent operations, are directly chargeable.

39
40
41 **14. ABANDONMENT AND RECLAMATION**

42 Costs incurred for abandonment and reclamation of the Joint Property, including costs required by lease agreements or by Laws.

43
44
45 **15. OTHER EXPENDITURES**

46 Any other expenditure not covered or dealt with in the foregoing provisions of this Section II (*Direct Charges*), or in Section III
47 (*Overhead*) and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the
48 Joint Operations. Charges made under this Section II.1.5 shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*).

49

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III. OVERHEAD

As compensation for costs not specifically identified as chargeable to the Joint Account pursuant to Section II (*Direct Charges*), the Operator
shall charge the Joint Account in accordance with this Section III.

Functions included in the overhead rates regardless of whether performed by the Operator, Operator's Affiliates or third parties and regardless
of location, shall include, but not be limited to, costs and expenses of:

- warehousing, other than for warehouses that are jointly owned under this Agreement
- design and drafting (except when allowed as a direct charge under Sections II.13, III..1.A.(ii), and III.2, Option B)
- inventory costs not chargeable under Section V (*Inventories of Controllable Material*)
- procurement
- administration
- accounting and auditing
- gas dispatching and gas chart integration

- 1 ■ human resources
- 2 ■ management
- 3 ■ supervision not directly charged under Section II.2 (*Labor*)
- 4 ■ legal services not directly chargeable under Section II.9 (*Legal Expense*)
- 5 ■ taxation, other than those costs identified as directly chargeable under Section II.10 (*Taxes and Permits*)
- 6 ■ preparation and monitoring of permits and certifications; preparing regulatory reports; appearances before or meetings with
- 7 governmental agencies or other authorities having jurisdiction over the Joint Property, other than On-site inspections; reviewing,
- 8 interpreting, or submitting contents on or lobbying with respect to Laws or proposed Laws.

9
10 Overhead charges shall include the salaries or wages plus applicable payroll burdens, benefits, and Personal Expenses of personnel performing
11 overhead functions, as well as office and other related expenses of overhead functions.

12
13 **1. OVERHEAD-DRILLING AND PRODUCING OPERATIONS**

14
15 As compensation for costs incurred but not chargeable under Section II (*Direct Charges*) and not covered by other provisions of this
16 Section III, the Operator shall charge on either:

- 17
- 18 (**Alternative 1**) Fixed Rate Basis, Section III.1.B.
- 19 (**Alternative 2**) Percentage Basis, Section III.1.C.

20
21 **A. TECHNICAL SERVICES**

22
23 (i) Except as otherwise provided in Section II.13 (*Ecological Environmental and Safety*) and Section III.2 (*Overhead - Major*
24 *Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A (*General Matters*), the salaries, wages,
25 related payroll burdens and benefits, and Personal Expenses for On-site Technical Services, including third party Technical
26 Services:

27
28 (**Alternative 1 - Direct**) shall be charged **direct** to the Joint Account.

29
30 (**Alternative 2 - Overhead**) shall be covered by the **overhead** rates.

31
32 (ii) Except as otherwise provided in Section II.13 (*Ecological, Environmental, and Safety*) and Section III.2 (*Overhead - Major*
33 *Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A (*General Matters*), the salaries, wages,
34 related payroll burdens and benefits, and Personal Expenses for Off-site Technical Services, including third party Technical
35 Services:

36
37 (**Alternative 1 - All Overhead**) shall be covered by the **overhead** rates.

38
39 (**Alternative 2 - All Direct**) shall be charged **direct** to the Joint Account.

40
41 (**Alternative 3 - Drilling Direct**) shall be charged **direct** to the Joint Account, **only** to the extent such Technical Services
42 are directly attributable to drilling, re-drilling, deepening, or sidetracking operations, through completion, temporary
43 abandonment, or abandonment if a dry hole. Off-site Technical Services for all other operations, including workover,
44 recompletion, abandonment of producing wells, and the construction or expansion of fixed assets not covered by Section
45 III.2 (*Overhead - Major Construction and Catastrophe*) shall be covered by the overhead rates.

46
47 Notwithstanding anything to the contrary in this Section III, Technical Services provided by Operator's Affiliates are subject to limitations
48 set forth in Section II.7 (*Affiliates*). Charges for Technical personnel performing non-technical work shall not be governed by this Section
49 III.1 .A. but instead governed by other provisions of this Accounting Procedure relating to the type of work being performed.

50
51 **B. OVERHEAD-FIXED RATE BASIS**

52
53 (1) The Operator shall charge the Joint Account at the following rates per well per month:

54
55 Drilling Well Rate per month ~~\$7,500.00~~ ~~\$920.00~~ (prorated for less than a full month) / **for wells drilled to a TVD of 4,200 feet or more. 5,000.00 for well drilled to a TVD of less than 4,200 feet**

56
57 Producing Well Rate per month ~~\$750.00~~ ~~\$820.00~~ (prorated for less than a full month) / **for wells drilled to a TVD of 4,200 feet or more. 500.00 for wells drilled to a TVD of less than 4,200 feet.**

58
59 (2) Application of Overhead-Drilling Well Rate shall be as follows:

60
61 (a) Charges for onshore drilling wells shall begin on the **spud location work begins date** / and terminate on the date the drilling and/or completion
62 equipment used on the well is released, whichever occurs later. Charges for offshore and inland waters drilling wells shall
63 begin on the date the drilling or completion equipment arrives on location and terminate on the date the drilling or completion
64 equipment moves off location, or is released, whichever occurs first. No charge shall be made during suspension of drilling
65 and/or completion operations for fifteen (15) or more consecutive calendar days.

66



- 1 (b) Charges for any well undergoing any type of workover, recompletion, and/or abandonment for a period of five (5) or more
 2 consecutive work-days shall be made at the Drilling Well Rate. Such charges shall be applied for the period from date
 3 operations, with rig or other units used in operations, commence through date of rig or other unit release, except that no charges
 4 shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.
 5
 6 (3) Application of Overhead-Producing Well Rate shall be as follows:
 7
 8 (a) An active well that is produced, injected into for recovery or disposal, or used to obtain water supply to support operations for
 9 any portion of the month shall be considered as a one-well charge for the entire month.
 10
 11 (b) Each active completion in a multi-completed well shall be considered as a one-well charge provided each completion is
 12 considered a separate well by the governing regulatory authority.
 13
 14 (c) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well,
 15 unless the Drilling Well Rate applies, as provided in Sections III.1.B.(2)(a) or (b). This one-well charge shall be made whether
 16 or not the well has produced.
 17
 18 (d) An active gas well shut in because of overproduction or failure of a purchaser, processor, or transporter to take production shall
 19 be considered as a one-well charge provided the gas well is directly connected to a permanent sales outlet.
 20
 21 (e) Any well not meeting the criteria set forth in Sections III.1.B.(3) (a), (b), (c), or (d) shall not qualify for a producing overhead
 22 charge.
 23
 24 (4) The well rates shall be adjusted on the first day of April each year following the effective date of the Agreement; provided,
 25 however, if this Accounting Procedure is attached to or otherwise governing the payout accounting under a farmout agreement, the
 26 rates shall be adjusted on the first day of April each year following the effective date of such farmout agreement. The adjustment
 27 shall be computed by applying the adjustment factor most recently published by COPAS. The adjusted rates shall be the initial or
 28 amended rates agreed to by the Parties increased or decreased by the adjustment factor described herein, for each year from the
 29 effective date of such rates, in accordance with COPAS MFI-47 ("Adjustment of Overhead Rates").
 30

31 C. OVERHEAD-PERCENTAGE BASIS

- 32
 33 (1) Operator shall charge the Joint Account at the following rates:
 34
 35 (a) Development Rate _____ percent (_____) % of the cost of development of the Joint Property, exclusive of costs
 36 provided under Section II.9 (*Legal Expense*) and all Material salvage credits.
 37
 38 (b) Operating Rate _____percent (_____%) of the cost of operating the Joint Property, exclusive of costs
 39 provided under Sections II.1 (*Rentals and Royalties*) and II.9 (*Legal Expense*); all Material salvage credits; the value
 40 of substances purchased for enhanced recovery; all property and ad valorem taxes, and any other taxes and assessments that
 41 are levied, assessed, and paid upon the mineral interest in and to the Joint Property.
 42
 43 (2) Application of Overhead-Percentage Basis shall be as follows:
 44
 45 (a) The Development Rate shall be applied to all costs in connection with:
 46
 47 [i] drilling, re-drilling, sidetracking, or deepening of a well
 48 [ii] a well undergoing plugback or workover operations for a period of five (5) or more consecutive work-days
 49 [iii] preliminary expenditures necessary in preparation for drilling
 50 [iv] expenditures incurred in abandoning when the well is not completed as a producer
 51 [v] construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a
 52 fixed asset, other than Major Construction or Catastrophe as defined in Section III.2 *Overhead-Major Construction*
 53 *and Catastrophe*).
 54
 55 (b) The Operating Rate shall be applied to all other costs in connection with Joint Operations, except those subject to Section III.2
 56 (*Overhead-Major Construction and Catastrophe*).
 57
 58

59 2. OVERHEAD-MAJOR CONSTRUCTION AND CATASTROPHE

60 To compensate the Operator for overhead costs incurred in connection with a Major Construction project or Catastrophe, the Operator
 61 shall either negotiate a rate prior to the beginning of the project, or shall charge the Joint Account for overhead based on the following
 62 rates for any Major Construction project in excess of the Operator's expenditure limit under the Agreement, or for any Catastrophe
 63 regardless of the amount. If the Agreement to which this Accounting Procedure is attached does not contain an expenditure limit, Major
 64 Construction Overhead shall be assessed for any single Major Construction project costing in excess of \$100,000 gross.
 65
 66

1 Major Construction shall mean the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly
2 discernible as a fixed asset required for the development and operation of the Joint Property, or in the dismantlement, abandonment,
3 removal, and restoration of platforms, production equipment, and other operating facilities.
4

5 Catastrophe is defined as a sudden calamitous event bringing damage, loss, or destruction to property or the environment, such as an oil
6 spill, blowout, explosion, fire, storm, hurricane, or other disaster. The overhead rate shall be applied to those costs necessary to restore the
7 Joint Property to the equivalent condition that existed prior to the event.
8

9 A. If the Operator absorbs the engineering, design and drafting costs related to the project:

- 10 (1) 5.0% of total costs if such costs are less than \$100,000; plus
- 11
- 12 (2) 3.0% of total costs in excess of \$100,000 but less than \$1,000,000; plus
- 13
- 14 (3) 2.0% of total costs in excess of \$1,000,000.
- 15
- 16

17 B. If the Operator charges engineering, design and drafting costs related to the project directly to the Joint Account:

- 18 (1) 5.0% of total costs if such costs are less than \$100,000; plus
- 19
- 20 (2) 3.0% of total costs in excess of \$100,000 but less than \$1,000,000; plus
- 21
- 22 (3) 2.0% of total costs in excess of \$1,000,000.
- 23
- 24

25 Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single Major
26 Construction project shall not be treated separately, and the cost of drilling and workover wells and purchasing and installing pumping
27 units and downhole artificial lift equipment shall be excluded. For Catastrophes, the rates shall be applied to all costs associated with each
28 single occurrence or event.
29

30 On each project, the Operator shall advise the Non-Operator(s) in advance which of the above options shall apply.
31

32 For the purposes of calculating Catastrophe Overhead, the cost of drilling relief wells, substitute wells, or conducting other well operations
33 directly resulting from the catastrophic event shall be included. Expenditures to which these rates apply shall not be reduced by salvage or
34 insurance recoveries. Expenditures that qualify for Major Construction or Catastrophe Overhead shall not qualify for overhead under any
35 other overhead provisions.
36

37 In the event of any conflict between the provisions of this Section III.2 and the provisions of Sections II.2 (*Labor*), II.5 (*Services*), or II.7
38 (*Affiliates*), the provisions of this Section III.2 shall govern.
39

40 3. AMENDMENT OF OVERHEAD RATES

41
42 The overhead rates provided for in this Section III may be amended from time to time if, in practice, the rates are found to be insufficient
43 Or excessive, in accordance with the provisions of Section I.6.B (*Amendments*).
44

45 IV. MATERIAL PURCHASES, TRANSFERS, AND DISPOSITIONS

46
47 The Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for direct purchases, transfers, and
48 dispositions. The Operator shall provide all Material for use in the conduct of Joint Operations; however, Material may be supplied by the Non-
49 Operators, at the Operator's option. Material furnished by any Party shall be furnished without any express or implied warranties as to quality,
50 fitness for use, or any other matter.
51

52 1. DIRECT PURCHASES

53
54 Direct purchases shall be charged to the Joint Account at the price paid by the Operator after deduction of all discounts received. The
55 Operator shall make good faith efforts to take discounts offered by suppliers, but shall not be liable for failure to take discounts except to
56 the extent such failure was the result of the Operator's gross negligence or willful misconduct. A direct purchase shall be deemed to occur
57 when an agreement is made between an Operator and a third party for the acquisition of Material for a specific well site or location.
58 Material provided by the Operator under "vendor stocking programs," where the initial use is for a Joint Property and title of the Material
59 does not pass from the manufacturer, distributor, or agent until usage, is considered a direct purchase. If Material is found to be defective
60 or is returned to the manufacturer, distributor, or agent for any other reason, credit shall be passed to the Joint Account within sixty (60)
61 days after the Operator has received adjustment from the manufacturer, distributor, or agent.
62
63
64
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66



1 **2. TRANSFERS**

2
3 A transfer is determined to occur when the Operator (i) furnishes Material from a storage facility or from another operated property, (ii) has
4 assumed liability for the storage costs and changes in value, and (iii) has previously secured and held title to the transferred Material.
5 Similarly, the removal of Material from the Joint Property to a storage facility or to another operated property is also considered a transfer;
6 provided, however, Material that is moved from the Joint Property to a storage location for safe-keeping pending disposition may remain
7 charged to the Joint Account and is not considered a transfer. Material shall be disposed of in accordance with Section IV.3 (Disposition of
8 *Surplus*) and the Agreement to which this Accounting Procedure is attached.

9
10 **A. PRICING**

11
12 The value of Material transferred to/from the Joint Property should generally reflect the market value on the date of physical transfer.
13 Regardless of the pricing method used, the Operator shall make available to the Non-Operators sufficient documentation to verify the
14 Material valuation. When higher than specification grade or size tubulars are used in the conduct of Joint Operations, the Operator
15 shall charge the Joint Account at the equivalent price for well design specification tubulars, unless such higher specification grade or
16 sized tubulars are approved by the Parties pursuant to Section I.6.A (*General Matters*). Transfers of new Material will be priced
17 using one of the following pricing methods; provided, however, the Operator shall use consistent pricing methods, and not alternate
18 between methods for the purpose of choosing the method most favorable to the Operator for a specific transfer:

- 19
20 (1) Using published prices in effect on date of movement as adjusted by the appropriate COPAS Historical Price Multiplier (HPM)
21 or prices provided by the COPAS Computerized Equipment Pricing System (CEPS).
22
23 (a) For oil country tubulars and line pipe, the published price shall be based upon eastern mill carload base prices (Houston,
24 Texas, for special end) adjusted as of date of movement, plus transportation cost as defined in Section IV.2.B (*Freight*).
25
26 (b) For other Material, the published price shall be the published list price in effect at date of movement, as listed by a Supply
27 Store nearest the Joint Property where like Material is normally available, or point of manufacture plus transportation
28 costs as defined in Section IV.2.B (*Freight*).
29
30 (2) Based on a price quotation from a vendor that reflects a current realistic acquisition cost.
31
32 (3) Based on the amount paid by the Operator for like Material in the vicinity of the Joint Property within the previous twelve (12)
33 months from the date of physical transfer.
34
35 (4) As agreed to by the Participating Parties for Material being transferred to the Joint Property, and by the Parties owning the
36 Material for Material being transferred from the Joint Property.

37
38 **B. FREIGHT**

39
40 Transportation costs shall be added to the Material transfer price using the method prescribed by the COPAS Computerized
41 Equipment Pricing System (CEPS). If not using CEPS, transportation costs shall be calculated as follows:

- 42
43 (1) Transportation costs for oil country tubulars and line pipe shall be calculated using the distance from eastern mill to the
44 Railway Receiving Point based on the carload weight basis as recommended by the COPAS MFI-38 ("Material Pricing
45 Manual") and other COPAS MFIs in effect at the time of the transfer.
46
47 (2) Transportation costs for special mill items shall be calculated from that mill's shipping point to the Railway Receiving Point.
48 For transportation costs from other than eastern mills, the 30,000-pound interstate truck rate shall be used. Transportation costs
49 for macaroni tubing shall be calculated based on the interstate truck rate per weight of tubing transferred to the Railway
50 Receiving Point.
51
52 (3) Transportation costs for special end tubular goods shall be calculated using the interstate truck rate from Houston, Texas, to the
53 Railway Receiving Point.
54
55 (4) Transportation costs for Material other than that described in Sections IV.2.B.(1) through (3), shall be calculated from the
56 Supply Store or point of manufacture, whichever is appropriate, to the Railway Receiving Point
57

58 Regardless of whether using CEPS or manually calculating transportation costs, transportation costs from the Railway Receiving Point
59 to the Joint Property are in addition to the foregoing, and may be charged to the Joint Account based on actual costs incurred. All
60 transportation costs are subject to Equalized Freight as provided in Section II.4 (*Transportation*) of this Accounting Procedure.

61
62 **C. TAXES**

63
64 Sales and use taxes shall be added to the Material transfer price using either the method contained in the COPAS Computerized
65 Equipment Pricing System (CEPS) or the applicable tax rate in effect for the Joint Property at the time and place of transfer. In either
66 case, the Joint Account shall be charged or credited at the rate that would have governed had the Material been a direct purchase.

1 D. CONDITTON
2

3 (1) Condition "A" - New and unused Material in sound and serviceable condition shall be charged at one hundred percent (100%)
4 of the price as determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*). Material transferred from the
5 Joint Property that was not placed in service shall be credited as charged without gain or loss; provided, however, any unused
6 Material that was charged to the Joint Account through a direct purchase will be credited to the Joint Account at the original
7 cost paid less restocking fees charged by the vendor. New and unused Material transferred from the Joint Property may be
8 credited at a price other than the price originally charged to the Joint Account provided such price is approved by the Parties
9 owning such Material, pursuant to Section I.6.A (*General Matters*). All refurbishing costs required or necessary to return the
10 Material to original condition or to correct handling, transportation, or other damages will be borne by the divesting property.
11 The Joint Account is responsible for Material preparation, handling, and transportation costs for new and unused Material
12 charged to the Joint Property either through a direct purchase or transfer. Any preparation costs incurred, including any internal
13 or external coating and wrapping, will be credited on new Material provided these services were not repeated for such Material
14 for the receiving property.

15
16 (2) Condition "B" - Used Material in sound and serviceable condition and suitable for reuse without reconditioning shall be priced
17 by multiplying the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*) by seventy-five percent
18 (75%).

19
20 Except as provided in Section IV.2.0(3), all reconditioning costs required to return the Material to Condition "B" or to correct
21 handling, transportation or other damages will be borne by the divesting property.

22
23 If the Material was originally charged to the Joint Account as used Material and placed in service for the Joint Property, the
24 Material will be credited at the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*) multiplied
25 by sixty-five percent (65%).

26
27 Unless otherwise agreed to by the Parties that paid for such Material, used Material transferred from the Joint Property that was
28 not placed in service on the property shall be credited as charged without gain or loss.

29
30 (3) Condition "C" - Material that is not in sound and serviceable condition and not suitable for its original function until after
31 reconditioning shall be priced by multiplying the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C
32 (*Taxes*) by fifty percent (50%).

33
34 The cost of reconditioning may be charged to the receiving property to the extent Condition "C" value, plus cost of
35 reconditioning, does not exceed Condition "B" value.

36
37 (4) Condition "D" - Material that (i) is no longer suitable for its original purpose but useable for some other purpose, (ii) is
38 obsolete, or (iii) does not meet original specifications but still has value and can be used in other applications as a substitute for
39 items with different specifications, is considered Condition "D" Material. Casing, tubing, or drill pipe used as line pipe shall be
40 priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing, or drill pipe utilized as line
41 pipe shall be priced at used line pipe prices. Casing, tubing, or drill pipe used as higher pressure service lines than standard line
42 pipe, e.g., power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods
43 shall be priced on a non-upset basis. For other items, the price used should result in the Joint Account being charged or credited
44 with the value of the service rendered or use of the Material, or as agreed to by the Parties pursuant to Section 1.6.A *General*
45 *Matters*.

46
47 (5) Condition "E" -Junk shall be priced at prevailing scrap value prices.

48
49 E. OTHER PRICING PROVISIONS
50

51 (1) Preparation Costs
52

53 Subject to Section II (*Direct Charges*) and Section III (*Overhead*) of this Accounting Procedure, costs incurred by the Operator
54 in making Material serviceable including inspection, third party surveillance services, and other similar services will be charged
55 to the Joint Account at prices which reflect the Operator's actual costs of the services. Documentation must be provided to the
56 Non-Operators upon request to support the cost of service. New coating and/or wrapping shall be considered a component of
57 the Materials and priced in accordance with Sections IV.1 (*Direct Purchases*) or IV.2.A (*Pricing*), as applicable. No charges or
58 credits shall be made for used coating or wrapping. Charges and credits for inspections shall be made in accordance with
59 COPAS MFI-38 ("Material Pricing Manual").
60

61 (2) Loading and Unloading Costs
62

63 Loading and unloading costs related to the movement of the Material to the Joint Property shall be charged in accordance with
64 the methods specified in COPAS MFI-38 ("Material Pricing Manual").
65
66

1 **3. DISPOSITION OF SURPLUS**

2
3 Surplus Material is that Material, whether new or used, that is no longer required for Joint Operations. The Operator may purchase, but
4 shall be under no obligation to purchase, the interest of the Non-Operators in surplus Material.

5
6 Dispositions for the purpose of this procedure are considered to be the relinquishment of title of the Material from the Joint Property to
7 either a third party, a Non-Operator, or to the Operator. To avoid the accumulation of surplus Material, the Operator should make good
8 faith efforts to dispose of surplus within twelve (12) months through buy/sale agreements, trade, sale to a third party, division in kind, or
9 other dispositions as agreed to by the Parties.

10
11 Disposal of surplus Materials shall be made in accordance with the terms of the Agreement to which this Accounting Procedure is
12 attached. If the Agreement contains no provisions governing disposal of surplus Material, the following terms shall apply:

- 13
14 ■ The Operator may, through a sale to an unrelated third party or entity, dispose of surplus Material having a gross sale value that
15 is less than or equal to the Operator's expenditure limit as set forth in the Agreement to which this Accounting Procedure is
16 attached without the prior approval of the Parties owning such Material.
- 17
18 ■ If the gross sale value exceeds the Agreement expenditure limit, the disposal must be agreed to by the Parties owning such
19 Material.
- 20
21 ■ Operator may purchase surplus Condition "A" or "B" Material without approval of the Parties owning such Material, based on
22 the pricing methods set forth in Section IV.2 (*Transfers*).
- 23
24 ■ Operator may purchase Condition "C" Material without prior approval of the Parties owning such Material if the value of the
25 Materials, based on the pricing methods set forth in Section IV.2 (*Transfers*), is less than or equal to the Operator's expenditure
26 limitation set forth in the Agreement. The Operator shall provide documentation supporting the classification of the Material as
27 Condition C.
- 28
29 ■ Operator may dispose of Condition "D" or "E" Material under procedures normally utilized by Operator without prior approval
30 of the Parties owning such Material.

31
32 **4. SPECIAL PRICING PROVISIONS**

33
34 **A. PREMIUM PRICING**

35
36 Whenever Material is available only at inflated prices due to national emergencies, strikes, government imposed foreign trade
37 restrictions, or other unusual causes over which the Operator has no control, for direct purchase the Operator may charge the Joint
38 Account for the required Material at the Operator's actual cost incurred in providing such Material, making it suitable for use, and
39 moving it to the Joint Property. Material transferred or disposed of during premium pricing situations shall be valued in accordance
40 with Section IV.2 (*Transfers*) or Section IV.3 (*Disposition of Surplus*), as applicable.

41
42 **B. SHOP-MADE ITEMS**

43
44 Items fabricated by the Operator's employees, or by contract laborers under the direction of the Operator, shall be priced using the
45 value of the Material used to construct the item plus the cost of labor to fabricate the item. If the Material is from the Operator's
46 scrap or junk account, the Material shall be priced at either twenty-five percent (25%) of the current price as determined in Section
47 IV.2.A (*Pricing*) or scrap value, whichever is higher. In no event shall the amount charged exceed the value of the item
48 commensurate with its use.

49
50 **C. MILL REJECTS**

51
52 Mill rejects purchased as "limited service" casing or tubing shall be priced at eighty percent (80%) of K-55/J-55 price as determined in
53 Section IV.2 (*Transfers*). Line pipe converted to casing or tubing with casing or tubing couplings attached shall be priced as K-55/J-
54 55 casing or tubing at the nearest size and weight.

55
56
57 **V. INVENTORIES OF CONTROLLABLE MATERIAL**

58
59
60 The Operator shall maintain records of Controllable Material charged to the Joint Account, with sufficient detail to perform physical inventories.

61
62 Adjustments to the Joint Account by the Operator resulting from a physical inventory of Controllable Material shall be made within twelve (12)
63 months following the taking of the inventory or receipt of Non-Operator inventory report. Charges and credits for overages or shortages will be
64 valued for the Joint Account in accordance with Section IV.2 (*Transfers*) and shall be based on the Condition "B" prices in effect on the date of
65 physical inventory unless the inventorying Parties can provide sufficient evidence another Material condition applies.

66



1 **1. DIRECTED INVENTORIES**

2
3 Physical inventories shall be performed by the Operator upon written request of a majority in working interests of the Non-Operators
4 (hereinafter, "directed inventory"); provided, however, the Operator shall not be required to perform directed inventories more frequently
5 than once every five (5) years. Directed inventories shall be commenced within one hundred eighty (180) days after the Operator receives
6 written notice that a majority in interest of the Non-Operators has requested the inventory. All Parties shall be governed by the results of
7 any directed inventory.

8
9 Expenses of directed inventories will be borne by the Joint Account; provided, however, costs associated with any post-report follow-up
10 work in settling the inventory will be absorbed by the Party incurring such costs. The Operator is expected to exercise judgment in keeping
11 expenses within reasonable limits. Any anticipated disproportionate or extraordinary costs should be discussed and agreed upon prior to
12 commencement of the inventory. Expenses of directed inventories may include the following:

- 13
14 A. A per diem rate for each inventory person, representative of actual salaries, wages, and payroll burdens and benefits of the personnel
15 performing the inventory or a rate agreed to by the Parties pursuant to Section I.6.A (*General Matters*). The per diem rate shall also
16 be applied to a reasonable number of days for pre-inventory work and report preparation.
17
18 B. Actual transportation costs and Personal Expenses for the inventory team
19
20 C. Reasonable charges for report preparation and distribution to the Non-Operators.

21
22 **2. NON-DIRECTED INVENTORIES**

23 **A. OPERATOR INVENTORIES**

24
25 Physical inventories that are not requested by the Non-Operators may be performed by the Operator, at the Operator's discretion. The
26 expenses of conducting such Operator-initiated inventories shall not be charged to the Joint Account.

27
28 **B. NON-OPERATOR INVENTORIES**

29
30 Subject to the terms of the Agreement to which this Accounting Procedure is attached, the Non-Operators may conduct a physical
31 inventory at reasonable times at their sole cost and risk after giving the Operator at least ninety (90) days prior written notice. The
32 Non-Operator inventory report shall be furnished to the Operator in writing within ninety (90) days of completing the inventory
33 fieldwork.

34
35 **C. SPECIAL INVENTORIES**

36
37 The expense of conducting inventories other than those described in Sections V.1 (*Directed Inventories*), V.2.A (*Operator*
38 *Inventories*), or V.2.B (*Non-Operator Inventories*), shall be charged to the Party requesting such inventory; provided, however,
39 inventories required due to a change of Operator shall be charged to the Joint Account in the same manner as described in Section
40 V.1 (*Directed Inventories*).

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EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement dated effective September 30, 2013, by and between PetroShare Corp as Operator, and Rancher Energy Corp, US Energy Development Co., and Royale Investments, LLC as Non-Operators.

INSURANCE

As to all operations hereunder, Operator shall carry for the benefit and protection of the parties hereto the following insurance coverage:

- (i) Worker's Compensation or Employer's Liability Insurance as required by the laws of the states in which the operations are conducted.
- (ii) Comprehensive General Liability Insurance, including contractual liability, with a combined single limit per occurrence of not less than \$1,000,000 for bodily injury and property damage and a combined occurrence limit of \$2,000,000.
- (iii) Comprehensive Automobile Insurance, including hired and non-owned vehicles, with a combined single limit per occurrence of not less than \$1,000,000 for bodily injury and property damage.
- (iv) Liability Umbrella Insurance (excess of underlying insurance coverage mentioned above) with a combined limit per occurrence coverage of not less than \$5,000,000.

The cost of the foregoing insurance coverage shall be charged to the parties pursuant to the Accounting Procedure (Exhibit "C") as follows: item (i) will be included in labor rates, items (ii) and (iv) will be charged to the joint account, and item (iii) is included in mileage rates.

If a Non-Operator wishes to obtain its own insurance coverage for any of the above categories, such party shall provide Operator with a certificate evidencing such coverage. In such event, Operator shall not invoice such party for its share of the cost of that particular coverage. Additionally, all such insurance coverages and all of the insurance coverages described above shall contain a waiver of subrogation in favor of all other parties hereto.

Each party may obtain its own well control or OEE insurance for its proportionate share of such obligation and provide Operator with a certificate evidencing such coverage. In the event a Non-Operator wishes to be covered under Operators OEE insurance, it shall give the Operator its written election to be covered under Operators policy and it shall be responsible for its proportionate share of such premiums and associated deductible expense and receive the coverage benefits as provided under such policy.

To the extent not covered by the aforementioned insurance, the liability of the parties hereto for damages or claims arising out of illness or personal injury to or death of any person or damage to or destruction or loss of property of any person or entity resulting from operations conducted hereunder shall be borne by the parties hereto in the proportions in which they bear the costs of such operations. Additionally, Operator shall not be liable to Non-Operator for damage to or for loss or destruction of jointly owned property from operations hereunder, unless such damage, loss, or destruction arises solely out of the gross negligence or willful misconduct of Operator.

EXHIBIT H

MEMORANDUM OF OPERATING AGREEMENT AND FINANCING STATEMENT

Attached to and a made part of that certain Joint Operating Agreement dated September 30, 2013, between PetroShare Corp., Operator, and the signatory parties thereto, Non-Operators.

- 1.0 This Memorandum of Operating Agreement and Financing Statement (hereinafter called "Memorandum") shall be effective when the Operating Agreement referred to in Paragraph 2.0 below becomes effective, that being September 30, 2013.
 - 2.0 The parties hereto have entered into an Operating Agreement, providing for the development and production of crude oil, natural gas and associated substances from Buck Peak, (hereinafter called the "Contract Area"), and designating PetroShare Corp., as Operator to conduct such operations.
 - 3.0 The Operating Agreement provides for certain liens and/or security interests to secure payment by the parties of their respective share of costs under the Operating Agreement. The Operating Agreement contains an Accounting Procedure along with other provisions which supplement the lien and/or security interest provisions, including non-consent clauses which provide that parties who elect not to participate in certain operations shall be deemed to have relinquished their interest until the consenting parties are able to recover their costs of such operations plus a specified amount. Should any person or firm desire additional information regarding the Operating Agreement or wish to inspect a copy of the Operating Agreement, said person or firm should contact the Operator.
 - 4.0 The purpose of this Memorandum is to more fully describe and implement the liens and/or security interests provided for in the Operating Agreement, and to place third parties on notice thereof.
 - 5.0 In consideration of the mutual rights and obligations of the parties hereunder, the parties hereto agree as follows:
 - 5.1 The Operator shall conduct and direct and have full control of all Operations on the Contract Area as permitted and required by, and within the limits of the Operating Agreement.
 - 5.2 The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations and shall be liable only for its proportionate share of costs.
 - 5.3 Each Non-Operator grants to Operator a lien upon its oil and gas rights in the Contract Area, and a security interest in its share of oil and or gas when extracted and its interest in all equipment, to secure payment of its share of expense, together with interest thereon at the rate provided in the Accounting Procedure referred to in Paragraph 3.0 above. To the extent that Operator has a security interest under the Uniform Commercial Code of the state, Operator shall be entitled to exercise the rights and remedies of a secured party under the Code. The bringing of a suit and the obtaining of judgment by Operator for the secured indebtedness shall not be deemed an election of remedies or otherwise affect the rights or security interest for the payment thereof.
-

5.4 The Operator grants to Non-Operator a lien and security interest equivalent to that granted to Operator as described in Paragraph 5.3 above, to secure payment by Operator of its own share of costs when due.

6.0 For purposes of protecting said liens and security interest, the parties hereto agree that this Memorandum shall cover all right, title and interest of the debtor(s) in:

6.1 Property Subject to Security Interests

- (A) All personal property located upon or used in connection with the Contract Area.
- (B) All fixtures on the Contract Area.
- (C) All oil, gas and associated substances of value in, on or under the Contract Area which may be extracted therefrom.
- (D) All accounts resulting from the sale of the items described in subparagraph(c) at the wellhead of every well located on the Contract Area or on lands pooled therewith.
- (E) All items used, useful, or purchased for the production, treatment, storage, transportation, manufacture, or sale of the items described in subparagraph (c).
- (F) All accounts, contract rights, rights under any gas balancing agreement, general intangibles, equipment, inventory, farmout rights, option farmout rights, acreage and or cash contributions, and conversion rights, whether now owned or existing or hereafter acquired or arising, including but not limited to all interest in any partnership, limited partnership, association, joint venture, or other entity or enterprise that holds, owns, or controls any interest in the Contract Area or in any property encumbered by this Memorandum.
- (G) All severed and extracted oil, gas, and associated substances now or hereafter produced from or attributable to the Contract Area, including without limitation oil, gas and associated substances in tanks or pipelines or otherwise held for treatment, transportation, manufacture, processing or sale.
- (H) All the proceeds and products of the items described in the foregoing paragraphs now existing or hereafter arising, and all substitutions therefor, replacements thereof, or accessions thereto.
- (I) All personal property and fixtures now and hereafter acquired in furtherance of the purpose of this Operating Agreement. Certain of the above-described items are or are to become fixtures on the Contract Area.
- (J) The proceeds and products of collateral are also covered.

6.2 Property Subject to Liens

- (A) All real property within the Contract Area, including all oil, gas and associated substances of value in, on or under the Contract Area which may be extracted therefrom.
- (B) All fixtures within the Contract Area.
- (C) All real property and fixtures now and hereafter acquired in furtherance of the purposes of this Operating Agreement.

- 7.0 The above items will be financed at the wellhead of the well or wells located on the Contract Area, and this Memorandum is to be filed for record in the real estate records of the county or counties in which the Contract Area is located, and in the Uniform Commercial Code records. All parties who have executed the Operating Agreement are also parties hereto.
 - 8.0 On default of any covenant or condition of the Operating Agreement, in addition to any other remedy afforded by law or the practice of this state, each party to the agreement and any successor to such party by assignment, operation or law, or otherwise, shall have, and is hereby given and vested with, the power and authority to take possession of and sell any interest which the defaulting party has in the subject lands and to foreclose this lien in the manner provided by law.
 - 9.0 Upon expiration of the subject Operating Agreement and the satisfaction of all debts, the Operator shall file of record a release and termination on behalf of all parties concerned. Upon the filing of such release and termination, all benefits and obligations under this Memorandum shall terminate as to all parties who have executed or ratified this Memorandum. In addition, the Operator shall have the right to file a continuation statement on behalf of all parties who have executed or ratified this Memorandum.
 - 10.0 It is understood and agreed by the parties hereto that if any part, term or provision of this Memorandum is by the courts held to be illegal or in conflict with any law of the state where made the validity of the remaining portions or provisions shall not be affected, and the rights and obligations of the parties shall be construed and enforced as if the Memorandum did not contain the particular part, term or provision held to be invalid.
 - 11.0 This Memorandum shall be binding upon and shall inure to the benefit of the parties hereto and to their respective heirs, devisees, legal representatives, successors and assigns. The failure of one or more persons owning an interest in the Contract Area to execute this Memorandum shall not in any manner affect the validity of the Memorandum as to those persons who have executed this Memorandum.
 - 12.0 A party having an interest in the Contract Area can ratify this Memorandum by execution and delivery of an instrument of ratification, adopting and entering into this Memorandum, and such ratification shall have the same effect as if the ratifying party had executed this Memorandum or a counterpart thereof. By execution or ratification of this Memorandum, such party hereby consents to its ratification and adoption by any party who may have or may acquire any interest in the Contract Area.
 - 13.0 This Memorandum may be executed or ratified in one or more counterparts and all of the executed or ratified counterparts shall together constitute one instrument. For the purposes
-

of recording, only one copy of this Memorandum with individual signature pages attached thereto needs to be filed of record.

ATTEST OR WITNESS:

OPERATOR

PetroShare Corporation

By: _____

Type or print name

Title _____

Date: _____

ATTEST OR WITNESS:

NON-OPERATORS

U.S. Energy Development Corporation

By: _____

Type or print name

Title: _____

Date: _____

ATTEST OR WITNESS:

NON-OPERATORS

By: _____

Type or print name

Date:

ACKNOWLEDGMENTS

Note: The following forms of acknowledgment are short forms approved by the Uniform Law on Notarial Acts. The validity and effect of these forms in any state will depend upon the statutes of that state.

ACKNOWLEDGMENT IN REPRESENTATIVE CAPACITY:

STATE OF _____)
)ss.
COUNTY OF _____)

This instrument was acknowledged before me on _____, 2013, by

My commission expires:

_____ Notary Public _____

STATE OF _____)
)ss.
COUNTY OF _____)

This instrument was acknowledged before me on _____, 2013, by

My commission expires:

_____ Notary Public _____

PARTICIPATION AGREEMENT

This Participation Agreement (hereinafter "Agreement") is made and entered into effective August 1, 2013, by and between PetroShare Corp., hereinafter referred to as "PetroShare", and Royale Investments, LLC, a Florida registered Limited Liability Co. ("Participant").

RECITALS:

- A. PetroShare has acquired certain oil and gas leases described on Exhibit "A", attached hereto ("Existing Leases").
- B. Participant wishes to participate with PetroShare in the drilling, and development of the Leases pursuant to the provisions of this Agreement.

Now therefore, the parties hereto, for the mutual promises contained herein and other good and valuable consideration, the sufficiency of which is hereby acknowledged, do hereby contract and agree as follows:

I. DEFINITIONS

1. Effective Date: The Effective Date is August 1, 2013.
 2. Existing Leases: The oil and gas leases on Exhibit "A", attached hereto.
 3. Obligation Wells: The wells will be drilled from a common well pad and will be the Kowach #3-25 well, located in NESW Section 25, T6N R90W, a vertical well bore and the Voloshin #3-25 well, located in NESW Section 25, T6N R90W; directional well bore to test the Niobrara formation.
 4. Operator: PetroShare Corp.
 5. Operating Agreement: A joint operating agreement substantially in the form attached hereto as Exhibit "B".
 6. Participant Interest: A Working Interest in the Leases and Obligation Wells of ten percent (10.0%).
 6. Working Interest: The cost bearing interest created by oil and gas leases. Working Interest may also refer to the share of ownership attributable to an unleased mineral interest.
-

II. PROSPECT FEE

A . **Payment of Prospect Fee.** Participant shall pay an aggregate prospect fee to PetroShare upon the execution of this Agreement equal to the sum of Seventy Five Thousand Dollars (\$75,000) ("Prospect Fee").

