

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

PetroShare Corp.

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

FORM 10-Q

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

For the quarterly period ended September 30, 2017

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

Commission File Number: 001-37943



PETROSHARE CORP.

(Exact name of registrant as specified in its charter)

Colorado
(State or other jurisdiction of
incorporation or organization)

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

9635 Maroon Circle, Suite 400
Englewood, Colorado 80112
(Address of principal executive offices)(Zip Code)

(303) 500-1160
(Registrant's telephone number including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§203.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a
smaller reporting company)

Smaller reporting company
Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 27,718,802 shares outstanding as of November 13, 2017.

PETROSHARE CORP.
FORM 10-Q
FOR THE QUARTER ENDED
September 30, 2017

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References in this report to agreements to which PetroShare Corp. is a party and the definition of certain terms from those agreements are not necessarily complete and are qualified by reference to the agreements. Readers should refer to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, and other reports filed with the SEC, and the exhibits filed with or incorporated therein by reference.

Please see Cautionary Language Regarding Forward-Looking Statements on page 27 of this report for important information contained herein.

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

PetroShare Corp.
Condensed Consolidated Balance Sheets

	September 30, 2017	December 31, 2016
	(unaudited)	(see Note 3)
ASSETS		
Current assets:		
Cash	\$ 719,091	\$ 2,449,412
Accounts receivable - joint interest billing	603,772	240,450
Accounts receivable - joint interest billing - related party	389,885	286,226
Accounts receivable - crude oil, natural gas and NGL sales	1,618,105	179,236
Accounts receivable - other	—	27,876
Deferred equity issuance costs	186,312	—
Prepaid expenses and other assets	49,751	1,178,081
Deferred financing fee, net	379,167	—
Total current assets	3,946,083	4,361,281
Crude oil and natural gas properties - using successful efforts method:		
Proved crude oil and natural gas properties	16,289,847	8,132,881
Unproved crude oil and natural gas properties	7,942,890	4,092,550
Wells in progress	8,384,391	2,168,092
Less: accumulated depletion, depreciation and amortization	(3,918,935)	(783,320)
Crude oil and natural gas properties, net	28,698,193	13,610,203
Property, plant and equipment, net of accumulated depreciation of \$41,512 and \$8,329, respectively	170,703	39,542
Other assets	103,707	15,758
TOTAL ASSETS	\$ 32,918,686	\$ 18,026,784
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 10,281,688	\$ 3,009,106
Accounts payable - related party	11,672	—
Working interest and royalty owners distributions payable	236,493	144,526
Drilling advances - related party	1,141,539	234,452
Line of credit - related party	5,000,000	—
Supplemental line of credit	3,552,500	7,088,698
Convertible notes payable, net	1,821,062	—
Total current liabilities	22,044,954	10,476,782
Long-term liabilities		
Line of credit - related party	—	5,000,000
Convertible notes payable, net	3,288,251	5,308
Other long-term liabilities	127,527	23,128
Asset retirement obligation	1,114,874	945,419
Total liabilities	26,575,606	16,450,637
Commitments and Contingencies—Notes 4, 6 and 12		
Shareholders' equity:		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, none issued or outstanding	—	—
Common stock, \$0.001 par value, 100,000,000 shares authorized, 22,904,537 and 21,964,282 shares issued and outstanding, respectively	22,905	21,964
Additional paid-in capital	21,074,897	11,405,225
Accumulated deficit	(14,754,722)	(9,851,042)
Total Shareholders' Equity	6,343,080	1,576,147
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$ 32,918,686	\$ 18,026,784

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

PetroShare Corp.
Condensed Consolidated Statements of Operations
(unaudited)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
REVENUE:				
Crude oil sales	\$ 2,094,056	\$ 41,839	\$ 7,124,456	\$ 41,839
Natural gas sales	486,197	33,328	1,061,849	33,328
NGL sales	257,939	11,990	570,774	11,990
Total revenue	<u>2,838,192</u>	<u>87,157</u>	<u>8,757,079</u>	<u>87,157</u>
COSTS AND EXPENSES:				
Lease operating expense	191,204	34,923	619,884	34,844
Production taxes, gathering and marketing	268,550	29,793	753,190	35,465
Exploration costs	708	14,740	67,382	17,440
Depletion, depreciation and amortization	1,166,030	39,064	3,168,797	43,425
Accretion expense	25,860	—	72,772	—
Plugging expense	—	33,847	23,123	33,847
Loss on impairment of proved crude oil and natural gas properties	—	9,841	—	26,880
General and administrative expense	1,514,007	980,870	4,380,676	2,535,789
Total costs and expenses	<u>3,166,359</u>	<u>1,143,078</u>	<u>9,085,824</u>	<u>2,727,690</u>
Operating (loss)	<u>(328,167)</u>	<u>(1,055,921)</u>	<u>(328,745)</u>	<u>(2,640,533)</u>
OTHER INCOME (EXPENSE):				
Other income	28,948	33	29,194	534
Interest expense	(1,731,853)	(96,157)	(4,604,129)	(153,053)
Total other (expense)	<u>(1,702,905)</u>	<u>(96,124)</u>	<u>(4,574,935)</u>	<u>(152,519)</u>
Net (loss)	<u>\$ (2,031,072)</u>	<u>\$ (1,152,045)</u>	<u>\$ (4,903,680)</u>	<u>\$ (2,793,052)</u>
Net (loss) per share:				
Basic and diluted	\$ (0.09)	\$ (0.05)	\$ (0.22)	\$ (0.13)
Weighted average number of shares outstanding:				
Basic and diluted	22,577,417	21,878,553	22,270,291	21,798,185

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

PetroShare Corp.
Condensed Consolidated Statements of Cash Flows
(unaudited)

	Nine months ended	
	September 30,	
	2017	2016
Cash flows from operating activities:		
Net (loss)	\$ (4,903,680)	\$ (2,793,052)
<i>Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities:</i>		
Depletion, depreciation and amortization	3,168,797	27,687
Deferred rental liability	11,593	—
Accretion of asset retirement obligation	72,772	15,738
Accretion of debt discounts	3,528,788	—
Stock-based compensation	1,127,950	1,093,854
Plugging and abandonment	23,123	—
Impairment of proved crude oil and natural gas properties	—	26,880
<i>Changes in operating assets and liabilities:</i>		
Accounts receivable - joint interest billing	(363,322)	348,475
Accounts receivable - joint interest billing - related party	(103,659)	—
Accounts receivable - crude oil, natural gas and NGL sales	(1,438,869)	(13,860)
Accounts receivable - other	—	(138,788)
Deferred equity issuance costs	(186,312)	(243,726)
Prepaid expenses and other assets	1,068,256	(784,735)
Accounts payable and accrued liabilities	1,080,439	1,648,138
Accounts payable - related party	11,672	290,078
Accounts payable - working interest partners and royalty owners	91,968	119,742
Drilling advances, net - related party	907,087	—
Net cash provided by (used in) operating activities	4,096,603	(403,569)
Cash flows from investing activities:		
Additions of property, plant and equipment	(79,886)	(16,417)
Development of crude oil and natural gas properties	(8,082,911)	(2,127,869)
Acquisitions of crude oil and natural gas properties - business combinations	—	(2,260,890)
Acquisitions of crude oil and natural gas properties	(3,003,339)	(1,138,893)
Net cash (used in) investing activities	(11,166,136)	(5,544,069)
Cash flows from financing activities:		
Long-term debt - advances on initial line of credit	—	3,937,815
Repayment under supplemental line of credit	(3,552,500)	—
Convertible notes issued for cash	8,891,712	—
Common stock issued for cash (net of offering costs)	—	95,000
Net cash provided by financing activities	5,339,212	4,032,815
Cash:		
Net (decrease) in cash	(1,730,321)	(1,914,823)
Cash, beginning of period	2,449,412	3,011,291
Cash, end of period	\$ 719,091	\$ 1,096,468
Supplemental cash flow disclosure:		
Cash paid for interest, net of capitalized interest	\$ 431,606	\$ —
Non-cash investing and financing activities:		
Acquisition of crude oil and natural gas properties - business combinations	\$ —	\$ 635,836
Accrued development costs of crude oil and natural gas properties	\$ 6,290,351	\$ —
Addition of property, plant and equipment through tenant improvement allowance	\$ 84,460	\$ —
Beneficial conversion feature in connection with private placements	\$ 4,329,365	\$ —
Issuance of common stock warrants in connection with private placement	\$ 2,978,787	\$ —
Issuance of common stock in connection with letter agreement	\$ 387,500	\$ —
Issuance of common stock in connection with lease acquisitions	\$ 847,001	\$ —

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

PetroShare Corp.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****September 30, 2017****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 to investigate, acquire and develop crude oil and natural gas properties in the Rocky Mountain or mid-continent portion of the United States. Since inception, the Company has focused on financing activities and the acquisition, exploration and development of crude oil and natural gas prospects in the Denver-Julesburg Basin, or DJ Basin, in northeast Colorado and other parts of the State. The Company’s current operating focus is within the Wattenberg Field of the DJ Basin, which is located primarily in Adams and Weld Counties, Colorado.