III. DRILLING AND DEVELOPMENT.

A . **Obligation Wells.** Participant agrees to pay for its Participant Interest share of the drilling, completion and equipping, or the plugging and abandonment, of the Obligation Wells. PetroShare shall use its commercially reasonable efforts to commence the drilling of the first Obligation Well by October 15, 2013.

B . **Interests Earned.** Upon Participant paying the Prospect Fee, together with its share of the costs for the drilling, completion and equipping, or the plugging and abandonment of an Obligation Well, Participant shall be assigned an undivided interest in and to the Leases equal to Participant's Interest of PetroShare's interest in the Existing Leases as to the unit for such Obligation Well, and as to all depths from the surface to the deepest depth drilled in the Obligation Well. All assignments will be subject to all royalties, overriding royalties, production payments, net profits interests and similar burdens existing as of the date hereof.

C . **Subsequent Drilling and Development Operations.** After drilling and completion of the Obligation Wells, all subsequent wells ("Subsequent Wells") and subsequent operations with respect to the Obligation Wells shall be proposed in accordance with the Operating Agreement and the provisions of this Agreement with Participant being responsible for its Participant Interest, subject to any elections to not participate in the Operating Agreement.

IV. OPERATIONS WITHIN PROJECT AREA

A . **Operating Agreement.** All operations within the Project Area shall be conducted pursuant to the joint operating agreement attached hereto as Exhibit "B" ("Operating Agreement"), reference to which is hereby made for all purposes, except as expressly modified by the terms hereof. PetroShare Corp., shall be designated as Operator subject to the resignation and removal provisions of the Operating Agreement. In the event of a conflict between this Agreement and the Operating Agreement, this Agreement shall control.

B . **Cash Advances.** Notwithstanding anything in the Operating Agreement to the contrary, PetroShare shall have the right to require cash advances from Participant with respect to the proposed drilling and completion of one or more Obligation Wells. Such request shall be in the form of one or more Authorities for Expenditure ("AFEs") and payment shall be due within 20 days following receipt of the AFEs.

V. PROPORTIONATE REDUCTION

A. **Proportionate Reduction Clause:** If an oil and gas lease or other Mineral Interest covers less than the entire mineral fee estate, or if a party's interest in the applicable lease or Mineral Interest is less than a 100% ownership interest, any interest conveyed or reserved pursuant to this Agreement is intended to be proportionately reduced to accord to (i) the proportion of mineral interest covered by the relevant oil and gas lease or other Mineral Interest, and (ii) the proportion of ownership held by the conveying party, in the case of a conveyance, or the burdened party, in the case of a reservation of interest.

VI. CONFIDENTIALITY

A. **Confidentiality.** The parties acknowledge that the information that is the subject matter of this Agreement (including but not limited to all well information acquired by operations conducted under the Operating Agreement) is sensitive and confidential proprietary information belonging to the parties. Each party, for itself and its Affiliates, agrees not to release or disclose or otherwise make the information available to or to furnish any of said information to any third party without (i) obtaining the agreement of the third party to maintain such information confidential and to not use such information other than in connection with investing in or participating with or purchasing interests from the disclosing party, or (ii) first obtaining the express written consent of the other party. Any such release or disclosure if approved shall be conditioned upon the third party expressly agreeing to all terms herein and becoming a party to and subject to this Confidentiality Agreement. Nothing contained above shall restrict or impair any party's right to use or disclose any of the information which is: (1) at the time of disclosure available to the public through no act or omission of that party; (2) can be shown was lawfully in that party's possession prior to the time of this Confidentiality Agreement; or (3) is independently made available to that party by a third party who is independently entitled to disclose such information and that party shows that the right of such third party to disclosure existed prior to the date of this Agreement.

B. **Public Disclosure.** Subject to the exceptions set forth below, and unless otherwise agreed upon by the parties, prior to substantial leasing completion in the AMI as contemplated by this Agreement, the parties intend to keep material information concerning the entering into of this Agreement and the location of the Project Area confidential to the extent any disclosure thereof could impair the leasing activities of the parties. Notwithstanding such intent, either party may make any public disclosure to the extent that, upon advice of such party's counsel, such disclosure is advisable to comply with United States or state securities laws, rules or regulations. Any proposed press release or other disclosure, shall be provided to the other party in advance on a confidential basis for its information and comment.

VII. TAX ELECTION

This Agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto except as provided herein. Each party hereby affected elects to be excluded from the application of all the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1986 and all amendments thereto.

VIII. PAYMENT OF DELAY RENTALS AND LEASE EXTENSIONS

Operator shall be responsible for making any payment of delay rentals, shutin royalties and minimum royalty payments on the Leases. Participant shall bear and pay its share of such payments. Participant shall be billed and shall pay for said costs in the manner set forth for the billing and paying of direct costs in the COPAS accounting procedures attached to the form of Operating Agreement. Operator shall not be liable to Participant for any loss resulting from a good faith effort to properly do so.

IX. NO JOINT LIABILITY

The rights, duties, obligations and liabilities of the parties hereto shall be several and not joint or collective. Each party hereto shall be responsible only for its obligations as herein set out and shall be liable only for its share of the cost and expense as herein provided; it being the express purpose and intention of the parties that their interest in this Agreement and the rights and property acquired in connection herewith shall be held by them as tenants in common. Except for the tax election which the parties may have made, it is not the purpose or intention of this Agreement to create any mining partnership, commercial partnership or other partnership.

X. ASSIGNMENTS OF LEASES

Any assignment of any interest pursuant to this Agreement by and between the parties hereto shall be made with a special warranty of title by through and under the assignor, but not otherwise and on the form attached hereto as Exhibit "C" which shall be for recording in the official records of the county in which the Lease lies. Where applicable, separate assignments of operating rights shall likewise be made on such State and Federal forms as required by rule or regulation. Any assignment hereafter executed shall specifically refer to, and be made subject to, the terms and conditions hereof.

XI. FORCE MAJEURE

Should any party be prevented or hindered from complying with any obligation created hereunder, other than the obligation to pay money, by reason of fire, flood, storm, act of God, governmental authority, governmental action or inaction, failure or delay in obtaining any necessary permits, labor disputes, war, the inability to secure qualified labor, geoscience data, title abstracts, curative title work, lease brokers, entry onto the land, drilling equipment and drilling rig(s) at prevailing market rates, drilling tools, materials or transportation, or any other cause not enumerated herein but which is beyond the normal control of the party whose performance is affected, then the performance of any such obligation shall be suspended during the period of such prevention or hindrance, provided the affected party promptly notifies the other party of such force majeure circumstances and exercises all reasonable diligence to remove the cause of force majeure.

XII. EXHIBITS

The following exhibits are attached to this Agreement:

- Exhibit "A"- Leases
- Exhibit "B" - Form of Joint Operating Agreement
- Exhibit "C" - Form of Assignment

If the terms of any of these Exhibits conflict with the terms of this Agreement, this Agreement shall control.

XIII. MISCELLANEOUS

- A. **Assignment:** Participant may assign its interest under this Agreement provided that Participant remains liable for or guarantees the performance of its assignee and provided Participant gives PetroShare appropriate documentation evidencing such assignment..
- B. **Governing Law:** This Agreement and other instruments executed in accordance with it, except for assignments of lands, or the execution hereof shall be governed by and interpreted according to the laws of the State of Colorado. Forum and venue shall be exclusively in Denver, Colorado. As to assignments of lands, they shall be governed by the laws of the State wherein they lie.
- C. **Entire Agreement:** This Agreement, the documents to be executed hereunder, and the Exhibits attached hereto constitute the entire agreement between the parties, supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties, and there are no warranties, representations or other agreements between the parties except as specifically set forth herein. No supplement, amendment, alteration, modification, waiver or termination of the Agreement shall be binding unless executed in writing by the parties hereto.
- D. **Waiver:** No waiver of any of the provisions of the Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.
- E. **Captions; Definition of "Including":** The captions in this Agreement are for convenience only and shall not be considered a part of or affect the construction or interpretation of any provision of this Agreement. The term "including" or "includes", as used herein, shall mean "including, without limitation," and "includes, without limitation".
-

F. **Binding:** This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective permitted successors, assigns and legal representatives.

G. **Notices:** Any notice hereunder shall be given in writing by mail, courier, personally, E mail or by facsimile and shall be effective when delivered to the party intended to be notified. The contact information for each party is as follows:

If to PetroShare:

PetroShare Corp.
7200 So. Alton Way, Ste B220
Centennial, CO 80112
Attn: Frederick J. Witsell
(303) 500-1168 Office
(303) 770-6885 fax
(303) 881-2157 cell
fwitsell@petrosharecorp.com

If to Participant:

Royale Investments, LLC

Attn: Bill Reid

Office

Cell
billreid@goldresourcecorp.com

Any party may change their foregoing contact information by notice to the other party.

H. **Expenses:** Except as otherwise provided herein, each party shall be solely responsible for all expenses incurred by it in connection with this transaction (including fees and expenses of its own counsel and accountants).

I. **Execution:** This Agreement may be executed in multiple original counterparts, all of which shall together constitute a single agreement and each of which, when executed, shall be binding for all purposes thereof on the executed party, its successors and assigns.

J. **Severability:** If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any materially adverse manner to either party.

K. **Arbitration:** Any dispute arising under this Agreement ("Arbitrable Dispute") shall be referred to and resolved by binding arbitration in Denver, Colorado, to be administered by and in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Arbitration shall be initiated within the applicable time limits set forth in this Agreement and not thereafter or if no time limit is given, within the time period allowed by the applicable statute of limitations, by one party ("Claimant") giving written notice to the other party ("Respondent") and to the Denver Regional Office of the American Arbitration Association ("AAA"), that the Claimant elects to refer the Arbitrable Dispute to arbitration. All arbitrators must be neutral parties who have never been officers, directors or employees of the parties or any of their Affiliates, must have not less than ten (10) years experience in the oil and gas industry, and must have a formal financial/accounting, engineering or legal education. The hearing shall be commenced within thirty (30) days after the selection of the arbitrator. The parties and the arbitrators shall proceed diligently and in good faith in order that the arbitral award shall be made as promptly as possible. The interpretation, construction and effect of this Agreement shall be governed by the Laws of Colorado, and to the maximum extent allowed by law, in all arbitration proceedings the Laws of Colorado shall be applied, without regard to any conflicts of laws principles. All statutes of limitation and of repose that would otherwise be applicable shall apply to any arbitration proceeding. The tribunal shall not have the authority to grant or award indirect or consequential damages, punitive damages or exemplary damages.

L. **Further Assurances:** During the time in which this Agreement is in effect, the parties shall, at any time and from time to time, and without further consideration, execute and deliver or use reasonable efforts to cause to be executed and delivered such other instruments of conveyance and contract, and to take such other actions as either party may reasonably may request effect the intent of this Agreement.

M. **Not to be Construed Against Drafter:** The parties acknowledge that they have had an adequate opportunity to review each and every provision contained in this Agreement, that they have participated equally in the drafting hereof and that they have had adequate time to submit same to legal counsel for review and comment. Based on said review and consultation, the parties agree with each and every term contained in this Agreement. Based on the foregoing, the parties agree that the rule of construction that a contract be construed against the drafter, if any, shall not be applied in the interpretation and construction of this Agreement.

N. **Laws and Regulations:** Any reference to any federal, state, local, or foreign statute or law will be deemed also to refer to all rules and regulations promulgated thereunder, unless the context otherwise requires.

O. **Third-Party Beneficiaries:** This Agreement is not intended to confer any rights or remedies upon any Person other than the parties and their respective successors and permitted assigns.

P. Investment Representations: Participant understands (1) that the interests evidenced by this Agreement have not been registered under the Securities Act of 1933, the Colorado Securities Act or any other state securities laws (the "Securities Acts") because PetroShare is issuing these interests in reliance upon the exemptions from the registrations requirements of the Securities Acts providing for issuance of Securities not involving a public offering, (2) that PetroShare has relied upon the fact that the interests are to be held by each for investment, and (3) that exemption from registrations under the Securities Acts would not be available if the interests were acquired by Participant with a view to distribution.

Accordingly, Participant hereby confirms to PetroShare that it is acquiring the interests for its own account, for investment and not with a view to the resale or distribution thereof. Participant agrees not to transfer, sell or offer for sale any or any portion of the interests unless there is an effective registration or other qualification relating thereto under the Securities Act of 1933 and under any applicable state securities laws or unless the holder of interests delivers to the PetroShare an opinion of counsel, satisfactory to the PetroShare, that such registration or other qualification under such Act and applicable state securities laws is not required in connection with such transfer, offer or sale. Participant understands that the PetroShare is under no obligation to register the interests or to assist them in complying with any exemption from registration under the Acts if either should at a later date, wish to dispose of the interest. Furthermore, Participant realizes that the interests are unlikely to qualify for disposition under Rule 144 of the Securities and Exchange Commission unless they are not an "affiliate" of PetroShare and the interest has been beneficially owned and fully paid for by either for at least three years.

Prior to acquiring the interests, Participant has made an investigation of the PetroShare and its business and has had made available to it all information with respect thereto which it needed to make an informed decision to acquire the interest. Participant considers itself to be an entity possessing experience and sophistication as an investor which are adequate for the evaluation of the merits and risks of its investment in the interest.

IN WITNESS WHEREOF, this Agreement is executed effective as of the date hereinabove provided.

Parties:

PETROSHARE CORP

/s/ F. J. Witsell

Name: Fredrick J. Witsell

Title: President

ROYALE INVESTMENTS, LLC

/s/ William Reid

Name: William Reid

Title: Manager

EXHIBIT A
Buck Peak Participation Agreement Leases dated September 30, 2013

BUCK PEAK LEASES AND EXPIRATION DATES

LESSOR NAME AND ADDRESS	DESCRIPTION	DATE AND TERM	GROSS ACRES	NET ACRES	NET REVENUE INTEREST to be delivered 8/8ths	RECORDING
West Half of Section 25						
Jim F. Kowach	T6N-R90W, 6th P.M. Sec 25: W/2	10/31/2008 - 2014 6 years	335.54	167.77	78.5000%	20104936
Barbara Wilaby	T6N-R90W, 6th P.M. Sec 25: W/2	10/31/2011 - 2014 3 years	335.54	167.77	78.5000%	20103288
Sub Total - Kowach / Wilaby	W/2 Section 25, T6N R90W	100.00%	335.54	335.54	78.5000%	
East Half of Section 25						
Mark A Voloshin, PO Box 981, Craig, CO 81626	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9,10,15,16	5/12/2011- 2016 Five (5) Years	335.61	52.83	78.5000%	20103153
Betty Arnone, 1713 South Vancouver Ct, Lakewood, CO 80228	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1,2,7,8,9,10,15 & 16	5/12/2011- 2016 Five (5) Years	335.61	26.41	78.5000%	20102832
Helen McKee, 10436 Jacob Place, Littleton, CO 80125-8932	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15 & 16	5/12/2011- 2016 Five (5) Years	335.61	26.41	78.5000%	20102839
Gary R Semro and Robert W. Semro, 6522 Trailhead Rd, Highlands Ranch, CO 80130	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15 & 16	5/12/2011- 2016 Five (5) Years	335.61	26.41	78.5000%	20102847
Sharon Fitzgerald (Hebenstreit), 337 Coronado Drive, Sedalia, CO 80135	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9,10,15,16	5/12/2011- 2016 Five (5) Years	335.61	26.41	78.5000%	20103140
Brad Ocker (Eugena Grace Voloshin), 9591 County Rd 33, Craig, CO 81625	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9,10,15,16	5/12/2011- 2016 Five (5) Years	335.61	8.55	78.5000%	20102856
Sub Total - Semro / Voloshin	E/2 Section 25, T6N R90W	49.7661%	335.61	167.02	78.5000%	
BCK LLC Charles S Keith	T6N-R90W, 6th P.M. A ssessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9,10,15,16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	41.43	77.5000%	20111728
Strontia springs Resources, LLC James Keith	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9,10,15,16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	41.43	77.5000%	20111730
JTZ LLC Debra Ann Ziehm	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9,10,15,16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	41.43	77.5000%	20111729
MKRESOURCES LLC Margaret Keith	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9,10,15,16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	26.41	77.5000%	20111731
Sub Total - Keith	E/2 Section 25, T6N R90W	44.9075%	335.61	150.71	77.5000%	
Quicksilver Resources Joanie Voloshin	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1,2,7,8,9,10,15,16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	8.94	82.500%	20111728
SWEPI thru Quicksilver Resources Joanie Voloshin	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1,2,7,8,9,10,15,16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	8.94	81.000%	20111728
		Ownership %	Gross Acres	Net Acres	NRI% Delivered	
West Half of Section 25		100.000%	335.54	335.54	78.5000%	
East Half of Section 25		100.000%	335.61	335.61	78.2247%	
SECTION 25 TOTAL		100.000%	671.15	671.15	78.3623%	

Exhibit B

to

Participation Agreement

Model Form of Operating Agreement

See Exhibit 10.9.

ASSIGNMENT

STATE OF COLORADO)
COUNTY OF)

KNOW ALL MEN BY THESE PRESENTS, that PetroShareCorp., with an office at _____ hereinafter referred to as "Assignor", for and in consideration of the sum of TEN AND NO/100 DOLLARS (\$10.00), the receipt and adequacy of which is hereby acknowledged and full acquittance granted therefor, has granted, sold, conveyed and delivered and does hereby grant, sell, convey and deliver unto Royale Investments, LLC with an office at 211 Harbour Drive, Naples, FL 34103 hereinafter referred to as "Assignee", 25% of Assignor's right, title and interest in the following properties (real, personal or mixed) and rights (contractual or otherwise) unless expressly reserved or excluded herein, the following being referred to herein collectively as the Assets:

- a) the oil and gas leases described on Exhibit "A" and "B", attached hereto, in the amounts of the working interests specified thereon (the **Leases**);
 - b) The rights and interests in, to and under, or derived from, all of the presently existing and valid unitization and pooling agreements and units (including all units formed by voluntary agreement and those formed under the rules, regulations, orders or other official acts of any governmental entity having appropriate jurisdiction) to the extent they relate to any of the Leases;
 - c) The rights and interests in, to and under, or derived from, all of the presently existing and valid joint operating agreements, oil sales contracts, casing head gas sales contracts, gas sales contracts, processing contracts, gathering contracts, transportation contracts, easements, rights-of-way, servitudes, surface leases and other contracts to the extent they are described on Exhibit "C", attached hereto (the **Contracts**);
 - d) The rights and interests in and to all personal property and improvements, including without limitation, tanks, buildings, fixtures, machinery, equipment, pipelines, utility lines, power lines, telephone lines, roads and other appurtenances, to the extent the same are situated upon and/or used or held for use by Seller in connection with the ownership, operation, maintenance and repair of the Leases; and
 - (f) The rights and interests in all permits and licenses of any nature owned, held or operated in connection with operations for the exploration and production of oil, gas or other minerals to the extent the same are used or obtained in connection with any of the Leases or other property described in Exhibit "A" (**Permits**);
-

TO HAVE AND TO HOLD the Assets, together with all and singular the rights and appurtenances thereunto in anywise belonging, unto Assignee, its successors and assigns, forever, subject to the following terms and conditions:

1. Special Warrant of Title. Assignor represents and warrants that the Assets are free and clear of all liens, encumbrances, security interests or other adverse claims arising by, through or under Assignor, but not otherwise. Assignor shall warrant and defend the title to the Assets conveyed to Assignee against every person whomsoever lawfully claims the Assets or any part thereof by, through, or under Assignor, but not otherwise.

2. Successors and Assigns. The terms, covenants and conditions contained in this Assignment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, and such terms, covenants and conditions shall be covenants running with the land and with each subsequent transfer or assignment of the Assets, or any part thereof.

3. Participation Agreement. This Assignment is made in accordance with and is subject to the terms, covenants and conditions contained in that certain Participation Agreement dated as of _____, 2013, by and between Assignor and Assignee ("Participation Agreement"), all of which shall remain in full force and effect in accordance with their terms as set forth therein and shall not be deemed to have been merged with this Assignment. If there is a conflict between the provisions of the Participation Agreement and this Assignment, the provisions of the Participation Agreement shall control the rights and obligations of the parties.

4. Further Assurances. Assignor and Assignee agree to take all such further actions and to execute, acknowledge and deliver all such further documents that are necessary or useful in carrying out the purpose of this Assignment.

5. Counterparts. This Assignment is being executed in multiple counterparts each of which shall for all purposes be deemed to be an original and all of which shall constitute one instrument.

ASSIGNOR:

PetroShare Corp.

By: _____
Name:
Title:

ASSIGNEE:

By: _____
Name: _____
Title: _____

STATE OF COLORADO)
_____))
COUNTY OF _____))

ss.

The foregoing instrument was acknowledged before me this ___ day of _____, 2013, by _____, as _____ of **PetroShare Corp.**

Witness my hand and seal.

My Commission Expires: _____

Notary Public

STATE OF FLORIDA)
_____))
COUNTY OF _____))

ss.

The foregoing instrument was acknowledged before me this ___ day of _____, 2013, by _____, as _____ of Royale Investments, LLC

Witness my hand and seal.

My Commission Expires: _____

Notary Public

PARTICIPATION AGREEMENT

This Participation Agreement (hereinafter "Agreement") is made and entered into effective September 30, 2013, by and between PetroShare Corp., hereinafter referred to as "PetroShare", and U.S. Energy Development Co. ("Participant").

RECITALS:

A. PetroShare has acquired certain oil and gas leases described on Exhibit "A", attached hereto ("Existing Leases").

B. Participant wishes to participate with PetroShare in the drilling and development of the Leases pursuant to the provisions of this Agreement.

Now therefore, the parties hereto, for the mutual promises contained herein and other good and valuable consideration, the sufficiency of which is hereby acknowledged, do hereby contract and agree as follows:

I. DEFINITIONS

1. Effective Date: The Effective Date is September 30, 2013.
2. Existing Leases: The oil and gas leases on Exhibit "A", attached hereto, which include the acreage required for the drilling of the obligation well.
3. Obligation Wells: The wells will be drilled from a common well pad and will be the Kowach #3-25 well, located in NESW Section 25, T6N R90W, a vertical well bore and the Voloshin #3-25 well, located in NESW Section 25, T6N R90W; directional well bore to test the Niobrara formation at approximately, 7850 feet TVD.
4. Operator: PetroShare Corp.
5. Operating Agreement: A joint operating agreement in the form attached hereto as Exhibit "B".
6. Participant Interest: A Working Interest in the Leases and Obligation Wells of 25.0%, having a net revenue interest of not less than 19.55%.
7. Working Interest: The cost bearing interest created by oil and gas leases. Working Interest may also refer to the share of ownership attributable to an unleased mineral interest.
8. Net Revenue Interest: The share of the gross production proceeds.

9. **Project Area:** Shall be any area(s) within the AMI in which there is ongoing operations including but not limited to; leasing, drilling and completion operations, seismic operations, active producing wells.
10. **Area of Mutual Interest:** The Area of Mutual Interest shall consist of the area shown on Exhibit "D" hereto an additional one mile surrounding the outer boundaries of the depicted area,

II. PROSPECT FEE

A. Payment of Prospect Fee. Participant shall pay an aggregate prospect fee to PetroShare upon the execution of this Agreement equal to the sum of \$187,500 [\$7,500 per each percentage point of Participant's Interest] ("Prospect Fee").

III. DRILLING AND DEVELOPMENT.

A. Obligation Wells. Participant agrees to pay for its Participant Interest share of the drilling, completion and equipping, or the plugging and abandonment, of the Obligation Wells. PetroShare shall use its commercially reasonable efforts to commence the drilling of the first Obligation Well by October 15, 2013.

B. Interests Earned. Upon Participant paying the Prospect Fee, together with its share of the costs for the drilling, completion and equipping, or the plugging and abandonment of an Obligation Well, Participant shall be assigned an undivided interest in and to the Existing Leases equal to Participant's Interest of PetroShare's interest in the Existing Leases as to the unit for such Obligation Well, and as to all depths. All assignments will be subject to all royalties, overriding royalties, production payments, net profits interests and similar burdens existing as of the date hereof. Upon Participant paying the Prospect Fee and its share of the costs for the drilling, completion and equipping, or the plugging and abandonment of the Obligation Wells, Participant shall also be assigned an undivided interest in the Existing Leases that are not included in the units for the Obligation Wells.

C. Subsequent Drilling and Development Operations. After drilling and completion of the Obligation Wells, all subsequent wells ("Subsequent Wells") and subsequent operations with respect to the Obligation Wells shall be proposed in accordance with the Operating Agreement and the provisions of this Agreement with Participant being responsible for its Participant Interest, subject to any elections to not participate in the Operating Agreement.

IV. OPERATIONS WITHIN PROJECT AREA

A. **Operating Agreement.** All operations within the Project Area shall be conducted pursuant to the joint operating agreement attached hereto as Exhibit "B" ("Operating Agreement"), reference to which is hereby made for all purposes, except as expressly modified by the terms hereof. PetroShare Corp., shall be designated as Operator subject to the resignation and removal provisions of the Operating Agreement. In the event of a conflict between this Agreement and the Operating Agreement, this Agreement shall control.

B. **Cash Advances.** Notwithstanding anything in the Operating Agreement to the contrary, PetroShare shall have the right to require cash advances from Participant with respect to the proposed drilling and completion of one or more Obligation Wells. Such request shall be in the form of one or more Authorities for Expenditure ("AFE's") and payment shall be due within 20 days following receipt of the AFE's. Provided however that such AFE's shall not be issued by PetroShare more than 30 days in advance of the confirmed spud date (i.e. drilling commencement date) of the applicable Obligation Well(s).

V. AMI

A. **Acquisition of AMI Leases.** The Parties hereby establish an area of mutual interests ("AMI"), as described on Exhibit D, attached hereto. The term of AMI shall be for a period two (2) years from the Effective Date and as long as long thereafter as any well drilled pursuant to this Agreement is producing oil or natural gas in paying quantities ("AMI Term"). During the AMI Term, if either Party acquires any Leases within the AMI ("AMI Leases"), the other Party shall have the right to acquire its share of such AMI Leases in accordance with the terms and conditions hereof. The following provisions shall apply to the AMI and leases acquired in the AMI ("AMI Leases"):

1. Either Party to Acquire. Either Party shall have the right to lease or otherwise acquire AMI Leases within the AMI. AMI Leases shall be subject to the AMI provisions below.
2. Notification Upon Acquiring Oil and Gas Rights. The party acquiring an AMI Lease ("Acquiring Party"), shall notify the other party ("Non-Acquiring Party") in writing within 30 days of such acquisition. Such notice shall include a full description of the AMI Lease so acquired, a copy of the instrument by which such rights were acquired together with, all documentation relevant thereto, meaning, copies of the leases, abstracts, title memos, assignments, subleases, farm outs or other contracts affecting the AMI Lease; and the AMI Acquisition Cost as defined below, including an itemized statement thereof.
3. Option to Participate. Within 15 days after receipt of the notice and information referred to in paragraph A.3., the Non-Acquiring Party may elect to acquire its share in the AMI Leases so acquired by notifying the Acquiring Party of such election in writing. The shares of the parties shall be:

Participant: 25%
PetroShare: 75%

Promptly after the acceptance of the offered AMI Lease, the Acquiring Party shall invoice the Non-Acquiring Party for Non-Acquiring Party's Share of the AMI Acquisition Costs. The Non-Acquiring Party shall promptly reimburse Acquiring Party for the Non-Acquiring Party's share of the AMI Acquisition Costs, as reflected by the invoice. Upon receipt of such reimbursement, (which may be required by Non-Acquiring Party to occur at a closing where Acquiring Party shall simultaneously convey title to such Non-Acquiring Party) Acquiring Party shall execute and deliver an executed Assignment to Non-Acquiring Party. If Acquiring Party does not receive the amount due from the Non-Acquiring Party within thirty (30) days after the receipt by such Non-Acquiring Party of the invoice for its costs, at Acquiring Party's option, such failure shall constitute a withdrawal by Non-Acquiring Party of its former election to acquire the interest, and Non-Acquiring Party shall no longer have the right to acquire an interest in the offered AMI Lease. If Acquiring Party does not elect to treat such nonpayment as a withdrawal of the election to participate in the acquisition, Non-Acquiring Party shall remain liable for payment. A delay in payment by Non-Acquiring Party shall not affect Non-Acquiring Party's election to acquire the interest unless Acquiring Party gives the notice described in the foregoing sentence.

5. Failure to Respond. If Acquiring Party shall not have received notice of the election of Non-Acquiring Party to acquire its proportionate interest within the fifteen (15) day period pursuant to the terms of this Agreement, pursuant to Paragraph A.4, such failure to respond shall be deemed conclusively to be an election by Non-Acquiring Party to not acquire its interest in the AMI Lease. If the Non-Acquiring Party elects not to participate in the AMI Leases, the Acquiring Party may retain such AMI Leases free and clear of all of the terms of this Agreement, the AMI and any operating agreements among the Parties.
6. Responsive Notices. Responsive notices required hereunder, including, but not limited to elections to participate in an acquisition, may be given by verbally by phone or in person, or E-mail but to be effective must be followed by written notice delivered by mail, courier, personally, E-mail or by facsimile within 24 hours of the delivery of the verbal notice.
7. Definition of Certain Terms. For the purpose of this Agreement, the following terms shall have the meanings hereinafter set forth:

."AMI Acquisition Cost or Costs" shall include all Lease Costs and all other expenditures related to the acquisition of an AMI Lease which would be treated as a direct cost under Section II of the Accounting Procedure attached to the Operating Agreement, including expenditures for contract brokers, abstracts, and outside attorneys and, in the case of options and contractual rights shall include an assumption by the Non-Acquiring Party of its proportionate share of all burdens imposed on Acquiring Party by the related contract, but shall not include any charges for Acquiring Party's own personnel or which would be treated as "indirect costs" under Section III of said Accounting Procedure.

8. In the event a 3rd party acquires an interest in any leases or mineral rights within the existing AMI, PetroShare and Participant agree to enter in a new AMI Agreement with the 3rd party with comparable terms to this existing AMI. Each Party agrees to require any assignee who acquires such an interest from them to join in the new AMI Agreement.

9. Participant will have the right on an ongoing basis, to participate for its proportionate share as set out in Paragraph 3 herein, in the acquisition or construction of any gathering, processing, or plant facilities that may be necessary or convenient for the production or transmission of any gas produced under the terms of this Agreement and the associated AMI, in which Participant has an interest.

VI. PROPORTIONATE REDUCTION

A. **Proportionate Reduction Clause:** If an oil and gas lease or other Mineral Interest covers less than the entire mineral fee estate, or if a party's interest in the applicable lease or Mineral Interest is less than a 100% ownership interest, any interest conveyed or reserved pursuant to this Agreement is intended to be proportionately reduced to accord to (i) the proportion of mineral interest covered by the relevant oil and gas lease or other Mineral Interest, and (ii) the proportion of ownership held by the conveying party, in the case of a conveyance, or the burdened party, in the case of a reservation of interest. However, such proportionate reduction shall not reduce Participant's Working Interest or Net Revenue Interest in the Existing Leases as a whole.

VII. CONFIDENTIALITY

A. **Confidentiality.** The parties acknowledge that the information that is the subject matter of this Agreement (including but not limited to all well information acquired by operations conducted under the Operating Agreement) is sensitive and confidential proprietary information belonging to the parties. Each party, for itself and its Affiliates, agrees not to release or disclose

or otherwise make the information available to or to furnish any of said information to any third party without (i) obtaining the agreement of the third party to maintain such information confidential and to not use such information other than in connection with investing in or participating with or purchasing interests from the disclosing party, or (ii) first obtaining the express written consent of the other party. Any such release or disclosure if approved shall be conditioned upon the third party expressly agreeing to all terms herein and becoming a party to and subject to a Confidentiality Agreement. Nothing contained above shall restrict or impair any party's right to use or disclose any of the information which is: (1) at the time of disclosure available to the public through no act or omission of that party; (2) can be shown was lawfully in that party's possession prior to the time of this Agreement; or (3) is independently made available to that party by a third party who is independently entitled to disclose such information and that party shows that the right of such third party to disclosure existed prior to the date of this Agreement. Also, nothing contained above shall restrict Participant from providing production results to its investors or lending institutions for the purposes of financing.

B. Public Disclosure. Subject to the exceptions set forth below, and unless otherwise agreed upon by the parties, prior to substantial leasing completion in the AMI as contemplated by this Agreement, the parties intend to keep material information concerning the entering into of this Agreement and the location of the Project Area confidential to the extent any disclosure thereof could impair the leasing activities of the parties. Notwithstanding such intent, either party may make any public disclosure to the extent that, upon advice of such party's counsel, such disclosure is advisable to comply with United States or state securities laws, rules or regulations. Any proposed press release or other disclosure, shall be provided to the other party in advance on a confidential basis for its information and comment.

VIII. TAX ELECTION

This Agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto except as provided herein. Each party hereby affected elects to be excluded from the application of all the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1986 and all amendments thereto.

IX. PAYMENT OF DELAY RENTALS AND LEASE EXTENSIONS

Operator shall be responsible for making any payment of delay rentals, shut in royalties and minimum royalty payments on the Leases. Participant shall bear and pay its share of such payments. Participant shall be billed and shall pay for said costs in the manner set forth for the billing and paying of direct costs in the COPAS accounting procedures attached to the form of Operating Agreement. Operator shall not be liable to Participant for any loss resulting from a good faith effort to properly do so.

X. NO JOINT LIABILITY

The rights, duties, obligations and liabilities of the parties hereto shall be several and not joint or collective. Each party hereto shall be responsible only for its obligations as herein set out and shall be liable only for its share of the cost and expense as herein provided; it being the express purpose and intention of the parties that their interest in this Agreement and the rights and property acquired in connection herewith shall be held by them as tenants in common. Except for the tax election which the parties may have made, it is not the purpose or intention of this Agreement to create any mining partnership, commercial partnership or other partnership.

XI. ASSIGNMENTS OF LEASES

Any assignment of any interest pursuant to this Agreement by and between the parties hereto shall be made with a special warranty of title by through and under the assignor, but not otherwise and on the form attached hereto as Exhibit "C" which shall be for recording in the official records of the county in which the Lease lies. Where applicable, separate assignments of operating rights shall likewise be made on such State and Federal forms as required by rule or regulation. Any assignment hereafter executed shall specifically refer to, and be made subject to, the terms and conditions hereof, and shall convey a working interest equal to the Participant Interest.

XII. FORCE MAJEURE

Should any party be prevented or hindered from complying with any obligation created hereunder, other than the obligation to pay money, by reason of fire, flood, storm, act of God, governmental authority, governmental action or inaction, failure or delay in obtaining any necessary permits, labor disputes, war, the inability to secure qualified labor, geoscience data, title abstracts, curative title work, lease brokers, entry onto the land, drilling equipment and drilling rig(s) at prevailing market rates, drilling tools, materials or transportation, or any other cause not enumerated herein but which is beyond the normal control of the party whose performance is affected, then the performance of any such obligation shall be suspended during the period of such prevention or hindrance, provided the affected party promptly notifies the other party of such force majeure circumstances and exercises all reasonable diligence to remove the cause of force majeure.

XIII. EXHIBITS

The following exhibits are attached to this Agreement:

- Exhibit "A" – Leases
- Exhibit "B" – Form of Joint Operating Agreement
- Exhibit "C" – Form of Assignment
- Exhibit "D" – AMI

If the terms of any of these Exhibits conflict with the terms of this Agreement, this Agreement shall control.

XIV. MISCELLANEOUS

- A. **Assignment:** Participant may assign its interest under this Agreement provided that Participant remains liable for or guarantees the performance of its assignee and provided Participant gives PetroShare appropriate documentation evidencing such assignment.
- B. **Governing Law:** This Agreement and other instruments executed in accordance with it, except for assignments of lands, or the execution hereof shall be governed by and interpreted according to the laws of the State of Colorado. Forum and venue shall be exclusively in Denver, Colorado. As to assignments of lands, they shall be governed by the laws of the State wherein they lie.
- C. **Entire Agreement:** This Agreement, the documents to be executed hereunder, and the Exhibits attached hereto constitute the entire agreement between the parties, supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties, and there are no warranties, representations or other agreements between the parties except as specifically set forth herein. No supplement, amendment, alteration, modification, waiver or termination of the Agreement shall be binding unless executed in writing by the parties hereto.
- D. **Waiver:** No waiver of any of the provisions of the Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.
- E. **Captions; Definition of "Including":** The captions in this Agreement are for convenience only and shall not be considered a part of or affect the construction or interpretation of any provision of this Agreement. The term "including" or "includes", as used herein, shall mean "including, without limitation," and "includes, without limitation".
- F. **Binding:** This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective permitted successors, assigns and legal representatives.
- G. **Notices:** Any notice hereunder shall be given in writing by mail, courier, personally, E- mail or by facsimile and shall be effective when delivered to the party intended to be notified. The contact information for each party is as follows:

If to PetroShare:

PetroShare Corp.
7200 So. Alton Way, Ste B220

Centennial, CO 80112
Attn: Frederick J. Witsell
(303) 500-1168 Office
(303) 770-6885 fax
(303) 881-2157 cell
fwitsell@petrosharecorp.com

If to Participant:

U.S. Energy Development Corporation
2350 North Forest Road
Getzville, NY 14068
Attn: Douglas K. Walch
(716) 636-0401 ext. 310 Office
(716) 636-0418 fax
hmelcher@usedc.com

Any party may change their foregoing contact information by notice to the other party.

H. **Expenses:** Except as otherwise provided herein, each party shall be solely responsible for all expenses incurred by it in connection with this transaction (including fees and expenses of its own counsel and accountants).

I. **Execution:** This Agreement may be executed in multiple original counterparts, all of which shall together constitute a single agreement and each of which, when executed, shall be binding for all purposes thereof on the executed party, its successors and assigns.

J. **Severability:** If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any materially adverse manner to either party.

K. **Arbitration:** Any dispute arising under this Agreement ("Arbitrable Dispute") shall be referred to and resolved by binding arbitration in Denver, Colorado, to be administered by and in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Arbitration shall be initiated within the applicable time limits set forth in this Agreement and not thereafter or if no time limit is given, within the time period allowed by the applicable statute of limitations, by one party ("Claimant") giving written notice to the other party ("Respondent") and to the Denver Regional Office of the American Arbitration Association ("AAA"), that the Claimant elects to refer the Arbitrable Dispute to arbitration. All arbitrators must be neutral parties who have never been officers, directors or employees of the parties or any of their Affiliates, must have not less than ten (10) years experience in the oil and gas industry, and must

have a formal financial/accounting, engineering or legal education. The hearing shall be commenced within thirty (30) days after the selection of the arbitrator. The parties and the arbitrators shall proceed diligently and in good faith in order that the arbitral award shall be made as promptly as possible. The interpretation, construction and effect of this Agreement shall be governed by the Laws of Colorado, and to the maximum extent allowed by law, in all arbitration proceedings the Laws of Colorado shall be applied, without regard to any conflicts of laws principles. All statutes of limitation and of repose that would otherwise be applicable shall apply to any arbitration proceeding. The tribunal shall not have the authority to grant or award indirect or consequential damages, punitive damages or exemplary damages.

L. **Further Assurances:** During the time in which this Agreement is in effect, the parties shall, at any time and from time to time, and without further consideration, execute and deliver or use reasonable efforts to cause to be executed and delivered such other instruments of conveyance and contract, and to take such other actions as either party may reasonably may request effect the intent of this Agreement.

M. **Not to be Construed Against Drafter:** The parties acknowledge that they have had an adequate opportunity to review each and every provision contained in this Agreement, that they have participated equally in the drafting hereof and that they have had adequate time to submit same to legal counsel for review and comment. Based on said review and consultation, the parties agree with each and every term contained in this Agreement. Based on the foregoing, the parties agree that the rule of construction that a contract be construed against the drafter, if any, shall not be applied in the interpretation and construction of this Agreement.

N. **Laws and Regulations:** Any reference to any federal, state, local, or foreign statute or law will be deemed also to refer to all rules and regulations promulgated thereunder, unless the context otherwise requires.

O. **Third-Party Beneficiaries:** This Agreement is not intended to confer any rights or remedies upon any Person other than the parties and their respective successors and permitted assigns.

P. **Investment Representations:** Participant understands that the interests evidenced by this Agreement have not been registered under the Securities Act of 1933, the Colorado Securities Act or any other state securities laws (the "Securities Acts").

IN WITNESS WHEREOF, this Agreement is executed effective as of the date hereinabove provided.

Parties:

PETROSHARE CORP

By: /s/ Stephen J. Foley
Name: Stephen J. Foley
Title: CEO

U.S. ENERGYDEVELOPMENT CO.:

By: /s/ Douglas K. Walch
Name: Douglas K. Walch
Title: President

EXHIBIT A

Buck Peak Participation Agreement Leases dated September 30, 2013

BUCK PEAK LEASES AND EXPIRATION DATES

<u>LESSOR NAME AND ADDRESS</u>	<u>DESCRIPTION</u>	<u>DATE AND TERM</u>	<u>GROSS ACRES</u>	<u>NET ACRES</u>	<u>NET REVENUE INTEREST</u> <u>to be delivered 8/8ths</u>	<u>RECORDING</u>
West Half of Section 25						
Jim F. Kowach	T6N-R90W, 6th P.M. Sec 25: W/2	10/31/2008 - 2014 6 years	335.54	167.77	78.5000%	20104936
Barbara Wilaby	T6N-R90W, 6th P.M. Sec 25: W/2	10/31/2011 - 2014 3 years	335.54	167.77	78.5000%	20103288
Sub Total - Kowach / Wilaby	W/2 Section 25, T6N R90W	100.00%	335.54	335.54	78.5000%	
East Half of Section 25						
Mark A Voloshin, PO Box 981, Craig, CO 81626	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9,10,15,16	5/12/2011- 2016 Five (5) Years	335.61	52.83	78.5000%	20103153
Betty Arnone, 1713 South Vancouver Ct, Lakewood, CO 80228	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1,2,7,8,9,10,15 & 16	5/12/2011- 2016 Five (5) Years	335.61	26.41	78.5000%	20102832
Helen McKee, 10436 Jacob Place, Littleton, CO 80125-8932	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15 & 16	5/12/2011- 2016 Five (5) Years	335.61	26.41	78.5000%	20102839
Gary R Semro and Robert W. Semro, 6522 Trailhead Rd, Highlands Ranch, CO 80130	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15 & 16	5/12/2011- 2016 Five (5) Years	335.61	26.41	78.5000%	20102847
Sharon Fitzgerald (Hebenstreit), 337 Coronado Drive, Sedalia, CO 80135	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9,10,15,16	5/12/2011- 2016 Five (5) Years	335.61	26.41	78.5000%	20103140
Brad Ocker (Eugena Grace Voloshin), 9591 County Rd 33, Craig, CO 81625	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9,10,15,16	5/12/2011- 2016 Five (5) Years	335.61	8.55	78.5000%	20102856
Sub Total - Semro / Voloshin	E/2 Section 25, T6N R90W	49.7661%	335.61	167.02	78.5000%	
BCK LLC Charles S Keith	T6N-R90W, 6th P.M. A ssessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9,10,15,16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	41.43	77.5000%	20111728
Sirontia springs Resources, LLC James Keith	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9,10,15,16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	41.43	77.5000%	20111730
JZTZ LLC Debra Ann Ziehm	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9,10,15,16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	41.43	77.5000%	20111729
MKRESOURCES LLC Margaret Keith	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9,10,15,16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	26.41	77.5000%	20111731
Sub Total - Keith	E/2 Section 25, T6N R90W	44.9075%	335.61	150.71	77.5000%	
Quicksilver Resources Joanie Voloshin	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1,2,7,8,9,10,15,16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	8.94	82.500%	20111728
SWEPI thru Quicksilver Resources Joanie Voloshin	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1,2,7,8,9,10,15,16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	8.94	81.000%	20111728
		Ownership %	Gross Acres	Net Acres	NRI% Delivered	
West Half of Section 25		100.000%	335.54	335.54	78.5000%	
East Half of Section 25		100.000%	335.61	335.61	78.2247%	
SECTION 25 TOTAL		100.000%	671.15	671.15	78.3623%	

Exhibit B
to
Participation Agreement
Model Form of Operating Agreement

See Exhibit 10.9.

ASSIGNMENT

STATE OF COLORADO)
COUNTY OF)

KNOW ALL MEN BY THESE PRESENTS, that **PetroShare Corp.**, with an office at _____, hereinafter referred to as "Assignor", for and in consideration of the sum of TEN AND NO/100 DOLLARS (\$10.00), the receipt and adequacy of which is hereby acknowledged and full acquittance granted therefor, has granted, sold, conveyed and delivered and does hereby grant, sell, convey and deliver unto U.S. Energy Development Corporation with an office at 2350 North Forest Road, Getzville, NY 14068, hereinafter referred to as "Assignee", 25% of Assignor's right, title and interest in the following properties (real, personal or mixed) and rights (contractual or otherwise) unless expressly reserved or excluded herein, the following being referred to herein collectively as the Assets:

- (a) the oil and gas leases described on Exhibit "A", attached hereto, in the amounts of the working interests specified thereon (the "**Leases**");
- (b) The rights and interests in, to and under, or derived from, all of the presently existing and valid unitization and pooling agreements and units (including all units formed by voluntary agreement and those formed under the rules, regulations, orders or other official acts of any governmental entity having appropriate jurisdiction) to the extent they relate to any of the Leases;
- (c) The rights and interests in, to and under, or derived from, all of the presently existing and valid joint operating agreements, oil sales contracts, casinghead gas sales contracts, gas sales contracts, processing contracts, gathering contracts, transportation contracts, easements, rights-of-way, servitudes, surface leases and other contracts to the extent they are described on Exhibit "C", attached hereto (the "**Contracts**");
- (d) The rights and interests in and to all personal property and improvements, including without limitation, tanks, buildings, fixtures, machinery, equipment, pipelines, utility lines, power lines, telephone lines, roads and other appurtenances, to the extent the same are situated upon and/or used or held for use by Seller in connection with the ownership, operation, maintenance and repair of the Leases; and
- (f) The rights and interests in all permits and licenses of any nature owned, held or operated in connection with operations for the exploration and production of oil, gas or other minerals to the extent the same are used or obtained in connection with any of the Leases or other property described in Exhibit "A" ("**Permits**");

TO HAVE AND TO HOLD the Assets, together with all and singular the rights and appurtenances thereunto in anywise belonging, unto Assignee, its successors and assigns, forever, subject to the following terms and conditions:

1. Special Warranty of Title. Assignor represents and warrants that the Assets are free and clear of all liens, encumbrances, security interests or other adverse claims arising by, through or under Assignor, but not otherwise. Assignor shall warrant and defend the title to the Assets conveyed to Assignee against every person whomsoever lawfully claims the Assets or any part thereof by, through, or under Assignor, but not otherwise.

2. Successors and Assigns. The terms, covenants and conditions contained in this Assignment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, and such terms, covenants and conditions shall be covenants running with the land and with each subsequent transfer or assignment of the Assets, or any part thereof.

3. Participation Agreement. This Assignment is made in accordance with and is subject to the terms, covenants and conditions contained in that certain Participation Agreement dated as of, 2013, by and between Assignor and Assignee ("Participation Agreement"), all of which shall remain in full force and effect in accordance with their terms as set forth therein and shall not be deemed to have been merged with this Assignment. If there is a conflict between the provisions of the Participation Agreement and this Assignment, the provisions of the Participation Agreement shall control the rights and obligations of the parties.

4. Further Assurances. Assignor and Assignee agree to take all such further actions and to execute, acknowledge and deliver all such further documents that are necessary or useful in carrying out the purpose of this Assignment.

5. Counterparts. This Assignment is being executed in multiple counterparts each of which shall for all purposes be deemed to be an original and all of which shall constitute one instrument.

ASSIGNOR:
PetroShare Corp.

By: _____
Name:
Title:

ASSIGNEE:

By: _____
Name: Douglas K. Walch
Title: President

STATE OF COLORADO)
) ss.
COUNTY OF)

The foregoing instrument was acknowledged before me this ____ day of _____, 2013, by _____, as _____ of **PetroShare Corp.**

Witness my hand and seal.

My Commission Expires: _____

Notary Public

STATE OF NEW YORK)
) ss.
COUNTY OF ERIE)

The foregoing instrument was acknowledged before me this ____ day of _____, 2013, by Douglas K. Walch, as President of U.S. Energy Development Corporation.

Witness my hand and seal.

My Commission Expires: _____

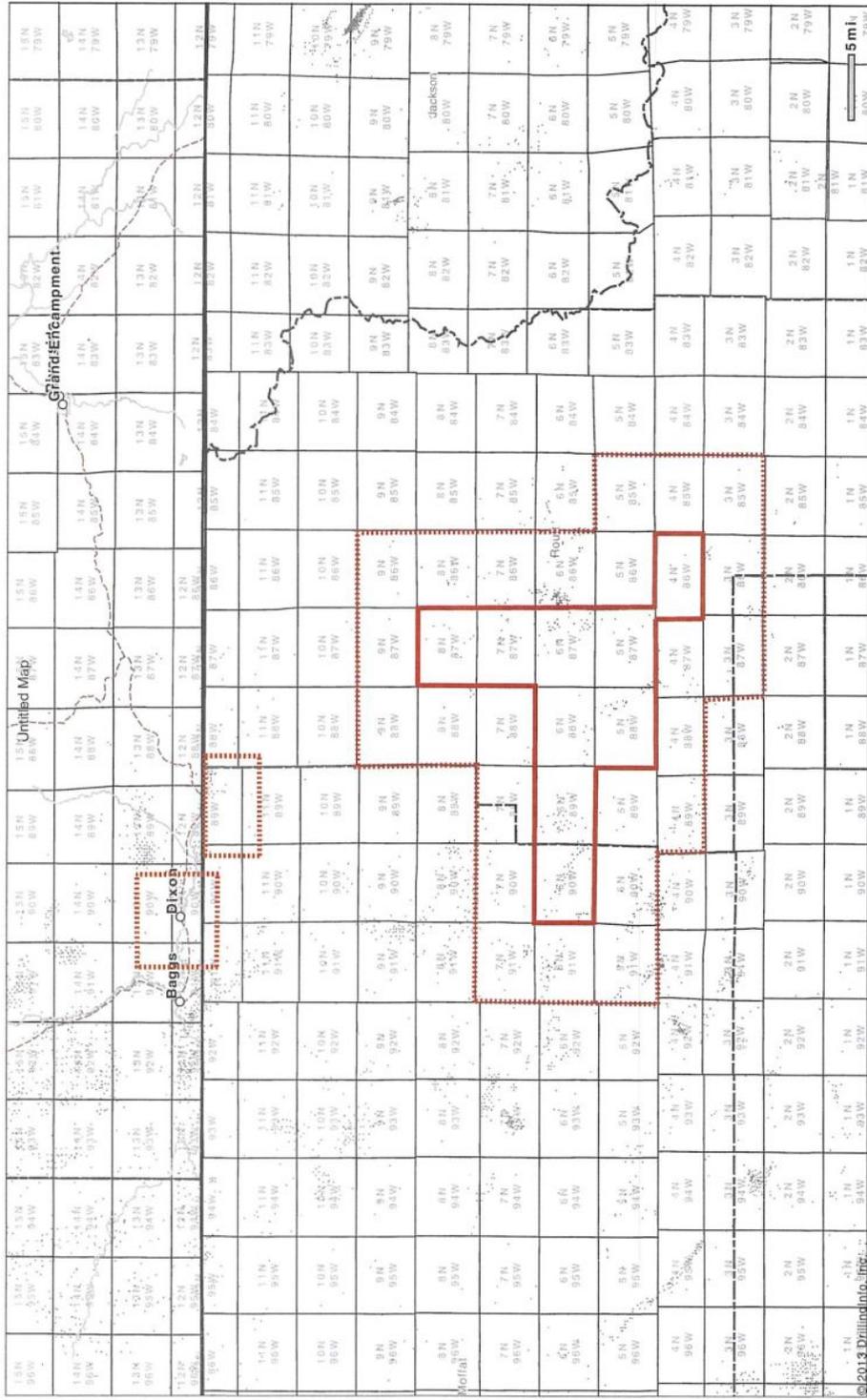
Notary Public

AREA OF MUTUAL INTEREST

See Attached Map

EXHIBIT D

Participation Agreement dated September 30, 2013 by and between US Energy Development Co and PetroShare Corp.



PARTICIPATION AGREEMENT

This Participation Agreement (hereinafter "Agreement") is made and entered into effective November 1, 2013, by and between PetroShare Corp., hereinafter referred to as "PetroShare", and LLOCO L.L.C. ("Participant").

RECITALS:

- A. PetroShare has acquired certain oil and gas leases described on Exhibit "A" and Exhibit "B", attached hereto ("Existing Leases").
- B. Participant wishes to participate with PetroShare in the drilling and development of the Leases pursuant to the provisions of this Agreement.

Now therefore, the parties hereto, for the mutual promises contained herein and other good and valuable consideration, the sufficiency of which is hereby acknowledged, do hereby contract and agree as follows:

I. DEFINITIONS

1. **Effective Date:** The Effective Date is November 1, 2013.
2. **Existing Leases:** The oil and gas leases on Exhibit "A" and "B", attached hereto, which includes the acreage required for the drilling of the Obligation Well.
3. **Obligation Wells:** The wells will be drilled from a common well pad on Exhibit A leases, and will be the Kowach #3-25 well, located in NESW Section 25, T6N R90W, a vertical well bore and the Voloshin #3-25 well, located in NESW Section 25, T6N R90W; directional well bore to test the Niobrara formation at approximately, 7855 feet TVD. Upon reaching total depth in the first Obligation Well and upon the completion of mud logging and open hole logging operations, PetroShare will provide such data to all JOA working interest participants along with its well evaluation report. Participant(s) shall have forty eight (48) hours from the receipt of the data to make its election whether to proceed with the drilling of the second Obligation Well. In the event a simple majority of JOA participants elect not to proceed with the drilling of the second Obligation Well, PetroShare shall release the rig and waive the requirement to drill the second Obligation Well.
4. **Operator:**
 - a) PetroShare Corp or its successor, as to Exhibit A leases only
 - b) Quicksilver Resources, Inc. or its successor, as to Exhibit B leases only
5. **Operating Agreement(s):**
 - a) **Sec 25 Operating Agreement:** The joint operating agreement, covering lands listed in Exhibit A only and attached hereto as Exhibit "D"

- b) Quicksilver Operating Agreement: The joint operating agreement, covering lands listed in Exhibit B only and attached hereto as Exhibit "E".
7. Participant Interest: A pro rata Working Interest in the Leases and Obligation Wells of **25.0000%**, having a net revenue interest of not less than **19.575%** in Exhibit A Leases and a **25.0000%** Interest of PetroShare's Net Working Interest having a net revenue interest proportionately reduced to not less than **20.000%** of 8/8ths in Exhibit B Leases, as calculated on a weighted average basis.
8. Working Interest: The cost bearing interest created by oil and gas leases. Working Interest may also refer to the share of ownership attributable to an unleased mineral interest.
9. Net Revenue Interest: The share of the gross production proceeds.
10. Project Area: Shall be any area(s) covering the Existing Leases in which there is ongoing operations including but not limited to; leasing, drilling and completion operations; seismic operations, active producing wells.

II. PROSPECT FEE

- A. **Payment of Prospect Fee.** Participant shall pay an aggregate prospect fee to PetroShare upon the execution of this Agreement equal to the sum of \$187,500 ("Prospect Fee").

III. DRILLING AND DEVELOPMENT.

A. **Obligation Wells.** Participant agrees to pay for its Participant Interest share of the drilling, completion and equipping, or the plugging and abandonment, of the Obligation Wells. PetroShare shall use its commercially reasonable efforts to commence the drilling of the first Obligation Well by December 1, 2013.

B. **Interests Earned.** Upon Participant paying the Prospect Fee, together with its share of the costs for the drilling, completion and equipping, or the plugging and abandonment of an Obligation Well(s), Participant shall be assigned an undivided interest in and to the Existing Leases equal to Participant's Interest of PetroShare's interest in the Existing Leases as to the Leases listed on Exhibit A & B attached hereto and as to all depths. All assignments will be subject to all royalties, overriding royalties, production payments, net profits interests and similar burdens existing as of the date hereof.

C. **Subsequent Drilling and Development Operations.** After drilling and completion of the Obligation Well(s), all subsequent wells ("Subsequent Wells") and subsequent operations shall be proposed in accordance with the applicable Operating Agreement and the provisions of this Agreement, with the Participant being responsible for its Participant Interest, shall be subject to any elections to not participate under such Operating Agreement.

IV. OPERATIONS WITHIN PROJECT AREA

A. **Operating Agreement.** All operations within the Project Area shall be conducted pursuant to the applicable Operating Agreement governing the Existing Leases, as the case may be, ("Operating Agreement"), reference to which is hereby made for all purposes, except as expressly modified by the terms hereof. In the event of a conflict between this Agreement and the applicable Operating Agreement, this Agreement shall control.

B. **Cash Advances.** Notwithstanding anything in the Operating Agreement(s) to the contrary, PetroShare shall have the right to require cash advances from Participant with respect to the proposed drilling and completion of one or more Obligation Wells. Such request shall be in the form of one or more Authorities for Expenditure ("AFE's") and payment shall be due within 20 days following receipt of the AFEs. Provided however that such AFE's shall not be issued by PetroShare more than 30 days in advance of the confirmed spud date (i.e. drilling commencement date) of the applicable Obligation Well(s).

V. PROPORTIONATE REDUCTION

A. **Proportionate Reduction Clause:** If an oil and gas lease or other Mineral Interest covers less than the entire mineral fee estate, or if a party's interest in the applicable lease or Mineral Interest is less than a 100% ownership interest, any interest conveyed or reserved pursuant to this Agreement is intended to be proportionately reduced to accord to (i) the proportion of mineral interest covered by the relevant oil and gas lease or other Mineral Interest, and (ii) the proportion of ownership held by the conveying party, in the case of a conveyance, or the burdened party, in the case of a reservation of interest. However, such proportionate reduction shall not reduce Participant's Working Interest or Net Revenue Interest in the Existing Leases as a whole.

VI. CONFIDENTIALITY

A. **Confidentiality.** The parties acknowledge that the information that is the subject matter of this Agreement (including but not limited to all well information acquired by operations conducted under the Operating Agreement(s)) is sensitive and confidential proprietary information belonging to the parties. Each party, for itself and its Affiliates, agrees not to release or disclose or otherwise make the information available to or to furnish any of said information to any third party without (i) obtaining the agreement of the third party to maintain such information confidential and to not use such information other than in connection with investing in or participating with or purchasing interests from the disclosing party, or (ii) first obtaining the express written consent of the other party. Any such release or disclosure if approved shall be conditioned upon the third party expressly agreeing to all terms herein and becoming a party to and subject to a Confidentiality Agreement. Nothing contained above shall restrict or impair any party's right to use or disclose any of the information which is: (1) at the time of disclosure available to the public through no act or omission of that party; (2) can be shown was lawfully in that party's possession prior to the time of this Agreement; or (3) is independently made available to that party by a third party who is independently entitled to disclose such information and that party shows that the right of such third party to disclosure existed prior to the date of this Agreement. Also, nothing contained above shall restrict Participant from providing production results to its investors or lending institutions for the purposes of financing.

B. **Public Disclosure.** Subject to the exceptions set forth below, and unless otherwise agreed upon by the parties, the parties intend to keep material information concerning the entering into of this Agreement and the location of the Project Area confidential to the extent any disclosure thereof could impair the ongoing activities of the parties. Notwithstanding such intent, either party may make any public disclosure to the extent that, upon advice of such party's counsel, such disclosure is advisable to comply with United States or state securities laws, rules or regulations. Any proposed press release or other disclosure, shall be provided to the other party in advance on a confidential basis for its information and comment.

VII. TAX ELECTION

This Agreement is not intended to create, and shall not be construed to create, a relationship of partnership or an association for profit between or among the parties hereto except as provided herein. Each party hereby affected elects to be excluded from the application of all the provisions of Subchapter "K", Chapter 1, Subtitle "A", of the Internal Revenue Code of 1986 and all amendments thereto.

VIII. PAYMENT OF DELAY RENTALS AND LEASE EXTENSIONS

Operator shall be responsible for making any payment of delay rentals, shut in royalties and minimum royalty payments on the Leases. Participant shall bear and pay its share of such payments. Participant shall be billed and shall pay for said costs in the manner set forth for the billing and paying of direct costs in the COPAS accounting procedures attached to the applicable Operating Agreement. Operator shall not be liable to Participant for any loss resulting from a good faith effort to properly do so.

IX. NO JOINT LIABILITY

The rights, duties, obligations and liabilities of the parties hereto shall be several and not joint or collective. Each party hereto shall be responsible only for its obligations as herein set out and shall be liable only for its share of the cost and expense as herein provided; it being the express purpose and intention of the parties that their interest in this Agreement and the rights and property acquired in connection herewith shall be held by them as tenants in common. Except for the tax election which the parties may have made, it is not the purpose or intention of this Agreement to create any mining partnership, commercial partnership or other partnership.

X. ASSIGNMENTS OF LEASES

Any assignment of any interest pursuant to this Agreement by and between the parties hereto shall be made with a special warranty of title by through and under the assignor, but not otherwise and on the form attached hereto as Exhibit "C" which shall be for recording in the official records of the county in which the Lease lies. Where applicable, separate assignments of operating rights shall likewise be made on such State and Federal forms as required by rule or regulation. Any assignment hereafter executed shall specifically refer to, and be made subject to, the terms and conditions hereof, and shall convey a working interest equal to the Participant Interest.

XI. FORCE MAJEURE

Should any party be prevented or hindered from complying with any obligation created hereunder, other than the obligation to pay money, by reason of fire, flood, storm, act of God, governmental authority, governmental action or inaction, failure or delay in obtaining any necessary permits, labor disputes, war, the inability to secure qualified labor, geoscience data, title abstracts, curative title work, lease brokers, entry onto the land, drilling equipment and drilling rig(s) at prevailing market rates, drilling tools, materials or transportation, or any other cause not enumerated herein but which is beyond the normal control of the party whose performance is affected, then the performance of any such obligation shall be suspended during the period of such prevention or hindrance, provided the affected party promptly notifies the other party of such force majeure circumstances and exercises all reasonable diligence to remove the cause of force majeure.

XII. EXHIBITS

The following exhibits are attached to this Agreement:

- Exhibit "A" - Sec 25 Leases
- Exhibit "B" - Quicksilver Leases
- Exhibit "C" - Form of Assignment
- Exhibit "D" - Sec 25 Operating Agreement
- Exhibit "E" - Quicksilver Operating Agreement

If the terms of any of these Exhibits conflict with the terms of this Agreement, this Agreement shall control.

XIII. MISCELLANEOUS

A. **Assignment:** Participant may assign its interest under this Agreement provided that Participant remains liable for or guarantees the performance of its assignee and provided Participant gives PetroShare appropriate documentation evidencing such assignment.

B. **Governing Law:** This Agreement and other instruments executed in accordance with it, except for assignments of lands, or the execution hereof shall be governed by and interpreted according to the laws of the State of Colorado. Forum and venue shall be exclusively in Denver, Colorado. As to assignments of lands, they shall be governed by the laws of the State wherein they lie.

C . **Entire Agreement:** This Agreement, the documents to be executed hereunder, and the Exhibits attached hereto constitute the entire agreement between the parties, supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties, and there are no warranties, representations or other agreements

D . **Waiver:** No waiver of any of the provisions of the Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar), nor shall such waiver constitute a continuing waiver unless otherwise expressly provided.

E . **Captions; Definition of "Including":** The captions in this Agreement are for convenience only and shall not be considered a part of or affect the construction or interpretation of any provision of this Agreement. The term "including or "includes", as used herein, shall mean "including, without limitation," and "includes, without limitation".

F . **Binding:** This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective permitted successors, assigns and legal representatives.

G . **Notices:** Any notice hereunder shall be given in writing by mail, courier, personally, E mail or by facsimile and shall be effective when delivered to the party intended to be notified. The contact information for each party is as follows:

If to PetroShare:

PetroShare Corp.
7200 So. Alton Way, Ste B220
Centennial , CO 80112
Attn: Frederick J. Witsell
(303) 500-1168 Office
(303) 770-6885 fax
(303) 881-2157 cell
fwitsell@petrosharecoro.com

If to Participant:

LLOCO, L.L.C.
1001 Ochsner Blvd., Ste 200
Covington, LA 70433
Attn: Judy Reimel

Any party may change their foregoing contact information by notice to the other party.

H . **Expenses:** Except as otherwise provided herein, each party shall be solely responsible for all expenses incurred by it in connection with this transaction (including fees and expenses of its own counsel and accountants).

I . **Execution:** This Agreement may be executed in multiple original counterparts, all of which shall together constitute a single agreement and each of which, when executed, shall be binding for all purposes thereof on the executed party, its successors and assigns.

J . **Severability:** If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any materially adverse manner to either party.

K . **Arbitration:** Any dispute arising under this Agreement ("Arbitrable Dispute") shall be referred to and resolved by binding arbitration in Denver, Colorado, to be administered by and in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Arbitration shall be initiated within the applicable time limits set forth in this Agreement and not thereafter or if no time limit is given, within the time period allowed by the applicable statute of limitations, by one party ("Claimant") giving written notice to the other party ("Respondent") and to the Denver Regional Office of the American Arbitration Association ("AAA"), that the Claimant elects to refer the Arbitrable Dispute to arbitration. All arbitrators must be neutral parties who have never been officers, directors or employees of the parties or any of their Affiliates, must have not less than ten (10) years' experience in the oil and gas industry, and must have a formal financial/accounting, engineering or legal education. The hearing shall be commenced within thirty (30) days after the selection of the arbitrator. The parties and the arbitrators shall proceed diligently and in good faith in order that the arbitral award shall be made as promptly as possible. The interpretation, construction and effect of this Agreement shall be governed by the Laws of Colorado, and to the maximum extent allowed by law, in all arbitration proceedings the Laws of Colorado shall be applied, without regard to any conflicts of laws principles. All statutes of limitation and of repose that would otherwise be applicable shall apply to any arbitration proceeding. The tribunal shall not have the authority to grant or award indirect or consequential damages, punitive damages or exemplary damages.

L . **Further Assurances:** During the time in which this Agreement is in effect, the parties shall, at any time and from time to time, and without further consideration, execute and deliver or use reasonable efforts to cause to be executed and delivered such other instruments of conveyance and contract, and to take such other actions as either party may reasonably may request effect the intent of this Agreement.

M. **Not to be Construed Against Drafter** : The parties acknowledge that they have had an adequate opportunity to review each and every provision contained in this Agreement, that they have participated equally in the drafting hereof and that they have had adequate time to submit same to legal counsel for review and comment. Based on said review and consultation, the parties agree with each and every term contained in this Agreement. Based on the foregoing, the parties agree that the rule of construction that a contract be construed against the drafter, if any, shall not be applied in the interpretation and construction of this Agreement.

N . **Laws and Regulations**: Any reference to any federal, state, local, or foreign statute or law will be deemed also to refer to all rules and regulations promulgated thereunder, unless the context otherwise requires.

O. **Third-Party Beneficiaries**: This Agreement is not intended to confer any rights or remedies upon any Person other than the parties and their respective successors and permitted assigns.

P. **Investment Representations**: Participant understands that the interests evidenced by this Agreement have not been registered under the Securities Act of 1933, the Colorado Securities Act or any other state securities laws (the "Securities Acts").

IN WITNESS WHEREOF, this Agreement is executed effective as of the date hereinabove provided.

Parties:

PETROSHARE CORP

LLOCO, L.L.C.

By: /s/ Stephen J. Foley
Name: Stephen J. Foley
Title: CEO

By: /s/ Kemberlia Ducote
Name: Kemberlia Ducote
Title: Secretary

EXHIBIT A
Buck Peak Participation Agreement Leases dated November 1, 2013

BUCK PEAK LEASES AND EXPIRATION DATES				NET ACRES		NET REVENUE	RECORDING
LESSOR NAME AND ADDRESS	DESCRIPTION	DATE AND TERM	GROSS ACRES	NET ACRES	CONVEYED	INTEREST	
					10.00%	to be delivered 8/8ths	
West Half of Section 25							
Jim F. Kowach	T6N-R90W, 6th P.M. Sec 25: W/2	10/31/2008 - 2014 6 years	335.54	167.77	16.78	78.5000%	20104936
Barbara Wilaby	T6N-R90W, 6th P.M. Sec 25: W/2	10/31/2011 - 2014 3 years	335.54	167.77	16.78	78.5000%	20103288
Sub Total - Kowach / Wilaby	W/2 Section 25, T6N R90W	100.00%	335.54	335.54	33.55	78.5000%	
East Half of Section 25							
Mark A Voloshin, PO Box 981, Craig, CO 81626	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15, 16	5/12/2011 - 2016 Five (5) Years	335.61	52.83	5.28	78.5000%	20103153
Betty Arnone, 1713 South Vancouver Ct, Lakewood, CO 80228	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15 & 16	5/12/2011 - 2016 Five (5) Years	335.61	26.41	2.64	78.5000%	20102832
Helen McKee, 10436 Jacob Place, Littleton, CO 80125-9932	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15 & 16	5/12/2011 - 2016 Five (5) Years	335.61	26.41	2.64	78.5000%	20102839
Gary R Semro and Robert W. Semro, 6522 Trailhead Rd, Highlands Ranch, CO 80130	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15 & 16	5/12/2011 - 2016 Five (5) Years	335.61	26.41	2.64	78.5000%	20102847
Sharon Fitzgerald (Hebenstreit), 337 Coronado Drive, Sedalia, CO 80135	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15, 16	5/12/2011 - 2016 Five (5) Years	335.61	26.41	2.64	78.5000%	20103140
Brad Ocker (Eugena Grace Voloshin), 9591 County Rd 33, Craig, CO 81625	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15, 16	5/12/2011 - 2016 Five (5) Years	335.61	8.55	0.86	78.5000%	20102856
Sub Total - Semro / Voloshin	E/2 Section 25, T6N R90W	49.7661%	335.61	167.02	16.702	78.5000%	
BCK LLC Charles S Keith	T6N-R90W, 6th P.M. A ssessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15, 16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	41.43	4.14	77.5000%	20111728
Strontia springs Resources, LLC James Keith	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15, 16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	41.43	4.14	77.5000%	20111730
JTZ LLC Debra Ann Ziehm	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15, 16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	41.43	4.14	77.5000%	20111729
MKRESOURCES LLC Margaret Keith	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15, 16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	26.41	2.64	77.5000%	20111731
Sub Total - Keith	E/2 Section 25, T6N R90W	44.9075%	335.61	150.71	15.07	77.5000%	
Quicksilver Resources Joanie Voloshin	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15, 16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	8.94	0.89	82.500%	20111728
SWEPI thru Quicksilver Resources Joanie Voloshin	T6N-R90W, 6th P.M. Assessor's Tract # 74 Sec 25: Lots 1, 2, 7, 8, 9, 10, 15, 16	2/22/2011 - 2014 3 years + 2 yr ext	335.61	8.94	0.89	81.000%	20111728
		Ownership %	Gross Acres	Net Acres		NRI% Delivered	
West Half of Section 25		100.000%	335.54	335.54	33.55	78.5000%	
East Half of Section 25		100.000%	335.61	335.61	33.56	78.2247%	
SECTION 25 TOTAL		100.000%	671.15	671.15	67.12	78.3623%	

EXHIBIT B - Lease Schedule

LLOCO Participation Agreement effective November 1, 2013

LESSOR	LESSEE	DESCRIPTION	EFFECTIVE DATE	EXPIRATION DATE	GROSS ACRES	NET LEASE ACRES	PETROSHARE NET ACRES	NET ACRES CONVEYED	NET REVENUE INTEREST	RECORDING
Richard J. Colby	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 21: Lots 11,14,15 & 16 Sec 22: Lots 12 & 13 Sec 27: Lots 3 & 4 Sec 28: Lot 1	11/20/2010	11/19/2015 5 yr lease, 3 yr ext (2018)	369.39	15.40	1.16	0.29	80.00%	20103284
David Colby	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 21: Lots 11,14,15 & 16 Sec 22: Lots 12 & 13 Sec 27: Lots 3 & 4 Sec 28: Lot 1	11/20/2010	11/19/2015 5 yr lease, 3 yr ext (2013)	369.39	15.40	1.16	0.29	80.00%	20103286
Douglas Van Tassel, Diana Lynn Hamilton, Donna Lee Sweet, DeLaine Brown and Debbie Lou Van Tassel, PO Box 335, Craig, CO 81626-0335	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 35: Lots 4 & 5 Sec 34: Lots 1,7,8,9,10,11,12,13,14,15,16	1/10/2011	1/09/2014 3 yr lease, 3 yr ext (2017)	534.62	89.10	6.68	1.67	80.00%	20103146
Florence Van Tassel	Laramie & Associates	T6N-R90W, 6th P.M. Sec 35: Lots 4 & 5 Sec 34: Lots 1,7,8,9,10,11,12,13,14,15,16	1/10/2011	1/09/2016 5 yr lease, 3 yr ext (2019)	534.62	89.10	6.68	1.67	80.00%	20103022
	Buck Peak, LLC (Lease not subject to 2010 Quicksilver sale)	T6N-R90W, 6th P.M. Sec 35: Lots 4 & 5 Sec 34: Lots 1,7,8,9,10,11,12,13,14,15,16	1/19/2012	1/19/2015 3 years plus 2 year option	534.62	89.10	89.10	22.28	80.00%	20120379
Gregory J. Knez, Trustee of the Raymond M. & Hellen M. Knez Family Trust	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 19: Lots 5, 6, 11 & 12 Sec 20: N2 less tract (see lease)	3/21/2011	3/20/2016 5 yr lease, 3 yr ext (2019)	270.31	271.07	20.33	5.08	80.00%	20103026
Gregory J. Knez, Trustee of the Raymond M. & Hellen M. Knez Family Trust	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 20: A tract in E 55 acres of E2NEN2 (see lease)	3/21/2011	3/20/2016 5 yr lease, 3 yr ext (2019)	11.45	11.45	0.86	0.21	80.00%	20103024
Marlene Henderson	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 21: Lots 11,14,15 & 16 Sec 22: Lots 12 & 13 Sec 27: Lots 3 & 4 Sec 28: Lot 1	3/30/2011	3/29/2016 5 yr lease, 3 yr ext (2019)	369.39	15.40	1.15	0.29	80.00%	20102819
Barbara Martin	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 21: Lots 11,14,15 & 16 Sec 22: Lots 12 & 13 Sec 27: Lots 3 & 4 Sec 28: Lot 1	3/30/2011	3/29/2016 5 yr lease, 3 yr ext (2019)	369.39	15.40	1.16	0.29	80.00%	20102820
Edward Rutherford	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 21: Lots 11,14,15 & 16 Sec 22: Lots 12 & 13 Sec 27: Lots 3 & 4 Sec 28: Lot 1	3/30/2011	3/29/2016 5 yr lease, 3 yr ext (2019)	369.39	15.40	1.16	0.29	80.00%	20102821

Larry Rutherford	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 21: Lots 11, 14, 15 & 16 Sec 22: Lots 12 & 13 Sec 27: Lots 3 & 4 Sec 28: Lot 1	3/30/2011	3/29/2016 5 yr lease, 3 yr ext (2019)	369.39	15.40	1.15	0.29	80.00%	20102822
Mark A Voloshin	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7, 8, 9, 10 less tract (see lease) Sec 2: 15, 16, 17, 18	5/12/2011	5/11/2016 5 yr lease, no ext	333.57	15.41	1.16	0.29	80.00%	20103150
Mark A Voloshin	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7 & 10	5/12/2011	5/11/2016 5 yr lease, no ext	164.88	47.11	3.53	0.88	80.00%	20103151
Mark A Voloshin	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	5/12/2011	5/11/2016 5 yr lease, no ext	82.44	24.43	1.83	0.46	80.00%	20103152
Mark A Voloshin	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5, 6, 10, 11, 12, 14, 15, 16 Sec 34: Lots 2, 3 less the acreage in Sec 35 and the additional lands in Sec 34	5/12/2011	5/11/2016 5 yr lease, 2 yr ext (2018)	409.65	100.52	7.54	1.88	80.00%	20103155
Mark A Voloshin	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1, 2, 8 & 9	5/12/2011	5/11/2016 5 yr lease, 2 yr ext (2018)	164.97	80.96	6.07	1.52	80.00%	20103156
Mark A Voloshin	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 4, 5, 6, 11, 12, 13 & 14 Sec 27: Lots 1, 2, 5, 6, 7, 8, 9, 10, 11, 12, 14, 15, 16	5/12/2011	5/11/2016 5 yr lease, no ext	330.85	162.36	12.18	3.04	80.00%	20103154
Betty Arrnone	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7, 8, 9, 10 Less Tract (see lease) Sec 2: 15, 16, 17 & 18	5/12/2011	5/11/2016 5 yr lease, 2 yr ext (2018)	333.57	11.56	0.87	0.22	80.00%	20102829
Betty Arrnone	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7, & 10	5/12/2011	5/11/2016 5 yr lease, no ext	164.88	17.59	1.32	0.33	80.00%	20102830
Betty Arrnone	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	5/12/2011	5/11/2016 5 yr lease, no ext	82.44	9.16	0.69	0.17	80.00%	20102831