NOTE 2—BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***Basis of Presentation***

The interim condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures included are adequate to make the information presented not misleading.

In management’s opinion, the Condensed Consolidated Balance Sheets as of September 30, 2017 (unaudited) and December 31, 2016 (see Note 3), the unaudited Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2017 and 2016, and the unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016, contained herein, reflect all adjustments, consisting solely of normal recurring items, which are necessary for the fair presentation of the Company’s financial position, results of operations and cash flows on a basis consistent with that of the Company’s prior audited financial statements. However, the results of operations for the interim periods may not be indicative of results to be expected for the full fiscal year. Therefore, these condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto and summary of significant accounting policies included in the Company’s annual report on Form 10-K for the year ended December 31, 2016. Except as noted below, there have been no changes to the footnotes from those accompanying the audited financial statements contained in the Company’s Form 10-K for the year ended December 31, 2016.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary CFW Resources, LLC, formed on August 1, 2017.

Loss Per Share

Basic and diluted loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. The Company excluded potentially dilutive securities as the effect of their inclusion would be anti-dilutive.

Capitalized Interest Costs

The Company has capitalized certain interest costs related to unproved properties that are currently undergoing activities necessary to prepare them for their intended use. These costs have been capitalized to oil and gas properties.

PetroShare Corp.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****September 30, 2017*****Deferred Equity Issuance Costs***

The Company defers as other current assets the direct incremental costs of raising capital through equity offerings until such time as the offering is completed. At the time of the completion of an offering, the costs are offset against the proceeds received. Should an offering be terminated, deferred equity issuance costs are charged to operations during the period in which an offering is terminated. As of September 30, 2017 and December 31, 2016, the Company's deferred equity issuance costs totaled \$186,312 and \$nil, respectively (Note 9).

Debt Discount Costs

On January 30, 2017, the Company completed the third and final closing of a private placement of units consisting of common stock purchase warrants and convertible promissory notes with a total aggregate face value of \$10,000,000 (Note 6). On September 25, 2017, the Company completed the first of three closings of a private placement of Series B convertible promissory notes. The notes issued in the first closing of the Series B offering had a total aggregate face value of \$1,695,000 (Note 6). Both the original convertible notes and the Series B Notes contain an embedded beneficial conversion feature. The proceeds from the sale of the securities were allocated between the convertible notes and, where applicable, the warrants based on the relative fair values of the debt instrument, without the warrants, and of the warrants themselves at the time of issuance. The fair value of the beneficial conversion feature, limited to the gross proceeds, has been recorded as a reduction of the carrying value of the convertible notes and is being amortized to interest expense using the effective interest method over the term of the notes. The fair value of warrants issued has been recorded as a reduction to the carrying value of the convertible notes, limited to the gross proceeds, and is being amortized over the term of the notes using the effective interest method. Origination fees paid in cash have been recorded as a reduction in the carrying value of the convertible notes and are being amortized over the term of the notes using the effective interest method. The fair value of warrants issued to the placement agent in connection with the offering have been recorded as a charge to additional paid-in capital.

Recently Issued Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, "Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"), which is intended to improve the accounting for share-based payment transactions. ASU 2016-09 changes several aspects of the accounting for share-based payment award transactions, including: (1) Accounting and Cash Flow Classification for Excess Tax Benefits and Deficiencies, (2) Forfeitures, and (3) Tax Withholding Requirements and Cash Flow Classification. ASU 2016-09 is effective for public businesses for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. The Company adopted this pronouncement effective January 1, 2017. Upon adoption of this standard, the Company no longer estimates the total number of awards for which the requisite service period will not be rendered, and effective January 1, 2017, began accounting for forfeitures as they occur. The adoption of these provisions did not materially impact the condensed consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"), which establishes a comprehensive new revenue recognition standard designed to depict the transfer of goods or services to a customer in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In doing so, companies may need to use more judgment and make more estimates than under current revenue recognition guidance. In March 2016, the FASB released certain implementation guidance through ASU 2016-08 (collectively with ASU 2014-09, the "Revenue ASUs") to clarify principal versus agent considerations. The Revenue ASUs allow for the use of either the full or modified retrospective transition method, and the standard will be effective for annual reporting periods beginning after December 15, 2017 including interim periods within that period, with early adoption permitted for annual reporting periods beginning after December 15, 2016. Currently, the

PetroShare Corp.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****September 30, 2017**

Company has not identified any contracts that would require a change from the entitlements method, historically used for certain domestic crude oil and natural gas sales, to the sales method of accounting. The Company plans to adopt the guidance using the modified retrospective method on the effective date of January 1, 2018.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), which establishes a comprehensive new lease standard designed to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. An entity that elects to apply the practical expedients will, in effect, continue to account for leases that commence before the effective date of ASU 2016-02 in accordance with previous standards. ASU 2016-02 is effective for public businesses for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its condensed consolidated financial statements.

There were various updates recently issued by the FASB, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company's reported financial position, results of operations, or cash flows.

NOTE 3—REVISION OF PRIOR PERIOD FINANCIAL STATEMENTS

In connection with the preparation of its condensed financial statements for the quarter ended March 31, 2017, the Company identified an error related to the manner in which it accounted for the fair value of convertible notes and warrants issued in the Company's private placement during December 2016 (Note 6). Specifically, the Company was required to apply the guidance of Accounting Standards Codification ("ASC") 470, and more specifically, ASC 470-20-25-2 and ASC 470-20-25-3. On the balance sheet at December 31, 2016, the Company recorded the face value of convertible notes payable under liabilities, discounted by (i) the value of the original issue discount and (ii) the value of the warrants issued to the placement agent. The Company did not, however, discount the value of the convertible notes payable by the fair value of the warrants issued to individual investors.

In accordance with Staff Accounting Bulletin ("SAB") No. 99, Materiality, and SAB No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, the Company evaluated the error and determined that the related impact was not material to the Company's results of operations or financial position for any prior annual or interim period. Accordingly, the Company has corrected these errors as of and for the year ended December 31, 2016 by revising the condensed financial statements. Periods not presented herein will be revised, as applicable, in future filings.

PetroShare Corp.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

September 30, 2017

The following tables present the revisions to the balance sheet as of, and the statement of operations for the year ended, December 31, 2016:

Balance Sheet

	As of December 31, 2016		
	As Reported	Adjustments	As Revised
Convertible notes payable, net	\$ 814,989	\$ (809,681)	\$ 5,308
Total Liabilities	\$ 17,260,318	\$ (809,681)	\$ 16,450,637
Shareholders' Equity			
Additional paid-in capital	\$ 10,593,324	\$ 811,901	\$ 11,405,225
Accumulated deficit	(9,848,822)	(2,220)	(9,851,042)
Total Shareholders' Equity	\$ 766,466	\$ 809,681	\$ 1,576,147
Total Liabilities and Shareholders' Equity	\$ 18,026,784	\$ —	\$ 18,026,784

Statement of Operations

	Year Ended December 31, 2016
Net (loss), as reported	\$ (4,479,052)
Adjustments:	
Previously reported accretion of debt discount (conversion feature and warrants) (interest expense)	2,529
Corrected accretion of debt discount (interest expense)	4,749
Total adjustment	(2,220)
Net (loss), as revised	\$ (4,481,272)
Net (loss) per share, as reported	\$ (0.21)
Net (loss) per share, as revised	\$ (0.21)

NOTE 4—GOING CONCERN

Pursuant to ASU 2014-15, the Company has assessed its ability to continue as a going concern for a period of one year from the date of the issuance of these condensed consolidated financial statements. Substantial doubt about an entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year from the financial statement issuance date. As shown in the accompanying condensed consolidated financial statements, the Company incurred a net loss of \$4.9 million during the nine months ended September 30, 2017, and as of that date, the Company's current liabilities exceeded its current assets by \$18.1 million.

At September 30, 2017, the Company had a cash balance of \$0.7 million and other current assets of \$3.2 million.

As of September 30, 2017, the Company has insufficient working capital and revenues from operations to meet its maturing debt obligations and other liabilities incurred in connection with the Company's development activities. The Company will also need to generate sufficient cash flow from operations and sell equity or debt to fund further drilling and acquisition activity. If sufficient cash flow and additional financing is not available, the Company may be compelled to reduce the scope of its business activities and/or sell a portion of the Company's interests in its oil and gas properties. This, in turn, may have an adverse effect on the Company's ability to realize the value of its assets. These factors raise substantial doubt about the Company's ability to continue as a going concern.