Betty Arnone	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, 14 Sec 27: Lots 2, 7, 8, 9	5/12/2011	5/11/2016 5 yr lease, no ext	330.85	26.04	1.95	0.49	80.00%	20102833
Betty Arnone	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5,6,10,11,12,14,15,16 Sec 34: Lots 2,3 Less acreage (see lease)	5/12/2011	5/11/2016 5 yr lease, no ext	409.65	16.12	1.21	0.30	80.00%	20102834
Betty Arnone	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1, 2, 8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	164.97	12.98	0.97	0.24	80.00%	20102835
Betty Jo Lott & Michelle K. McKee	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7,8,9,10 less tract (see lease) Sec 2: 15,16,17,18	5/12/2011	5/11/2016 5 yr lease, no ext	333.57	11.56	0.87	0.22	80.00%	20102836
Betty Jo Lott & Michelle K. McKee	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7, & 10	5/12/2011	5/11/2016 5 yr lease, no ext	164.88	17.6	1.32	0.33	80.00%	20102837
Betty Jo Lott & Michelle K. McKee	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	5/12/2011	5/11/2016 5 yr lease, no ext	82.44	9.16	0.69	0.17	80.00%	20102838
Betty Jo Lott & Michelle K. McKee	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, & 14 Sec 27: Lots 2, 7, 8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	330.85	26.04	1.95	0.49	80.00%	20102840
Betty Jo Lott & Michelle K. McKee	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5, 6, 10, 11, 12, 14, 15 & 16 Sec 34: Lots 2, 3 Less acreage (see lease)	5/12/2011	5/11/2016 5 yr lease, no ext	409.65	16.12	1.21	0.30	80.00%	20102841
Betty Jo Lott & Michelle K. McKee	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1, 2, 8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	164.97	12.98	0.97	0.24	80.00%	20102842
Gary R Semro and Robert W. Semro, 6522 Trailhead Rd, Highlands Ranch, CO 80130	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7, & 10	5/12/2011	5/11/2016 5 yr lease, no ext	164.88	17.59	1.32	0.33	80.00%	20102845
Gary R Semro and Robert W. Semro	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	5/12/2011	5/11/2016 5 yr lease, no ext	82.44	9.16	0.69	0.17	80.00%	20102846

Gary R Semro and Robert W. Semro	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, & 14 Sec 27: Lots 2, 7, 8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	330.85	26.04	1.95	0.49	80.00%	20102848
Gary R Semro and Robert W. Semro	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5, 6, 10, 11, 12, 14, 15 & 16 Sec 34: Lots 2, 3 Less acreage (see lease)	5/12/2011	5/11/2016 5 yr lease, no ext	409.65	16.12	1.21	0.30	80.00%	20102849
Gary R Semro and Robert W. Semro	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1, 2, 8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	164.97	12.98	0.97	0.24	80.00%	20102844
Gary R Semro and Robert W. Semro	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7,8,9,10 Less Tract (see lease) Sec 2: 15,16,17 & 18	5/12/2011	5/11/2016 5 yr lease, no ext	333.57	11.56	0.87	0.22	80.00%	20102843
Sharon A. Fitzgerald	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7, 8, 9, 10 less tract (see lease) Sec 2: 15,16,17,18	5/12/2011	5/11/2016 5 yr lease, no ext	333.57	11.56	0.87	0.22	80.00%	20103144
Sharon A. Fitzgerald	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7 & 10	5/12/2011	5/11/2016 5 yr lease, no ext	164.88	17.59	1.32	0.33	80.00%	20103138
Sharon A. Fitzgerald	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	5/12/2011	5/11/2016 5 yr lease, no ext	82.44	9.16	0.69	0.17	80.00%	20103139
Sharon A. Fitzgerald	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, & 14 Sec 27: Lots 2, 7, 8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	330.85	26.04	1.95	0.49	80.00%	20103141
Sharon A. Fitzgerald	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5,6,10,11,12,14,15,16 Sec 34: Lots 2,3 less acreage Sec 35, (see lease)	5/12/2011	5/11/2016 5 yr lease, no ext	409.65	16.12	1.21	0.30	80.00%	20103142
Sharon A. Fitzgerald	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1,2,8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	164.97	12.98	0.97	0.24	80.00%	20103143

Eugena Grace Voloshin Buck Peak, LLC	T6N-R103W, 6th P.M. Sec 31: Lots 7,8,9, NESW, SE T6N-R90W, 6th P.M. Sec 14: Lots 3, 4, 6 T6N-R91W, 6th P.M. Sec 9: Lots 8, 9, 16 Sec 10: Lots 4, 5 T6N-R92W, 6th P.M. Sec 13: SW T6N-R93W, 6th P.M. Sec 13: S2N2, N2S2 T6N-R94W, 6th P.M. Sec 12: E2SE T6N-R99W, 6th P.M. Sec 27: SWSE, SESW Sec 34: NENW	5/12/2011	5/11/2016 5 yr lease, no ext	1320.3	18.748	1.41	0.35	80.00%	20102850
Eugena Grace Voloshin Buck Peak, LLC	T10N-R90W, 6th P.M. Sec 19: Lot 18 Sec 30: Lots 6 & 8	5/12/2011	5/11/2016 5 yr lease, no ext	117.16	1.663	0.12	0.03	80.00%	20102851
Eugena Grace Voloshin Buck Peak, LLC	T3N-R91W, 6th P.M. Sec 8: Lots 9 & 16 Sec 9: SW/4SW/4 Sec 16: NW/4, NE/4SW/4	5/12/2011	5/11/2016 5 yr lease, no ext	323.43	4.593	0.34	0.09	80.00%	20102852
Eugena Grace Voloshin Buck Peak, LLC	T4N-R91W, 6th P.M. Sec 10: Tract in SESW (0.42 acres) T4N-R92W, 6th P.M. Sec 7: Lots 9 & 10 Sec 8: Lots 5, 9, 10, 11, 12, 13, 14 Sec 17: Lot 2 T4N-R101W, 6th P.M. Sec 14: W2NE, NW, N2SW T4N-R102W, 6th P.M. Sec 27: SE Sec 34: NE	5/12/2011	5/11/2016 5 yr lease, no ext	799.7	11.356	0.85	0.21	80.00%	20102853
Eugena Grace Voloshin Buck Peak, LLC	T5N-R94W, 6th P.M. Sec 7: S2SE Sec 8: SW Sec 17: N2NW Sec 18: NENE T5N-R94W, 6th P.M. Sec 9: SWNE, NWSE, S2SE T5N-R97W, 6th P.M. Sec 3: N2SE, SWSE, E2SW Sec 10: N2NE, NENW	5/12/2011	5/11/2016 5 yr lease, no ext	840	11.93	0.89	0.22	80.00%	20102854
Eugena Grace Voloshin Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7, 8, 9, 10 less tract (see lease) Sec 2: 15,16,17,18	5/12/2011	5/11/2016 5 yr lease, no ext	333.57	71.30	5.35	1.34	80.00%	20102855
Eugena Grace Voloshin Buck Peak, LLC	T6N-R90W, 6th P.M. A Assessor's Tract # 69 Sec 21: Lots 3, 6, 7 & 10	5/12/2011	5/11/2016 5 yr lease, no ext	164.88	0.73	0.05	0.01	80.00%	20102857
Eugena Grace Voloshin Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1,2,8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	164.97	0.76	0.06	0.01	80.00%	20102858
Eugena Grace Voloshin Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5, 6, 10, 11, 12, 14, 15 & 16 Sec 34: Lots 2, 3 Less acreage (see lease)	5/12/2011	5/11/2016 5 yr lease, no ext	409.65	0.95	0.07	0.02	80.00%	20102859
Eugena Grace Voloshin Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, & 14 Sec 27: Lots 2, 7, 8 & 9	5/12/2011	5/11/2016 5 yr lease, no ext	330.85	1.53	0.11	0.03	80.00%	20102860
Eugena Grace Voloshin Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	5/12/2011	5/11/2016 5 yr lease, no ext	82.44	0.38	0.03	0.01	80.00%	20102861

R. Kirk Lyons	Buck Peak, LLC	T5N-R89W, 6th P.M. Sec 6: Lots 3, 5 SE4NW4 T6N-R89W, 6th P.M. Sec 29: Lot 13 Sec 31: Lot 3,5,6,11 SW4NE4, NW4SE4, NE4SW4, SE4SW4 Sec 32: Lot 4	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	425.23	47.24	3.54	0.89	80.00%	701711
Ralph C. Lyons & Anna M. Lyons	Buck Peak, LLC	T5N-R89W, 6th P.M. Sec 6: Lots 3, 5 SE4NW4 T6N-R89W, 6th P.M. Sec 29: Lot 13 Sec 31: Lot 3,5,6,11 SW4NE4, NW4SE4, NE4SW4, SE4SW4 Sec 32: Lot 4	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	425.23	141.74	10.63	2.66	80.00%	701713
Leora L. Smith	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 12: Lots 5,6,8,9,10,13,14,15 Sec 24: Lots 1,2,7,8,9,10,14,15,16	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	673.54	154.304	11.57	2.89	80.00%	20102588
R. Kirk Lyons	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 12: Lots 5,6,8,9,10,13,14,15 Sec 24: Lots 1,2,7,8,9,10,14,15,16	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	673.54	51.43	3.86	0.96	80.00%	20102589
Ralph C. Lyons & Anna M. Lyons	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 12: Lots 5,6,8,9,10,13,14,15 Sec 24: Lots 1,2,7,8,9,10,14,15,16	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	673.54	154.30	11.57	2.89	80.00%	20102587
Mark E. Lyons	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 12: Lots 5,6,8,9,10,13,14,15 Sec 24: Lots 1,2,7,8,9,10,14,15,16	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	673.54	51.43	3.86	0.96	80.00%	20102586
Terri Lee Smedra	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 12: Lots 5,6,8,9,10,13,14,15 Sec 24: Lots 1,2,7,8,9,10,14,15,16	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	673.54	51.43	3.86	0.96	80.00%	20102585
Leora L. Smith	Buck Peak, LLC	T5N-R89W, 6th P.M. Sec 6: Lots 3, 5 SE4NW4 T6N-R89W, 6th P.M. Sec 29: Lot 3 Sec 31: Lot 3,5,6,11 SW4NE4,NW4SE4, NE4SW4, SE4SW4 Sec 32: Lot 4	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	425.23	141.72	10.63	2.66	80.00%	701715
Terri Lee Smedra	Buck Peak, LLC	T5N-R89W, 6th P.M. Sec 6: Lots 3, 5 SE4NW4 T6N-R89W, 6th P.M. Sec 29: Lot 3 Sec 31: Lot 3,5,6,11 SW4NE4, NW4SE4, NE4SW4, SE4SW4 Sec 32: Lot 4	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	425.23	47.24	3.54	0.89	80.00%	701712
Mark E. Lyons	Buck Peak, LLC	T5N-R89W, 6th P.M. Sec 6: Lots 3, 5 SE4NW4 T6N-R89W, 6th P.M. Sec 29: Lot 13 Sec 31: Lot 3,5,6,11 SW4NE4, NW4SE4, NE4SW4, SE4SW4 Sec 32: Lot 4	6/1/2011	5/31/2014 3 yr lease, 2 yr ext (2016)	425.23	51.43	3.86	0.96	80.00%	701714

Thomas J. Knez	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 21: Lot 16 Sec 22: Lots 12 & 13	7/10/2011	7/09/2016 5 yr lease, 3 yr ext (2019)	122.97	20.50	1.54	0.38	80.00%	20102823
Helen P. Knez	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 27: Lots 3 & 4 Sec 28: Lot 1	7/17/2011	7/16/2016 5 yr lease, 3 yr ext (2019)	122.93	20.5	1.54	0.38	80.00%	20103517
Gregory J. Knez, Trustee of the Raymond M. & Hellen M. Knez Family Trust	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 21: Lots 11, 14, 15 & 16 Sec 22: Lots 12 & 13 Sec 27: Lots 3 & 4 Sec 28: Lot 1	3/21/2011	3/20/2016 5 yr lease, 3 yr ext (2019)	369.39	61.58	4.62	1.15	80.00%	20103025
Kathy Peters	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 35: Lots 9,10 11,12,13,14,15,16 (S/2)	7/31/2011	7/30/2014 3 yr lease, 3 yr ext (2017)	331.00	110.56	8.29	2.07	80.00%	20103518
Barbara L. Wilaby	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 12: Lots 1,2,3,5,6,7,8,9,10,12,13,14,15	10/31/2008 3 years + 2 year ext option	10/30/2013	493.56	208.12	15.61	3.90	80.00%	20090483
Barbara L. Wilaby	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 13: Lots 2,3,4, less tract	10/31/2008 3 years + 2 year ext option	10/30/2013	130.10	30.23	2.27	0.57	80.00%	20090484
Rex Ross Walker	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 34: Lots 1, 7,8,9,10,11,12,13,14,15,16	12/18/2008 3 years + 2 year ext option	12/17/2013	351.36	26.24	1.97	0.49	80.00%	20090151
							302.97	75.74		
Margaret Keith	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7,8,9,10 less tract (see lease) Sec 2: 15,16,17,18	9/30/2008 5 years + 3 year ext option	9/29/2013	333.57	11.560	0.87	0.22	80.00%	20084242
Margaret Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1, 2, 8, and 9	9/30/2008 5 years + 3 year ext option	9/29/2013	164.97	12.98	0.97	0.24	80.00%	20084243
Margaret Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5, 6, 10, 11, 12, 14, 15 & 16 Sec 34: Lots 2, 3 Less acreage (see lease)	9/30/2008 5 years + 3 year ext option	9/29/2013	409.65	16.12	1.21	0.30	80.00%	20084244
Margaret Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, & 14 Sec 27: Lots 2, 7, 8 & 9	9/30/2008 5 years + 3 year ext option	9/29/2013	330.85	26.04	1.95	0.49	80.00%	20084245

Margaret Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	9/30/2008 5 years + 3 year ext option	9/29/2013	82.44	9.16	0.69	0.17	80.00%	20084246
Margaret Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7 & 10	9/30/2008 5 years + 3 year ext option	9/29/2013	164.88	17.59	1.32	0.33	80.00%	20084247
James W. Keith	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7,8,9,10 less tract (see lease) Sec 2: 15,16,17,18	9/30/2008 5 years + 3 year ext option	9/29/2013	333.57	3.86	0.29	0.07	80.00%	20084241
James W. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1, 2, 8, and 9	9/30/2008 - 2013 5 years + 3 year ext option	9/29/2013	164.97	4.33	0.32	0.08	80.00%	20084240
James W. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5, 6, 10, 11, 12, 14, 15 & 16 Sec 34: Lots 2, 3 Less acreage (see lease)	9/30/2008 5 years + 3 year ext option	9/29/2013	409.65	5.37	0.40	0.10	80.00%	20084239
James W. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, & 14 Sec 27: Lots 2, 7, 8 & 9	9/30/2008 5 years + 3 year ext option	9/29/2013	330.85	8.68	0.65	0.16	80.00%	20084238
James W. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	9/30/2008 5 years + 3 year ext option	9/29/2013	82.44	3.05	0.23	0.06	80.00%	20084237
James W. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7 & 10	9/30/2008 5 years + 3 year ext option	9/29/2013	164.88	5.86	0.44	0.11	80.00%	20084236
Charles S. Keith	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7,8,9,10 less tract (see lease) Sec 2: 15,16,17,18	9/30/2008 5 years + 3 year ext option	9/29/2013	333.57	3.86	0.29	0.07	80.00%	20084235
Charles S. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1, 2, 8, and 9	9/30/2008 5 years + 3 year ext option	9/29/2013	164.97	4.33	0.32	0.08	80.00%	20084234
Charles S. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5, 6, 10, 11, 12, 14, 15 & 16 Sec 34: Lots 2, 3 Less acreage (see lease)	9/30/2008 5 years + 3 year ext option	9/29/2013	409.65	5.37	0.40	0.10	80.00%	20084233

Charles S. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, & 14 Sec 27: Lots 2, 7, 8 & 9	9/30/2008 5 years + 3 year ext option	9/29/2013	330.85	8.68	0.65	0.16	80.00%	20084232
Charles S. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	9/30/2008 5 years + 3 year ext option	9/29/2013	82.44	3.05	0.23	0.06	80.00%	20084231
Charles S. Keith	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7 & 10	9/30/2008 5 years + 3 year ext option	9/29/2013	164.88	5.86	0.44	0.11	80.00%	20084230
Debra A Ziehm	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 2: Lots 7,8,9,10 less tract (see lease) Sec 2: 15,16,17,18	9/30/2008 5 years + 3 year ext option	9/29/2013	333.57	3.86	0.29	0.07	80.00%	20084253
Debra A Ziehm	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 105 Sec 21: Lots 1, 2, 8, and 9	9/30/2008 - 2013 5 years + 3 year ext option	9/29/2013	164.97	4.33	0.32	0.08	80.00%	20084252
Debra A Ziehm	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 83 Sec 27: Lots 5, 6, 10, 11, 12, 14, 15 & 16 Sec 34: Lots 2, 3 Less acreage (see lease)	9/30/2008 5 years + 3 year ext option	9/29/2013	409.65	5.37	0.40	0.10	80.00%	20084251
Debra A Ziehm	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 82 Sec 26: Lots 11, 12, 13, & 14 Sec 27: Lots 2, 7, 8 & 9	9/30/2008 5 years + 3 year ext option	9/29/2013	330.85	8.68	0.65	0.16	80.00%	20084250
Debra A Ziehm	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 70 Sec 21: Lots 4 & 5	9/30/2008 5 years + 3 year ext option	9/29/2013	82.44	3.05	0.23	0.06	80.00%	20084249
Debra A Ziehm	Buck Peak, LLC	T6N-R90W, 6th P.M. Assessor's Tract # 69 Sec 21: Lots 3, 6, 7 & 10	9/30/2008 5 years + 3 year ext option	9/29/2013	164.88	5.86	0.44	0.11	80.00%	20084248
Jim F. Kowach	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 12: Lots 1,2,3,5,6,7,8,9,10,12,13,14,15 Sec 13: Lots 2,3,4, less tract (see lease)	10/31/2008	10/30/2013	635.00	238.35	17.88	4.47	80.00%	20084634
Robert Deakins	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 35: S/2	12/8/2008 5 years + 3 year ext option	12/7/2013	331.70	6.91	0.52	0.13	80.00%	20090152
Richard Deakins	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 35: S/2	12/8/2008 5 years + 3 year ext option	12/7/2013	331.70	6.91	0.52	0.13	80.00%	20090482

Kathleen Seely Brennise	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 28: Tract in Lots 11, 12, 14 Sec 31: Lots 5,6,11-14, 19,20, W/2 Sec 32: Lots 7,10-14 Sec 33: Tract in E2W2 Sec 34: Lots 1, 7-16	1/29/2009 5 years + 3 year ext option	1/28/2014	1507.93	145.69	10.93	2.73	80.00%	20091152
Bruce H. and Ann C. Seely	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 28: Tract in Lots 11, 12, 14 Sec 31: Lots 5,6,11-14, 19,20, W/2 Sec 32: Lots 7,10-14 Sec 33: Tract in E2W2 Sec 34: Lots 14, 15, 16	3/1/2009 5 years + 3 year ext option	2/28/2014	1179.60	15.00	1.13	0.28	80.00%	20091997
Bruce H. Seely	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 28: Tract in Lots 11, 12, 14 Sec 31: Lots 5,6,11-14, 19,20, W/2 Sec 32: Lots 7,10-14 Sec 33: Tract in E2W2 Sec 34: Lots 1, 7-16 Sec 35: Lots 4, 5	3/1/2009 5 years + 3 year ext option	2/28/2014	1590.92	146.56	10.99	2.75	80.00%	20091998
David R. and Shirley M. Seely	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 6: Lot 7 Sec 31: Lots 5,6,11-14, 19,20, W/2 Sec 32: Lots 7,10-14 Sec 33: Tract in E2W2 Sec 34: Lots 1, 7-16 Sec 35: Lots 4, 5	3/1/2009 5 years + 3 year ext option	2/28/2014	1465.72	292.60	21.95	5.49	80.00%	20092472
Walter D. Spetter	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 35: Lots 9,10 11,12,13,14,15,16 (S/2)	3/5/2009 5 years + 3 year ext option	3/4/2014	331.70	13.820	1.04	0.26	80.00%	20092059
Donna McMullen	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 35: Lots 9,10 11,12,13,14,15,16 (S/2)	3/5/2009 5 years + 3 year ext option	3/4/2014	331.70	13.82	1.04	0.26	80.00%	20092058
DR Seely, LLC an Idaho Limited Liability Company	Buck Peak, LLC	T6N-R90W, 6th P.M. Sec 31: Lots 5,6,11-14, 19,20, W/2 Sec 32: Lots 7,10-14 Sec 34: Lots 1, 7-16 Sec 35: Lots 4, 5	3/5/2009 5 years + 3 year ext option	3/4/2014	1436.46	169.85	12.74	3.18	80.00%	20092471
Kathleen Seely Brennise	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 3: Lots 6,7,8,9 Sec 4: Lots 5 -13, 15, 16, 18-20 Sec 6: Lots 12,13,14,17,18,19	7/9/2010	7/8/2015	1067.93	123.54	9.27	2.32	80.00%	20102826

Bruce and Ann Seely	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 3: Lots 6,7,8,9 Sec 4: Lots 5 -13, 15, 16, 18-20 Sec 6: Lots 12,13,14,17,18,19	7/9/2010	7/8/2015	1067.93	12.99	0.97	0.24	80.00%	20102591
Bruce Seely, Individually	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 3: Lots 6,7,8,9 Sec 4: Lots 5 -13, 15, 16, 18-20 Sec 6: Lots 12,13,14,17,18,19	7/9/2010	7/8/2015	1067.93	123.54	9.27	2.32	80.00%	20102590
David and Shirley Seely	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 3: Lots 6,7,8,9 Sec 4: Lots 5 -13, 15, 16, 18-20 Sec 6: Lots 12,13,14,17,18,19	7/9/2010	7/8/2015	1067.93	260.18	19.51	4.88	80.00%	20102827
D.R. Seely, LLC	Buck Peak, LLC	T5N-R90W, 6th P.M. Sec 3: Lots 6,7,8,9 Sec 4: Lots 5 -13, 15, 16, 18-20 Sec 6: Lots 12,13,14,17,18,19	7/9/2010	7/8/2015	1067.93	52.04	3.90	0.98	80.00%	20102825
Lease Serial No. COC- 73459	Impact Energy Resources, LLC	T5N-R90W, 6th P.M. Section 1: Lot 5, 12, 13	3/1/2009	2/28/2019	125.15	125.15	9.39	2.35	80.00%	
					1,933.86	145.04	52.21			
					Total Schedule	448.01	112.00			
					2.1(a)					

EXHIBIT "C"

ASSIGNMENT

STATE OF COLORADO)
COUNTY OF)

KNOW ALL MEN BY THESE PRESENTS, that PetroShare Corp., with an office at _____ hereinafter referred to as "Assignor", for and in consideration of the sum of TEN AND NO/100 DOLLARS (\$10.00), the receipt and adequacy of which is hereby acknowledged and full acquittance granted therefor, has granted, sold, conveyed and delivered and does hereby grant, sell, convey and deliver unto LLOCO, L.L.C. with an office at 1001 Ochsner Blvd., Ste 200, Covington, LA 70433 hereinafter referred to as "Assignee", 25% of Assignor's right, title and interest in the following properties (real, personal or mixed) and rights (contractual or otherwise) unless expressly reserved or excluded herein, the following being referred to herein collectively as the Assets:

- a) the oil and gas leases described on Exhibit "A" and "B", attached hereto, in the amounts of the working interests specified thereon (the "**Leases**");
- b) The rights and interests in, to and under, or derived from, all of the presently existing and valid unitization and pooling agreements and units (including all units formed by voluntary agreement and those formed under the rules, regulations, orders or other official acts of any governmental entity having appropriate jurisdiction) to the extent they relate to any of the Leases;
- c) The rights and interests in, to and under, or derived from, all of the presently existing and valid joint operating agreements, oil sales contracts, casing head gas sales contracts, gas sales contracts, processing contracts, gathering contracts, transportation contracts, easements, rights-of-way, servitudes, surface leases and other contracts to the extent they are described on Exhibit "C", attached hereto (the "**Contracts**");
- d) The rights and interests in and to all personal property and improvements, including without limitation, tanks, buildings, fixtures, machinery, equipment, pipelines, utility lines, power lines, telephone lines, roads and other appurtenances, to the extent the same are situated upon and/or used or held for use by Seller in connection with the ownership, operation, maintenance and repair of the Leases; and
- f) The rights and interests in all permits and licenses of any nature owned, held or operated in connection with operations for the exploration and production of oil, gas or other minerals to the extent the same are used or obtained in connection with any of the Leases or other property described in Exhibit "A" ("**Permits**");

TO HAVE AND TO HOLD the Assets, together with all and singular the rights and appurtenances thereunto in anywise belonging, unto Assignee, its successors and assigns, forever, subject to the following terms and conditions:

1. Special Warranty of Title. Assignor represents and warrants that the Assets are free and clear of all liens, encumbrances, security interests or other adverse claims arising by, through or under Assignor, but not otherwise. Assignor shall warrant and defend the title to the Assets conveyed to Assignee against every person whomsoever lawfully claims the Assets or any part thereof by, through, or under Assignor, but not otherwise.

2. Successors and Assigns. The terms, covenants and conditions contained in this Assignment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, and such terms, covenants and conditions shall be covenants running with the land and with each subsequent transfer or assignment of the Assets, or any part thereof.

3. Participation Agreement. This Assignment is made in accordance with and is subject to the terms, covenants and conditions contained in that certain Participation Agreement dated as of _____, 2013, by and between Assignor and Assignee ("Participation Agreement"), all of which shall remain in full force and effect in accordance with their terms as set forth therein and shall not be deemed to have been merged with this Assignment. If there is a conflict between the provisions of the Participation Agreement and this Assignment, the provisions of the Participation Agreement shall control the rights and obligations of the parties.

4. Further Assurances. Assignor and Assignee agree to take all such further actions and to execute, acknowledge and deliver all such further documents that are necessary or useful in carrying out the purpose of this Assignment.

5. Counterparts. This Assignment is being executed in multiple counterparts each of which shall for all purposes be deemed to be an original and all of which shall constitute one instrument.

ASSIGNOR:

PetroShare Corp.

By: _____
Name:
Title:

ASSIGNEE:

By: _____
Name:
Title: _____

STATE OF COLORADO)
_____))
COUNTY OF _____)) ss.

The foregoing instrument was acknowledged before me this ____ day of _____, 2013, by _____, as _____ of **PetroShare Corp.**

Witness my hand and seal.

My Commission Expires: _____

Notary Public

STATE OF LOUISIANA)
_____))
COUNTY OF _____)) ss.

The foregoing instrument was acknowledged before me this ____ day of _____, 2013, by _____, as _____ of LLOCO, L.L.C.

Witness my hand and seal.

My Commission Expires: _____

Notary Public

Exhibit D
to
Participation Agreement
Model Form of Operating Agreement

(See Exhibit 10.9)

EXHIBIT E
SCHEDULE 5.5
TO
LEASE EXTENSION AND DEVELOPMENT AGREEMENT
A.A.P.L. FORM 610 - 1989
MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

2010
year

OPERATOR QUICKSILVER RESROUCES INC.

CONTRACTAREA _____

COUNTY OR PARISH OF MOFFAT, STATE OF

COLORADO

COPYRIGHT 1989 – ALL RIGHTS RESERVED
AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN, 4100 FOSSIL CREEK BLVD. FORT
WORTH, TEXAS, 76137, APPROVED FORM.
A.A.P.L. NO. 610 – 1989

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OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Quicksilver Resources Inc., hereinafter designated and referred to as "Operator," and the signatory party or parties other than Operator, sometimes hereinafter referred to individually as "Non-Operator," and collectively as "Non-Operators."

WITNESSETH:

WHEREAS, the parties to this agreement are owners of Oil and Gas Leases and/or Oil and Gas Interests in the land identified in Exhibit "A," and the parties hereto have reached an agreement to explore and develop these Leases and/or Oil and Gas Interests for the production of Oil and Gas to the extent and as hereinafter provided,

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.

DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "AFE" shall mean an Authority for Expenditure prepared by a party to this agreement for the purpose of estimating the costs to be incurred in conducting an operation hereunder.

B. The term "Completion" or "Complete" shall mean a single operation intended to complete a well as a producer of Oil and Gas in one or more Zones, including, but not limited to, the setting of production casing, perforating, well stimulation and production testing conducted in such operation.

C. The term "Contract Area" shall mean all of the lands, Oil and Gas Leases and/or Oil and Gas Interests intended to be developed and operated for Oil and Gas purposes under this agreement. Such lands, Oil and Gas Leases and Oil and Gas Interests are described in Exhibit "A."

D. The term "Deepen" shall mean a single operation whereby a well is drilled to an objective Zone below the deepest Zone in which the well was previously drilled, or below the Deepest Zone proposed in the associated AFE, whichever is the lesser.

E. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

F. The term "Drilling Unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a Drilling Unit is not fixed by any such rule or order, a Drilling Unit shall be the drilling unit as established by the pattern of drilling in the Contract Area unless fixed by express agreement of the Drilling Parties.

G. The term "Drillsite" shall mean the Oil and Gas Lease or Oil and Gas Interest on which a proposed well is to be located.

H. The term "Initial Well" shall mean the well required to be drilled by the parties hereto as provided in Article VI.A.

I. The term "Non-Consent Well" shall mean a well in which less than all parties have conducted an operation as provided in Article VI.B.2.

J. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

K. The term "Oil and Gas" shall mean oil, gas, casinghead gas, gas condensate, and/or all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

L. The term "Oil and Gas Interests" or "Interests" shall mean unleased fee and mineral interests in Oil and Gas in tracts of land lying within the Contract Area which are owned by parties to this agreement.

M. The terms "Oil and Gas Lease," "Lease" and "Leasehold" shall mean the oil and gas leases or interests therein covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

N. The term "Plug Back" shall mean a single operation whereby a deeper Zone is abandoned in order to attempt a Completion in a shallower Zone.

O. The term "Recompletion" or "Recomplete" shall mean an operation whereby a Completion in one Zone is abandoned in order to attempt a Completion in a different Zone within the existing wellbore.

P. The term "Rework" shall mean an operation conducted in the wellbore of a well after it is Completed to secure, restore, or improve production in a Zone which is currently open to production in the wellbore. Such operations include, but are not limited to, well stimulation operations but exclude any routine repair or maintenance work or drilling, Sidetracking, Deepening, Completing, Recompleting, or Plugging Back of a well.

Q. The term "Sidetrack" shall mean the directional control and intentional deviation of a well from vertical so as to change the bottom hole location unless done to straighten the hole or drill around junk in the hole to overcome other mechanical difficulties.

R. The term "Zone" shall mean a stratum of earth containing or thought to contain a common accumulation of Oil and Gas separately producible from any other common accumulation of Oil and Gas.

Unless the context otherwise clearly indicates, words used in the singular include the plural, the word "person" includes natural and artificial persons, the plural includes the singular, and any gender includes the masculine, feminine, and neuter.

ARTICLE II.

EXHIBITS

The following exhibits, as indicated below and attached hereto, are incorporated in and made a part hereof:

A. Exhibit "A," shall include the following information:

- (1) Description of lands subject to this agreement,
- (2) Restrictions, if any, as to depths, formations, or substances,
- (3) Parties to agreement with addresses and telephone numbers for notice purposes,
- (4) Percentages or fractional interests of parties to this agreement,
- (5) Oil and Gas Leases and/or Oil and Gas Interests subject to this agreement,
- (6) Burdens on production.

B. Exhibit "B," Form of Lease.

C. Exhibit "C," Accounting Procedure.

D. Exhibit "D," Insurance.

E. Exhibit "E," Gas Balancing Agreement.

F. Exhibit "F," Non-Discrimination and Certification of Non-Segregated Facilities.

G. Exhibit "G," Tax Partnership.

1 If any provision of any exhibit, except Exhibits "E," "F" and "G," is inconsistent with any provision contained in
2 the body of this agreement, the provisions in the body of this agreement shall prevail.

3 **ARTICLE III.**
4 **INTERESTS OF PARTIES**

5 **A. Oil and Gas Interests:**

6 If any party owns an Oil and Gas Interest in the Contract Area, that Interest shall be treated for all purposes of this
7 agreement and during the term hereof as if it were covered by the form of Oil and Gas Lease attached hereto as Exhibit "B,"
8 and the owner thereof shall be deemed to own both royalty interest in such lease and the interest of the lessee thereunder.

9 **B. Interests of Parties in Costs and Production:**

10 Unless changed by other provisions, all costs and liabilities incurred in operations under this agreement shall be borne
11 and paid, and all equipment and materials acquired in operations on the Contract Area shall be owned, by the parties as their
12 interests are set forth in Exhibit "A." In the same manner, the parties shall also own all production of Oil and Gas from the
13 Contract Area subject, however, to the payment of royalties and other burdens on production as described hereafter.

14 Operator shall pay or deliver, or
15 cause to be paid or delivered, all burdens on production from the Contract Area

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18 Nothing contained in this Article III.B. shall be deemed an assignment or cross-assignment of interests covered hereby,
19 and in the event two or more parties contribute to this agreement jointly owned Leases, the parties' undivided interests in
20 said Leaseholds shall be deemed separate leasehold interests for the purposes of this agreement.

21 **C. Subsequently Created Interests:**

22 If any party has contributed hereto a Lease or Interest that is burdened with an assignment of production given as security
23 for the payment of money, or if, after the date of this agreement, any party creates an overriding royalty, production
24 payment, net profits interest, assignment of production or other burden payable out of production attributable to its working
25 interest hereunder, such burden shall be deemed a "Subsequently Created Interest. Further, if any party has contributed
26 hereto a Lease or Interest burdened with an overriding royalty, production payment, net profits interests, or other burden
27 payable out of production created prior to the date of this agreement, and such burden is not shown on Exhibit "A," such
28 burden also shall be deemed a Subsequently Created Interest to the extent such burden causes the burdens on such party's
29 Lease or Interest to exceed the amount stipulated in Article III.B. above.

30 The party whose interest is burdened with the Subsequently Created Interest (the "Burdened Party") shall assume and
31 alone bear, pay and discharge the Subsequently Created Interest and shall indemnify, defend and hold harmless the other
32 parties from and against any liability therefor. Further, if the Burdened Party fails to pay, when due, its share of expenses
33 chargeable hereunder, all provisions of Article VII.B. shall be enforceable against the Subsequently Created Interest in the
34 same manner as they are enforceable against the working interest of the Burdened Party. If the Burdened Party is required
35 under this agreement to assign or relinquish to any other party, or parties, all or a portion of its working interest and/or the
36 production attributable thereto, said other party, or parties, shall receive said assignment and/or production free and clear of
37 said Subsequently Created Interest, and the Burdened Party shall indemnify, defend and hold harmless said other party, or
38 parties, from any and all claims and demands for payment asserted by owners of the Subsequently Created Interest.

39 **ARTICLE IV.**
40 **TITLES**

41 **A. Title Examination:**

42 Title examination shall be made on the Drillsite of any proposed well prior to commencement of drilling operations and,
43 if a majority in interest of the Drilling Parties so request or Operator so elects, title examination shall be made on the entire
44 Drilling Unit, or maximum anticipated Drilling Unit, of the well. The opinion will include the ownership of the working
45 interest, minerals, royalty, overriding royalty and production payments under the applicable Leases. Each party contributing
46 Leases and/or Oil and Gas Interests to be included in the Drillsite or Drilling Unit, if appropriate, shall furnish to Operator
47 all abstracts (including federal lease status reports), title opinions, title papers and curative material in its possession free of
48 charge. All such information not in the possession of or made available to Operator by the parties, but necessary for the
49 examination of the title, shall be obtained by Operator. Operator shall cause title to be examined by attorneys on its staff or
50 by outside attorneys. Copies of all title opinions shall be furnished to each Drilling Party. Costs incurred by Operator in
51 procuring abstracts, fees paid outside attorneys or title examination (including preliminary, supplemental, shut-in royalty
52 opinions and division order title opinions), (fees paid to outside landmen or brokers) / and other direct charges as provided in Exhibit "C" shall be borne by the Drilling
53 Parties in the proportion that the interest of each Drilling Party bears to the total interest of all Drilling Parties as such
54 interests appear in Exhibit "A." Operator shall make no charge for services rendered by its staff attorneys or other personnel
55 in the performance of the above functions.

56 Operator shall be responsible for securing curative matter and pooling amendments or agreements required in
57 connection with any title opinion obtained as set forth above. Operator shall be responsible for the preparation
58 and recording of pooling designations or declarations and communitization agreements as well as the conduct of hearings
59 before governmental agencies for the securing of spacing or pooling orders or any other orders necessary or appropriate to
60 the conduct of operations hereunder. This shall not prevent any party from appearing on its own behalf at such hearings.
61 Costs incurred by Operator, including fees paid to outside attorneys, which are associated with hearings before governmental
62 agencies, and which costs are necessary and proper for the activities contemplated under this agreement, shall be direct
63 charges to the joint account and shall not be covered by the administrative overhead charges as provided in Exhibit "C."

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1 Operator shall make no charge for services rendered by its staff attorneys or other personnel in the performance of the above
2 functions.

3 No well shall be drilled on the Contract Area until after (1) the title to the Drillsite or Drilling Unit, if appropriate, has
4 been examined as above provided, and (2) the title has been approved by the examining attorney or title has been accepted by
5 Operator.

6 **B. Loss or Failure of Title:**

7
8 3. Losses: All losses of Leases or Interests committed to this agreement, shall be joint losses and shall be borne by all parties in
9 proportion to their interests shown on
10 Exhibit "A." This shall include but not be limited to the loss of any Lease or Interest through failure to develop or because
11 express or implied covenants have not been performed (other than performance which requires only the payment of money),
12 and the loss of any Lease by expiration at the end of its primary term if it is not renewed or extended. There shall be no
13 readjustment of interests in the remaining portion of the Contract Area on account of any joint loss.

14 4. Curing Title: In the event of a Failure of Title as set forth above, any
15 Lease or Interest acquired by any party hereto during the ninety
16 (90) day period/ following discovery of such failure overing all or a portion of the interest that has failed
17 or was lost shall be offered at cost to the party whose interest has failed or was lost, and the provisions of Article VIII.B.
18 shall not apply to such acquisition.

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ARTICLE V.

OPERATOR

A. Designation and Responsibilities of Operator:

Quicksilver Resources Inc. shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of this agreement. In its performance of services hereunder for the Non-Operators, Operator shall be an independent contractor not subject to the control or direction of the Non-Operators except as to the type of operation to be undertaken in accordance with the election procedures contained in this agreement. Operator shall not be deemed, or hold itself out as, the agent of the Non-Operators with authority to bind them to any obligation or liability assumed or incurred by Operator as to any third party. Operator shall conduct its activities under this agreement as a reasonable prudent operator, in a good and workmanlike manner, with due diligence and dispatch, in accordance with good oilfield practice, and in compliance with applicable law and regulation, but in no event shall it have any liability as Operator to the other parties for losses sustained or liabilities incurred except such as may result from gross negligence or willful misconduct.

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator may be removed only for good cause by the affirmative vote of Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator; such vote shall not be deemed effective until a written notice has been delivered to the Operator by a Non-Operator detailing the alleged default and Operator has failed to cure the default within thirty (30) days from its receipt of the notice or, if the default concerns an operation then being conducted, within forty-eight (48) hours of its receipt of the notice. For purposes hereof, "good cause" shall mean not only gross negligence or willful misconduct but also the material breach of or inability to meet the standards of operation contained in Article V.A. or material failure or inability to perform its obligations under this agreement.

Subject to Article VII.D.1., such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator under any provision of this agreement, a successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed or is deemed to have resigned fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of the party or parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed or resigned. The former Operator shall promptly deliver to the successor Operator all records and data relating to the operations conducted by the former Operator to the extent such records and data are not already in the possession of the successor operator. Any cost of obtaining or copying the former Operator's records and data shall be charged to the joint account.

3. Effect of Bankruptcy: If Operator becomes insolvent, bankrupt or is placed in receivership, it shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. If a petition for relief under the federal bankruptcy laws is filed by or against Operator, and the removal of Operator is prevented by the federal bankruptcy court, all Non-Operators and Operator shall comprise an interim operating committee to serve until Operator has elected to reject or assume this agreement pursuant to the Bankruptcy Code, and an election to reject this agreement by Operator as a debtor in possession, or by a trustee in bankruptcy, shall be deemed a resignation as Operator without any action by Non-Operators, except the selection of a successor. During the period of time the operating committee controls operations, all actions shall require the approval of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A." In the event there are only two (2) parties to this agreement, during the period of time the operating committee controls operations, a third party acceptable to Operator, Non-Operator and the federal bankruptcy court shall be selected as a member of the operating committee, and all actions shall require the approval of two (2) members of the operating committee without regard for their interest in the Contract Area based on Exhibit "A."

C. Employees and Contractors:

The number of employees or contractors used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed shall be determined by Operator, and all such employees or contractors shall be the employees or contractors of Operator.

D. Rights and Duties of Operator:

1. Competitive Rates and Use of Affiliates All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors

64 who are doing work of a similar nature. All work performed or materials supplied by affiliates or related parties of Operator
65 shall be performed or supplied at competitive rates, pursuant to written agreement, and in accordance with customs and
66 standards prevailing in the industry.

67 2. Discharge of Joint Account Obligations: Except as herein otherwise specifically provided, Operator shall promptly pay
68 and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall
69 charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in Exhibit "C."
70 Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits
71 made and received.

72 3. Protection from Liens: Operator shall pay, or cause to be paid, as and when they become due and payable, all accounts
73 of contractors and suppliers and wages and salaries for services rendered or performed, and for materials supplied on, to or in
74 respect of the Contract Area or any operations for the joint account thereof, and shall keep the Contract Area free from

1 liens and encumbrances resulting therefrom except for those resulting from a bona fide dispute as to services rendered or
2 materials supplied.

3 4. Custody of Funds: Operator shall hold for the account of the Non-Operators any funds of the Non-Operators advanced
4 or paid to the Operator, either for the conduct of operations hereunder or as a result of the sale of production from the
5 Contract Area, and such funds shall remain the funds of the Non-Operators on whose account they are advanced or paid until
6 used for their intended purpose or otherwise delivered to the Non-Operators or applied toward the payment of debts as
7 provided in Article VII.B. Nothing in this paragraph shall be construed to establish a fiduciary relationship between Operator
8 and Non-Operators for any purpose other than to account for Non-Operator funds as herein specifically provided. Nothing in
9 this paragraph shall require the maintenance by Operator of separate accounts for the funds of Non-Operators unless the
10 parties otherwise specifically agree.

11 5. Access to Contract Area and Records: Operator shall, except as otherwise provided herein, permit each Non-Operator
12 or its duly authorized representative, at the Non-Operator's sole risk and cost, full and free access at all reasonable times to
13 all operations of every kind and character being conducted for the joint account on the Contract Area and to the records of
14 operations conducted thereon or production therefrom, including Operator's books and records relating thereto. Such access
15 rights shall not be exercised in a manner interfering with Operator's conduct of an operation hereunder and shall not obligate
16 Operator to furnish any geologic or geophysical data of an interpretive nature unless the cost of preparation of such
17 interpretive data was charged to the joint account. Operator will furnish to each Non-Operator upon request copies of any
18 and all reports and information obtained by Operator in connection with production and related items, including, without
19 limitation, meter and chart reports, production purchaser statements, run tickets and monthly gauge reports, but excluding
20 purchase contracts and pricing information to the extent not applicable to the production of the Non-Operator seeking the
21 information. Any audit of Operator's records relating to amounts expended and the appropriateness of such expenditures
22 shall be conducted in accordance with the audit protocol specified in Exhibit "C."

23 6. Filing and Furnishing Governmental Reports: Operator will file, and upon written request promptly furnish copies to
24 each requesting Non-Operator not in default of its payment obligations, all operational notices, reports or applications
25 required to be filed by local, State, Federal or Indian agencies or authorities having jurisdiction over operations hereunder.
26 Each Non-Operator shall provide to Operator on a timely basis all information necessary to Operator to make such filings.

27 7. Drilling and Testing Operations: The following provisions shall apply to each well drilled hereunder, including but not
28 limited to the Initial Well:

29 (a) Operator will promptly advise Non-Operators of the date on which the well is spudded, or the date on which
30 drilling operations are commenced.

31 (b) Operator will send to Non-Operators such reports, test results and notices regarding the progress of operations on the well
32 as the Non-Operators shall reasonably request, including, but not limited to, daily drilling reports, completion reports, and well logs.

33 (c) Operator shall adequately test all Zones encountered which may reasonably be expected to be capable of producing
34 Oil and Gas in paying quantities as a result of examination of the electric log or any other logs or cores or tests conducted
35 hereunder.

36 8. Cost Estimates: Upon request of any Consenting Party, Operator shall furnish estimates of current and cumulative costs
37 incurred for the joint account at reasonable intervals during the conduct of any operation pursuant to this agreement.
38 Operator shall not be held liable for errors in such estimates so long as the estimates are made in good faith.

39 9. Insurance: At all times while operations are conducted hereunder, Operator shall comply with the workers
40 compensation law of the state where the operations are being conducted; provided, however, that Operator may be a self-
41 insurer for liability under said compensation laws in which event the only charge that shall be made to the joint account shall
42 be as provided in Exhibit "C." Operator shall also carry or provide insurance for the benefit of the joint account of the parties
43 as outlined in Exhibit "D" attached hereto and made a part hereof. Operator shall require all contractors engaged in work on
44 or for the Contract Area to comply with the workers compensation law of the state where the operations are being conducted
45 and to maintain such other insurance as Operator may require.

46 In the event automobile liability insurance is specified in said Exhibit "D," or subsequently receives the approval of the
47 parties, no direct charge shall be made by Operator for premiums paid for such insurance for Operator's automotive
48 equipment.

49 **ARTICLE VI.**

50 **DRILLING AND DEVELOPMENT**

51 **A. Initial Well:**

52 On or before the _____ day of _____, _____, Operator shall commence the drilling of the Initial
53 Well at a location on the Contract Area of Operator's choosing

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60 and shall thereafter continue the drilling of the well with due diligence as a vertical well to a depth sufficient to test the Niobrara formation to or to a depth of 7,000 feet, whichever is the lesser depth.

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67 The drilling of the Initial Well and the participation therein by all parties is obligatory, subject to Article VI.C.1. as to participation

68 in Completion operations and Article VI.F. as to termination of operations and Article XI as to occurrence of force majeure.

69 **B. Subsequent Operations:**

70 1. Proposed Operations: If any party hereto should desire to drill any well on the Contract Area other than the Initial Well, or

71 if any party should desire to /complete the Initial Well as a horizontal well or to Rework, Sidetrack, Deepen, Recomplete or Plug Back a dry hole or a well no longer capable of

72 producing in paying quantities in which such party has not otherwise relinquished its interest in the proposed objective Zone under

73 this agreement, the party desiring to drill, Rework, Sidetrack, Deepen, Recomplete or Plug Back such a well shall give written

74 notice of the proposed operation to the parties who have not otherwise relinquished their interest in such objective Zone

1 under this agreement and to all other parties in the case of a proposal for Sidetracking or Deepening, specifying the work to be
2 performed, the location, proposed depth, objective Zone and the estimated cost of the operation. The parties to whom such a
3 notice is delivered shall have thirty (30) days after receipt of the notice within which to notify the party proposing to do the work
4 whether they elect to participate in the cost of the proposed operation. If a drilling rig is on location, notice of a proposal to
5 Rework, Sidetrack, Recomplete, Plug Back or Deepen may be given by telephone and the response period shall be limited to forty-
6 eight (48) hours, exclusive of Saturday, Sunday and legal holidays. Failure of a party to whom such notice is delivered to reply
7 within the period above fixed shall constitute an election by that party not to participate in the cost of the proposed operation.
8 Any proposal by a party to conduct an operation conflicting with the operation initially proposed shall be delivered to all parties
9 within the time and in the manner provided in Article VI.B.6.

10 If all parties to whom such notice is delivered elect to participate in such a proposed operation, the parties shall be
11 contractually committed to participate therein provided such operations are commenced within the time period hereafter set
12 forth, and Operator shall, no later than ninety (90) days after expiration of the notice period of thirty (30) days (or as
13 promptly as practicable after the expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case
14 may be), actually commence the proposed operation and thereafter complete it with due diligence at the risk and expense of
15 the parties participating therein; provided, however, said commencement date may be extended upon written notice of same
16 by Operator to the other parties, for a period of up to thirty (30) additional days if, in the sole opinion of Operator, such
17 additional time is reasonably necessary to obtain permits from governmental authorities, surface rights (including rights-of-
18 way) or appropriate drilling equipment, or to complete title examination or curative matter required for title approval or
19 acceptance. If the actual operation has not been commenced within the time provided (including any extension thereof as
20 specifically permitted herein or in the force majeure provisions of Article XI) and if any party hereto still desires to conduct
21 said operation, written notice proposing same must be resubmitted to the other parties in accordance herewith as if no prior
22 proposal had been made. Those parties that did not participate in the drilling of a well for which a proposal to Deepen or
23 Sidetrack is made hereunder shall, if such parties desire to participate in the proposed Deepening or Sidetracking operation,
24 reimburse the Drilling Parties in accordance with Article VI.B.4. in the event of a Deepening operation and in accordance
25 with Article VI.B.5. in the event of a Sidetracking operation.

26 2. Operations by Less Than All Parties

27 (a) Determination of Participation. If any party to whom such notice is delivered as provided in Article VI.B.1. or
28 VI.C.1. (Option No. 2) elects not to participate in the proposed operation, then, in order to be entitled to the benefits of this
29 Article, the party or parties giving the notice and such other parties as shall elect to participate in the operation shall, no
30 later than ninety (90) days after the expiration of the notice period of thirty (30) days (or as promptly as practicable after the
31 expiration of the forty-eight (48) hour period when a drilling rig is on location, as the case may be) actually commence the
32 proposed operation and complete it with due diligence. Operator shall perform all work for the account of the Consenting
33 Parties; provided, however, if no drilling rig or other equipment is on location, and if Operator is a Non-Consenting Party,
34 the Consenting Parties shall either: (i) request Operator to perform the work required by such proposed operation for the
35 account of the Consenting Parties, or (ii) designate one of the Consenting Parties as Operator to perform such work. The
36 rights and duties granted to and imposed upon the Operator under this agreement are granted to and imposed upon the party
37 designated as Operator for an operation in which the original Operator is a Non-Consenting Party. Consenting Parties, when
38 conducting operations on the Contract Area pursuant to this Article VI.B.2., shall comply with all terms and conditions of this
39 agreement.

40 If less than all parties approve any proposed operation, the proposing party, immediately after the expiration of the
41 applicable notice period, shall advise all Parties of the total interest of the parties approving such operation and its
42 recommendation as to whether the Consenting Parties should proceed with the operation as proposed. Each Consenting Party,
43 within forty-eight (48) hours (exclusive of Saturday, Sunday, and legal holidays) after delivery of such notice, shall advise the
44 proposing party of its desire to (i) limit participation to such party's interest as shown on Exhibit "A" or (ii) carry only its
45 proportionate part (determined by dividing such party's interest in the Contract Area by the interests of all Consenting Parties in
46 the Contract Area) of Non-Consenting Parties' interests, or (iii) carry its proportionate part (determined as provided in (ii)) of
47 Non-Consenting Parties' interests together with all or a portion of its proportionate part of any Non-Consenting Parties'
48 interests that any Consenting Party did not elect to take. Any interest of Non-Consenting Parties that is not carried by a
49 Consenting Party shall be deemed to be carried by the party proposing the operation if such party does not withdraw its
50 proposal. Failure to advise the proposing party within the time required shall be deemed an election under (i). In the event a
51 drilling rig is on location, notice may be given by telephone, and the time permitted for such a response shall not exceed a
52 total of forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays). The proposing party, at its election, may
53 withdraw such proposal if there is less than 100% participation and shall notify all parties of such decision within ten (10)
54 days, or within twenty-four (24) hours if a drilling rig is on location, following expiration of the applicable response period.
55 If 100% subscription to the proposed operation is obtained, the proposing party shall promptly notify the Consenting Parties
56 of their proportionate interests in the operation and the party serving as Operator shall commence such operation within the
57 period provided in Article VI.B.1., subject to the same extension right as provided therein.

58 (b) Relinquishment of Interest for Non-Participation. The entire cost and risk of conducting such operations shall be
59 borne by the Consenting Parties in the proportions they have elected to bear same under the terms of the preceding
60 paragraph. Consenting Parties shall keep the leasehold estates involved in such operations free and clear of all liens and
61 encumbrances of every kind created by or arising from the operations of the Consenting Parties. If such an operation results
62 in a dry hole, then subject to Articles VI.B.6. and VI.E.3., the Consenting Parties shall plug and abandon the well and restore
63 the surface location at their sole cost, risk and expense; provided, however, that those Non-Consenting Parties that
64 participated in the drilling, Deepening or Sidetracking of the well shall remain liable for, and shall pay, their proportionate

65 shares of the cost of plugging and abandoning the well and restoring the surface location insofar only as those costs were not
66 increased by the subsequent operations of the Consenting Parties. If any well drilled, Reworked, Sidetracked, Deepened,
67 Recompleted or Plugged Back under the provisions of this Article results in a well capable of producing Oil and/or Gas in
68 paying quantities, the Consenting Parties shall Complete and equip the well to produce at their sole cost and risk, and the
69 well shall then be turned over to Operator (if the Operator did not conduct the operation) and shall be operated by it at the
70 expense and for the account of the Consenting Parties. Upon commencement of operations for the drilling, Reworking,
71 Sidetracking, ReCompleting, Deepening or Plugging Back of any such well by Consenting Parties in accordance with the
72 provisions of this Article, each Non-Consenting Party shall be deemed to have relinquished to Consenting Parties, and the
73 Consenting Parties shall own and be entitled to receive, in proportion to their respective interests, all of such Non-
74 Consenting Party's interest in the well and share of production therefrom or, in the case of a Reworking, Sidetracking,

1 Deepening, Re-completing or Plugging Back, or a Completion pursuant to Article VI.C.1. Option No. 2, all of such Non-
2 Consenting Party's interest in the production obtained from the operation in which the Non-Consenting Party did not elect
3 to participate. Such relinquishment shall be effective until the proceeds of the sale of such share, calculated at the well, or
4 market value thereof if such share is not sold (after deducting applicable ad valorem, production, severance, and excise taxes,
5 royalty, overriding royalty and other interests not excepted by Article III.C. payable out of or measured by the production
6 from such well accruing with respect to such interest until it reverts), shall equal the total of the following:

7 (i) 100% of each such Non-Consenting Party's share of the cost of any newly acquired surface equipment
8 beyond the wellhead connections (including but not limited to stock tanks, separators, treaters, pumping equipment and
9 piping), plus 100% of each such Non-Consenting Party's share of the cost of operation of the well commencing with first
10 production and continuing until each such Non-Consenting Party's relinquished interest shall revert to it under other
11 provisions of this Article, it being agreed that each Non-Consenting Party's share of such costs and equipment will be that
12 interest which would have been chargeable to such Non-Consenting Party had it participated in the well from the beginning
13 of the operations; and

14 (ii) 400% of (a) that portion of the costs and expenses of drilling, Reworking, Sidetracking, Deepening,
15 Plugging Back, testing, Completing, and Re-completing, after deducting any cash contributions received under Article VIII.C.,
16 and of (b) that portion of the cost of newly acquired equipment in the well (to and including the wellhead connections),
17 which would have been chargeable to such Non-Consenting Party if it had participated therein.

18 Notwithstanding anything to the contrary in this Article VI.B., if the well does not reach the deepest objective Zone
19 described in the notice proposing the well for reasons other than the encountering of granite or practically impenetrable
20 substance or other condition in the hole rendering further operations impracticable, Operator shall give notice thereof to each
21 Non-Consenting Party who submitted or voted for an alternative proposal under Article VI.B.6. to drill the well to a
22 shallower Zone than the deepest objective Zone proposed in the notice under which the well was drilled, and each such Non-
23 Consenting Party shall have the option to participate in the initial proposed Completion of the well by paying its share of the
24 cost of drilling the well to its actual depth, calculated in the manner provided in Article VI.B.4. (a). If any such Non-
25 Consenting Party does not elect to participate in the first Completion proposed for such well, the relinquishment provisions
26 of this Article VI.B.2. (b) shall apply to such party's interest.

27 (c) Reworking, Re-completing or Plugging Back. An election not to participate in the drilling, Sidetracking or
28 Deepening of a well shall be deemed an election not to participate in any Reworking or Plugging Back operation proposed in
29 such a well, or portion thereof, to which the initial non-consent election applied that is conducted at any time prior to full
30 recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. Similarly, an election not to
31 participate in the Completing or Re-completing of a well shall be deemed an election not to participate in any Reworking
32 operation proposed in such a well, or portion thereof, to which the initial non-consent election applied that is conducted at
33 any time prior to full recovery by the Consenting Parties of the Non-Consenting Party's recoupment amount. Any such
34 Reworking, Re-completing or Plugging Back operation conducted during the recoupment period shall be deemed part of the
35 cost of operation of said well and there shall be added to the sums to be recouped by the Consenting Parties 400% of
36 that portion of the costs of the Reworking, Re-completing or Plugging Back operation which would have been chargeable to
37 such Non-Consenting Party had it participated therein. If such a Reworking, Re-completing or Plugging Back operation is
38 proposed during such recoupment period, the provisions of this Article VI.B. shall be applicable as between said Consenting
39 Parties in said well.

40 (d) Recoupment Matters. During the period of time Consenting Parties are entitled to receive Non-Consenting Party's
41 share of production, or the proceeds therefrom, Consenting Parties shall be responsible for the payment of all ad valorem,
42 production, severance, excise, gathering and other taxes, and all royalty, overriding royalty and other burdens applicable to
43 Non-Consenting Party's share of production not excepted by Article III.C.

44 In the case of any Reworking, Sidetracking, Plugging Back, Re-completing or Deepening operation, the Consenting
45 Parties shall be permitted to use, free of cost, all casing, tubing and other equipment in the well, but the ownership of all
46 such equipment shall remain unchanged; and upon abandonment of a well after such Reworking, Sidetracking, Plugging Back,
46 Re-completing or Deepening, the Consenting Parties shall account for all such equipment to the owners thereof, with each
48 party receiving its proportionate part in kind or in value, less cost of salvage.

49 Within ninety (90) days after the completion of any operation under this Article, the party conducting the operations
50 for the Consenting Parties shall furnish each Non-Consenting Party with an inventory of the equipment in and connected to
51 the well, and an itemized statement of the cost of drilling, Sidetracking, Deepening, Plugging Back, testing, Completing,
52 Re-completing, and equipping the well for production; or, at its option, the operating party, in lieu of an itemized statement
53 of such costs of operation, may submit a detailed statement of monthly billings. Each month thereafter, during the time the
54 Consenting Parties are being reimbursed as provided above, the party conducting the operations for the Consenting Parties
55 shall furnish the Non-Consenting Parties with an itemized statement of all costs and liabilities incurred in the operation of
56 the well, together with a statement of the quantity of Oil and Gas produced from it and the amount of proceeds realized from
57 the sale of the well's working interest production during the preceding month. In determining the quantity of Oil and Gas
58 produced during any month, Consenting Parties shall use industry accepted methods such as but not limited to metering or
59 periodic well tests. Any amount realized from the sale or other disposition of equipment newly acquired in connection with
60 any such operation which would have been owned by a Non-Consenting Party had it participated therein shall be credited
61 against the total unreturned costs of the work done and of the equipment purchased in determining when the interest of such
62 Non-Consenting Party shall revert to it as above provided; and if there is a credit balance, it shall be paid to such Non-
63 Consenting Party.

64 If and when the Consenting Parties recover from a Non-Consenting Party's relinquished interest the amounts provided

65 for above, the relinquished interests of such Non-Consenting Party shall automatically revert to it as of 7:00 a.m. on the day
66 following the day on which such recoupment occurs, and, from and after such reversion, such Non-Consenting Party shall
67 own the same interest in such well, the material and equipment in or pertaining thereto, and the production therefrom as
68 such Non-Consenting Party would have been entitled to had it participated in the drilling, Sidetracking, Reworking,
69 Deepening, Recompleting or Plugging Back of said well. Thereafter, such Non-Consenting Party shall be charged with and
70 shall pay its proportionate part of the further costs of the operation of said well in accordance with the terms of this
71 agreement and Exhibit "C" attached hereto.

72 3. Stand-By Costs: When a well which has been drilled or Deepened has reached its authorized depth and all tests have
73 been completed and the results thereof furnished to the parties, or when operations on the well have been otherwise
74 terminated pursuant to Article VI.F., stand-by costs incurred pending response to a party's notice proposing a Reworking,

1 Sidetracking, Deepening, Recompleting, Plugging Back or Completing operation in such a well (including the period required
 2 under Article VI.B.6. to resolve competing proposals) shall be charged and borne as part of the drilling or Deepening
 3 operation just completed. Stand-by costs subsequent to all parties responding, or expiration of the response time permitted,
 4 whichever first occurs, and prior to agreement as to the participating interests of all Consenting Parties pursuant to the terms
 5 of the second grammatical paragraph of Article VI.B.2. (a), shall be charged to and borne as part of the proposed operation,
 6 but if the proposal is subsequently withdrawn because of insufficient participation, such stand-by costs shall be allocated
 7 between the Consenting Parties in the proportion each Consenting Party's interest as shown on Exhibit "A" bears to the total
 8 interest as shown on Exhibit "A" of all Consenting Parties.

9 In the event that notice for a Sidetracking operation is given while the drilling rig to be utilized is on location, any party
 10 may request and receive up to five (5) additional days after expiration of the forty-eight hour response period specified in
 11 Article VI.B.1. within which to respond by paying for all stand-by costs and other costs incurred during such extended
 12 response period; Operator may require such party to pay the estimated stand-by time in advance as a condition to extending
 13 the response period. If more than one party elects to take such additional time to respond to the notice, standby costs shall be
 14 allocated between the parties taking additional time to respond on a day-to-day basis in the proportion each electing party's
 15 interest as shown on Exhibit "A" bears to the total interest as shown on Exhibit "A" of all the electing parties.

16 4. Deepening: If less than all parties elect to participate in a drilling, Sidetracking, or Deepening operation proposed
 17 pursuant to Article VI.B.1., the interest relinquished by the Non-Consenting Parties to the Consenting Parties under Article
 18 VI.B.2. shall relate only and be limited to the lesser of (i) the total depth actually drilled or (ii) the objective depth or Zone
 19 of which the parties were given notice under Article VI.B.1. ("Initial Objective"). Such well shall not be Deepened beyond the
 20 Initial Objective without first complying with this Article to afford the Non-Consenting Parties the opportunity to participate
 21 in the Deepening operation.

22 In the event any Consenting Party desires to drill or Deepen a Non-Consent Well to a depth below the Initial Objective,
 23 such party shall give notice thereof, complying with the requirements of Article VI.B.1., to all parties (including Non-
 24 Consenting Parties). Thereupon, Articles VI.B.1. and 2. shall apply and all parties receiving such notice shall have the right to
 25 participate or not participate in the Deepening of such well pursuant to said Articles VI.B.1. and 2. If a Deepening operation
 26 is approved pursuant to such provisions, and if any Non-Consenting Party elects to participate in the Deepening operation,
 27 such Non-Consenting party shall pay or make reimbursement (as the case may be) of the following costs and expenses.

28 (a) If the proposal to Deepen is made prior to the Completion of such well as a well capable of producing in paying
 29 quantities, such Non-Consenting Party shall pay (or reimburse Consenting Parties for, as the case may be) that share of costs
 30 and expenses incurred in connection with the drilling of said well from the surface to the Initial Objective which Non-
 31 Consenting Party would have paid had such Non-Consenting Party agreed to participate therein, plus the Non-Consenting
 32 Party's share of the cost of Deepening and of participating in any further operations on the well in accordance with the other
 33 provisions of this Agreement; provided, however, all costs for testing and Completion or attempted Completion of the well
 34 incurred by Consenting Parties prior to the point of actual operations to Deepen beyond the Initial Objective shall be for the
 35 sole account of Consenting Parties.

36 (b) If the proposal is made for a Non-Consent Well that has been previously Completed as a well capable of producing
 37 in paying quantities, but is no longer capable of producing in paying quantities, such Non-Consenting Party shall pay (or
 38 reimburse Consenting Parties for, as the case may be) its proportionate share of all costs of drilling, Completing, and
 39 equipping said well from the surface to the Initial Objective, calculated in the manner provided in paragraph (a) above, less
 40 those costs recouped by the Consenting Parties from the sale of production from the well. The Non-Consenting Party shall
 41 also pay its proportionate share of all costs of re-entering said well. The Non-Consenting Parties' proportionate part (based
 42 on the percentage of such well Non-Consenting Party would have owned had it previously participated in such Non-Consent
 43 Well) of the costs of salvable materials and equipment remaining in the hole and salvable surface equipment used in
 44 connection with such well shall be determined in accordance with Exhibit "C." If the Consenting Parties have recouped the
 45 cost of drilling, Completing, and equipping the well at the time such Deepening operation is conducted, then a Non-
 46 Consenting Party may participate in the Deepening of the well with no payment for costs incurred prior to re-entering the
 47 well for Deepening

48 The foregoing shall not imply a right of any Consenting Party to propose any Deepening for a Non-Consent Well prior
 49 to the drilling of such well to its Initial Objective without the consent of the other Consenting Parties as provided in Article
 50 VI.F.

51 5. Sidetracking: Any party having the right to participate in a proposed Sidetracking operation that does not own an
 52 interest in the affected wellbore at the time of the notice shall, upon electing to participate, tender to the wellbore owners its
 53 proportionate share (equal to its interest in the Sidetracking operation) of the value of that portion of the existing wellbore
 54 to be utilized as follows:

55 (a) If the proposal is for Sidetracking an existing dry hole, reimbursement shall be on the basis of the actual costs
 56 incurred in the initial drilling of the well down to the depth at which the Sidetracking operation is initiated.

57 (b) If the proposal is for Sidetracking a well which has previously produced, reimbursement shall be on the basis of
 58 such party's proportionate share of drilling and equipping costs incurred in the initial drilling of the well down to the depth
 59 at which the Sidetracking operation is conducted, calculated in the manner described in Article VI.B.4(b) above. Such party's
 60 proportionate share of the cost of the well's salvable materials and equipment down to the depth at which the Sidetracking
 61 operation is initiated shall be determined in accordance with the provisions of Exhibit "C."

62 6. Order of Preference of Operations. Except as otherwise specifically provided in this agreement, if any party desires to

63 propose the conduct of an operation that conflicts with a proposal that has been made by a party under this Article VI, such
64 party shall have fifteen (15) days from delivery of the initial proposal, in the case of a proposal to drill a well or to perform
65 an operation on a well where no drilling rig is on location, or twenty-four (24) hours, exclusive of Saturday, Sunday and legal
66 holidays, from delivery of the initial proposal, if a drilling rig is on location for the well on which such operation is to be
67 conducted, to deliver to all parties entitled to participate in the proposed operation such party's alternative proposal, such
68 alternate proposal to contain the same information required to be included in the initial proposal. Each party receiving such
69 proposals shall elect by delivery of notice to Operator within five (5) days after expiration of the proposal period, or within
70 twenty-four (24) hours (exclusive of Saturday, Sunday and legal holidays) if a drilling rig is on location for the well that is the
71 subject of the proposals, to participate in one of the competing proposals. Any party not electing within the time required
72 shall be deemed not to have voted. The proposal receiving the vote of parties owning the largest aggregate percentage
73 interest of the parties voting shall have priority over all other competing proposals; in the case of a tie vote, the
74

1 initial proposal shall prevail. Operator shall deliver notice of such result to all parties entitled to participate in the operation
 2 within five (5) days after expiration of the election period (or within twenty-four (24) hours, exclusive of Saturday, Sunday
 3 and legal holidays, if a drilling rig is on location). Each party shall then have two (2) days (or twenty-four (24) hours if a rig
 4 is on location) from receipt of such notice to elect by delivery of notice to Operator to participate in such operation or to
 5 relinquish interest in the affected well pursuant to the provisions of Article VI.B.2.; failure by a party to deliver notice within
 6 such period shall be deemed an election not to participate in the prevailing proposal.

7 7. Conformity to Spacing Pattern. Notwithstanding the provisions of this Article VI.B.2., it is agreed that no wells shall be
 8 proposed to be drilled to or Completed in or produced from a Zone from which a well located elsewhere on the Contract
 9 Area is producing, unless such well conforms to the then-existing well spacing pattern for such Zone.

10 8. Paying Wells. No party shall conduct any Reworking, Deepening, Plugging Back, Completion, Recompletion, or
 11 Sidetracking operation under this agreement with respect to any well then capable of producing in paying quantities except
 12 with the consent of all parties that have not relinquished interests in the well at the time of such operation.

13 **C. Completion of Wells; Reworking and Plugging Back:**

14 1. Completion: Without the consent of all parties, no well shall be drilled, Deepened or Sidetracked, except any well
 15 drilled, Deepened or Sidetracked pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the drilling,
 16 Deepening or Sidetracking shall include:

17 Option No. 1: All necessary expenditures for the drilling, Deepening or Sidetracking, testing, Completing and
 18 equipping of the well, including necessary tankage and/or surface facilities.
 19 Option No. 2: All necessary expenditures for the drilling, Deepening or Sidetracking and testing of the well. When
 20 such well has reached its authorized depth, and all logs, cores and other tests have been completed, and the results
 21 thereof furnished to the parties, Operator shall give immediate notice to the Non-Operators having the right to
 22 participate in a Completion attempt whether or not Operator recommends attempting to Complete the well,
 23 together with Operator's AFE for Completion costs if not previously provided. The parties receiving such notice
 24 shall have forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) in which to elect by delivery of
 25 notice to Operator to participate in a recommended Completion attempt or to make a Completion proposal with an
 26 accompanying AFE. Operator shall deliver any such Completion proposal, or any Completion proposal conflicting
 27 with Operator's proposal, to the other parties entitled to participate in such Completion in accordance with the
 28 procedures specified in Article VI.B.6. Election to participate in a Completion attempt shall include consent to all
 29 necessary expenditures for the Completing and equipping of such well, including necessary tankage and/or surface
 30 facilities but excluding any stimulation operation not contained on the Completion AFE. Failure of any party
 31 receiving such notice to reply within the period above fixed shall constitute an election by that party not to
 32 participate in the cost of the Completion attempt; provided, that Article VI.B.6. shall control in the case of
 33 conflicting Completion proposals. If one or more, but less than all of the parties, elect to attempt a Completion, the
 34 provision of Article VI.B.2. hereof (the phrase "Reworking, Sidetracking, Deepening, Recompleting or Plugging
 35 Back" as contained in Article VI.B.2. shall be deemed to include "Completing") shall apply to the operations
 36 thereafter conducted by less than all parties; provided, however, that Article VI.B.2. shall apply separately to each
 37 separate Completion or Recompletion attempt undertaken hereunder, and an election to become a Non-Consenting
 38 Party as to one Completion or Recompletion attempt shall not prevent a party from becoming a Consenting Party
 39 in subsequent Completion or Recompletion attempts regardless whether the Consenting Parties as to earlier
 40 Completions or Recompletion have recouped their costs pursuant to Article VI.B.2.; provided further, that any
 41 recoupment of costs by a Consenting Party shall be made solely from the production attributable to the Zone in
 42 which the Completion attempt is made. Election by a previous Non-Consenting party to participate in a subsequent
 43 Completion or Recompletion attempt shall require such party to pay its proportionate share of the cost of salvable
 44 materials and equipment installed in the well pursuant to the previous Completion or Recompletion attempt,
 45 insofar and only insofar as such materials and equipment benefit the Zone in which such party participates in a
 46 Completion attempt.

47 2. Rework, Recomplete or Plug Back: No well shall be Reworked, Recompleted or Plugged Back except a well Reworked,
 48 Recompleted, or Plugged Back pursuant to the provisions of Article VI.B.2. of this agreement. Consent to the Reworking,
 49 Recompleting or Plugging Back of a well shall include all necessary expenditures in conducting such operations and
 50 Completing and equipping of said well, including necessary tankage and/or surface facilities.

51 **D. Other Operations:**

52 Operator shall not undertake any single project reasonably estimated to require an expenditure in excess of
 53 Fifty thousand Dollars (\$ 50,000.00) except in connection with the
 54 drilling, Sidetracking, Reworking, Deepening, Completing, Recompleting or Plugging Back of a well that has been previously
 55 authorized by or pursuant to this agreement; provided, however, that, in case of explosion, fire, flood or other sudden
 56 emergency, whether of the same or different nature, Operator may take such steps and incur such expenses as in its opinion
 57 are required to deal with the emergency to safeguard life and property but Operator, as promptly as possible, shall report the
 58 emergency to the other parties. If Operator prepares an AFE for its own use, Operator shall furnish any Non-Operator so
 59 requesting an information copy thereof for any single project costing in excess of Fifty thousand Dollars
 60 (\$ 50,000.00 .). Any party who has not relinquished its interest in a well shall have the right to propose that
 61 Operator perform repair work or undertake the installation of artificial lift equipment or ancillary production facilities such as
 62 salt water disposal wells or to conduct additional work with respect to a well drilled hereunder or other similar project (but

63 not including the installation of gathering lines or other transportation or marketing facilities, the installation of which shall
64 be governed by separate agreement between the parties) reasonably estimated to require an expenditure in excess of the
65 amount first set forth above in this Article VI.D. (except in connection with an operation required to be proposed under
66 Articles VI.B.1. or VI.C.1. Option No. 2, which shall be governed exclusively by those Articles). Operator shall deliver such
67 proposal to all parties entitled to participate therein. If within thirty (30) days thereof Operator secures the written consent
68 of any party or parties owning at least 75% of the interests of the parties entitled to participate in such operation,
69 each party having the right to participate in such project shall be bound by the terms of such proposal and shall be obligated
70 to pay its proportionate share of the costs of the proposed project as if it had consented to such project pursuant to the terms
71 of the proposal.

72 **E. Abandonment of Wells:**

73 1. Abandonment of Dry Holes: Except for any well drilled or Deepened pursuant to Article VI.B.2., any well which has
74 been drilled or Deepened under the terms of this agreement and is proposed to be completed as a dry hole shall not be

1 plugged and abandoned without the consent of all parties. Should Operator, after diligent effort, be unable to contact any
 2 party, or should any party fail to reply within forty-eight (48) hours (exclusive of Saturday, Sunday and legal holidays) after
 3 delivery of notice of the proposal to plug and abandon such well, such party shall be deemed to have consented to the
 4 proposed abandonment. All such wells shall be plugged and abandoned in accordance with applicable regulations and at the
 5 cost, risk and expense of the parties who participated in the cost of drilling or Deepening such well. Any party who objects to
 6 plugging and abandoning such well by notice delivered to Operator within forty-eight (48) hours (exclusive of Saturday,
 7 Sunday and legal holidays) after delivery of notice of the proposed plugging shall take over the well as of the end of such
 8 forty-eight (48) hour notice period and conduct further operations in search of Oil and/or Gas subject to the provisions of
 9 Article VI.B.; failure of such party to provide proof reasonably satisfactory to Operator of its financial capability to conduct
 10 such operations or to take over the well within such period or thereafter to conduct operations on such well or plug and
 11 abandon such well shall entitle Operator to retain or take possession of the well and plug and abandon the well. The party
 12 taking over the well shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties against
 13 liability for any further operations conducted on such well except for the costs of plugging and abandoning the well and
 14 restoring the surface, for which the abandoning parties shall remain proportionately liable.

15 2. Abandonment of Wells That Have Produced: Except for any well in which a Non-Consent operation has been
 16 conducted hereunder for which the Consenting Parties have not been fully reimbursed as herein provided, any well which has
 17 been completed as a producer shall not be plugged and abandoned without the consent of all parties. If all parties consent to
 18 such abandonment, the well shall be plugged and abandoned in accordance with applicable regulations and at the cost, risk
 19 and expense of all the parties hereto. Failure of a party to reply within sixty (60) days of delivery of notice of proposed
 20 abandonment shall be deemed an election to consent to the proposal. If, within sixty (60) days after delivery of notice of the
 21 proposed abandonment of any well, all parties do not agree to the abandonment of such well, those wishing to continue its
 22 operation from the Zone then open to production shall be obligated to take over the well as of the expiration of the
 23 applicable notice period and shall indemnify Operator (if Operator is an abandoning party) and the other abandoning parties
 24 against liability for any further operations on the well conducted by such parties. Failure of such party or parties to provide
 25 proof reasonably satisfactory to Operator of their financial capability to conduct such operations or to take over the well
 26 within the required period or thereafter to conduct operations on such well shall entitle operator to retain or take possession
 27 of such well and plug and abandon the well.

28 Parties taking over a well as provided herein shall tender to each of the other parties its proportionate share of the value of
 29 the well's salvable material and equipment, determined in accordance with the provisions of Exhibit "C," less the estimated cost
 30 of salvaging and the estimated cost of plugging and abandoning and restoring the surface; provided, however, that in the event
 31 the estimated plugging and abandoning and surface restoration costs and the estimated cost of salvaging are higher than the
 32 value of the well's salvable material and equipment, each of the abandoning parties shall tender to the parties continuing
 33 operations their proportionate shares of the estimated excess cost. Each abandoning party shall assign to the non-abandoning
 34 parties, without warranty, express or implied, as to title or as to quantity, or fitness for use of the equipment and material, all
 35 of its interest in the wellbore of the well and related equipment, together with its interest in the Leasehold insofar and only
 36 insofar as such Leasehold covers the right to obtain production from that wellbore in the Zone then open to production. If the
 37 interest of the abandoning party is or includes an Oil and Gas Interest, such party shall execute and deliver to the non-
 38 abandoning party or parties an oil and gas lease, limited to the wellbore and the Zone then open to production, for a term of
 39 one (1) year and so long thereafter as Oil and/or Gas is produced from the Zone covered thereby, such lease to be on the form
 40 attached as Exhibit "B." The assignments or leases so limited shall encompass the Drilling Unit upon which the well is located.
 41 The payments by, and the assignments or leases to, the assignees shall be in a ratio based upon the relationship of their
 42 respective percentage of participation in the Contract Area to the aggregate of the percentages of participation in the Contract
 43 Area of all assignees. There shall be no readjustment of interests in the remaining portions of the Contract Area.

44 Thereafter, abandoning parties shall have no further responsibility, liability, or interest in the operation of or production
 45 from the well in the Zone then open other than the royalties retained in any lease made under the terms of this Article. Upon
 46 request, Operator shall continue to operate the assigned well for the account of the non-abandoning parties at the rates and
 47 charges contemplated by this agreement, plus any additional cost and charges which may arise as the result of the separate
 48 ownership of the assigned well. Upon proposed abandonment of the producing Zone assigned or leased, the assignor or lessor
 49 shall then have the option to repurchase its prior interest in the well (using the same valuation formula) and participate in
 50 further operations therein subject to the provisions hereof.