PetroShare Corp.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

September 30, 2017

The Company's condensed consolidated financial statements do not include any adjustments related to the realization of the carrying value of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence. However, management believes that it can be successful in obtaining equity and/or debt financing which will enable the Company to continue as a going concern.

NOTE 5—CRUDE OIL AND NATURAL GAS PROPERTIES

The Company's oil and gas properties are located entirely within the United States. The net capitalized costs related to the Company's oil and gas producing activities were as follows:

	September 30, 2017	December 31, 2016
Proved oil and gas properties	\$ 16,289,847	\$ 8,132,881
Unproved oil and gas properties ⁽¹⁾	7,942,890	4,092,550
Wells in progress ⁽²⁾	<u>8,384,391</u>	<u>2,168,092</u>
Total capitalized costs	32,617,128	14,393,523
Accumulated depletion, depreciation and amortization	<u>(3,918,935)</u>	<u>(783,320)</u>
Net capitalized costs	<u>\$ 28,698,193</u>	<u>\$ 13,610,203</u>

- (1) Unproved oil and gas properties represent unevaluated costs the Company excludes from the amortization base until proved reserves are established or impairment is determined.
- (2) Costs from wells in progress are excluded from the amortization base until production commences. Furthermore, wells in progress include approximately \$260,000 of capitalized interest costs associated with the drilling and completion activities during 2017.

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

	September 30,	
	2017	2016
Exploration costs	\$ 67,382	\$ 17,440
Development costs	14,373,262	2,127,869
Acquisition of properties		
Proved	—	2,811,546
Unproved	<u>3,850,340</u>	<u>633,264</u>
Total	<u>\$ 18,290,984</u>	<u>\$ 5,590,119</u>

During the three months ended September 30, 2017 and 2016, depletion expense, which is included as part of the depletion, depreciation and amortization in the condensed consolidated statement of operations, was \$1,153,273 and \$23,525, respectively, and \$3,135,614 and \$23,525 for the nine months ended September 30, 2017 and 2016, respectively.

PetroShare Corp.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

September 30, 2017

NOTE 6—DEBT*Line of credit*

On May 13, 2015, the Company entered into a Revolving Line of Credit Facility Agreement (“initial line of credit”) with Providence Energy Operators, LLC (“PEO”), which provides to the Company a revolving line of credit of up to \$5.0 million, maturing June 30, 2018. Effective September 1, 2017, interest on the initial line of credit was increased from 8% to 10% per annum.

As of September 30, 2017 and December 31, 2016, the outstanding balance on the initial line of credit was \$5,000,000 plus accrued interest of \$609,875 and \$302,477, respectively. During the three and nine months ended September 30, 2017, the Company recorded interest expense of \$117,375 and \$305,290, respectively, which excluded \$10,441 of interest that was capitalized to wells in progress during the year. During the three and nine months ended September 30, 2016, the Company recorded interest expense of \$96,157 and \$153,053, respectively, related to the initial line of credit.

On September 23, 2017, the Company entered into a letter agreement with PEO and PEP III in connection with the issuance of the Series B Notes discussed below pursuant to which the Company agreed to (i) issue 250,000 shares of its common stock to PEO (Note 9), (ii) increase the interest rate on the initial line of credit from 8% per year to 10% per year effective September 1, 2017, (iii) begin making interest payments on the initial line of credit beginning in the fourth quarter of 2017; and (iv) meet with representatives of PEO not less frequently than semi-monthly beginning November 1, 2017 to discuss and review the Company’s working capital.

The Company issued 250,000 shares to PEO valued at \$1.55 per share. The value of the shares has been recorded as a deferred financing fee and is being amortized over the remaining life of the initial line of credit which matures on June 30, 2018. As of September 30, 2017, the balance of the unamortized portion of the deferred financing fee amounted to \$379,167.

Supplemental line of credit

On October 13, 2016, the Company entered into a revolving line of credit facility agreement (the “supplemental line of credit”) with Providence Energy Partners III, LP (“PEP III”). PEP III is an affiliate of PEO by virtue of having some common management personnel. The supplemental line of credit permitted the Company to borrow up to \$10.0 million to pay costs associated with its acquisition and development of oil and gas properties in the Wattenberg Field. Interest on the supplemental line initially accrued at the rate of 8% per year.

The supplemental line of credit was amended on March 30, 2017, pursuant to which the Company agreed not to borrow additional amounts against the supplemental line of credit and to repay \$3,552,500 in outstanding principal not later than April 13, 2017, in exchange for PEP III extending the maturity date of the supplemental line of credit until June 13, 2017. On April 12, 2017, the Company paid \$3,552,500 in accordance with the amendment.

On June 8, 2017, the Company entered into a letter agreement (“PEP III Agreement”) with PEP III and PEO, pursuant to which PEP III agreed to modify the Company’s supplemental line of credit. The PEP III Agreement extended the maturity date of the supplemental line of credit, including approximately \$3.8 million in outstanding principal and accrued interest, from June 13, 2017 until December 27, 2017, and increased the interest rate on the supplemental line from 8% to 10%, effective June 8, 2017. The Company and PEO also agreed to amend the participation agreement between the Company and PEO, dated May 13, 2015 (“Participation Agreement”), in order to expand the area of mutual interest (“AMI”) established, and to grant PEP III an option to participate under the Participation Agreement. As amended, the Participation Agreement grants PEO the option to acquire up to a 45%

PetroShare Corp.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****September 30, 2017**

interest and, so long as the supplemental line of credit remains outstanding, PEP III the option to acquire up to a 10% interest in and participate in any oil and gas development on acreage acquired by the Company within the expanded AMI. The expanded AMI covers a total of four and one-half townships in Adams and Weld Counties, Colorado.

As of September 30, 2017 and December 31, 2016, the outstanding balance on the supplemental line of credit was \$3,552,500 and \$7,088,698, plus accrued interest of \$364,599 and \$50,422, respectively. During the three and nine months ended September 30, 2017, the Company recorded interest expense of \$89,542 and \$314,177, respectively, related to the supplemental line of credit. No interest expense was recorded in the prior nine-month period.

Convertible Notes

On December 30, 2016, January 20, 2017 and January 30, 2017, the Company completed the private placement of units consisting of convertible promissory notes ("Convertible Notes") with an aggregate face value of \$10.0 million and common stock purchase warrants. The Company received net proceeds of approximately \$9.0 million from the private placement, after placement agent fees and other associated expenses.

Debt issuance costs related to origination fees paid in cash have been recorded as a discount to the Convertible Notes and are being amortized to interest expense utilizing the effective interest method over the term of the Convertible Notes. As of September 30, 2017 and December 31, 2016, the unamortized portion of debt issuance costs amounted to \$745,046 and \$204,703, respectively. The Company recorded interest expense of \$102,949 and \$336,050 related to the accretion of the discount for the three and nine months ended September 30, 2017, respectively. No interest expense was recorded in the prior nine-month period.

In accordance with ASC 470, the proceeds from the sale of the Convertible Notes was allocated between the conversion feature and the warrants based on the fair values of the debt instrument without the warrants and of the warrants themselves at the time of issuance. The fair value of the beneficial conversion feature of \$5,306,199 has been recorded as a reduction of the carrying value of the Convertible Notes and is being amortized to interest expense using the effective interest method over the term of the Convertible Notes. The fair value of the warrants of \$3,682,801 has been recorded as a reduction to the carrying value of the Convertible Notes and is being amortized to interest expense using the effective interest method over the term of the Convertible Notes. The fair value of the warrants issued to the placement agent in connection with the offering of \$1,001,471 has been recorded as a charge to additional paid-in capital.

As of September 30, 2017, the Company recorded accrued interest of \$252,055 and recognized interest expense of \$256,234 and \$447,903 for the three and nine months ended September 30, 2017, respectively, related to the Convertible Notes. Interest on the Convertible Notes during 2017 of \$249,315 was capitalized to oil and gas properties.

Series B Convertible Notes

On September 25, 2017, the Company sold Series B Unsecured Convertible Promissory Notes (the "Series B Notes") in the principal amount of \$1,695,000 to 27 accredited investors, which includes five of the Company's officers and directors who collectively purchased Series B Notes in the principal amount of \$380,000. The Series B Notes are unsecured, bear interest at 15% per year and are due and payable on December 31, 2018. At the option of the holders of the Series B Notes, the principal amount of the Series B Notes, and any accrued but unpaid interest, are convertible into shares of the Company's common stock at a conversion price of \$1.50 per share. The Company paid sales commissions of \$53,950 and associated expenses of \$1,000 in connection with the sale of the Series B Notes.

Debt issuance costs related to origination fees paid in cash have been recorded as a discount to the Series B Notes and are being amortized to interest expense utilizing the effective interest method over the term of the Series B

PetroShare Corp.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****September 30, 2017**

Notes. As of September 30, 2017, the unamortized portion of debt issuance costs amounted to \$54,351. The Company recorded interest expense of \$599 related to the accretion of the discount for the three and nine months ended September 30, 2017, respectively.

In accordance with ASC 470, the fair value of the beneficial conversion feature of \$56,500, has been recorded as a reduction of the carrying value of the Series B Notes and is being amortized to interest expense using the effective interest method over the term of the Series B Notes. As of September 30, 2017, the unamortized portion of the discount related to the beneficial conversion feature amounted to \$55,890. The Company recorded interest expense of \$610 related to the accretion of the discount for the three and nine months ended September 30, 2017.

As of September 30, 2017, the Company recorded accrued interest of \$4,179 and recognized interest expense of \$4,179 for the three and nine months ended September 30, 2017, respectively, related to the Series B Notes.

On October 17, 2017, the Company sold additional Series B Notes in the principal amount of \$2,624,900 to 53 accredited investors, which includes four of the Company's officers and directors who collectively purchased Series B Notes in the principal amount of \$140,000. The Company paid sales commissions of \$94,145 in connection with the sale of these Series B Notes.

On October 26, 2017, the Company sold additional Series B Notes in the principal amount of \$405,000 to six accredited investors, which included one of the Company's directors who purchased a Series B Note in the principal amount of \$50,000. The Company paid sales commissions of \$8,250, in connection with the sale of these Series B Notes.

The October 26, 2017 closing was the final closing pursuant to the Series B Notes offering. The total Series B Notes sold amounted to \$4,724,900 in principal. Ten of the Company's officers and directors collectively purchased Series B Notes in the principal amount of \$570,000. The Company paid total commissions in the amount of \$156,345 and associated expenses of \$1,000 in connection with the sale of the Series B Notes.

For every Series B Note purchased, the holders of an original Convertible Note was given the right, but not the obligation, on or prior to October 16, 2017, to convert twice the corresponding amount of their original Convertible Note into shares of the Company's common stock at a conversion price of \$1.10 per share. On October 16, 2017, investors converted \$5,166,800 in principal and \$128,892 of accrued interest of Convertible Notes into shares of the Company's common stock. The market value of the Company's common stock was \$1.38 at the date of the conversion. The Company is obligated to issue 4,697,090 shares and 117,175 shares, respectively, in connection with the conversion of the Convertible Notes payable and accrued interest. The Company paid \$47,858 to the placement agent in connection with these conversions.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

September 30, 2017

The following table reflects the net amounts recorded as debt at September 30, 2017 and December 31, 2016:

	September 30, 2017	December 31, 2016 (see Note 3)
Current portion:		
Line of credit	\$ 5,000,000	\$ —
Supplemental line of credit	3,552,500	7,105,000
Unamortized debt discount	—	(16,302)
Total line of credit	<u>8,552,500</u>	<u>7,088,698</u>
Convertible notes payable:		
Face amount convertible notes	5,166,800	—
Unamortized original issuance costs	(356,868)	—
Unamortized discount related to beneficial conversion feature	(1,764,311)	—
Unamortized discount related to warrants issued	(1,224,559)	—
Net convertible notes payable	<u>1,821,062</u>	<u>—</u>
Total current portion	<u>\$ 10,373,562</u>	<u>\$ 7,088,698</u>
Long-term portion:		
Line of credit	\$ —	\$ 5,000,000
Convertible notes payable:		
Face amount of convertible notes	6,528,200	1,942,600
Unamortized original issuance costs	(388,178)	(204,703)
Unamortized discount related to beneficial conversion feature	(1,706,275)	(1,030,755)
Unamortized discount related to warrants issued	(1,145,496)	(701,834)
Net convertible notes payable	<u>\$ 3,288,251</u>	<u>\$ 5,308</u>
Total long-term portion	<u>\$ 3,288,251</u>	<u>\$ 5,005,308</u>
Total debt, net	<u>\$ 13,661,813</u>	<u>\$ 12,094,006</u>

NOTE 7—ASSET RETIREMENT OBLIGATION

For the purpose of determining the fair value of the asset retirement obligation incurred during the nine months ended September 30, 2017, the Company assumed an inflation rate of 2.0%, an estimated average asset life of between 27.0 and 40.0 years, and a credit-adjusted risk-free interest rate between 11.26% and 11.86%.

The following reconciles the activity of the asset retirement obligation for the periods presented:

	Nine months ended September 30, 2017	Year ended December 31, 2016
Asset retirement obligation, beginning of period	\$ 945,419	\$ 34,776
Liabilities settled	(9,475)	1,990
Liabilities incurred	106,158	878,170
Revisions in estimated liabilities	—	—
Accretion	<u>72,772</u>	<u>30,483</u>
Asset retirement obligation, end of period	<u>\$ 1,114,874</u>	<u>\$ 945,419</u>

PetroShare Corp.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

September 30, 2017

Accretion expense recorded for the three months ended September 30, 2017 and 2016 was \$25,860 and \$13,931, respectively, and for the nine months ended September 30, 2017 and 2016 was \$72,772 and \$15,738, respectively.

NOTE 8—ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liability balances were comprised of the following:

	September 30, 2017	December 31, 2016
Trade payables and accrued liabilities	\$ 9,050,981	\$ 2,366,429
Accrued interest payable	1,230,707	352,599
Liabilities incurred in connection with acquisition of crude oil and natural gas properties	—	290,078
Total	<u>\$ 10,281,688</u>	<u>\$ 3,009,106</u>

NOTE 9—SHAREHOLDERS' EQUITY

Public Offering

On May 19, 2017, the Company filed a registration statement on Form S-1 (File No. 333-218096), pursuant to which the Company seeks to raise up to \$50.0 million in a public offering of its common stock. Closing of the offering is subject to a number of conditions, including an effective date for its registration statement from the SEC and execution of a definitive underwriting agreement with the underwriters.

Activity for the nine months ended September 30, 2017 included the following:

On September 23, 2017, the Company entered into a letter agreement with PEO pursuant to which PEO consented to the Company issuing the Series B Notes as described more fully in (Note 6). In connection with the execution of the letter agreement, the Company issued 250,000 shares to PEO valued at \$1.55 per share.

On September 25, 2017, the Company sold Series B Notes in the principal amount of \$1,695,000. The Series B Notes are convertible into shares of common stock at \$1.50 per share. Immediately following the closing, the Convertible Notes were convertible into 1,130,000 shares of common stock.

In connection with the completion of a private placement, the Company received \$7,251,662 in net proceeds from the sale of 161.15 units consisting of Convertible Notes and warrants during the first quarter of 2017. The Convertible Notes were convertible into shares of common stock at \$1.50 per share. Immediately following the closing, and including units sold during 2016, the Convertible Notes were convertible into 6,666,666 shares of common stock.

Subsequent to September 30, 2017, in connection with the conversion of Convertible Notes, the Company is obligated to issue 4,814,265 shares of common stock valued at \$1.10 per share in connection with the conversion of \$5,166,800 in principal and \$128,892 of accrued interest of these Convertible Notes (Note 6).

On various dates, in connection with the execution of four employment agreements (Note 12) and the employment of additional employees, the Company issued 219,700 shares of restricted stock. The shares are subject to certain vesting restrictions, but all 219,700 shares have full voting rights and are eligible to receive dividends during the vesting period.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

September 30, 2017

For the three and nine months ended September 30, 2017, the Company recorded stock-based compensation of \$51,370 and \$103,769, respectively, related to the grant and vesting of the restricted shares. As of September 30, 2017, unvested stock-based compensation amounted to \$304,977 related to the restricted shares.

On April 3, 2017, the Company issued 470,555 shares valued at \$1.80 per share in connection with the acquisitions of oil and gas assets.

Activity for the nine months ended September 30, 2016 included the following:

In January 2016, the Company sold 95,000 shares of common stock at \$1.00 per share to one accredited investor pursuant to a private placement.

On April 8, 2016, the Company issued 50,000 shares of common stock valued at \$0.73 per share to an investor relations company in connection with the certain services to be provided pursuant to an investor relations agreement.

On May 4, 2016, the Company issued an aggregate 50,000 shares of common stock valued at \$1.01 per share to two of the Company's Directors in connection with their appointment to the Board.