51 3. Abandonment of Non-Consent Operations: The provisions of Article VI.E.1. or VI.E.2. above shall be applicable as
 52 between Consenting Parties in the event of the proposed abandonment of any well excepted from said Articles; provided,
 53 however, no well shall be permanently plugged and abandoned unless and until all parties having the right to conduct further
 54 operations therein have been notified of the proposed abandonment and afforded the opportunity to elect to take over the well
 55 in accordance with the provisions of this Article VI.E.; and provided further, that Non-Consenting Parties who own an interest
 56 in a portion of the well shall pay their proportionate shares of abandonment and surface restoration cost for such well as
 57 provided in Article VI.B.2.(b).

58 F. Termination of Operations:

59 Upon the commencement of an operation for the drilling, Reworking, Sidetracking, Plugging Back, Deepening, testing,
 60 Completion or plugging of a well, including but not limited to the Initial Well, such operation shall not be terminated without
 61 consent of parties bearing 75% of the costs of such operation; provided, however, that in the event granite or other
 62 practically impenetrable substance or condition in the hole is encountered which renders further operations impractical,

63 Operator may discontinue operations and give notice of such condition in the manner provided in Article VI.B.1, and the

64 provisions of Article VI.B. or VI.E. shall thereafter apply to such operation, as appropriate.

65 **G. Taking Production in Kind:**

66 **Option No. 1: Gas Balancing Agreement Attached**

67 Each party shall take in kind or separately dispose of its proportionate share of all Oil and Gas produced from the
68 Contract Area, exclusive of production which may be used in development and producing operations and in preparing and
69 treating Oil and Gas for marketing purposes and production unavoidably lost. Any extra expenditure incurred in the taking
70 in kind or separate disposition by any party of its proportionate share of the production shall be borne by such party. Any
71 party taking its share of production in kind shall be required to pay for only its proportionate share of such part of
72 Operator's surface facilities which it uses.

73 Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in
74 production from the Contract Area, and, except as provided in Article VII.B., shall be entitled to receive payment

1 directly from the purchaser thereof for its share of all production.

2 If any party fails to make the arrangements necessary to take in kind or separately dispose of its proportionate
3 share of the Oil produced from the Contract Area, Operator shall have the right, subject to the revocation at will by
4 the party owning it, but not the obligation, to purchase such Oil or sell it to others at any time and from time to
5 time, for the account of the non-taking party. Any such purchase or sale by Operator may be terminated by
6 Operator upon at least ten (10) days written notice to the owner of said production and shall be subject always to
7 the right of the owner of the production upon at least ten (10) days written notice to Operator to exercise at any
8 time its right to take in kind, or separately dispose of, its share of all Oil not previously delivered to a purchaser.
9 Any purchase or sale by Operator of any other party's share of Oil shall be only for such reasonable periods of time
10 as are consistent with the minimum needs of the industry under the particular circumstances, but in no event for a
11 period in excess of one (1) year.

12 Any such sale by Operator shall be in a manner commercially reasonable under the circumstances but Operator
13 shall have no duty to share any existing market or to obtain a price equal to that received under any existing
14 market. The sale or delivery by Operator of a non-taking party's share of Oil under the terms of any existing
15 contract of Operator shall not give the non-taking party any interest in or make the non-taking party a party to said
16 contract. No purchase shall be made by Operator without first giving the non-taking party at least ten (10) days
17 written notice of such intended purchase and the price to be paid or the pricing basis to be used.

18 All parties shall give timely written notice to Operator of their Gas marketing arrangements for the following
19 month, excluding price, and shall notify Operator immediately in the event of a change in such arrangements.
20 Operator shall maintain records of all marketing arrangements, and of volumes actually sold or transported, which
21 records shall be made available to Non-Operators upon reasonable request.

22 In the event one or more parties' separate disposition of its share of the Gas causes split-stream deliveries to separate
23 pipelines and/or deliveries which on a day-to-day basis for any reason are not exactly equal to a party's respective proportion
24 ate share of total Gas sales to be allocated to it, the balancing or accounting between the parties shall be in accordance with
25 any Gas balancing agreement between the parties hereto, whether such an agreement is attached as Exhibit "E" or is a
26 separate agreement. Operator shall give notice to all parties of the first sales of Gas from any well under this agreement.

27 Option No. 2: No Gas Balancing Agreement:

28 Operator shall be solely responsible for marketing all Oil and Gas produced from
29 the Contract Area, exclusive of production which may be used in development and producing operations and in
30 preparing and treating Oil and Gas for marketing purposes and production unavoidably lost.

31 Each party shall execute such division orders and contracts as may be necessary for the sale of its interest in
32 production from the Contract Area.

34 Any such sale by Operator shall be in a manner commercially reasonable under the circumstances. The sale or delivery by
35 Operator of a non-taking party's share of production under the terms of any existing contract of Operator shall not
36 give the non-taking party any interest in or make the non-taking party a party to said contract.

37
38 **ARTICLE VII.**

39 **EXPENDITURES AND LIABILITY OF PARTIES**

40 **A. Liability of Parties:**

41 The liability of the parties shall be several, not joint or collective. Each party shall be responsible only for its obligations,
42 and shall be liable only for its proportionate share of the costs of developing and operating the Contract Area. Accordingly, the
43 liens granted among the parties in Article VII.B. are given to secure only the debts of each severally, and no party shall have
44 any liability to third parties hereunder to satisfy the default of any other party in the payment of any expense or obligation
45 hereunder. It is not the intention of the parties to create, nor shall this agreement be construed as creating, a mining or other
46 partnership, joint venture, agency relationship or association, or to render the parties liable as partners, co-venturers, or
47 principals. In their relations with each other under this agreement, the parties shall not be considered fiduciaries or to have
48 established a confidential relationship but rather shall be free to act on an arm's-length basis in accordance with their own
49 respective self-interest, subject, however, to the obligation of the parties to act in good faith in their dealings with each other
50 with respect to activities hereunder.

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1 B. Liens and Security Interests:

2 Each party grants to the other parties hereto a lien upon any interest it now owns or hereafter acquires in Oil and Gas
 3 Leases and Oil and Gas Interests in the Contract Area, and a security interest and/or purchase money security interest in any
 4 interest it now owns or hereafter acquires in the personal property and fixtures on or used or obtained for use in connection
 5 therewith, to secure performance of all of its obligations under this agreement including but not limited to payment of expense,
 6 interest and fees, the proper disbursement of all monies paid hereunder, the assignment or relinquishment of interest in Oil
 7 and Gas Leases as required hereunder, and the proper performance of operations hereunder. Such lien and security interest
 8 granted by each party hereto shall include such party's leasehold interests, working interests, operating rights, and royalty and
 9 overriding royalty interests in the Contract Area now owned or hereafter acquired and in lands pooled or unitized therewith or
 10 otherwise becoming subject to this agreement, the Oil and Gas when extracted therefrom and equipment situated thereon or
 11 used or obtained for use in connection therewith (including, without limitation, all wells, tools, and tubular goods), and accounts
 12 (including, without limitation, accounts arising from gas imbalances or from the sale of Oil and/or Gas at the wellhead),
 13 contract rights, inventory and general intangibles relating thereto or arising therefrom, and all proceeds and products of the
 14 foregoing.

15 To perfect the lien and security agreement provided herein, each party hereto shall execute and acknowledge the recording
 16 supplement and/or any financing statement prepared and submitted by any party hereto in conjunction herewith or at any time
 17 following execution hereof, and Operator is authorized to file this agreement or the recording supplement executed herewith as
 18 a lien or mortgage in the applicable real estate records and as a financing statement with the proper officer under the Uniform
 19 Commercial Code in the state in which the Contract Area is situated and such other states as Operator shall deem appropriate
 20 to perfect the security interest granted hereunder. Any party may file this agreement, the recording supplement executed
 21 herewith, or such other documents as it deems necessary as a lien or mortgage in the applicable real estate records and/or a
 22 financing statement with the proper officer under the Uniform Commercial Code.

23 Each party represents and warrants to the other parties hereto that the lien and security interest granted by such party to
 24 the other parties shall be a first and prior lien, and each party hereby agrees to maintain the priority of said lien and security
 25 interest against all persons acquiring an interest in Oil and Gas Leases and Interests covered by this agreement by, through or
 26 under such party. All parties acquiring an interest in Oil and Gas Leases and Oil and Gas Interests covered by this agreement,
 27 whether by assignment, merger, mortgage, operation of law, or otherwise, shall be deemed to have taken subject
 28 to the lien and security interest granted by this Article VII.B. as to all obligations attributable to such interest hereunder
 29 whether or not such obligations arise before or after such interest is acquired.

30 To the extent that parties have a security interest under the Uniform Commercial Code of the state in which the
 31 Contract Area is situated, they shall be entitled to exercise the rights and remedies of a secured party under the Code.
 32 The bringing of a suit and the obtaining of judgment by a party for the secured indebtedness shall not be deemed an
 33 election of remedies or otherwise affect the lien rights or security interest as security for the payment thereof.
 34 In addition, upon default by any party in the payment of its share of expenses, interests or fees, or upon the improper use
 35 of funds by the Operator, the other parties shall have the right, without prejudice to other rights or remedies, to collect
 36 from the purchaser the proceeds from the sale of such defaulting party's share of Oil and Gas until the amount owed by
 37 such party, plus interest as provided in "Exhibit C," has been received, and shall have the right to offset the amount
 38 owed against the proceeds from the sale of such defaulting party's share of Oil and Gas. All purchasers of production
 39 may rely on a notification of default from the non-defaulting party or parties stating the amount due as a result of the
 40 default, and all parties waive any recourse available against purchasers for releasing production proceeds as provided in
 41 this paragraph.

42 If any party fails to pay its share of cost within one hundred twenty (120) days after rendition of a statement therefor by
 43 Operator, the non-defaulting parties, including Operator, shall upon request by Operator, pay the unpaid amount in the
 44 proportion that the interest of each such party bears to the interest of all such parties. The amount paid by each party so
 45 paying its share of the unpaid amount shall be secured by the liens and security rights described in Article VII.B., and each
 46 paying party may independently pursue any remedy available hereunder or otherwise.

47 If any party does not perform all of its obligations hereunder, and the failure to perform subjects such party to foreclosure
 48 or execution proceedings pursuant to the provisions of this agreement, to the extent allowed by governing law, the defaulting
 49 party waives any available right of redemption from and after the date of judgment, any required valuation or appraisal
 50 of the mortgaged or secured property prior to sale, any available right to stay execution or to require a marshaling of assets
 51 and any required bond in the event a receiver is appointed. In addition, to the extent permitted by applicable law, each party
 52 hereby grants to the other parties a power of sale as to any property that is subject to the lien and security rights granted
 53 hereunder, such power to be exercised in the manner provided by applicable law or otherwise in a commercially reasonable
 54 manner and upon reasonable notice.

55 Each party agrees that the other parties shall be entitled to utilize the provisions of Oil and Gas lien law or other lien
 56 law of any state in which the Contract Area is situated to enforce the obligations of each party hereunder. Without limiting
 57 the generality of the foregoing, to the extent permitted by applicable law, Non-Operators agree that Operator may invoke or
 58 utilize the mechanics' or materialmen's lien law of the state in which the Contract Area is situated in order to secure the
 59 payment to Operator of any sum due hereunder for services performed or materials supplied by Operator.

60 C. Advances:

61 Operator, at its election, shall have the right from time to time to demand and receive from one or more of the other
 62 parties payment in advance of their respective shares of the estimated amount of the expense to be incurred in operations

63 hereunder during the next succeeding month, which right may be exercised only by submission to each such party of an

64 itemized statement of such estimated expense, together with an invoice for its share thereof. Each such statement and invoice
65 for the payment in advance of estimated expense shall be submitted on or before the 20th day of the next preceding month.

66 Each party shall pay to Operator its proportionate share of such estimate within fifteen (15) days after such estimate and
67 invoice is received. If any party fails to pay its share of said estimate within said time, the amount due shall bear interest as
68 provided in Exhibit "C" until paid. Proper adjustment shall be made monthly between advances and actual expense to the end
69 that each party shall bear and pay its proportionate share of actual expenses incurred, and no more.

70 **D. Defaults and Remedies:**

71 If any party fails to discharge any financial obligation under this agreement, including without limitation the failure to
72 make any advance under the preceding Article VII.C. or any other provision of this agreement, within the period required for
73 such payment hereunder, then in addition to the remedies provided in Article VII.B. or elsewhere in this agreement, the
74 remedies specified below shall be applicable. For purposes of this Article VII.D., all notices and elections shall be delivered

1 only by Operator, except that Operator shall deliver any such notice and election requested by a non-defaulting Non-Operator,
 2 and when Operator is the party in default, the applicable notices and elections can be delivered by any Non-Operator.
 3 Election of any one or more of the following remedies shall not preclude the subsequent use of any other remedy specified
 4 below or otherwise available to a non-defaulting party.

5 1. Suspension of Rights: Any party may deliver to the party in default a Notice of Default, which shall specify the default,
 6 specify the action to be taken to cure the default, and specify that failure to take such action will result in the exercise of one
 7 or more of the remedies provided in this Article. If the default is not cured within thirty (30) days of the delivery of such
 8 Notice of Default, all of the rights of the defaulting party granted by this agreement may upon notice be suspended until the
 9 default is cured, without prejudice to the right of the non-defaulting party or parties to continue to enforce the obligations of
 10 the defaulting party previously accrued or thereafter accruing under this agreement. If Operator is the party in default, the
 11 Non-Operators shall have in addition the right, by vote of Non-Operators owning a majority in interest in the Contract Area
 12 after excluding the voting interest of Operator, to appoint a new Operator effective immediately. The rights of a defaulting
 13 party that may be suspended hereunder at the election of the non-defaulting parties shall include, without limitation, the right
 14 to receive information as to any operation conducted hereunder during the period of such default, the right to elect to
 15 participate in an operation proposed under Article VI.B. of this agreement, the right to participate in an operation being
 16 conducted under this agreement even if the party has previously elected to participate in such operation, and the right to
 17 receive proceeds of production from any well subject to this agreement.

18 2. Suit for Damages: Non-defaulting parties or Operator for the benefit of non-defaulting parties may sue (at joint
 19 account expense) to collect the amounts in default, plus interest accruing on the amounts recovered from the date of default
 20 until the date of collection at the rate specified in Exhibit "C" attached hereto. Nothing herein shall prevent any party from
 21 suing any defaulting party to collect consequential damages accruing to such party as a result of the default.

22 3. Deemed Non-Consent: The non-defaulting party may deliver a written Notice of Non-Consent Election to the
 23 defaulting party at any time after the expiration of the thirty-day cure period following delivery of the Notice of Default, in
 24 which event if the billing is for the drilling a new well or the Plugging Back, Sidetracking, Reworking or Deepening of a
 25 well which is to be or has been plugged as a dry hole, or for the Completion or Recompletion of any well, the defaulting
 26 party will be conclusively deemed to have elected not to participate in the operation and to be a Non-Consenting Party with
 27 respect thereto under Article VI.B. or VI.C., as the case may be, to the extent of the costs unpaid by such party,
 28 notwithstanding any election to participate theretofore made. If election is made to proceed under this provision, then the
 29 non-defaulting parties may not elect to sue for the unpaid amount pursuant to Article VII.D.2.

30 Until the delivery of such Notice of Non-Consent Election to the defaulting party, such party shall have the right to cure
 31 its default by paying its unpaid share of costs plus interest at the rate set forth in Exhibit "C," provided, however, such
 32 payment shall not prejudice the rights of the non-defaulting parties to pursue remedies for damages incurred by the non-
 33 defaulting parties as a result of the default. Any interest relinquished pursuant to this Article VII.D.3. shall be offered to the
 34 non-defaulting parties in proportion to their interests, and the non-defaulting parties electing to participate in the ownership
 35 of such interest shall be required to contribute their shares of the defaulted amount upon their election to participate therein.

36 4. Advance Payment: If a default is not cured within thirty (30) days of the delivery of a Notice of Default, Operator, or
 37 Non-Operators if Operator is the defaulting party, may thereafter require advance payment from the defaulting
 38 party of such defaulting party's anticipated share of any item of expense for which Operator, or Non-Operators, as the case may
 39 be, would be entitled to reimbursement under any provision of this agreement, whether or not such expense was the subject of
 40 the previous default. Such right includes, but is not limited to, the right to require advance payment for the estimated costs of
 41 drilling a well or Completion of a well as to which an election to participate in drilling or Completion has been made. If the
 42 defaulting party fails to pay the required advance payment, the non-defaulting parties may pursue any of the remedies provided
 43 in the Article VII.D. or any other default remedy provided elsewhere in this agreement. Any excess of funds advanced remaining
 44 when the operation is completed and all costs have been paid shall be promptly returned to the advancing party.

45 5. Costs and Attorneys' Fees: In the event any party is required to bring legal proceedings to enforce any financial
 46 obligation of a party hereunder, the prevailing party in such action shall be entitled to recover all court costs, costs of
 47 collection, and a reasonable attorney's fee, which the lien provided for herein shall also secure.

48 E. Rentals, Shut-in Well Payments and Minimum Royalties:

49 Rentals, shut-in well payments and minimum royalties which may be required under the terms of any lease shall be paid
 50 by the party or parties who subjected such lease to this agreement at its or their expense. In the event two or more parties
 51 own and have contributed interests in the same lease to this agreement, such parties may designate one of such parties to
 52 make said payments for and on behalf of all such parties. Any party may request, and shall be entitled to receive, proper
 53 evidence of all such payments. In the event of failure to make proper payment of any rental, shut-in well payment or
 54 minimum royalty through mistake or oversight where such payment is required to continue the lease in force, any loss which
 55 results from such non-payment shall be borne in accordance with the provisions of Article IV.B.2.

56 Operator shall notify Non-Operators of the anticipated completion of a shut-in well, or the shutting in or return to
 57 production of a producing well, at least five (5) days (excluding Saturday, Sunday, and legal holidays) prior to taking such
 58 action, or at the earliest opportunity permitted by circumstances, but assumes no liability for failure to do so. In the event of
 59 failure by Operator to so notify Non-Operators, the loss of any lease contributed hereto by Non-Operators for failure to make
 60 timely payments of any shut-in well payment shall be borne jointly by the parties hereto under the provisions of Article 61
 61 IV.B.3.

62 F. Taxes:

63 Beginning with the first calendar year after the effective date hereof, Operator shall render for ad valorem taxation all
64 property subject to this agreement which by law should be rendered for such taxes, and it shall pay all such taxes assessed
65 thereon before they become delinquent. Prior to the rendition date, each Non-Operator shall furnish Operator information as
66 to burdens (to include, but not be limited to, royalties, overriding royalties and production payments) on Leases and Oil and
67 Gas Interests contributed by such Non-Operator. If the assessed valuation of any Lease is reduced by reason of its being
68 subject to outstanding excess royalties, overriding royalties or production payments, the reduction in ad valorem taxes
69 resulting therefrom shall inure to the benefit of the owner or owners of such Lease, and Operator shall adjust the charge to
70 such owner or owners so as to reflect the benefit of such reduction. If the ad valorem taxes are based in whole or in part
71 upon separate valuations of each party's working interest, then notwithstanding anything to the contrary herein, charges to
72 the joint account shall be made and paid by the parties hereto in accordance with the tax value generated by each party's
73 working interest. Operator shall bill the other parties for their proportionate shares of all tax payments in the manner
74 provided in Exhibit "C."

1 If Operator considers any tax assessment improper, Operator may, at its discretion, protest within the time and manner
 2 prescribed by law, and prosecute the protest to a final determination, unless all parties agree to abandon the protest prior to final
 3 determination. During the pendency of administrative or judicial proceedings, Operator may elect to pay, under protest, all such taxes
 4 and any interest and penalty. When any such protested assessment shall have been finally determined, Operator shall pay the tax for
 5 the joint account, together with any interest and penalty accrued, and the total cost shall then be assessed against the parties, and be
 6 paid by them, as provided in Exhibit "C."

7 Each party shall pay or cause to be paid all production, severance, excise, gathering and other taxes imposed upon or with respect
 8 to the production or handling of such party's share of Oil and Gas produced under the terms of this agreement.

9 **ARTICLE VIII.**

10 **ACQUISITION, MAINTENANCE OR TRANSFER OF INTEREST**

11 **A. Surrender of Leases:**

12 The Leases covered by this agreement, insofar as they embrace acreage in the Contract Area, shall not be surrendered in whole
 13 or in part unless all parties consent thereto.

14 However, should any party desire to surrender its interest in any Lease or in any portion thereof, such party shall give written
 15 notice of the proposed surrender to all parties, and the parties to whom such notice is delivered shall have thirty (30) days after
 16 delivery of the notice within which to notify the party proposing the surrender whether they elect to consent thereto. Failure of a
 17 party to whom such notice is delivered to reply within said 30-day period shall constitute a consent to the surrender of the Leases
 18 described in the notice. If all parties do not agree or consent thereto, the party desiring to surrender shall assign, without express or
 19 implied warranty of title, all of its interest in such Lease, or portion thereof, and any well, material and equipment which may be
 20 located thereon and any rights in production thereafter secured, to the parties not consenting to such surrender. If the interest of the
 21 assigning party is or includes an Oil and Gas Interest, the assigning party shall execute and deliver to the party or parties not
 22 consenting to such surrender an oil and gas lease covering such Oil and Gas Interest for a term of one (1) year and so long
 23 thereafter as Oil and/or Gas is produced from the land covered thereby, such lease to be on the form attached hereto as Exhibit "B."
 24 Upon such assignment or lease, the assigning party shall be relieved from all obligations thereafter accruing, but not theretofore
 25 accrued, with respect to the interest assigned or leased and the operation of any well attributable thereto, and the assigning party
 26 shall have no further interest in the assigned or leased premises and its equipment and production other than the royalties retained
 27 in any lease made under the terms of this Article. The party assignee or lessee shall pay to the party assignor or lessor the
 28 reasonable salvage value of the latter's interest in any well's salvable materials and equipment attributable to the assigned or leased
 29 acreage. The value of all salvable materials and equipment shall be determined in accordance with the provisions of Exhibit "C," less
 30 the estimated cost of salvaging and the estimated cost of plugging and abandoning and restoring the surface. If such value is less
 31 than such costs, then the party assignor or lessor shall pay to the party assignee or lessee the amount of such deficit. If the
 32 assignment or lease is in favor of more than one party, the interest shall be shared by such parties in the proportions that the
 33 interest of each bears to the total interest of all such parties. If the interest of the parties to whom the assignment is to be made
 34 varies according to depth, then the interest assigned shall similarly reflect such variances.

35 Any assignment, lease or surrender made under this provision shall not reduce or change the assignor's, lessor's or surrendering
 36 party's interest as it was immediately before the assignment, lease or surrender in the balance of the Contract Area; and the acreage
 37 assigned, leased or surrendered, and subsequent operations thereon, shall not thereafter be subject to the terms and provisions of this
 38 agreement but shall be deemed subject to an Operating Agreement in the form of this agreement.

39 **B. Renewal or Extension of Leases:**

40 If any party secures a renewal or replacement of an Oil and Gas Lease or Interest subject to this agreement, then all other parties
 41 shall be notified promptly upon such acquisition or, in the case of a replacement Lease taken before expiration of an existing Lease,
 42 promptly upon expiration of the existing Lease. The parties notified shall have the right for a period of thirty (30) days following
 43 delivery of such notice in which to elect to participate in the ownership of the renewal or replacement Lease, insofar as such Lease
 44 affects lands within the Contract Area, by paying to the party who acquired it their proportionate shares of the acquisition cost
 45 allocated to that part of such Lease within the Contract Area, which shall be in proportion to the interest held at that time by the
 46 parties in the Contract Area. Each party who participates in the purchase of a renewal or replacement Lease shall be given an
 47 assignment of its proportionate interest therein by the acquiring party.

48 If some, but less than all, of the parties elect to participate in the purchase of a renewal or replacement Lease, it shall be owned
 49 by the parties who elect to participate therein, in a ratio based upon the relationship of their respective percentage of participation in
 50 the Contract Area to the aggregate of the percentages of participation in the Contract Area of all parties participating in the
 51 purchase of such renewal or replacement Lease. The acquisition of a renewal or replacement Lease by any or all of the parties hereto
 52 shall not cause a readjustment of the interests of the parties stated in Exhibit "A," but any renewal or replacement Lease in which
 53 less than all parties elect to participate shall not be subject to this agreement but shall be deemed subject to a separate Operating
 54 Agreement in the form of this agreement.

55 If the interests of the parties in the Contract Area vary according to depth, then their right to participate proportionately in
 56 renewal or replacement Leases and their right to receive an assignment of interest shall also reflect such depth variances.

57 The provisions of this Article shall apply to renewal or replacement Leases whether they are for the entire interest covered by
 58 the expiring Lease or cover only a portion of its area or an interest therein. Any renewal or replacement Lease taken before the
 59 expiration of its predecessor Lease, or taken or contracted for or becoming effective within six (6) months after the expiration of the
 60 existing Lease, shall be subject to this provision so long as this agreement is in effect at the time of such acquisition or at the time
 61 the renewal or replacement Lease becomes effective; but any Lease taken or contracted for more than six (6) months after the
 62 expiration of an existing Lease shall not be deemed a renewal or replacement Lease and shall not be subject to the provisions of this

63 agreement.

64 The provisions in this Article shall also be applicable to extensions of Oil and Gas Leases.

65 **C. Acreage or Cash Contributions:**

66 While this agreement is in force, if any party contracts for a contribution of cash towards the drilling of a well or any other
67 operation on the Contract Area, such contribution shall be paid to the party who conducted the drilling or other operation and shall
68 be applied by it against the cost of such drilling or other operation. If the contribution be in the form of acreage, the party to whom
69 the contribution is made shall promptly tender an assignment of the acreage, without warranty of title, to the Drilling Parties in the
70 proportions said Drilling Parties shared the cost of drilling the well. Such acreage shall become a separate Contract Area and, to the
71 extent possible, be governed by provisions identical to this agreement. Each party shall promptly notify all other parties of any
72 acreage or cash contributions it may obtain in support of any well or any other operation on the Contract Area. The above
73 provisions shall also be applicable to optional rights to earn acreage outside the Contract Area which are in support of well drilled
74 inside Contract Area.

1 If any party contracts for any consideration relating to disposition of such party's share of substances produced hereunder,
2 such consideration shall not be deemed a contribution as contemplated in this Article VIII.C.

3 **D. Assignment; Maintenance of Uniform Interest:**

4 For the purpose of maintaining uniformity of ownership in the Contract Area in the Oil and Gas Leases, Oil and Gas
5 Interests, wells, equipment and production covered by this agreement no party shall sell, encumber, transfer or make other
6 disposition of its interest in the Oil and Gas Leases and Oil and Gas Interests embraced within the Contract Area or in wells,
7 equipment and production unless such disposition covers either:

- 8 1. the entire interest of the party in all Oil and Gas Leases, Oil and Gas Interests, wells, equipment and production; or
- 9 2. an equal undivided percent of the party's present interest in all Oil and Gas Leases, Oil and Gas Interests, wells,
10 equipment and production in the Contract Area.

11 Every sale, encumbrance, transfer or other disposition made by any party shall be made expressly subject to this agreement
12 and shall be made without prejudice to the right of the other parties, and any transferee of an ownership interest in any Oil and
13 Gas Lease or Interest shall be deemed a party to this agreement as to the interest conveyed from and after the effective date of
14 the transfer of ownership; provided, however, that the other parties shall not be required to recognize any such sale,
15 encumbrance, transfer or other disposition for any purpose hereunder until thirty (30) days after they have received a copy of the
16 instrument of transfer or other satisfactory evidence thereof in writing from the transferor or transferee. No assignment or other
17 disposition of interest by a party shall relieve such party of obligations previously incurred by such party hereunder with respect
18 to the interest transferred, including without limitation the obligation of a party to pay all costs attributable to an operation
19 conducted hereunder in which such party has agreed to participate prior to making such assignment, and the lien and security
20 interest granted by Article VII.B. shall continue to burden the interest transferred to secure payment of any such obligations.

21 If, at any time the interest of any party is divided among and owned by four or more co-owners, Operator, at its discretion,
22 may require such co-owners to appoint a single trustee or agent with full authority to receive notices, approve expenditures,
23 receive billings for and approve and pay such party's share of the joint expenses, and to deal generally with, and with power to
24 bind, the co-owners of such party's interest within the scope of the operations embraced in this agreement; however, all such co-
25 owners shall have the right to enter into and execute all contracts or agreements for the disposition of their respective shares of
26 the Oil and Gas produced from the Contract Area and they shall have the right to receive, separately, payment of the sale
27 proceeds thereof.

28 **E. Waiver of Rights to Partition:**

29 If permitted by the laws of the state or states in which the property covered hereby is located, each party hereto owning an
30 undivided interest in the Contract Area waives any and all rights it may have to partition and have set aside to it in severalty its
31 undivided interest therein.

32 **F. Preferential Right to Purchase:**

33 (Optional; Check if applicable.)

34 Should any party desire to sell all or any part of its interests under this agreement, or its rights and interests in the Contract
35 Area, it shall promptly give written notice to the other parties, with full information concerning its proposed disposition, which
36 shall include the name and address of the prospective transferee (who must be ready, willing and able to purchase), the purchase
37 price, a legal description sufficient to identify the property, and all other terms of the offer. The other parties shall then have an
38 optional prior right, for a period of ten (10) days after the notice is delivered, to purchase for the stated consideration on the
38 same terms and conditions the interest which the other party proposes to sell; and, if this optional right is exercised, the
40 purchasing parties shall share the purchased interest in the proportions that the interest of each bears to the total interest of all
41 purchasing parties. However, there shall be no preferential right to purchase in those cases where any party wishes to mortgage
42 its interests, or to transfer title to its interests to its mortgagee in lieu of or pursuant to foreclosure of a mortgage of its interests,
43 or to dispose of its interests by merger, reorganization, consolidation, or by sale of all or substantially all of its Oil and Gas assets
44 to any party, or by transfer of its interests to a subsidiary or parent company or to a subsidiary of a parent company, or to any
45 company in which such party owns a majority of the stock.

46 **ARTICLE IX.**

47 **INTERNAL REVENUE CODE ELECTION**

48 If, for federal income tax purposes, this agreement and the operations hereunder are regarded as a partnership, and if the
49 parties have not otherwise agreed to form a tax partnership pursuant to Exhibit "G" or other agreement between them, each
50 party thereby affected elects to be excluded from the application of all of the provisions of Subchapter "K," Chapter 1, Subtitle
51 "A," of the Internal Revenue Code of 1986, as amended ("Code"), as permitted and authorized by Section 761 of the Code and
52 the regulations promulgated thereunder. Operator is authorized and directed to execute on behalf of each party hereby affected
53 such evidence of this election as may be required by the Secretary of the Treasury of the United States or the Federal Internal
54 Revenue Service, including specifically, but not by way of limitation, all of the returns, statements, and the data required by
55 Treasury Regulation §1.761. Should there be any requirement that each party hereby affected give further evidence of this
56 election, each such party shall execute such documents and furnish such other evidence as may be required by the Federal Internal
57 Revenue Service or as may be necessary to evidence this election. No such party shall give any notices or take any other action
58 inconsistent with the election made hereby. If any present or future income tax laws of the state or states in which the Contract
59 Area is located or any future income tax laws of the United States contain provisions similar to those in Subchapter "K," Chapter
60 1, Subtitle "A," of the Code, under which an election similar to that provided by Section 761 of the Code is permitted, each party
61 hereby affected shall make such election as may be permitted or required by such laws. In making the foregoing election, each
62 such party states that the income derived by such party from operations hereunder can be adequately determined without the

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ARTICLE X.

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CLAIMS AND LAWSUITS

66 Operator may settle any single uninsured third party damage claim or suit arising from operations hereunder if the expenditure
67 does not exceed **Fifty thousand** Dollars (~~\$ 50,000.00~~) and if the payment is in complete settlement
68 of such claim or suit. If the amount required for settlement exceeds the above amount, the parties hereto shall assume and take over
69 the further handling of the claim or suit, unless such authority is delegated to Operator. All costs and expenses of handling settling,
70 or otherwise discharging such claim or suit shall be a the joint expense of the parties participating in the operation from which the
71 claim or suit arises. If a claim is made against any party or if any party is sued on account of any matter arising from operations
72 hereunder over which such individual has no control because of the rights given Operator by this agreement, such party shall
73 immediately notify all other parties, and the claim or suit shall be treated as any other claim or suit involving operations hereunder. 74
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1 **ARTICLE XI.**

2 **FORCE MAJEURE**

3 If any party is rendered unable, wholly or in part, by force majeure to carry out its obligations under this agreement, other
4 than the obligation to indemnify or make money payments or furnish security, that party shall give to all other parties
5 prompt written notice of the force majeure with reasonably full particulars concerning it; thereupon, the obligations of the
6 party giving the notice, so far as they are affected by the force majeure, shall be suspended during, but no longer than, the
7 continuance of the force majeure. The term "force majeure," as here employed, shall mean an act of God, strike, lockout, or
8 other industrial disturbance, act of the public enemy, war, blockade, public riot, lightening, fire, storm, flood or other act of
9 nature, explosion, governmental action, governmental delay, restraint or inaction, unavailability of equipment, and any other
10 cause, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party
11 claiming suspension.

12 The affected party shall use all reasonable diligence to remove the force majeure situation as quickly as practicable. The
13 requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes,
14 lockouts, or other labor difficulty by the party involved, contrary to its wishes; how all such difficulties shall be handled shall
15 be entirely within the discretion of the party concerned.

16 **ARTICLE XII.**

17 **NOTICES**

18 All notices authorized or required between the parties by any of the provisions of this agreement, unless otherwise
19 specifically provided, shall be in writing and delivered in person or by United States mail, courier service, telegram, telex,
20 telecopier or any other form of facsimile, postage or charges prepaid, and addressed to such parties at the addresses listed on
21 Exhibit "A." All telephone or oral notices permitted by this agreement shall be confirmed immediately thereafter by written
22 notice. The originating notice given under any provision hereof shall be deemed delivered only when received by the party to
23 whom such notice is directed, and the time for such party to deliver any notice in response thereto shall run from the date
24 the originating notice is received. "Receipt" for purposes of this agreement with respect to written notice delivered hereunder
25 shall be actual delivery of the notice to the address of the party to be notified specified in accordance with this agreement, or
26 to the telecopy, facsimile or telex machine of such party. The second or any responsive notice shall be deemed delivered when
27 deposited in the United States mail or at the office of the courier or telegraph service, or upon transmittal by telex, telecopy
28 or facsimile, or when personally delivered to the party to be notified, provided, that when response is required within 24 or
29 48 hours, such response shall be given orally or by telephone, telex, telecopy or other facsimile within such period. Each party
30 shall have the right to change its address at any time, and from time to time, by giving written notice thereof to all other
31 parties. If a party is not available to receive notice orally or by telephone when a party attempts to deliver a notice required
32 to be delivered within 24 or 48 hours, the notice may be delivered in writing by any other method specified herein and shall
33 be deemed delivered in the same manner provided above for any responsive notice.

34 **ARTICLE XIII.**

35 **TERM OF AGREEMENT**

36 This agreement shall remain in full force and effect as to the Oil and Gas Leases and/or Oil and Gas Interests subject
37 hereto for the period of time selected below; provided, however, no party hereto shall ever be construed as having any right, title
38 or interest in or to any Lease or Oil and Gas Interest contributed by any other party beyond the term of this agreement.

- 39 Option No. 1: So long as any of the Oil and Gas Leases subject to this agreement remain or are continued in
40 force as to any part of the Contract Area, whether by production, extension, renewal or otherwise.
- 41 Option No. 2: In the event the well described in Article VI.A., or any subsequent well drilled under any provision
42 of this agreement, results in the Completion of a well as a well capable of production of Oil and/or Gas in paying
43 quantities, this agreement shall continue in force so long as any such well is capable of production, and for an
44 additional period of 90 days thereafter; provided, however, if, prior to the expiration of such
45 additional period, one or more of the parties hereto are engaged in drilling, Reworking, Deepening, Sidetracking,
46 Plugging Back, testing or attempting to Complete or Re-complete a well or wells hereunder, this agreement shall
47 continue in force until such operations have been completed and if production results therefrom, this agreement
48 shall continue in force as provided herein. In the event the well described in Article VI.A., or any subsequent well
49 drilled hereunder, results in a dry hole, and no other well is capable of producing Oil and/or Gas from the
50 Contract Area, this agreement shall terminate unless drilling, Deepening, Sidetracking, Completing, Re-
51 completing, Plugging Back or Reworking operations are commenced within _____ days from the
52 date of abandonment of said well. "Abandonment" for such purposes shall mean either (i) a decision by all parties
53 not to conduct any further operations on the well or (ii) the elapse of 180 days from the conduct of any
54 operations on the well, whichever first occurs.

55 The termination of this agreement shall not relieve any party hereto from any expense, liability or other obligation or any
56 remedy therefor which has accrued or attached prior to the date of such termination.

57 Upon termination of this agreement and the satisfaction of all obligations hereunder, in the event a memorandum of this
58 Operating Agreement has been filed of record, Operator is authorized to file of record in all necessary recording offices a
59 notice of termination, and each party hereto agrees to execute such a notice of termination as to Operator's interest, upon
60 request of Operator, if Operator has satisfied all its financial obligations.

61 **ARTICLE XIV.**

62 **COMPLIANCE WITH LAWS AND REGULATIONS**

63 **A. Laws, Regulations and Orders:**

64 This agreement shall be subject to the applicable laws of the state in which the Contract Area is located, to the valid rules,
65 regulations, and orders of any duly constituted regulatory body of said state; and to all other applicable federal, state,
66 and local laws, ordinances, rules, regulations and orders.

67 **B. Governing Law:**

68 **This agreement and all matters pertaining hereto, including but not limited to matters of performance, non-**
69 **performance, breach, remedies, procedures, rights, duties, and interpretation or construction, shall be governed and**
70 **determined by the law of the state in which the Contract Area is located. If the Contract Area is in two or more states,**
71 **the law of the state of Colorado shall govern.**

72 **C. Regulatory Agencies:**

73 Nothing herein contained shall grant, or be construed to grant, Operator the right or authority to waive or release any
74 rights, privileges, or obligations which Non-Operators may have under federal or state laws or under rules, regulations or

1 orders promulgated under such laws in reference to oil, gas and mineral operations, including the location, operation, or
2 production of wells, on tracts offsetting or adjacent to the Contract Area.

3 With respect to the operations hereunder, Non-Operators agree to release Operator from any and all losses, damages,
4 injuries, claims and causes of action arising out of, incident to or resulting directly or indirectly from Operator's interpretation
5 or application of rules, rulings, regulations or orders of the Department of Energy or Federal Energy Regulatory Commission
6 or predecessor or successor agencies to the extent such interpretation or application was made in good faith and does not
7 constitute gross negligence. Each Non-Operator further agrees to reimburse Operator for such Non-Operator's share of
8 production or any refund, fine, levy or other governmental sanction that Operator may be required to pay as a result of such
9 an incorrect interpretation or application, together with interest and penalties thereon owing by Operator as a result of such
10 incorrect interpretation or application.