Warrants

The table below summarizes warrants outstanding as of September 30, 2017:

	<u>Shares Underlying Outstanding Warrants</u>	<u>Exercise Price Per Share</u>	<u>Expiration Date</u>
Underwriter warrants	255,600	\$ 1.25	11/12/2020
Investor warrants	6,666,600	\$ 3.00	12/31/2019
Placement agent warrants	666,600	\$ 1.50	12/31/2021
Total warrants outstanding	<u>7,588,800</u>		

Activity for the nine months ended September 30, 2017 included the following:

On January 20, 2017 and January 30, 2017, in connection with the same private placement, the Company issued 2,216,978 and 3,154,601 warrants, respectively, to the purchasers of Convertible Notes. The warrants are exercisable at \$3.00 per share and expire on December 31, 2019 (Note 6).

On January 20, 2017 and January 30, 2017, in connection with the closings of a private placement, the Company issued 221,744 and 315,526 warrants, respectively, to the placement agent. The warrants are exercisable at \$1.50 per share and expire on December 31, 2021 (Note 6).

NOTE 10—STOCK-BASED COMPENSATION

On August 18, 2016, the Company's Board of Directors adopted the Amended and Restated PetroShare Corp. Equity Incentive Plan (the "Plan"), which replaced and restated the Company's original equity incentive plan. The Plan terminates by its terms on August 17, 2026. Among other things, the Plan increased the number of shares of common stock reserved for issuance thereunder from 5,000,000 to 10,000,000. The Company's shareholders approved the Plan at the Company's annual meeting of shareholders on September 8, 2016.

PetroShare Corp.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****September 30, 2017**

Activity for the nine months ended September 30, 2017 included the following:

On April 1, 2017, the Company accelerated and changed the vesting terms related to an option to purchase 700,000 shares of the Company's stock that was initially issued on August 19, 2016. As amended, the option as to 100,000 shares was immediately exercisable and the vesting terms of the option as to the remaining 600,000 shares were accelerated. As amended, the entire option is exercisable at \$1.83 per share.

On April 3, 2017, the Company issued an option to purchase 200,000 shares of the Company's common stock, which option is exercisable at \$1.83 per share. The option was issued in connection with the execution of an employment agreement (Note 12).

On May 22, 2017, the Company issued an option to purchase 22,000 shares of the Company's common stock, which option is exercisable at \$1.92 per share. The option was issued in connection with the hiring of a new employee.

On June 1, 2017 the Company issued an option to purchase 200,000 shares of the Company's common stock, which option is exercisable at \$1.89 per share. The option was issued in connection with the execution of an employment agreement (Note 12). All of the options are subject to the terms and conditions of the Plan and a stock option agreement.

Activity for the nine months ended September 30, 2016 included the following:

On January 1, 2016, the Company issued an option to purchase 250,000 shares of its common stock in connection with the appointment of its Chief Financial Officer. The option is exercisable at a price of \$1.00 per share and expires on November 23, 2018. The option vested one-half on January 1, 2016 and the remainder on January 1, 2017.

On January 28, 2016, the Company issued an option to purchase 875,000 shares of its common stock in connection with the appointment of its Chief Operating Officer. The option is exercisable at a price of \$1.00 per share and expires on December 31, 2022. The option vested as follows: (i) 125,000 on January 28, 2016, the date of grant, and (ii) 750,000 on January 1, 2017.

On April 12, 2016, the Company issued an option to purchase 250,000 shares of its common stock in connection with the hiring of the Company's Vice President of Land. The option vests as follows: (i) 50,000 on the date of grant; (ii) 100,000 on April 15, 2017; and (iii) 100,000 on April 15, 2018, provided that the optionee has been continuously employed by the Company up to each vesting date. The option is exercisable at a price of \$0.80 per share and expires on April 15, 2021.

On May 4, 2016, the Company issued an option to purchase 50,000 shares of its common stock in connection with the addition and appointment of two members of the Company's Board of Directors. The options vested on the date of grant. The options are exercisable at a price of \$1.10 per share and expire on December 31, 2022. All of the options are subject to the terms and conditions of the Plan and a stock option agreement.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

September 30, 2017

A summary of activity under the Plan for the nine months ended September 30, 2017 is as follows:

	Number of Shares	Weighted Average Exercise Price	Remaining Contractual Term (Years)
Outstanding, December 31, 2016	4,675,000	\$ 0.76	5.39
Exercisable, December 31, 2016	3,010,000	\$ 0.54	5.97
Granted	422,000	\$ 1.86	5.69
Exercised	—	—	—
Forfeited	—	—	—
Outstanding, September 30, 2017	5,097,000	\$ 0.85	4.88
Exercisable, September 30, 2017	3,840,000	\$ 0.66	4.87

The fair value of each stock-based award was estimated on the date of the grant using the Black-Scholes pricing model that incorporates key assumptions including volatility of the Company's stock, dividend yield and risk-free interest rates. As the Company's common stock has limited historical trading data, the expected stock price volatility is based primarily on the historical volatility of a group of publicly-traded companies that share similar operating metrics and histories. The expected term of the awards represents the period of time that management anticipates awards will be outstanding. As there was insufficient 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 rates for the periods within the contractual life of the options are based on the US Treasury bond rate in effect at the time of the grant for bonds with maturity dates at the expected term of the options. The Company 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. Compensation expense related to stock options was recorded net of estimated forfeitures, which for options remaining at September 30, 2017, was \$nil.

The table below summarizes assumptions utilized in the Black-Scholes pricing model for the nine months ended September 30, 2017:

	September 30, 2017
Expected option term—years	2.5 - 3.25
Risk-free interest rate	1.75% - 1.93%
Expected dividend yield	0%
Volatility	162% - 169%
Forfeited	0%

During the three and nine months ended September 30, 2017, the Company recorded stock-based compensation of \$345,835 and \$1,024,182, respectively, related to options issued through the Plan. During the three and nine months ended September 30, 2016, the Company recorded stock-based compensation of \$378,870 and \$1,093,854 respectively, related to options issued through the Plan. Unvested stock-based compensation related to the options at September 30, 2017 and December 31, 2016 amounted to \$856,778 and \$1,025,391, respectively.

NOTE 11—RELATED PARTY TRANSACTIONS

At September 30, 2017, the Company had drawn \$5,000,000 on the initial line of credit with PEO and recorded related accrued interest of \$609,875. PEO currently beneficially owns 13.2% of the Company's common stock. Interest expense related to the initial line of credit for the three and nine months ended September 30, 2017 amounted to \$117,375 and \$305,290, respectively, and for the three and nine months ended September 30, 2016 was \$96,157 and \$153,053, respectively.

PetroShare Corp.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

September 30, 2017

At September 30, 2017, the Company has recorded \$389,885 in Accounts receivable – joint interest billing – related party. This amount relates to amounts billed to PEO related to its participation in the Company’s operated Shook drilling program and PEO’s ownership interest in the vertical wells that the Company operates.

At September 30, 2017, the Company has recorded \$1,141,539 in Drilling advances – related party. This amount relates to unapplied cash advances received from PEO in connection with the Company’s operated Shook drilling program, and has recorded \$11,672 in Accounts payable – related party, payable to PEO.

During the three months ended September 30, 2017 the Company issued 250,000 common shares to PEO in connection with the execution of a letter agreement (Notes 6 and 9).

On September 25, 2017 the Company sold Series B Notes to five of the Company’s officers and directors who collectively purchased Series B Notes in the principal amount of \$380,000 (Note 6). Subsequent to the end of the period, five of the Company’s officers and directors purchased Series B Notes in the aggregate principal amount of \$190,000 on the same terms and conditions as the other purchasers, with the exception that the Company did not pay commissions on these sales.

NOTE 12—COMMITMENTS AND CONTINGENCIES

Operating leases and agreements

The Company leases its office facility under a four-year non-cancelable operating lease expiring in March 2021. The following is a schedule by year of future minimum rental payments required under the lease agreement:

<u>Year ending December 31.</u>	<u>Amount</u>
2017	\$ 31,692
2018	129,738
2019	133,698
2020	137,658
2021	34,662
Total	\$ 467,448

Lease expense totaled \$42,245 and \$92,354 for the three and nine months ended September 30, 2017, respectively, and \$55 and \$22,089 for the three and nine months ended September 30, 2016, respectively.

Employment agreements

On April 1, 2017, the Company entered an employment agreement with its Manager of Production and Completion Operations. The agreement provides for a base salary of \$130,000 per year, an initial term expiring on March 31, 2018 with an automatic renewal for successive one-year periods unless terminated in accordance with its terms, and provisions for termination and payment of severance under various circumstances. In connection with the execution of the agreement, the employee was granted 50,000 shares of restricted stock and an option to purchase up to 200,000 shares of common stock at an exercise price of \$1.83 per share.

On April 1, 2017, the Company entered into an employment agreement with its Executive Vice President for Capital Markets and Investor Relations. The agreement provides for a base salary of \$156,000 per year, an initial term expiring on December 31, 2018 with an automatic renewal for successive one-year periods unless terminated in accordance with its terms, and provisions for termination and payment of severance under various circumstances. In

PetroShare Corp.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

September 30, 2017

connection with the execution of the agreement, the employee was granted 66,700 shares of restricted stock and the vesting of 200,000 previously issued stock options were accelerated.

On June 1, 2017, the Company entered into an employment agreement with its Senior Landman. The agreement provides for a base salary of \$130,000 per year, an initial term expiring on May 31, 2018 with an automatic renewal for successive one-month periods unless terminated in accordance with its terms, and provisions for termination. In connection with the execution of the agreement, the employee was granted 50,000 shares of restricted stock and an option to purchase 200,000 shares of common stock at \$1.89 per share.

On June 1, 2017, the Company entered into an employment agreement with its Chief Financial Officer. The agreement provides for a base salary of \$150,000 per year, an initial term expiring on December 31, 2018 with an automatic renewal for successive one-year periods unless terminated in accordance with its terms, and provisions for termination and payment of severance under various circumstances. In connection with the execution of the agreement, the employee was granted 50,000 shares of restricted stock.

NOTE 13—SUBSEQUENT EVENTS

On October 16, 2017, the Company converted \$5,166,800 in Convertible Notes and \$128,892 in corresponding accrued interest into 4,697,090 and 117,175 shares of common stock respectively (Note 6).

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

In the following discussion, "PetroShare Corp.," the "Company," "we," "our," and "us" refer to PetroShare Corp.

The following discussion analyzes (i) our financial condition at September 30, 2017 and compares it to December 31, 2016, and (ii) our results of operations for the three and nine months ended September 30, 2017 and 2016. The following discussion and analysis should be read in conjunction with the financial statements and related notes included in this report and our audited financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the year ended December 31, 2016. Further, we encourage you to review the Cautionary Language Regarding Forward-Looking Statements.

Overview

We are an independent oil and natural gas company focused on the acquisition and development of crude oil and natural gas properties and have assembled approximately 10,000 net acres, including mineral rights only acreage, most of which is located in the Denver-Julesburg Basin, or the DJ Basin, in northeast Colorado. Our current operating focus is within the Wattenberg Field of the DJ Basin, which is located primarily in Adams and Weld Counties, Colorado. We have concentrated our efforts in areas where we believe the geo-mechanical characteristics of the underlying formations offer the potential for greater returns on capital. Our evaluation metrics include reservoir thickness, reservoir quality and resistivity of each formation, each of which affect the number of wells we plan to drill per drilling spacing unit. We realized our first meaningful revenue in 2017 with the commencement of production from horizontal wells in which we participated. Also, during 2017, we drilled our first horizontal wells in the Wattenberg Field as an operator.

As an oil and natural gas exploration and production company, our revenue, results of operation, cash flow from operations, reserve values, access to capital and future rate of growth are influenced by the prevailing prices of oil and natural gas. Changes in prices can affect, both positively and negatively, our financial condition, liquidity, ability to obtain financing, operating results, and the amount of oil and natural gas that we choose to produce. Prevailing prices for such commodities fluctuate in response to changes in supply and demand and a variety of additional factors beyond our control, such as global, political and economic conditions. Inherently, the price received for oil and natural gas production is unpredictable, and such volatility is expected. All of our production is sold at market prices and, therefore, the amount of revenue that we realize, as well as our estimates of future revenues, is to a large extent determined by factors beyond our control. To date we have not entered into hedging arrangements with respect to any of our future production, but we may choose to do so in the future.

Recent Developments

Following are what we believe to be significant developments for our company during the third quarter of 2017:

- We completed the remaining wells on our 14-well operated Shook pad, with all the wells currently drilled, cased, cemented and awaiting fracture stimulation;
- We produced 91,653 BOE for the quarter, averaging 996 BOE/D, at an average sales price of \$31 per BOE;
- We completed payments to our working interest partner on the 14-well Jacobucci pad, allowing for the receipt of cash distributions in October of approximately \$900,000;
- We issued \$4.7 million in long-term debt in the quarter and continuing into the month of October and converted approximately \$5.2 million in debt to equity as part of a private placement, providing some short-term relief from our liquidity and working capital needs; and
- We continued efforts to raise capital to address our liquidity and working capital needs on a longer-term basis.

We do not believe that we will be in a position to fracture stimulate any of our operated Shook pad wells unless and until we receive sufficient additional capital, and accordingly, we do not expect a significant change in our production profile until that time.

Going Concern

As described in the notes to our condensed consolidated financial statements, there is substantial doubt about our ability to continue as a going concern. This qualification is based on, among other things, our substantial near-term liabilities, some of which are past-due, accumulated losses and negative working capital. We are dependent on obtaining additional cash flow from operations and funding from the sale of debt or equity to continue as a going concern.

At September 30, 2017, we had a cash balance of approximately \$0.7 million and other current assets of approximately \$3.2 million compared to approximately \$22.0 million of current liabilities. In December 2017, we are obligated to repay approximately \$3.6 million in principal and approximately \$0.4 million in accrued interest to satisfy the terms of our supplemental line of credit. Also in December 2017, we are obligated to make an approximate \$0.6 million accrued interest payment on our initial line of credit and cash payments for interest accrued on our convertible promissory notes. We had net losses of approximately \$4.9 million during the nine months ended September 30, 2017 and \$4.5 million during the year ended December 31, 2016. All of these factors raise substantial doubt about our ability to continue as a going concern.

Our ability to continue as a going concern depends on the success of our fundraising, future drilling, exploration and development efforts, and our ability to generate revenue sufficient to cover our costs and expenses. In the event we are unable to obtain adequate funding from the sale of debt or equity securities and our ongoing drilling efforts, both operated and non-operated, we may have to delay, reduce or eliminate certain of our planned operations, reduce overall overhead expense, or divest assets. This, in turn, may have an adverse effect on our ability to realize the value of our assets.

Results of Operations for the three months ended September 30, 2017 compared to September 30, 2016

The following table summarizes our operating results and averages for the three months ended September 30, 2017 and 2016:

	For the Three months ended September 30,	
	2017	2016
Revenue		
Crude Oil	\$ 2,094,056	\$ 41,839
Natural Gas	486,197	33,328
NGLs	257,939	11,990
Total revenue	<u>\$ 2,838,192</u>	<u>\$ 87,157</u>
Total operating expense ⁽¹⁾	\$ 459,754	\$ 64,716
Gross profit	\$ 2,378,438	\$ 22,441
Net (loss)	\$(2,031,072)	\$(1,152,045)
Depletion, depreciation and amortization expense	\$ 1,166,030	\$ 39,064
Sales volume ^{(2),(3)}		
Crude Oil (Bbls)	46,392	1,016
Natural Gas (Mcf)	175,659	14,158
NGLs (Bbls)	15,985	779
BOE	91,653	4,155
Average sales price ⁽⁴⁾		
Crude Oil (per Bbl)	\$ 45.14	\$ 41.18
Natural Gas (per Mcf)	\$ 2.77	\$ 2.35
NGLs (per Bbl)	\$ 16.14	\$ 15.39
BOE	\$ 30.97	\$ 20.98
Average per BOE		
Operating expense	\$ 5.02	\$ 15.57
Gross profit	\$ 25.95	\$ 5.40
Depletion, depreciation and amortization expense	\$ 12.72	\$ 9.40

- (1) Overall lifting costs (oil and gas production costs, including production taxes).
- (2) Estimates of volumes are inherent in reported volumes to coincide with revenue accruals as a result of the timing of sales information reported by third-party operators.
- (3) Sales volumes are based upon crude oil, natural gas and NGL's sold or accrued during the period and differ from crude oil, natural gas and NGL's produced during the period.
- (4) Averages calculated based upon non-rounded figures.

Overview: For the three months ended September 30, 2017, we realized a net loss of \$2,031,072, or \$0.09 per share, compared to a net loss of \$1,152,045 or \$0.05 per share for the three months ended September 30, 2016. Our production averaged 996 BOE/D during the third quarter of 2017 compared to 45 BOE/D in the third quarter of 2016. We expect to continue operating at a loss until such time as the anticipated cash flow from the wells in which we have an interest is sufficient to cover operating, general and administrative and other expenses; however, we believe that our cash flow from our currently producing operated and non-operated properties is sufficient to cover all of our recurring general and administrative expenses.