11 **ARTICLE XV.**

12 **MISCELLANEOUS**

13 **A. Execution:**

14 This agreement shall be binding upon each Non-Operator when this agreement or a counterpart thereof has been
15 executed by such Non-Operator and Operator notwithstanding that this agreement is not then or thereafter executed by all of
16 the parties to which it is tendered or which are listed on Exhibit "A" as owning an interest in the Contract Area or which
17 own, in fact, an interest in the Contract Area. Operator may, however, by written notice to all Non-Operators who have
18 become bound by this agreement as aforesaid, given at any time prior to the actual spud date of the Initial Well but in no
19 event later than five days prior to the date specified in Article VI.A. for commencement of the Initial Well, terminate this
20 agreement if Operator in its sole discretion determines that there is insufficient participation to justify commencement of
21 drilling operations. In the event of such a termination by Operator, all further obligations of the parties hereunder shall cease
22 as of such termination. In the event any Non-Operator has advanced or prepaid any share of drilling or other costs
23 hereunder, all sums so advanced shall be returned to such Non-Operator without interest. In the event Operator proceeds
24 with drilling operations for the Initial Well without the execution hereof by all persons listed on Exhibit "A" as having a
25 current working interest in such well, Operator shall indemnify Non-Operators with respect to all costs incurred for the
26 Initial Well which would have been charged to such person under this agreement if such person had executed the same and
27 Operator shall receive all revenues which would have been received by such person under this agreement if such person had
28 executed the same.

29 **B. Successors and Assigns:**

30 This agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs,
31 devisees, legal representatives, successors and assigns, and the terms hereof shall be deemed to run with the Leases or
32 Interests included within the Contract Area.

33 **C. Counterparts:**

34 This instrument may be executed in any number of counterparts, each of which shall be considered an original for all
35 purposes.

36 **D. Severability:**

37 For the purposes of assuming or rejecting this agreement as an executory contract pursuant to federal bankruptcy laws,
38 this agreement shall not be severable, but rather must be assumed or rejected in its entirety, and the failure of any party to
39 this agreement to comply with all of its financial obligations provided herein shall be a material default.

40 **ARTICLE XVI.**

41 **OTHER PROVISIONS**

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ARTICLE XVI. OTHER PROVISIONS

Notwithstanding the foregoing provisions:

A. When a well which has been authorized under the terms of this Agreement as a vertical well shall have been drilled to the objectives authorized in the AFE ("authorized depth"), and all tests have been completed and the results thereof furnished to the participating parties, and after the Operator has attempted in good faith to reach a mutual agreement with Non-Operator(s) regarding further operations, but such parties cannot agree upon the sequence and timing of further operations regarding said well, the following proposals shall control in the order enumerated hereafter: (1) a proposal to do additional logging, coring, or testing; (2) a proposal to attempt to complete the well at the authorized depth in the manner set forth in the AFE (i.e., in accordance with the casing, stimulation and other completion programs as set forth in the AFE); (3) a proposal to attempt to complete the well at the authorized depth in a manner different than as set forth in the AFE; (4) a proposal to plug back and attempt to complete the well at a depth shallower than the authorized depth, with priority given to objectives in ascending order up the hole; (5) a proposal to drill the well to a depth below the authorized depth, with priority given to objectives in descending order; (6) a proposal to sidetrack the well to a new target objective for a vertical or deviated hole, with priority given first in ascending order to targets above the authorized depth, and then in descending order to targets below the authorized depth; and (7) a proposal to drill a horizontal well, with priority given first to a lateral drain hole at the authorized depth, and then to objectives in ascending order above the authorized depth, and then to objectives in descending order below the authorized depth.

When a well which has been authorized under the terms of this Agreement as a horizontal well shall have been drilled to the authorized depth, and all tests have been completed and the results thereof furnished to the participating parties, and such parties cannot agree upon the sequence and timing of further operations regarding said well, the following proposals shall control in the order enumerated hereafter: (1) a proposal to do additional logging, coring, or testing; (2) a proposal to attempt to complete the well at the authorized depth in the manner set forth in the AFE (i.e., in accordance with casing, stimulation and other completion programs set forth in the AFE); (3) a proposal to attempt to complete the well at the authorized depth in a manner different than as set forth in the AFE; (4) a proposal to extend the length of the lateral drain hole for a specified number of feet in the direction it is drilling, with priority given to the shortest additional length proposed by any of the participating parties; (5) a proposal to drill a new lateral drain hole in a different direction at the authorized depth; (6) a proposal to drill a new lateral drain hole at a different depth, with priority given in ascending order to objectives above the authorized depth, and then in descending order to objectives below the authorized depth; (7) a proposal to plug back and attempt to complete the well at a depth shallower than the authorized depth, with priority given to objectives in ascending order up the hole; (8) a proposal to deepen the well below the authorized depth; and (9) a proposal to sidetrack the well to a new target objective, with priority given first in ascending order to objectives above the authorized depth, and then in descending order to objectives below the authorized depth.

In a horizontal well, the Operator shall have the right to cease drilling at any time, for any reason, after it has drilled a well to the objective formation and has drilled laterally for a distance which is at least equal to fifty percent (50%) of the length of the total horizontal displacement (displacement from true vertical) proposed for the operation; if in such event the well will be deemed to be at its "authorized depth" as that term is used in this Agreement.

If at the time the parties are considering a proposed operation, the well is in such condition, in the Operator's judgement, that a reasonably prudent operator would not conduct such operation for fear of mechanical difficulties, placing the hole, equipment or personnel in danger of loss or injury, or fear of loss of the well for any reason without being able to attempt a completion at the authorized depth, then the proposal shall be given no priority to any proposed operation except for plugging and abandoning the well.

B. In the event any Consenting Party desires to deepen a Non-Consent Well to a depth below the authorized depth, such party shall give notice thereof, complying with the requirements of Article VI.B.1., to all parties (including Non-Consenting Parties). Thereupon Articles VI.B.1. and 2. shall apply and all parties receiving such notice shall have the right to participate or not participate in the deepening of such well pursuant to said Articles VI.B.1. and 2. If a deepening operation is approved pursuant to such provisions, and if any Non-Consenting Party elects to participate in the deepening operation, such Non-Consenting Party shall pay or make reimbursement (as the case may be) of the following costs and expenses:

- (i) If the proposal to deepen is made prior to the completion of such well as a well capable of producing in paying quantities, such Non-Consenting Party shall pay (or reimburse Consenting Parties for, as the case may be) that share of costs and expenses incurred in connection with the drilling of said well from the surface to the authorized depth which Non-Consenting Party would have paid had such Non-Consenting Party agreed to participate therein, plus the Non-Consenting Party's share of the cost of deepening and of participating in any further operations on the well in accordance with the other provisions of this Agreement; provided, however, all costs for testing and completion or attempted completion of the well incurred by Consenting Parties prior to the point of actual operations to deepen beyond the authorized depth shall be for the sole account of Consenting Parties. Notwithstanding the foregoing, if the Non-Consent well was drilled as a horizontal well, the Non-Consenting Party will be obligated to pay or reimburse the Consenting Parties only that share of the costs and expenses of drilling the vertical portion of the well from the surface to the point that the well is deviated from the vertical.

(ii) If the proposal is made for a Non-Consent Well that has been previously completed as a well capable of producing in paying quantities, but is no longer capable of producing in paying Quantities, such Non-Consenting Party shall pay (or reimburse Consenting Parties for, as the case may be) its proportionate share of all costs of drilling, completing, and equipping said well from the surface to the authorized depth, calculated in the manner provided in paragraph (i) above, less those costs recouped by the Consenting Parties from the sale of production from the well. The Non-Consenting Party shall also pay its proportionate share of all costs of re entering said well. The Non-Consenting Parties' proportionate part (based on the percentage of such well Non-Consenting Party would have owned had it previously participated in such Non-Consent Well) of the costs of salvable materials and equipment remaining in the hole and salvable surface equipment used in connection with such well shall be determined in accordance with Exhibit "C". If the Consenting Parties have recouped the cost of drilling, completing, and equipping the well at the time such deepening operation is conducted, then a Non-Consenting Party may participate in the deepening of the well with no payment for costs incurred prior to re-entering the well for deepening. Notwithstanding the foregoing, if the Non-Consent well was drilled as a horizontal well, the Non-Consenting Party will be obligated to pay or reimburse the Consenting Parties only that share of the costs and expenses of drilling the vertical portion of the well from the surface to the point that the well is deviated from the vertical.

C. Gas production attributable to any Non-Consenting Party's relinquished interest which was committed to a gas sales contract prior to the date of the relinquishment shall, upon such party's election, be sold to its purchaser, if the purchaser elects to take such production under the terms of its existing gas sales contract. Such Non-Consenting Party shall direct its purchaser to remit the proceeds received from such sale directly to the Consenting Parties until the amounts provided in Article VI.B.2 are recovered from the Non-Consenting Party's relinquished interest. If such Non-Consenting Party has not contracted for sale of its gas at the time such gas is available for delivery, or does not elect to have its gas delivered to its purchaser as provided above, the Consenting Party shall be entitled to receive and sell such Non-Consenting Party's share of gas during the recoupment period.

D. If operations (including a completion attempt) are necessary to maintain lease acreage which would otherwise expire under the terms of the lease or leases covering such acreage, or are required as a result of a demand for drilling by a lessor, or are necessary to earn leasehold interests or acreage under a farmout or other exploration agreement, the Non-Consent provision shall be changed from that set forth in Article VI to require a non-reversionary assignment of all rights, title, and interest by the party or parties not participating in such operations as to that portion of the acreage (but not any mineral interests owned by a party hereto except to the extent of the lessee's. interest under a lease effected under Article III.A hereof) and/or leasehold interest which would otherwise have been lost or not earned without such operations. The provisions of Article VI shall, however, continue to apply to any portion of the Contract Area which is not so jeopardized or not to be earned and which is within the same drilling, production or proration unit. The interests of the parties in said unit shall be adjusted on a surface acreage basis after recovery by the Consenting Parties of the costs to be recouped pursuant to Articles VI.B (2) (a) and (b) and/or VII.D (l), as applicable, with respect to the Non-Consenting Party's interest in the unit subject thereto, and, for avoidance of doubt, the reversion as to such interests not in jeopardy or not to be earned shall occur at the same point in time as such reversion would have occurred absent the forfeiture and assignment. The leasehold interests and oil and gas interests so required to be forfeited and assigned (and the unit, should it contain both forfeiture and reversionary interests) to the Consenting Parties by the Non-Consenting Parties shall no longer be subject to this agreement but shall be subject to an operating agreement) identical to this agreement changed only to reflect the names and new interests of the parties. If operations are proposed on a lease, or on lands pooled therewith, within the last six (6) months of the primary term of a lease not otherwise maintained by other operations or production, such proposed operations will be considered as operations necessary to maintain the lease.

E. If the parties hereto into an agreement between themselves and/or with any third party covering drilling and/or operations on the Contract Area or on other land and leases which are pooled or unitized therewith, then such operating agreement shall supersede this Agreement as to the rights and obligations of the parties with respect to such land and operations. During the term of such other operating agreement, this Agreement shall continue to govern the rights and obligations of the parties as to the balance of the land and depths covered by this Agreement. At such time, if ever, that such other operating agreement shall terminate, or any portion of the Contract Area is released therefrom, then this Agreement shall again become effective as to such land and depths, it being the intent of the parties that there shall never be a time during the term of this Agreement when a portion of the Contract Area is not subject to an operating agreement between the parties hereto.

1 IN WITNESS WHEREOF, this agreement shall be effective as of the _____ day of _____ ,

2 _____.

3 _____, who has prepared and circulated this form for execution, represents and warrants that the form was printed from and, with the exception(s) listed below, is identical to the AAPL Form 610-1989 Model Form

4 Operating Agreement, as published in computerized form by Forms On-A-Disk, Inc. No changes, alterations, or modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as changes

in Articles _____, have been made to the form.

5

6 **ATTEST OR WITNESS:**

7 _____

8 _____

9 _____

10 _____

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37 _____

OPERATOR

PETROSHARE CORP.

By: /s/ Stephen J. Foley

Stephen J. Foley

Type or print name

Title CFO

Date 11/14/13

Tax ID or S.S. 46-1454523

No. _____

NON-OPERATORS

LLOLLC, L.L.C.

By: /s/ Kemberlia Ducote

Kemberlia Ducote

Type or print name

Title Manager

Date 11/14/13

Tax ID or S.S. 46-3375198

No. _____

By: _____

Type or print name

Title _____

Date _____

Tax ID or S.S. _____

No. _____

By: _____

Type or print name

Title _____

Date _____

Tax ID or S.S. _____

No. _____

ACKNOWLEDGMENTS

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Note: The following forms of acknowledgment are the short forms approved by the Uniform Law on Notarial Acts.

The validity and effect of these forms in any state will depend upon the statutes of that state.

Individual acknowledgment:

State of _____)

_____) ss.

County of _____)

This instrument was acknowledged before me on

_____ by _____

(Seal, if any)

Title (and Rank) _____

My commission expires: _____

Acknowledgment in representative capacity:

State of _____)

_____) ss.

County of _____)

This instrument was acknowledged before me on

_____ by _____ as

_____ of _____

(Seal, if any)

Title (and Rank) _____

My commission expires: _____

EXHIBIT "A"

Attached to that certain Operating Agreement dated effective _____, 2010, between Quicksilver Resources, Inc., as Operator, and Premier Energy Partners (I) LLC, Buck Peak LLC, and West Point Energy LLC, as Non-Operators.

I. Oil and Gas Leases Subject to Agreement:

The Oil and Gas Leases more particularly described on Exhibit "A-1" attached hereto.

II. Participants and Addresses:

Quicksilver Resources Inc.
777 West Rosedale, Suite 300
Fort Worth, TX 76104
Attn: _____
Telephone: 817-665-4959
Email: _____

Expense/Interest
92.50%

Premier Energy Partners (I) LLC
PO Box 2328
Littleton, CO 80161
Attn: Frederick J. Witsell
Telephone: 303-881-2157
Email: _____

Buck Peak LLC
621 17th Street, Ste.1345
Denver CO 80293
Attn: David Laramie
Telephone: 303-573-8600
Email: _____

7.5%*

West Point Energy LLC
Attn: Gary Semro
Telephone : _____
Email: _____

*Non-Operators hereby agree that any election to be made hereunder shall apply to the entire 7.5% interest of Non-Operators. In this connection, Buck Peak LLC and West Point Energy LLC hereby authorize Premier Energy Partners (I) LLC (i) to receive on behalf of Non-Operators all notices called for hereunder, and (ii) to give Operator notice of any election to be made hereunder on behalf of Non-Operators. Non-Operators agree that Operator may rely upon such communications from Premier Energy Partners (I) LLC as binding upon all Non-Operators.

Exhibit "C"
ACCOUNTING PROCEDURE
JOINT OPERATIONS

Attached to and made part of that certain Operating Agreement dated , 2010, between Quicksilver Resources Inc.
as Operator, and Premier Energy Partners (I) LLC, Buck Peak LLC, and West Point Energy LLC, as Non-Operator(s).

I. GENERAL PROVISIONS

**IF THE PARTIES FAIL TO SELECT EITHER ONE OF COMPETING "ALTERNATIVE" PROVISIONS, OR SELECT ALL THE
COMPETING "ALTERNATIVE" PROVISIONS, ALTERNATIVE 1 IN EACH SUCH INSTANCE SHALL BE DEEMED TO HAVE
BEEN ADOPTED BY THE PARTIES AS A RESULT OF ANY SUCH OMISSION OR DUPLICATE NOTATION.**

**IN THE EVENT THAT ANY "OPTIONAL" PROVISION OF THIS ACCOUNTING PROCEDURE IS NOT ADOPTED BY THE
PARTIES TO THE AGREEMENT BY A TYPED, PRINTED OR HANDWRITTEN INDICATION, SUCH PROVISION SHALL NOT
FORM A PART OF THIS ACCOUNTING PROCEDURE, AND NO INFERENCE SHALL BE MADE CONCERNING THE INTENT
OF THE PARTIES IN SUCH EVENT.**

1. DEFINITIONS

All terms used in this Accounting Procedure shall have the following meaning, unless otherwise expressly defined in the Agreement:

"Affiliate" means for a person, another person that controls, is controlled by, or is under common control with that person. In this definition, (a) control means the ownership by one person, directly or indirectly, of more than fifty percent (50%) of the voting securities of a corporation or, for other persons, the equivalent ownership interest (such as partnership interests), and (b) "person" means an individual, corporation, partnership, trust, estate, unincorporated organization, association, or other legal entity.

"Agreement" means the operating agreement, farmout agreement, or other contract between the Parties to which this Accounting Procedure is attached.

"Controllable Material" means Material that, at the time of acquisition or disposition by the Joint Account, as applicable, is so classified in the Material Classification Manual most recently recommended by the Council of Petroleum Accountants Societies (COPAS).

"Equalized Freight" means the procedure of charging transportation cost to the Joint Account based upon the distance from the nearest Railway Receiving Point to the property.

"Excluded Amount" means a specified excluded trucking amount most recently recommended by COPAS.

"Field Office" means a structure, or portion of a structure, whether a temporary or permanent installation, the primary function of which is to directly serve daily operation and maintenance activities of the Joint Property and which serves as a staging area for directly chargeable field personnel.

"First Level Supervision" means those employees whose primary function in Joint Operations is the direct oversight of the Operator's field employees and/or contract labor directly employed On-site in a field operating capacity. First Level Supervision functions may include, but are not limited to:

- Responsibility for field employees and contract labor engaged in activities that can include field operations, maintenance, construction, well remedial work, equipment movement and drilling
- Responsibility for day-to-day direct oversight of rig operations
- Responsibility for day-to-day direct oversight of construction operations
- Coordination of job priorities and approval of work procedures
- Responsibility for optimal resource utilization (equipment, Materials, personnel)
- Responsibility for meeting production and field operating expense targets
- Representation of the Parties in local matters involving community, vendors, regulatory agents and landowners, as an incidental part of the supervisor's operating responsibilities
- Responsibility for all emergency responses with field staff
- Responsibility for implementing safety and environmental practices
- Responsibility for field adherence to company policy
- Responsibility for employment decisions and performance appraisals for field personnel
- Oversight of sub-groups for field functions such as electrical, safety, environmental, telecommunications, which may have group or team leaders.

"Joint Account" means the account showing the charges paid and credits received in the conduct of the Joint Operations that are to be shared by the Parties, but does not include proceeds attributable to hydrocarbons and by-products produced under the Agreement.

"Joint Operations" means all operations necessary or proper for the exploration, appraisal, development, production, protection, maintenance, repair, abandonment, and restoration of the Joint Property.



1 "Joint Property" means the real and personal property subject to the Agreement.
2
3 "Laws" means any laws, rules, regulations, decrees, and orders of the United States of America or any state thereof and all other
4 governmental bodies, agencies, and other authorities having jurisdiction over or affecting the provisions contained in or the transactions
5 contemplated by the Agreement or the Parties and their operations, whether such laws now exist or are hereafter amended, enacted,
6 promulgated or issued.
7
8 "Material" means personal property, equipment, supplies, or consumables acquired or held for use by the Joint Property.
9
10 "Non-Operators" means the Parties to the Agreement other than the Operator.
11
12 "Offshore Facilities" means platforms, surface and subsea development and production systems, and other support systems such as oil and
13 gas handling facilities, living quarters, offices, shops, cranes, electrical supply equipment and systems, fuel and water storage and piping,
14 heliport, marine docking installations, communication facilities, navigation aids, and other similar facilities necessary in the conduct of
15 offshore operations, all of which are located offshore.
16
17 "Off-site" means any location that is not considered On-site as defined in this Accounting Procedure.
18
19 "On-site" means on the Joint Property when in direct conduct of Joint Operations. The term "On-site" shall also include that portion of
20 Offshore Facilities, Shore Base Facilities, fabrication yards, and staging areas from which Joint Operations are conducted, or other
21 facilities that directly control equipment on the Joint Property, regardless of whether such facilities are owned by the Joint Account.
22
23 "Operator" means the Party designated pursuant to the Agreement to conduct the Joint Operations.
24
25 "Parties" means legal entities signatory to the Agreement or their successors and assigns. Parties shall be referred to individually as
26 "Party."
27
28 "Participating Interest" means the percentage of the costs and risks of conducting an operation under the Agreement that a Party agrees,
29 or is otherwise obligated, to pay and bear.
30
31 "Participating Party" means a Party that approves a proposed operation or otherwise agrees, or becomes liable, to pay and bear a share of
32 the costs and risks of conducting an operation under the Agreement.
33
34 "Personal Expenses" means reimbursed costs for travel and temporary living expenses.
35
36 "Railway Receiving Point" means the railhead nearest the Joint Property for which freight rates are published, even though an actual
37 railhead may not exist.
38
39 "Shore Base Facilities" means onshore support facilities that during Joint Operations provide such services to the Joint Property as a
40 receiving and transshipment point for Materials; debarkation point for drilling and production personnel and services; communication,
41 scheduling and dispatching center; and other associated functions serving the Joint Property.
42
43 "Supply Store" means a recognized source or common stock point for a given Material item.
44
45 "Technical Services" means services providing specific engineering, geoscience, or other professional skills, such as those performed by
46 engineers, geologists, geophysicists, and technicians, required to handle specific operating conditions and problems for the benefit of Joint
47 Operations; provided, however, Technical Services shall not include those functions specifically identified as overhead under the second
48 paragraph of the introduction of Section III (*Overhead*). Technical Services may be provided by the Operator, Operator's Affiliate, Non-
49 Operator, Non-Operator Affiliates, and/or third parties.

51 2. STATEMENTS AND BILLINGS

52
53 The Operator shall bill Non-Operators on or before the last day of the month for their proportionate share of the Joint Account for the
54 preceding month. Such bills shall be accompanied by statements that identify the AFE (authority for expenditure), lease or facility, and all
55 charges and credits summarized by appropriate categories of investment and expense. Controllable Material shall be separately identified
56 and fully described in detail, or at the Operator's option, Controllable Material may be summarized by major Material classifications.
57 Intangible drilling costs, audit adjustments, and unusual charges and credits shall be separately and clearly identified.
58

59 The Operator may make available to Non-Operators any statements and bills required under Section I.2 and/or Section I.3.A (*Advances*
60 *and Payments by the Parties*) via email, electronic data interchange, internet websites or other equivalent electronic media in lieu of paper
61 copies. The Operator shall provide the Non-Operators instructions and any necessary information to access and receive the statements and
62 bills within the timeframes specified herein. A statement or billing shall be deemed as delivered twenty-four (24) hours (exclusive of
63 weekends and holidays) after the Operator notifies the Non-Operator that the statement or billing is available on the website and/or sent via
64 email or electronic data interchange transmission. Each Non-Operator individually shall elect to receive statements and billings
65 electronically, if available from the Operator, or request paper copies. Such election may be changed upon thirty (30) days prior written
66 notice to the Operator.



1 **3. ADVANCES AND PAYMENTS BY THE PARTIES**

2
3 A. Unless otherwise provided for in the Agreement, the Operator may require the Non-Operators to advance their share of the estimated
4 cash outlay for the succeeding month's operations within fifteen (15) days after receipt of the advance request or by the first day of
5 the month for which the advance is required, whichever is later. The Operator shall adjust each monthly billing to reflect advances
6 received from the Non-Operators for such month. If a refund is due, the Operator shall apply the amount to be refunded to the
7 subsequent month's billing or advance, unless the Non-Operator sends the Operator a written request for a cash refund. The Operator
8 shall remit the refund to the Non-Operator within fifteen (15) days of receipt of such written request.

9
10 B. Except as provided below, each Party shall pay its proportionate share of all bills in full within fifteen (15) days of receipt date. If
11 payment is not made within such time, the unpaid balance shall bear interest compounded monthly at the prime rate published by the
12 *Wall Street Journal* on the first day of each month the payment is delinquent plus three percent (3%), per annum, or the maximum
13 contract rate permitted by the applicable usury Laws governing the Joint Property, whichever is the lesser, plus attorney's fees, court
14 costs, and other costs in connection with the collection of unpaid amounts. If the *Wall Street Journal* ceases to be published or
15 discontinues publishing a prime rate, the unpaid balance shall bear interest compounded monthly at the prime rate published by the
16 Federal Reserve plus three percent (3%), per annum. Interest shall begin accruing on the first day of the month in which the payment
17 was due. Payment shall not be reduced or delayed as a result of inquiries or anticipated credits unless the Operator has agreed.
18 Notwithstanding the foregoing, the Non-Operator may reduce payment, provided it furnishes documentation and explanation to the
19 Operator at the time payment is made, to the extent such reduction is caused by:

- 20
21 (1) being billed at an incorrect working interest or Participating Interest that is higher than such Non-Operator's actual working
22 interest or Participating Interest, as applicable; or
23 (2) being billed for a project or AFE requiring approval of the Parties under the Agreement that the Non-Operator has not approved
24 or is not otherwise obligated to pay under the Agreement; or
25 (3) being billed for a property in which the Non-Operator no longer owns a working interest, provided the Non-Operator has
26 furnished the Operator a copy of the recorded assignment or letter in-lieu. Notwithstanding the foregoing, the Non-Operator
27 shall remain responsible for paying bills attributable to the interest it sold or transferred for any bills rendered during the thirty
28 (30) day period following the Operator's receipt of such written notice; or
29 (4) charges outside the adjustment period, as provided in Section I.4 (*Adjustments*).

30
31 **4. ADJUSTMENTS**

32
33 A. Payment of any such bills shall not prejudice the right of any Party to protest or question the correctness thereof; however, all bills
34 and statements, including payout statements, rendered during any calendar year shall conclusively be presumed to be true and correct,
35 with respect only to expenditures, after twenty-four (24) months following the end of any such calendar year, unless within said
36 period a Party takes specific detailed written exception thereto making a claim for adjustment. The Operator shall provide a response
37 to all written exceptions, whether or not contained in an audit report, within the time periods prescribed in Section I.5 (*Expenditure*
38 *Audits*).

39
40 B. All adjustments initiated by the Operator, except those described in items (1) through (4) of this Section I.4.B, are limited to the
41 twenty-four (24) month period following the end of the calendar year in which the original charge appeared or should have appeared
42 on the Operator's Joint Account statement or payout statement. Adjustments that may be made beyond the twenty-four (24) month
43 period are limited to adjustments resulting from the following:

- 44
45 (1) a physical inventory of Controllable Material as provided for in Section V (*Inventories of Controllable Material*), or
46 (2) an offsetting entry (whether in whole or in part) that is the direct result of a specific joint interest audit exception granted by the
47 Operator relating to another property, or
48 (3) a government/regulatory audit, or
49 (4) a working interest ownership or Participating Interest adjustment.

50
51 **5. EXPENDITURE AUDITS**

52
53 A. A Non-Operator, upon written notice to the Operator and all other Non-Operators, shall have the right to audit the Operator's
54 accounts and records relating to the Joint Account within the twenty-four (24) month period following the end of such calendar year in
55 which such bill was rendered; however, conducting an audit shall not extend the time for the taking of written exception to and the
56 adjustment of accounts as provided for in Section I.4 (*Adjustments*). Any Party that is subject to payout accounting under the
57 Agreement shall have the right to audit the accounts and records of the Party responsible for preparing the payout statements, or of
58 the Party furnishing information to the Party responsible for preparing payout statements. Audits of payout accounts may include the
59 volumes of hydrocarbons produced and saved and proceeds received for such hydrocarbons as they pertain to payout accounting
60 required under the Agreement. Unless otherwise provided in the Agreement, audits of a payout account shall be conducted within the
61 twenty-four (24) month period following the end of the calendar year in which the payout statement was rendered.

62
63 Where there are two or more Non-Operators, the Non-Operators shall make every reasonable effort to conduct a joint audit in a
64 manner that will result in a minimum of inconvenience to the Operator. The Operator shall bear no portion of the Non-Operators'
65 audit cost incurred under this paragraph unless agreed to by the Operator. The audits shall not be conducted more than once each year
66 without prior approval of the Operator, except upon the resignation or removal of the Operator, and shall be made at the expense of



1 those Non-Operators approving such audit.

2

3 The Non-Operator leading the audit (hereinafter "lead audit company") shall issue the audit report within ninety (90) days after
4 completion of the audit testing and analysis; however, the ninety (90) day time period shall not extend the twenty-four (24) month
5 requirement for taking specific detailed written exception as required in Section I.4.A (*Adjustments*) above. All claims shall be
6 supported with sufficient documentation.

7

8 A timely filed written exception or audit report containing written exceptions (hereinafter "written exceptions") shall, with respect to
9 the claims made therein, preclude the Operator from asserting a statute of limitations defense against such claims, and the Operator
10 hereby waives its right to assert any statute of limitations defense against such claims for so long as any Non-Operator continues to
11 comply with the deadlines for resolving exceptions provided in this Accounting Procedure. If the Non-Operators fail to comply with
12 the additional deadlines in Section I.5.B or I.5.C, the Operator's waiver of its rights to assert a statute of limitations defense against
13 the claims brought by the Non-Operators shall lapse, and such claims shall then be subject to the applicable statute of limitations,
14 provided that such waiver shall not lapse in the event that the Operator has failed to comply with the deadlines in Section I.5.B or
15 I.5.C.

16

17 B. The Operator shall provide a written response to all exceptions in an audit report within one hundred eighty (180) days after Operator
18 receives such report. Denied exceptions should be accompanied by a substantive response. If the Operator fails to provide substantive
19 response to an exception within this one hundred eighty (180) day period, the Operator will owe interest on that exception or portion
20 thereof, if ultimately granted, from the date it received the audit report. Interest shall be calculated using the rate set forth in Section
21 I.3.B (*Advances and Payments by the Parties*).

22

23 C. The lead audit company shall reply to the Operator's response to an audit report within ninety (90) days of receipt, and the Operator
24 shall reply to the lead audit company's follow-up response within ninety (90) days of receipt; provided, however, each Non-Operator
25 shall have the right to represent itself if it disagrees with the lead audit company's position or believes the lead audit company is not
26 adequately fulfilling its duties. Unless otherwise provided for in Section I.5.E, if the Operator fails to provide substantive response
27 to an exception within this ninety (90) day period, the Operator will owe interest on that exception or portion thereof, if ultimately
28 granted, from the date it received the audit report. Interest shall be calculated using the rate set forth in Section I.3.B (*Advances and
29 Payments by the Parties*).

30

31 D. If any Party fails to meet the deadlines in Sections I.5.B or I.5.C or if any audit issues are outstanding fifteen (15) months after
32 Operator receives the audit report, the Operator or any Non-Operator participating in the audit has the right to call a resolution
33 meeting, as set forth in this Section I.5.D or it may invoke the dispute resolution procedures included in the Agreement, if applicable.
34 The meeting will require one month's written notice to the Operator and all Non-Operators participating in the audit. The meeting
35 shall be held at the Operator's office or mutually agreed location, and shall be attended by representatives of the Parties with
36 authority to resolve such outstanding issues. Any Party who fails to attend the resolution meeting shall be bound by any resolution
37 reached at the meeting. The lead audit company will make good faith efforts to coordinate the response and positions of the
38 Non-Operator participants throughout the resolution process; however, each Non-Operator shall have the right to represent itself.
39 Attendees will make good faith efforts to resolve outstanding issues, and each Party will be required to present substantive information
40 supporting its position. A resolution meeting may be held as often as agreed to by the Parties. Issues unresolved at one meeting may
41 be discussed at subsequent meetings until each such issue is resolved.

42

43 If the Agreement contains no dispute resolution procedures and the audit issues cannot be resolved by negotiation, the dispute shall
44 shall choose a mutually acceptable mediator and share the costs of mediation services equally. The Parties shall each have present
45 be submitted to mediation. In such event, promptly following one Party's written request for mediation, the Parties to the dispute
46 at the mediation at least one individual who has the authority to settle the dispute. The Parties shall make reasonable efforts to

47

48 ensure that the mediation commences within sixty (60) days of the date of the mediation request. Notwithstanding the above, any
49 Party may file a lawsuit or complaint (1) if the Parties are unable after reasonable efforts, to commence mediation within sixty (60)
50 days of the date of the mediation request, (2) for statute of limitations reasons, or (3) to seek a preliminary injunction or other
51 provisional judicial relief, if in its sole judgment an injunction or other provisional relief is necessary to avoid irreparable damage or
52 to preserve the status quo. Despite such action, the Parties shall continue to try to resolve the dispute by mediation.

53

54 E. (**Optional Provision- Forfeiture Penalties**)

55 *If the Non-Operators fail to meet the deadline in Section I.5.C, any unresolved exceptions that were not addressed by the Non*
56 *Operators within one (1) year following receipt of the last substantive response of the Operator shall be deemed to have been*
57 *withdrawn by the Non-Operators. If the Operator fails to meet the deadlines in Section I.5.B or I.5.C, any unresolved exceptions that*
58 *were not addressed by the Operator within one (1) year following receipt of the audit report or receipt of the last substantive response*
59 *of the Non-Operators, whichever is later, shall be deemed to have been granted by the Operator and adjustments shall be made,*
60 *without interest, to the Joint Account.*

61

62 **6. APPROVAL BY PARTIES**

63

64 A. GENERAL MATTERS

65

66 Where an approval or other agreement of the Parties or Non-Operators is expressly required under other Sections of this Accounting
Procedure and if the Agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, the



1 Operator shall notify all Non-Operators of the Operator's proposal and the agreement or approval of a majority in interest of the
2 Non-Operators shall be controlling on all Non-Operators.
3

4 This Section I.6.A applies to specific situations of limited duration where a Party proposes to change the accounting for charges from
5 that prescribed in this Accounting Procedure. This provision does not apply to amendments to this Accounting Procedure, which are
6 covered by Section I.6.B.
7

8 **B. AMENDMENTS**
9

10 If the Agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, this Accounting
11 Procedure can be amended by an affirmative vote of _____ () or more Parties, one of which is the Operator,
12 having a combined working interest of at least _____ percent (%), which approval shall be binding on all Parties,
13 provided, however, approval of at least one (1) Non-Operator shall be required.
14

15 **C. AFFILIATES**
16

17 For the purposes of administering the voting procedures in Section I.6.A and I.6.B, if Parties to this Agreement are Affiliates of each
18 other, then such Affiliates shall be combined and treated as a single Party having the combined working interest or Participating
19 Interest of such Affiliates.
20

21 For the purposes of administering the voting procedures in Section I.6.A, if a Non-Operator is an Affiliate of the Operator, votes
22 under Section I.6.A shall require the majority in interest of the Non-Operator(s) after excluding the interest of the Operator's
23 Affiliate.
24

25 **II. DIRECT CHARGES**
26

27 The Operator shall charge the Joint Account with the following items:
28

29 **1. RENTALS AND ROYALTIES**
30

31 Lease rentals and royalties paid by the Operator, on behalf of all Parties, for the Joint Operations.
32

33 **2. LABOR**
34

35 **A. Salaries and wages, including incentive compensation programs as set forth in COPAS MFI-37 ("Chargeability of Incentive
36 Compensation Programs"), for**
37

- 38 (1) Operator's field employees directly employed On-site in the conduct of Joint Operations,
- 39
- 40 (2) Operator's employees directly employed on Shore Base Facilities, Offshore Facilities, or other facilities serving the Joint
41 Property if such costs are not charged under Section II.6 (*Equipment and Facilities Furnished by Operator*) or are not a
42 function covered under Section III (*Overhead*),
43
- 44 (3) Operator's employees providing First Level Supervision,
45
- 46 (4) Operator's employees providing On-site Technical Services for the Joint Property if such charges are excluded from the
47 overhead rates in Section III (*Overhead*),
48
- 49 (5) Operator's employees providing Off-site Technical Services for the Joint Property if such charges are excluded from the
50 overhead rates in Section III (*Overhead*).
51

52 Charges for the Operator's employees identified in Section II.2.A may be made based on the employee's actual salaries and wages,
53 or in lieu thereof, a day rate representing the Operator's average salaries and wages of the employee's specific job category.
54

55 Charges for personnel chargeable under this Section II.2.A who are foreign nationals shall not exceed comparable compensation paid
56 to an equivalent U.S. employee pursuant to this Section II.2, unless otherwise approved by the Parties pursuant to Section
57 I.6.A (*General Matters*).
58

59 **B. Operator's cost of holiday, vacation, sickness, and disability benefits, and other customary allowances paid to employees whose**

60 salaries and wages are chargeable to the Joint Account under Section II.2.A, excluding severance payments or other termination
61 allowances. Such costs under this Section II.2.B may be charged on a "when and as-paid basis" or by "percentage assessment" on the
62 amount of salaries and wages chargeable to the Joint Account under Section II.2.A. If percentage assessment is used, the rate shall
63 be based on the Operator's cost experience.
64

65 **C. Expenditures or contributions made pursuant to assessments imposed by governmental authority that are applicable to costs**
66 chargeable to the Joint Account under Sections II.2.A and B



- 1 D. Personal Expenses of personnel whose salaries and wages are chargeable to the Joint Account under Section II.2.A when the
2 expenses are incurred in connection with directly chargeable activities.
3
- 4 E. Reasonable relocation costs incurred in transferring to the Joint Property personnel whose salaries and wages are chargeable to the
5 Joint Account under Section 11.2.A. Notwithstanding the foregoing, relocation costs that result from reorganization or merger of a
6 Party, or that are for the primary benefit of the Operator, shall not be chargeable to the Joint Account. Extraordinary relocation
7 costs, such as those incurred as a result of transfers from remote locations, such as Alaska or overseas, shall not be charged to the
8 Joint Account unless approved by the Parties pursuant to Section I.6.A (*General Matters*).
9
- 10 F. Training costs as specified in COPAS MFI-35 ("Charging of Training Costs to the Joint Account") for personnel whose salaries and
11 wages are chargeable under Section II.2.A. This training charge shall include the wages, salaries, training course cost, and Personal
12 Expenses incurred during the training session. The training cost shall be charged or allocated to the property or properties directly
13 benefiting from the training. The cost of the training course shall not exceed prevailing commercial rates, where such rates are
14 available.
15
- 16 G. Operator's current cost of established plans for employee benefits, as described in COPAS MFI-27 ("Employee Benefits Chargeable
17 to Joint Operations and Subject to Percentage Limitation"), applicable to the Operator's labor costs chargeable to the Joint Account
18 under Sections II.2.A and B based on the Operator's actual cost not to exceed the employee benefits limitation percentage most
19 recently recommended by COPAS.
20
- 21 H. Award payments to employees, in accordance with COPAS MFI-49 ("Awards to Employees and Contractors") for personnel whose
22 salaries and wages are chargeable under Section II.2.A.
23

24 3. MATERIAL

25
26 Material purchased or furnished by the Operator for use on the Joint Property in the conduct of Joint Operations as provided under Section
27 IV (*Material Purchases, Transfers, and Dispositions*). Only such Material shall be purchased for or transferred to the Joint Property as
28 may be required for immediate use or is reasonably practical and consistent with efficient and economical operations. The accumulation
29 of surplus stocks shall be avoided.
30

31 4. TRANSPORTATION

- 32
33 A. Transportation of the Operator's, Operator's Affiliate's, or contractor's personnel necessary for Joint Operations.
34
- 35 B. Transportation of Material between the Joint Property and another property, or from the Operator's warehouse or other storage point
36 to the Joint Property, shall be charged to the receiving property using one of the methods listed below. Transportation of Material
37 from the Joint Property to the Operator's warehouse or other storage point shall be paid for by the Joint Property using one of the
38 methods listed below:
39
- 40 (1) If the actual trucking charge is less than or equal to the Excluded Amount the Operator may charge actual trucking cost or a
41 theoretical charge from the Railway Receiving Point to the Joint Property. The basis for the theoretical charge is the per
42 hundred weight charge plus fuel surcharges from the Railway Receiving Point to the Joint Property. The Operator shall
43 consistently apply the selected alternative.
44
- 45 (2) If the actual trucking charge is greater than the Excluded Amount the Operator shall charge Equalized Freight. Accessorial
46 charges such as loading and unloading costs, split pick-up costs, detention, call out charges, and permit fees shall be charged
47 directly to the Joint Property and shall not be included when calculating the Equalized Freight.
48

49 5. SERVICES

50
51 The cost of contract services, equipment, and utilities used in the conduct of Joint Operations, except for contract services, equipment, and
52 utilities covered by Section III (*Overhead*), or Section II.7 (*Affiliates*), or excluded under Section II.9 (*Legal Expense*). Awards paid to
53 contractors shall be chargeable pursuant to COPAS MFI-49 ("Awards to Employees and Contractors").
54

55 The costs of third party Technical Services are chargeable to the extent excluded from the overhead rates under Section III (*Overhead*).
56

57 6. EQUIPMENT AND FACILITIES FURNISHED BY OPERATOR

58
59 In the absence of a separately negotiated agreement, equipment and facilities furnished by the Operator will be charged as follows:
60

- 61 A. The Operator shall charge the Joint Account for use of Operator-owned equipment and facilities, including but not limited to
62 production facilities, Shore Base Facilities, Offshore Facilities, and Field Offices, at rates commensurate with the costs of ownership
63 and operation. The cost of Field Offices shall be chargeable to the extent the Field Offices provide direct service to personnel who
64 are chargeable pursuant to Section II.2.A (*Labor*). Such rates may include labor, maintenance, repairs, other operating expense,
65 insurance, taxes, depreciation using straight line depreciation method, and interest on gross investment less accumulated depreciation
66 not to exceed _____ percent (___%) per annum; provided, however, depreciation shall not be charged when the



1 equipment and facilities investment have been fully depreciated. The rate may include an element of the estimated cost for
2 abandonment, reclamation, and dismantlement. Such rates shall not exceed the average commercial rates currently prevailing in the
3 immediate area of the Joint Property.