Revenues: Crude oil, natural gas and NGL sales revenue was \$2,838,192 for the three months ended September 30, 2017 compared to \$87,157 for the three months ended September 30, 2016. Revenue decreased in the third quarter of 2017 compared to the second quarter, resulting from lower production and slightly lower prices, as described in "Volumes and Prices" below. The revenue that we reported in the third quarter of 2017 primarily came from the sale of crude oil, natural gas and NGLs from horizontal wells in which we participated as a non-operator and which

were placed in service during the first quarter of 2017, and to a much lesser extent, the vertical wells that we acquired during 2016.

Volumes and Prices: Crude oil, natural gas and NGL sales volumes were 91,653 BOE for the three months ended September 30, 2017, down from 126,726 BOE for the second quarter of 2017. The decrease in BOE per quarter is due to the natural decline in the well production. Sales volume during the same period in 2016 was negligible, as none of the horizontal wells in which we are participating were yet placed on-line. For the three months ended September 30, 2017, our average crude oil sales price was \$45.14 per Bbl; our average natural gas sales price was \$2.77 per Mcf; and our average NGLs sales price was \$16.14 per Bbl. Our overall average price for the three months ended September 30, 2017 was \$30.97 per BOE, down slightly from \$35.17 for the second quarter of 2017, but up significantly from the 2016 period.

Operating Expense: Operating expense for the three-month periods is shown below:

	Three months ended September 30,	
	2017	2016
Lease operating costs	\$191,204	\$34,923
Production taxes	198,608	5,453
Transportation and other costs	<u>69,942</u>	<u>24,340</u>
Total	<u>\$459,754</u>	<u>\$64,716</u>

Total operating expense increased \$395,038 for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. The increase was primarily due to a small amount of production in the third quarter of 2016 compared to the significant increase in production third quarter of 2017.

Lease operating costs per BOE were \$2.09 and \$8.41 for the three months ended September 30, 2017 and 2016, respectively. As a percent of crude oil, natural gas and NGL sales revenue, routine LOE was 6.7% and 40.1% for the three months ended September 30, 2017 and 2016, respectively. Overall operating costs (crude oil and natural gas operating costs, including production taxes) per BOE was \$5.02 for the three months ended September 30, 2017, compared to \$15.57 for the three months ended September 30, 2016. The decrease in lease operating and overall costs between comparable periods is due to the significant increase in production in 2017 over which the costs can be spread.

Depletion, depreciation and amortization expense: Depletion, depreciation and amortization increased \$1,126,966 for the three months ended September 30, 2017. The increase in expense was the result of increased production volumes related to wells acquired late in 2016 and non-operated wells coming on-line during the 2017 period, partially offset by an increase in our estimated reserves.

Other income (expense): During the three months ended September 30, 2017, we recognized other income of \$28,948 compared to \$33 in the three months ended September 30, 2016. During the same period, we recognized interest expense of \$1,731,853 compared to \$96,157 in the three months ended September 30, 2016. The interest expense recognized in the current period primarily relates to advances on our two lines of credit, convertible promissory notes and amortization of debt discounts recorded in connection with our convertible promissory notes.

General and administrative expenses: We incurred general and administrative expenses of \$1,514,007 during the three months ended September 30, 2017 compared to \$980,870 in the three months ended September 30, 2016, representing an increase of \$533,137, or 54.4%. This increase is attributable to increases in salary and wage expenses to \$439,039 from \$184,250, which was related to the addition of new employees in the 2017 period, as well as increases in stock-based compensation, employee benefits, board of director fees, filing fees and investor relations expenses associated with being a public company required to file reports with the SEC.

Results of Operations for the nine months ended September 30, 2017 compared to September 30, 2016

The following provides selected operating results and averages for the nine months ended September 30, 2017 and 2016:

	For the Nine months ended September 30,	
	2017	2016
Revenue		
Crude Oil	\$ 7,124,456	\$ 41,839
Natural Gas	1,061,849	33,328
NGLs	570,774	11,990
Total revenue	\$ 8,757,079	\$ 87,157
Total operating expense ⁽¹⁾	\$ 1,373,074	\$ 70,309
Gross profit	\$ 7,384,005	\$ 16,848
Net (loss)	\$(4,903,680)	\$(2,793,052)
Depletion, depreciation and amortization expense	\$ 3,168,797	\$ 43,425
Sales volume ^{(2),(3)}		
Crude Oil (Bbls)	158,124	1,016
Natural Gas (Mcf)	381,735	14,158
NGLs (Bbls)	36,562	779
BOE	258,308	4,155
Average sales price ⁽⁴⁾		
Crude Oil (per Bbl)	\$ 45.06	\$ 41.18
Natural Gas (per Mcf)	\$ 2.78	\$ 2.35
NGLs (per Bbl)	\$ 15.61	\$ 15.39
BOE	\$ 33.90	\$ 20.98
Average per BOE		
Operating expense	\$ 5.32	\$ 16.92
Gross profit	\$ 28.59	\$ 4.05
Depletion, depreciation and amortization expense	\$ 12.27	\$ 10.45

- (1) Overall lifting costs (oil and gas production costs, including production taxes).
- (2) Estimates of volumes are inherent in reported volumes to coincide with revenue accruals as a result of the timing of sales information reported by third-party operators.
- (3) Sales volumes are based upon crude oil, natural gas and NGL's sold or accrued during the period and differ from crude oil, natural gas and NGL's produced during the period.
- (4) Averages calculated based upon non-rounded figures.

Overview: For the nine months ended September 30, 2017, we realized a net loss of \$4,903,680, or \$0.22 per share, compared to a net loss of \$2,793,052, or \$0.13 per share, for the nine months ended September 30, 2016. Our loss for the nine months ended September 30, 2017 increased \$2,110,628, primarily as a result of an increase in our general and administrative expenses, including a substantial increase in stock-based compensation, an increase in operating expenses, an increase in interest expense related to the convertible promissory notes, and an increase in depletion, depreciation, amortization and accretion expenses due to our participation in a drilling program that commenced in late 2016, partially offset by an increase in revenue in the second and third quarters of 2017.

Revenues: Crude oil, natural gas and NGL sales revenue was \$8,757,079 for the nine months ended September 30, 2017 compared to \$87,157 for the nine months ended September 30, 2016 due to factors described in "Volumes and Prices" below.

Volumes and Prices: Crude oil, natural gas and NGL sales volumes were 258,308 BOE for the nine months ended September 30, 2017. Sales volume during the same period in 2016 was negligible. For the nine months ended

September 30, 2017, our average crude oil sales price was \$45.06 per Bbl; our average natural gas sales price was \$2.78 per Mcf; and our average NGLs sales price was \$15.61 per Bbl. Our overall average price for the nine months ended September 30, 2017 was \$33.90 per BOE.

Operating Expense: Operating expense for the nine-month periods is shown below:

	Nine months ended September 30,	
	2017	2016
Lease operating costs	\$ 619,884	\$ 34,844
Production taxes	602,211	10,925
Transportation and other costs	150,979	24,540
Total	<u>\$1,373,074</u>	<u>\$ 70,309</u>

Total operating expense increased \$1,302,765 for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. The increase was primarily due to a small amount of production in the first three quarters of 2016 compared to significantly increased production in the 2017 period.

Lease operating costs per BOE were \$2.40 and \$8.39 for the nine months ended September 30, 2017 and 2016, respectively. As a percent of crude oil, natural gas and NGL sales revenue, routine LOE was 7.1% and 40.0% for the nine months ended September 30, 2017 and 2016, respectively. Overall operating costs (crude oil and natural gas operating costs, including production taxes) per BOE was \$5.32 for the nine months ended September 30, 2017, compared to \$16.92 for the nine months ended September 30, 2016.

Depletion, depreciation and amortization expense: Depletion, depreciation and amortization increased \$3,125,372 for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. The increase in expense was the result of increased sales volumes related to wells acquired in 2016 and non-operated wells coming on-line during the 2017 period, coupled with decline curves in wells, partially offset by an increase in our reserves.

Other income (expense): During the nine months ended September 30, 2017, we recognized other income of \$29,194 compared to \$534 in the nine months ended September 30, 2016. During the nine months ended September 30, 2017, we recognized interest expense of \$4,604,129 compared to \$153,053 in the nine months ended September 30, 2016. The interest expense recognized in the current period primarily relates to advances on our two lines of credit, convertible promissory notes and amortization of debt discounts on our convertible promissory notes.