4
5 B. In lieu of charges in Section II.6.A above, the Operator may elect to use average commercial rates prevailing in the immediate area
6 of the Joint Property, less twenty percent (20%). If equipment and facilities are charged under this Section II.6.B, the Operator shall
7 adequately document and support commercial rates and shall periodically review and update the rate and the supporting
8 documentation. For automotive equipment, the Operator may elect to use rates published by the Petroleum Motor Transport
9 Association (PMTA) or such other organization recognized by COPAS as the official source of rates.

10

11 7. AFFILIATES

12

13 A. Charges for an Affiliate's goods and/or services used in operations requiring an AFE or other authorization from the Non-Operators
14 may be made without the approval of the Parties provided (i) the Affiliate is identified and the Affiliate goods and services are
15 specifically detailed in the approved AFE or other authorization, and (ii) the total costs for such Affiliate's goods and services billed
16 to such individual project do not exceed \$ 500,000.00. If the total costs for an Affiliate's goods and services charged to such
17 individual project are not specifically detailed in the approved AFE or authorization or exceed such amount, charges for such
18 Affiliate shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*).

19

20 B. For an Affiliate's goods and/or services used in operations not requiring an AFE or other authorization from the Non-Operators,
21 charges for such Affiliate's goods and services shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*), if the
22 charges exceed \$ 500,000.00 in a given calendar year.

23

24 C. The cost of the Affiliate's goods or services shall not exceed average commercial rates prevailing in the area of the Joint Property,
25 unless the Operator obtains the Non-Operators' approval of such rates. The Operator shall adequately document and support
26 commercial rates and shall periodically review and update the rate and the supporting documentation; provided, however,
27 documentation of commercial rates shall not be required if the Operator obtains Non-Operator approval of its Affiliate's rates or
28 charges prior to billing Non-Operators for such Affiliate's goods and services. Notwithstanding the foregoing, direct charges for
29 Affiliate-owned communication facilities or systems shall be made pursuant to Section II.12 (*Communications*).

30

31 If the Parties fail to designate an amount in Sections II.7.A or II.7.B, in each instance the amount deemed adopted by the Parties as a
32 result of such omission shall be the amount established as the Operator's expenditure limitation in the Agreement. If the Agreement
33 does not contain an Operator's expenditure limitation, the amount deemed adopted by the Parties as a result of such omission shall be
34 zero dollars (\$ 0.00).

35

36 8. DAMAGES AND LOSSES TO JOINT PROPERTY

37

38 All costs or expenses necessary for the repair or replacement of Joint Property resulting from damages or losses incurred, except to the
39 extent such damages or losses result from a Party's or Parties' gross negligence or willful misconduct, in which case such Party or Parties
40 shall be solely liable.

41

42 The Operator shall furnish the Non-Operator written notice of damages or losses incurred as soon as practicable after a report has been
43 received by the Operator.

44

45 9. LEGAL EXPENSE

46

47 Recording fees and costs of handling, settling, or otherwise discharging litigation, claims, liens and title and regulatory work / incurred in or resulting from
48 operations under the Agreement, or necessary to protect or recover the Joint Property, to the extent permitted under the Agreement. Costs
49 of the Operator's or Affiliate's legal staff or outside attorneys, including fees and expenses, are not chargeable unless approved by the
50 Parties pursuant to Section I.6.A (*General Matters*) or otherwise provided for in the Agreement.

51

52 Notwithstanding the foregoing paragraph, costs for procuring abstracts, fees paid to outside attorneys for title examinations (including
53 preliminary, supplemental, shut-in royalty opinions, division order title opinions), and curative work shall be chargeable to the extent
54 permitted as a direct charge in the Agreement.

55

56

57 10. TAXES AND PERMITS

58

59 All taxes and permitting fees of every kind and nature, assessed or levied upon or in connection with the Joint Property, or the production
60 therefrom, and which have been paid by the Operator for the benefit of the Parties, including penalties and interest, except to the extent the
61 penalties and interest result from the Operator's gross negligence or willful misconduct.

62

63 If ad valorem taxes paid by the Operator are based in whole or in part upon separate valuations of each Party's working interest, then
64 notwithstanding any contrary provisions, the charges to the Parties will be made in accordance with the tax value generated by each Party's
65 working interest.

66



1 Costs of tax consultants or advisors, the Operator's employees, or Operator's Affiliate employees in matters regarding ad valorem or other
2 tax matters, are not permitted as direct charges unless approved by the Parties pursuant to Section I.6.A (*General Matters*).

3
4 Charges to the Joint Account resulting from sales/use tax audits, including extrapolated amounts and penalties and interest, are permitted,
5 provided the Non-Operator shall be allowed to review the invoices and other underlying source documents which served as the basis for
6 tax charges and to determine that the correct amount of taxes were charged to the Joint Account. If the Non-Operator is not permitted to
7 review such documentation, the sales/use tax amount shall not be directly charged unless the Operator can conclusively document the
8 amount owed by the Joint Account.

9
10 **11. INSURANCE**

11
12 Net premiums paid for insurance required to be carried for Joint Operations for the protection of the Parties. If Joint Operations are
13 conducted at locations where the Operator acts as self-insurer in regard to its worker's compensation and employer's liability insurance
14 obligation, the Operator shall charge the Joint Account manual rates for the risk assumed in its self-insurance program as regulated by the
15 jurisdiction governing the Joint Property. In the case of offshore operations in federal waters, the manual rates of the adjacent state shall be
16 used for personnel performing work On-site, and such rates shall be adjusted for offshore operations by the U.S. Longshoreman and
17 Harbor Workers (USL&H) or Jones Act surcharge, as appropriate.

18
19 **12. COMMUNICATIONS**

20
21 Costs of acquiring, leasing, installing, operating, repairing, and maintaining communication facilities or systems, including satellite, radio
22 and microwave facilities, between the Joint Property and the Operator's office(s) directly responsible for field operations in accordance
23 with the provisions of COPAS MFI-44 ("Field Computer and Communication Systems"). If the communications facilities or systems
24 serving the Joint Property are Operator-owned, charges to the Joint Account shall be made as provided in Section II.6 (*Equipment and*
25 *Facilities Furnished by Operator*). If the communication facilities or systems serving the Joint Property are owned by the Operator's
26 Affiliate, charges to the Joint Account shall not exceed average commercial rates prevailing in the area of the Joint Property. The Operator
27 shall adequately document and support commercial rates and shall periodically review and update the rate and the supporting
28 documentation.

29
30 **13. ECOLOGICAL, ENVIRONMENTAL, AND SAFETY**

31
32 Costs incurred for Technical Services and drafting to comply with ecological, environmental and safety Laws or standards recommended by
33 Occupational Safety and Health Administration (OSHA) or other regulatory authorities. All other labor and functions incurred for
34 ecological, environmental and safety matters, including management, administration, and permitting, shall be covered by Sections II.2
35 (*Labor*), II.5 (*Services*), or Section III (*Overhead*), as applicable.

36
37 Costs to provide or have available pollution containment and removal equipment plus actual costs of control and cleanup and resulting
38 responsibilities of oil and other spills as well as discharges from permitted outfalls as required by applicable Laws, or other pollution
39 containment and removal equipment deemed appropriate by the Operator for prudent operations, are directly chargeable.

40
41 **14. ABANDONMENT AND RECLAMATION**

42
43 Costs incurred for abandonment and reclamation of the Joint Property, including costs required by lease agreements or by Laws.

44
45 **15. OTHER EXPENDITURES**

46
47 Any other expenditure not covered or dealt with in the foregoing provisions of this Section II (*Direct Charges*), or in Section III
48 (*Overhead*) and which is of direct benefit to the Joint Property and is incurred by the Operator in the necessary and proper conduct of the
49 Joint Operations. Charges made under this Section II.1.5 shall require approval of the Parties, pursuant to Section I.6.A (*General Matters*).

50
51

52 **III. OVERHEAD**

53
54 As compensation for costs not specifically identified as chargeable to the Joint Account pursuant to Section II (*Direct Charges*), the Operator
55 shall charge the Joint Account in accordance with this Section III.

56
57 Functions included in the overhead rates regardless of whether performed by the Operator, Operator's Affiliates or third parties and regardless
58 of location, shall include, but not be limited to, costs and expenses of:

- 59
60
- 61 ■ warehousing, other than for warehouses that are jointly owned under this Agreement
 - 62 ■ design and drafting (except when allowed as a direct charge under Sections II.13, III.1.A.(ii), and III.2, Option B)
 - 63 ■ inventory costs not chargeable under Section V (*Inventories of Controllable Material*)
 - 64 ■ procurement
 - 65 ■ administration
 - 66 ■ accounting and auditing
 - gas dispatching and gas chart integration



- 1 ■ human resources
2 ■ management
3 ■ supervision not directly charged under Section II.2 (*Labor*)
4 ■ legal services not directly chargeable under Section II.9 (*Legal Expense*)
5 ■ taxation, other than those costs identified as directly chargeable under Section II.10 (*Taxes and Permits*)
6 ■ preparation and monitoring of permits and certifications; preparing regulatory reports; appearances before or meetings with
7 governmental agencies or other authorities having jurisdiction over the Joint Property, other than On-site inspections; reviewing,
8 interpreting, or submitting contents on or lobbying with respect to Laws or proposed Laws.

9
10 Overhead charges shall include the salaries or wages plus applicable payroll burdens, benefits, and Personal Expenses of personnel performing
11 overhead functions, as well as office and other related expenses of overhead functions.

12
13 **1. OVERHEAD-DRILLING AND PRODUCING OPERATIONS**

14
15 As compensation for costs incurred but not chargeable under Section II (*Direct Charges*) and not covered by other provisions of this
16 Section III, the Operator shall charge on either:

- 17
18 (**Alternative 1**) Fixed Rate Basis, Section III.1.B.
19 (**Alternative 2**) Percentage Basis, Section III.1.C.

20
21 **A. TECHNICAL SERVICES**

22
23 (i) Except as otherwise provided in Section II.13 (*Ecological Environmental and Safety*) and Section III.2 (*Overhead - Major*
24 *Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A (*General Matters*), the salaries, wages,
25 related payroll burdens and benefits, and Personal Expenses for On-site Technical Services, including third party Technical
26 Services:

27
28 (**Alternative 1 - Direct**) shall be charged direct to the Joint Account.

29
30 (**Alternative 2 - Overhead**) shall be covered by the overhead rates.

31
32 (ii) Except as otherwise provided in Section II.13 (*Ecological, Environmental, and Safety*) and Section III.2 (*Overhead - Major*
33 *Construction and Catastrophe*), or by approval of the Parties pursuant to Section I.6.A (*General Matters*), the salaries, wages,
34 related payroll burdens and benefits, and Personal Expenses for Off-site Technical Services, including third party Technical
35 Services:

36
37 (**Alternative 1 - All Overhead**) shall be covered by the overhead rates.

38
39 (**Alternative 2 - All Direct**) shall be charged direct to the Joint Account.

40
41 (**Alternative 3 - Drilling Direct**) shall be charged direct to the Joint Account, only to the extent such Technical Services
42 are directly attributable to drilling, redrilling, deepening, or sidetracking operations, through completion, temporary
43 abandonment, or abandonment if a dry hole. Off-site Technical Services for all other operations, including workover,
44 recompletion, abandonment of producing wells, and the construction or expansion of fixed assets not covered by Section
45 III.2 (*Overhead - Major Construction and Catastrophe*) shall be covered by the overhead rates.

46
47 Notwithstanding anything to the contrary in this Section III, Technical Services provided by Operator's Affiliates are subject to limitations
48 set forth in Section II.7 (*Affiliates*). Charges for Technical personnel performing non-technical work shall not be governed by this Section
49 III.1 .A. but instead governed by other provisions of this Accounting Procedure relating to the type of work being performed.

50
51 **B. OVERHEAD-FIXED RATE BASIS**

52
53 (1) The Operator shall charge the Joint Account at the following rates per well per month:

54
55 Drilling Well Rate per month \$8,200.00 (prorated for less than a full month) /for wells drilled to a TVD of 4,200 feet or more. 5,000.00 for well drilled to a TVD of less than 4,200 feet

56
57 Producing Well Rate per month \$820.00 (prorated for less than a full month) /for wells drilled to a TVD of 4,200 feet or more. 500.00 for wells drilled to a TVD of less than 4,200 feet.

58
59 (2) Application of Overhead-Drilling Well Rate shall be as follows:

60
61 (a) Charges for onshore drilling wells shall begin on the datelocation work begins/ and terminate on the date the drilling and/or completion
62 equipment used on the well is released, whichever occurs later. Charges for offshore and inland waters drilling wells shall
63 begin on the date the drilling or completion equipment arrives on location and terminate on the date the drilling or completion
64 equipment moves off location, or is released, whichever occurs first. No charge shall be made during suspension of drilling
65 and/or completion operations for fifteen (15) or more consecutive calendar days.



- 1 (b) Charges for any well undergoing any type of workover, recompletion, and/or abandonment for a period of five (5) or more
 2 consecutive work-days shall be made at the Drilling Well Rate. Such charges shall be applied for the period from date
 3 operations, with rig or other units used in operations, commence through date of rig or other unit release, except that no charges
 4 shall be made during suspension of operations for fifteen (15) or more consecutive calendar days.
 5
 6 (3) Application of Overhead-Producing Well Rate shall be as follows:
 7
 8 (a) An active well that is produced, injected into for recovery or disposal, or used to obtain water supply to support operations for
 9 any portion of the month shall be considered as a one-well charge for the entire month.
 10
 11 (b) Each active completion in a multi-completed well shall be considered as a one-well charge provided each completion is
 12 considered a separate well by the governing regulatory authority.
 13
 14 (c) A one-well charge shall be made for the month in which plugging and abandonment operations are completed on any well,
 15 unless the Drilling Well Rate applies, as provided in Sections III.1.B.(2)(a) or (b). This one-well charge shall be made whether
 16 or not the well has produced.
 17
 18 (d) An active gas well shut in because of overproduction or failure of a purchaser, processor, or transporter to take production shall
 19 be considered as a one-well charge provided the gas well is directly connected to a permanent sales outlet.
 20
 21 (e) Any well not meeting the criteria set forth in Sections III.1.B.(3) (a), (b), (c), or (d) shall not qualify for a producing overhead
 22 charge.
 23
 24 (4) The well rates shall be adjusted on the first day of April each year following the effective date of the Agreement; provided,
 25 however, if this Accounting Procedure is attached to or otherwise governing the payout accounting under a farmout agreement, the
 26 rates shall be adjusted on the first day of April each year following the effective date of such farmout agreement. The adjustment
 27 shall be computed by applying the adjustment factor most recently published by COPAS. The adjusted rates shall be the initial or
 28 amended rates agreed to by the Parties increased or decreased by the adjustment factor described herein, for each year from the
 29 effective date of such rates, in accordance with COPAS MFI-47 ("Adjustment of Overhead Rates").
 30

31 C. OVERHEAD-PERCENTAGE BASIS

- 32
 33 (1) Operator shall charge the Joint Account at the following rates:
 34
 35 (a) Development Rate _____ percent (_____) % of the cost of development of the Joint Property, exclusive of costs
 36 provided under Section II.9 (*Legal Expense*) and all Material salvage credits.
 37
 38 (b) Operating Rate _____ percent (_____) % of the cost of operating the Joint Property, exclusive of costs
 39 provided under Sections II.1 (*Rentals and Royalties*) and II.9 (*Legal Expense*); all Material salvage credits; the value
 40 of substances purchased for enhanced recovery; all property and ad valorem taxes, and any other taxes and assessments that
 41 are levied, assessed, and paid upon the mineral interest in and to the Joint Property.
 42
 43 (2) Application of Overhead-Percentage Basis shall be as follows:
 44
 45 (a) The Development Rate shall be applied to all costs in connection with:
 46
 47 [i] drilling, redrilling, sidetracking, or deepening of a well
 48 [ii] a well undergoing plugback or workover operations for a period of five (5) or more consecutive work-days
 49 [iii] preliminary expenditures necessary in preparation for drilling
 50 [iv] expenditures incurred in abandoning when the well is not completed as a producer
 51 [v] construction or installation of fixed assets, the expansion of fixed assets and any other project clearly discernible as a
 52 fixed asset, other than Major Construction or Catastrophe as defined in Section III.2 (*Overhead-Major Construction*
 53 *and Catastrophe*).
 54
 55 (b) The Operating Rate shall be applied to all other costs in connection with Joint Operations, except those subject to Section III.2
 56 (*Overhead-Major Construction and Catastrophe*).
 57

58 2. OVERHEAD-MAJOR CONSTRUCTION AND CATASTROPHE

59
 60 To compensate the Operator for overhead costs incurred in connection with a Major Construction project or Catastrophe, the Operator
 61 shall either negotiate a rate prior to the beginning of the project, or shall charge the Joint Account for overhead based on the following
 62 rates for any Major Construction project in excess of the Operator's expenditure limit under the Agreement, or for any Catastrophe
 63 regardless of the amount. If the Agreement to which this Accounting Procedure is attached does not contain an expenditure limit, Major
 64 Construction Overhead shall be assessed for any single Major Construction project costing in excess of \$100,000 gross.
 65
 66



1 Major Construction shall mean the construction and installation of fixed assets, the expansion of fixed assets, and any other project clearly
2 discernible as a fixed asset required for the development and operation of the Joint Property, or in the dismantlement, abandonment,
3 removal, and restoration of platforms, production equipment, and other operating facilities.
4

5 Catastrophe is defined as a sudden calamitous event bringing damage, loss, or destruction to property or the environment, such as an oil
6 spill, blowout, explosion, fire, storm, hurricane, or other disaster. The overhead rate shall be applied to those costs necessary to restore the
7 Joint Property to the equivalent condition that existed prior to the event.
8

9 A. If the Operator absorbs the engineering, design and drafting costs related to the project:

- 10 (1) 5.0 % of total costs if such costs are less than \$100,000; plus
- 11
- 12 (2) 3.0 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- 13
- 14 (3) 2.0 % of total costs in excess of \$1,000,000.
- 15
- 16

17 B. If the Operator charges engineering, design and drafting costs related to the project directly to the Joint Account:

- 18 (1) 5.0 % of total costs if such costs are less than \$100,000; plus
- 19
- 20 (2) 3.0 % of total costs in excess of \$100,000 but less than \$1,000,000; plus
- 21
- 22 (3) 2.0 % of total costs in excess of \$1,000,000.
- 23
- 24

25 Total cost shall mean the gross cost of any one project. For the purpose of this paragraph, the component parts of a single Major
26 Construction project shall not be treated separately, and the cost of drilling and workover wells and purchasing and installing pumping
27 units and downhole artificial lift equipment shall be excluded. For Catastrophes, the rates shall be applied to all costs associated with each
28 single occurrence or event.
29

30 On each project, the Operator shall advise the Non-Operator(s) in advance which of the above options shall apply.
31

32 For the purposes of calculating Catastrophe Overhead, the cost of drilling relief wells, substitute wells, or conducting other well operations
33 directly resulting from the catastrophic event shall be included. Expenditures to which these rates apply shall not be reduced by salvage or
34 insurance recoveries. Expenditures that qualify for Major Construction or Catastrophe Overhead shall not qualify for overhead under any
35 other overhead provisions.
36

37 In the event of any conflict between the provisions of this Section III.2 and the provisions of Sections II.2 (*Labor*), II.5 (*Services*), or II.7
38 (*Affiliates*), the provisions of this Section III.2 shall govern.
39

40 **3. AMENDMENT OF OVERHEAD RATES**

41
42 The overhead rates provided for in this Section III may be amended from time to time if, in practice, the rates are found to be insufficient
43 Or excessive, in accordance with the provisions of Section I.6.B (*Amendments*).
44

45
46 **IV. MATERIAL PURCHASES, TRANSFERS, AND DISPOSITIONS**

47
48 The Operator is responsible for Joint Account Material and shall make proper and timely charges and credits for direct purchases, transfers, and
49 dispositions. The Operator shall provide all Material for use in the conduct of Joint Operations; however, Material may be supplied by the Non-
50 Operators, at the Operator's option. Material furnished by any Party shall be furnished without any express or implied warranties as to quality,
51 fitness for use, or any other matter.
52

53 **1. DIRECT PURCHASES**

54
55 Direct purchases shall be charged to the Joint Account at the price paid by the Operator after deduction of all discounts received. The
56 Operator shall make good faith efforts to take discounts offered by suppliers, but shall not be liable for failure to take discounts except to
57 the extent such failure was the result of the Operator's gross negligence or willful misconduct A direct purchase shall be deemed to occur
58 when an agreement is made between an Operator and a third party for the acquisition of Material for a specific well site or location.
59 Material provided by the Operator under "vendor stocking programs," where the initial use is for a Joint Property and title of the Material
60 does not pass from the manufacturer, distributor, or agent until usage, is considered a direct purchase. If Material is found to be defective
61 or is returned to the manufacturer, distributor, or agent for any other reason, credit shall be passed to the Joint Account within sixty (60)
62 days after the Operator has received adjustment from the manufacturer, distributor, or agent.
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1 **2. TRANSFERS**

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A. PRICING

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B. FREIGHT

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C. TAXES

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Sales and use taxes shall be added to the Material transfer price using either the method contained in the COPAS Computerized Equipment Pricing System (CEPS) or the applicable tax rate in effect for the Joint Property at the time and place of transfer. In either case, the Joint Account shall be charged or credited at the rate that would have governed had the Material been a direct purchase.

1 D. CONDITTON
2

3 (1) Condition "A" - New and unused Material in sound and serviceable condition shall be charged at one hundred percent (100%)
4 of the price as determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*). Material transferred from the
5 Joint Property that was not placed in service shall be credited as charged without gain or loss; provided, however, any unused
6 Material that was charged to the Joint Account through a direct purchase will be credited to the Joint Account at the original
7 cost paid less restocking fees charged by the vendor. New and unused Material transferred from the Joint Property may be
8 credited at a price other than the price originally charged to the Joint Account provided such price is approved by the Parties
9 owning such Material, pursuant to Section 1.6.A (*General Matters*). All refurbishing costs required or necessary to return the
10 Material to original condition or to correct handling, transportation, or other damages will be borne by the divesting property.
11 The Joint Account is responsible for Material preparation, handling, and transportation costs for new and unused Material
12 charged to the Joint Property either through a direct purchase or transfer. Any preparation costs incurred, including any internal
13 or external coating and wrapping, will be credited on new Material provided these services were not repeated for such Material
14 for the receiving property.

15
16 (2) Condition "B" - Used Material in sound and serviceable condition and suitable for reuse without reconditioning shall be priced
17 by multiplying the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*) by seventy-five percent
18 (75%).

19
20 Except as provided in Section IV.2.0(3), all reconditioning costs required to return the Material to Condition "B" or to correct
21 handling, transportation or other damages will be borne by the divesting property.

22
23 If the Material was originally charged to the Joint Account as used Material and placed in service for the Joint Property, the
24 Material will be credited at the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C (*Taxes*) multiplied
25 by sixty-five percent (65%).

26
27 Unless otherwise agreed to by the Parties that paid for such Material, used Material transferred from the Joint Property that was
28 not placed in service on the property shall be credited as charged without gain or loss.

29
30 (3) Condition "C" - Material that is not in sound and serviceable condition and not suitable for its original function until after
31 reconditioning shall be priced by multiplying the price determined in Sections IV.2.A (*Pricing*), IV.2.B (*Freight*), and IV.2.C
32 (*Taxes*) by fifty percent (50%).

33
34 The cost of reconditioning may be charged to the receiving property to the extent Condition "C" value, plus cost of
35 reconditioning, does not exceed Condition "B" value.

36
37 (4) Condition "D" - Material that (i) is no longer suitable for its original purpose but useable for some other purpose, (ii) is
38 obsolete, or (iii) does not meet original specifications but still has value and can be used in other applications as a substitute for
39 items with different specifications, is considered Condition "D" Material. Casing, tubing, or drill pipe used as line pipe shall be
40 priced as Grade A and B seamless line pipe of comparable size and weight. Used casing, tubing, or drill pipe utilized as line
41 pipe shall be priced at used line pipe prices. Casing, tubing, or drill pipe used as higher pressure service lines than standard line
42 pipe, e.g., power oil lines, shall be priced under normal pricing procedures for casing, tubing, or drill pipe. Upset tubular goods
43 shall be priced on a non-upset basis. For other items, the price used should result in the Joint Account being charged or credited
44 with the value of the service rendered or use of the Material, or as agreed to by the Parties pursuant to Section 1.6.A (*General*
45 *Matters*).

46
47 (5) Condition "E" -Junk shall be priced at prevailing scrap value prices.

48
49 E. OTHER PRICING PROVISIONS
5051 (1) Preparation Costs
52

53 Subject to Section II (*Direct Charges*) and Section III (*Overhead*) of this Accounting Procedure, costs incurred by the Operator
54 in making Material serviceable including inspection, third party surveillance services, and other similar services will be charged
55 to the Joint Account at prices which reflect the Operator's actual costs of the services. Documentation must be provided to the
56 Non-Operators upon request to support the cost of service. New coating and/or wrapping shall be considered a component of
57 the Materials and priced in accordance with Sections IV.1 (*Direct Purchases*) or IV.2.A (*Pricing*), as applicable. No charges or
58 credits shall be made for used coating or wrapping. Charges and credits for inspections shall be made in accordance with
59 COPAS MFI-38 ("Material Pricing Manual").

60
61 (2) Loading and Unloading Costs
62

63 Loading and unloading costs related to the movement of the Material to the Joint Property shall be charged in accordance with
64 the methods specified in COPAS MFI-38 ("Material Pricing Manual").
65
66



1 **3. DISPOSITION OF SURPLUS**

2
3 Surplus Material is that Material, whether new or used, that is no longer required for Joint Operations. The Operator may purchase, but
4 shall be under no obligation to purchase, the interest of the Non-Operators in surplus Material.

5
6 Dispositions for the purpose of this procedure are considered to be the relinquishment of title of the Material from the Joint Property to
7 either a third party, a Non-Operator, or to the Operator. To avoid the accumulation of surplus Material, the Operator should make good
8 faith efforts to dispose of surplus within twelve (12) months through buy/sale agreements, trade, sale to a third party, division in kind, or
9 other dispositions as agreed to by the Parties.

10
11 Disposal of surplus Materials shall be made in accordance with the terms of the Agreement to which this Accounting Procedure is
12 attached. If the Agreement contains no provisions governing disposal of surplus Material, the following terms shall apply:

- 13
14 ■ The Operator may, through a sale to an unrelated third party or entity, dispose of surplus Material having a gross sale value that
15 is less than or equal to the Operator's expenditure limit as set forth in the Agreement to which this Accounting Procedure is
16 attached without the prior approval of the Parties owning such Material.
- 17
18 ■ If the gross sale value exceeds the Agreement expenditure limit, the disposal must be agreed to by the Parties owning such
19 Material.
- 20
21 ■ Operator may purchase surplus Condition "A" or "B" Material without approval of the Parties owning such Material, based on
22 the pricing methods set forth in Section IV.2 (*Transfers*).
- 23
24 ■ Operator may purchase Condition "C" Material without prior approval of the Parties owning such Material if the value of the
25 Materials, based on the pricing methods set forth in Section IV.2 (*Transfers*), is less than or equal to the Operator's expenditure
26 limitation set forth in the Agreement. The Operator shall provide documentation supporting the classification of the Material as
27 Condition C.
- 28
29 ■ Operator may dispose of Condition "D" or "E" Material under procedures normally utilized by Operator without prior approval
30 of the Parties owning such Material.

31
32 **4. SPECIAL PRICING PROVISIONS**

33
34 **A. PREMIUM PRICING**

35
36 Whenever Material is available only at inflated prices due to national emergencies, strikes, government imposed foreign trade
37 restrictions, or other unusual causes over which the Operator has no control, for direct purchase the Operator may charge the Joint
38 Account for the required Material at the Operator's actual cost incurred in providing such Material, making it suitable for use, and
39 moving it to the Joint Property. Material transferred or disposed of during premium pricing situations shall be valued in accordance
40 with Section IV.2 (*Transfers*) or Section IV.3 (*Disposition of Surplus*), as applicable.

41
42 **B. SHOP-MADE ITEMS**

43
44 Items fabricated by the Operator's employees, or by contract laborers under the direction of the Operator, shall be priced using the
45 value of the Material used to construct the item plus the cost of labor to fabricate the item. If the Material is from the Operator's
46 scrap or junk account, the Material shall be priced at either twenty-five percent (25%) of the current price as determined in Section
47 IV.2.A (*Pricing*) or scrap value, whichever is higher. In no event shall the amount charged exceed the value of the item
48 commensurate with its use.

49
50 **C. MILL REJECTS**

51
52 Mill rejects purchased as "limited service" casing or tubing shall be priced at eighty percent (80%) of K-55/J-55 price as determined in
53 Section IV.2 (*Transfers*). Line pipe converted to casing or tubing with casing or tubing couplings attached shall be priced as K-55/J-
54 55 casing or tubing at the nearest size and weight.

55
56
57 **V. INVENTORIES OF CONTROLLABLE MATERIAL**

58
59
60 The Operator shall maintain records of Controllable Material charged to the Joint Account, with sufficient detail to perform physical inventories.

61
62 Adjustments to the Joint Account by the Operator resulting from a physical inventory of Controllable Material shall be made within twelve (12)
63 months following the taking of the inventory or receipt of Non-Operator inventory report. Charges and credits for overages or shortages will be
64 valued for the Joint Account in accordance with Section IV.2 (*Transfers*) and shall be based on the Condition "B" prices in effect on the date of
65 physical inventory unless the inventorying Parties can provide sufficient evidence another Material condition applies.



1 **1. DIRECTED INVENTORIES**

2
3 Physical inventories shall be performed by the Operator upon written request of a majority in working interests of the Non-Operators
4 (hereinafter, "directed inventory"); provided, however, the Operator shall not be required to perform directed inventories more frequently
5 than once every five (5) years. Directed inventories shall be commenced within one hundred eighty (180) days after the Operator receives
6 written notice that a majority in interest of the Non-Operators has requested the inventory. All Parties shall be governed by the results of
7 any directed inventory.

8
9 Expenses of directed inventories will be borne by the Joint Account; provided, however, costs associated with any post-report follow-up
10 work in settling the inventory will be absorbed by the Party incurring such costs. The Operator is expected to exercise judgment in keeping
11 expenses within reasonable limits. Any anticipated disproportionate or extraordinary costs should be discussed and agreed upon prior to
12 commencement of the inventory. Expenses of directed inventories may include the following:

13
14 A. A per diem rate for each inventory person, representative of actual salaries, wages, and payroll burdens and benefits of the personnel
15 performing the inventory or a rate agreed to by the Parties pursuant to Section I.6.A (*General Matters*). The per diem rate shall also
16 be applied to a reasonable number of days for pre-inventory work and report preparation.

17
18 B. Actual transportation costs and Personal Expenses for the inventory team

19
20 C. Reasonable charges for report preparation and distribution to the Non-Operators.

21
22 **2. NON-DIRECTED INVENTORIES**

23
24 **A. OPERATOR INVENTORIES**

25
26 Physical inventories that are not requested by the Non-Operators may be performed by the Operator, at the Operator's discretion. The
27 expenses of conducting such Operator-initiated inventories shall not be charged to the Joint Account.

28
29 **B. NON-OPERATOR INVENTORIES**

30
31 Subject to the terms of the Agreement to which this Accounting Procedure is attached, the Non-Operators may conduct a physical
32 inventory at reasonable times at their sole cost and risk after giving the Operator at least ninety (90) days prior written notice. The
33 Non-Operator inventory report shall be furnished to the Operator in writing within ninety (90) days of completing the inventory
34 fieldwork.

35
36 **C. SPECIAL INVENTORIES**

37
38 The expense of conducting inventories other than those described in Sections V.1 (*Directed Inventories*), V.2.A (*Operator*
39 *Inventories*), or V.2.B (*Non-Operator Inventories*), shall be charged to the Party requesting such inventory; provided, however,
40 inventories required due to a change of Operator shall be charged to the Joint Account in the same manner as described in Section
41 V.1 (*Directed Inventories*).

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EXHIBIT "D"

Attached to and made a part of that certain Operating Agreement dated effective _____, 2010, by and between Quicksilver Resources, Inc., as Operator, and Premier Energy Partners (I) LLC, Buck Peak LLC, and West Point Energy LLC, as Non-Operators.

INSURANCE

As to all operations hereunder, Operator shall carry for the benefit and protection of the parties hereto the following insurance coverage:

- (i) Worker's Compensation or Employer's Liability Insurance as required by the laws of the states in which the operations are conducted.
- (ii) Comprehensive General Liability Insurance, including contractual liability, with a combined single limit per occurrence of not less than \$1,000,000 for bodily injury and property damage.
- (iii) Comprehensive Automobile Insurance, including hired and non-owned vehicles, with a combined single limit per occurrence of not less than \$1,000,000 for bodily injury and property damage.
- (iv) Liability Umbrella Insurance (excess of underlying insurance coverage mentioned above) with a combined limit per occurrence coverage of not less than \$10,000,000.

The cost of the foregoing insurance coverage shall be charged to the parties pursuant to the Accounting Procedure (Exhibit "C") as follows: item (i) will be included in labor rates, items (ii) and (iv) will be charged to the joint account, and item (iii) is included in mileage rates.

If a Non-Operator wishes to obtain its own insurance coverage for any of the above categories, such party shall provide Operator with a certificate evidencing such coverage. In such event, Operator shall not invoice such party for its share of the cost of that particular coverage. Additionally, all such insurance coverages and all of the insurance coverages described above shall contain a waiver of subrogation in favor of all other parties hereto.

Each party shall be responsible for obtaining its own well control or OEE insurance for its proportionate share of such obligation.

To the extent not covered by the aforementioned insurance, the liability of the parties hereto for damages or claims arising out of illness or personal injury to or death of any person or damage to or destruction or loss of property of any person or entity resulting from operations conducted hereunder shall be borne by the parties hereto in the proportions in which they bear the costs of such operations. Additionally, Operator shall not be liable to Non-Operator for damage to or for loss or destruction of jointly owned property from operations hereunder, EVEN TO THE EXTENT THAT SUCH DAMAGE, LOSS OR DESTRUCTION IS ALLEGED TO HAVE BEEN CAUSED BY OPERATOR'S NEGLIGENCE, unless such damage, loss, or destruction arises solely out of the gross negligence or willful misconduct of Operator.



StarkSchenkein, LLP
BUSINESS ADVISORS & CPAs

Consent of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
PetroShare Corp.

We hereby consent to the use in this Registration Statement on Form S-1 of our report dated July 2, 2014, relating to the financial statements of PetroShare Corp. as of December 31, 2012 and 2013, and the related statements of operations, shareholders' equity, and cash flows for the period from September 4, 2012 (inception) to December 31, 2012, for the year ended as of December 31, 2013, and the period from September 4, 2012 (inception) to December 31, 2013, which are contained in such Registration Statement, and to the reference of our firm under the heading "Experts" in the prospectus.

/s/ StarkSchenkein, LLP
StarkSchenkein, LLP
Denver, Colorado
September 19, 2014

3600 South Yosemite Street | Suite 600 | Denver, CO 80237 | P: 303.694.6700 | TF: 888.766.3985 | F: 303.694.6761 | www.starkcpas.com
An Independent Member of BKR International

September 22, 2014

VIA EDGAR

Caroline Kim, Esq.
Division of Corporation Finance
Securities & Exchange Commission
100 F Street, N.E.
Washington D.C. 20549

dbabiarz@duffordbrown.com

RE: **PetroShare Corp.**
Amendment No. 1 to Draft Registration Statement on Form S-1
Submitted August 13, 2014
CIK # 0001568079

Dear Ms. Kim:

Our client, PetroShare Corp (the "Company"), has filed today its registration statement on Form S-1. On behalf of the Company, this letter shall serve to respond to comments of the staff of the Securities & Exchange Commission dated August 29, 2014 on the Company's amended draft registration statement as confidentially submitted on August 13, 2014.

The following narrative responds to each comment contained in the staff's letter. Numbers assigned to the comments by the staff have been retained by us.

Accordingly, the Company's responses are as follows:

Amendment No. 1 to Draft Registration Statement on Form S-1Financial Statements

1. **Comment complied with.** Please note that the registration statement filed today by the Company contains updated financial statements for the periods ended June 30, 2014 in accordance with the provisions of Rule 8-08 of Regulation S-X.

Exhibits

2. **Comment complied with.** The Company has examined the exhibits filed with the registration statement and is confident that the exhibits are complete. With regard to the schedules referenced in the comment letter, Schedule 4.1(e) to Exhibit 10.8 was in fact included, but mislabeled as Schedule 2.1(d). This oversight has been corrected. Further, the Company has included Schedule 4.1(e) and Exhibit 8.10 to Exhibit 10.7 and Schedule 2.1(d) to Exhibit B to Exhibit 10.8 to the registration statement, which were inadvertently omitted. Finally, please note that the leases referenced in Exhibit A to Schedule 5.1 are the same leases listed in Schedules 2.1(a) and 2.1(b).

Please direct any questions regarding the Company's response or the registration statement to me at (303) 837-6325 or dbabiarz@duffordbrown.com.

Sincerely,

DUFFORD & BROWN, P.C.

/S/ David J. Babiarz

David J. Babiarz

DJB:kac

cc: Stephen J. Foley, PetroShare Corp.
Edward Schenkein, CPA, StarkSchenkein LLP
Paul Maniscalco, SJM Accounting, Inc.