General and administrative expenses: We incurred general and administrative expenses of \$4,380,676 during the nine months ended September 30, 2017 compared to \$2,535,789 in the nine months ended September 30, 2016, representing an increase of \$1,844,887, or 72.8%. This increase is attributable to increases in salary and wage expenses to \$992,897 from \$476,083, which was related to the payment of bonuses in the first quarter of 2017 and the addition of new employees, as well as increases in stock-based compensation, employee benefits, board of director fees, filing fees and investor relations expense associated with being a public company required to file reports with the SEC.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our liquidity and access to capital continued to suffer in the third quarter of 2017, although we did receive some temporary relief from the issuance of a modest amount of long-term debt at the end of the quarter. As noted above, there is substantial doubt about our ability to continue as a going concern due to continuing losses from operations, need for capital, and substantial near-term liabilities. As of September 30, 2017, we had negative working capital of \$18.1 million, comprised of current assets of \$3.9 million and current liabilities of \$22.0 million. Working capital decreased by \$12.0 million from December 31, 2016, primarily due to increases in accounts payable and accrued liabilities related to accrued capital costs for the development of our oil and gas properties, as well as our initial line of credit becoming

short-term during the second quarter of 2017 and the conversion of approximately \$5.2 million in convertible promissory notes on October 16, 2017 requiring a reclassification of the notes to a current liability. At September 30, 2017, we had a cash balance of \$0.7 million, the majority of which was received from the sale of the first tranche of Series B Notes and is allocated for development of our oil and gas properties. Our continued decline in short-term liquidity compels us to seek additional outside financing on an expedited basis.

During the three months ended September 30, 2017 and continuing into the fourth quarter, we completed a financing that provided some short-term relief to our liquidity and capital needs. We issued \$4.7 million aggregate amount of long-term convertible notes with a maturity of December 31, 2018. Related to that offering, the holders of the original convertible notes that were issued in late 2016 and early 2017 were offered the right to convert their original notes in an amount equal to two times the amount of their investment in Series B Notes into common stock at a reduced conversion price of \$1.10 per share. As a result of that offer, \$5.2 million of original notes were converted into common stock. Under covenants with the holder of our initial line of credit, the proceeds from the issuance of the Series B Notes must be used solely for drilling, development and maintenance expenses on our oil and gas properties.

During the nine months ended September 30, 2017, we received net proceeds of \$7.3 million, after offering costs of \$0.8 million, from the sale of units consisting of original convertible promissory notes and common stock purchase warrants. In addition, we received net proceeds of \$1.6 million related to the sale of Series B Notes. Substantially all of the proceeds from our sale of convertible promissory notes and Series B Notes has been expended in conjunction with our operating activities during the first nine months of the year. As a result of the issuance of the original notes and the Series B Notes, we have approximately \$9.7 million of debt maturing in December 2018.

We have fully drawn our initial line of credit, and as of September 30, 2017, we have \$5.0 million of principal plus accrued interest of \$0.6 million outstanding, all of which is due June 2018 if not sooner paid. As required by an amendment to the supplemental line of credit on March 30, 2017, we repaid approximately \$3.5 million in outstanding principal on April 12, 2017 and agreed not to borrow additional funds under the supplemental line in exchange for the lender extending the maturity date of the loan. As of September 30, 2017, we had approximately \$3.6 million plus accrued interest of approximately \$0.4 million outstanding against our supplemental line of credit, all of which is due on December 27, 2017.

On May 19, 2017, we filed a registration statement on Form S-1 with the SEC, through which we are seeking to raise up to \$50.0 million through the sale of common stock. We also are exploring other financing options. Whether or when we are able to raise funds pursuant to the registration statement or through other financing, or whether we can raise such funds on terms acceptable to us, is uncertain.

The amount we invest in development, drilling, and leasing activities depends on, among other factors, our fundraising efforts, opportunities presented to us, and the results of drilling to date. The most significant of our future capital requirements, in addition to repayment of debt and payment of accounts payable and accrued liabilities, include (i) costs to drill or participate in additional wells; (ii) costs to acquire additional acreage that we may identify in the Southern Core area or other areas; (iii) approximately \$315,000 per month for salaries and other corporate overhead; and (iv) legal and accounting fees associated with our status as a public company required to file reports with the SEC. We anticipate funding these projected capital requirements with proceeds from the sale of debt or equity, the success of which cannot be assured, and revenue from operations.

Cash Flows

Operating Activities

Net cash provided by operating activities during the nine months ended September 30, 2017 was \$4,096,603 compared to net cash used in operating activities of \$403,569 during the nine months ended September 30, 2016, representing an increase of \$4,500,172. The increase is attributable to a cash inflow from drilling advances from related parties, a significant increase in accounts payable and accrued liabilities, accretion of convertible promissory notes, depletion and depreciation, and stock-based compensation expenses, the latter three of which are non-cash items, partially offset by an increase in the net loss as discussed in Results of Operations above, and cash outflows for accounts

receivable – joint interest billing, accounts receivable – joint interest billings – related party, and accounts receivable due from operations.

Investing Activities

Net cash used in investing activities during the nine months ended September 30, 2017 was \$11,166,136 compared to \$5,544,069 during the nine months ended September 30, 2016, representing an increase of \$5,622,067 and reflecting a significant increase in our acquisition and development activities during the 2017 period. In the 2017 period, we paid \$3,003,339 for the acquisition of additional acreage primarily in our Todd Creek Farms prospect. During the 2017 period, we also paid \$8,082,911 for our share of the development of our properties, including the drilling of our Shook pad and our participation in the Jacobucci pad. During the 2016 period, we recorded net acquisitions of \$3,399,783 related to the acquisition of crude oil and natural gas properties, including a business combination of \$2,260,890 in our Todd Creek Farms prospect, additions of \$16,417 in property, plant and equipment and development of crude oil and natural gas properties of \$2,127,869.

Financing Activities

During the nine months ended September 30, 2017, we received net proceeds of \$7,251,662 from the sale of units consisting of original convertible promissory notes and common stock purchase warrants in January 2017, and net proceeds of \$1,640,050 from the issuance of the Series B Notes in September 2017. We also made a \$3,552,500 payment of principal on the supplemental line of credit. This compares to net proceeds of \$95,000 from the sale of common stock and borrowings on the line of credit of \$3,937,815 during the nine months ended September 30, 2016.

Off-Balance Sheet Arrangements

We have no material off-balance sheet transactions, arrangements, or obligations.

CAUTIONARY LANGUAGE REGARDING FORWARD-LOOKING STATEMENTS

This report contains or incorporates by reference “forward-looking statements,” as that term is used in federal securities laws, about our financial condition, results of operations, and business. These statements include, among others:

- Statements about our anticipated operated and non-operated drilling programs, the cost and feasibility related to such, receipt of permits or other regulatory approvals, and plans for the development of our properties;
- Statements concerning the benefits or outcomes that we expect from our business activities and certain transactions that we contemplate or have completed, such as the receipt of proceeds, increased revenues, decreased expenses and avoided expenses and expenditures; and
- Other statements of expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts.

The words “anticipates,” “believes,” “estimates,” “expects,” “intends,” “may,” “plans,” “will,” “would” and similar words or expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements and information are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive uncertainties, risks and contingencies, and there can be no assurance that such statements and information will prove to be accurate. Therefore, actual results and future events could differ materially from those anticipated in such statements and information. We caution you not to put undue reliance on these statements, which speak only as of the date of this report. Further, the information contained in this document or incorporated herein by reference is a statement of our present intention and is based on present facts and assumptions, and may change at any time and without notice, based on changes in such facts or assumptions. Readers should not place undue reliance on forward-looking statements.

The important factors that could affect the accuracy of forward-looking statements and prevent us from achieving our stated goals and objectives include, but are not limited to:

- 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 crude oil and natural gas industry;
- Acts and omissions of third parties over which we have no control;
- Changes in operating, exploration, development or overhead costs;
- 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 crude oil and natural gas;
- Changes in our business strategy;
- Potential failure to achieve production from development drilling projects; and
- Capital expenditures.

Those factors discussed above, elsewhere in this report, and in other reports filed with the Securities and Exchange Commission are difficult to predict and expressly qualify all subsequent oral and written forward-looking statements attributable to us or persons acting on our behalf. In light of these risks, uncertainties and assumptions, the forward-looking events discussed may not occur. We do not have any intention or obligation to update forward-looking statements included in this report after the date of this report, except as required by law. The preceding outlines some of the risks and uncertainties that may affect our forward-looking statements.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the phrase “disclosure controls and procedures” means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2017. This evaluation was conducted under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2017, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during our last fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations Over Internal Controls

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations, including the possibility of human error and circumvention by collusion or overriding of controls. Accordingly, even an effective internal control system may not prevent or detect material misstatements on a timely basis. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

PART II. OTHER INFORMATION

Item 1. Risk Factors.

There have been no material changes from the risk factors disclosed in Part I, Item 1A, of our Form 10-K for the year ended December 31, 2016 or Part II, Item 1, of our Form 10-Q for the quarter ended March 31, 2017.

Item 6. Exhibits.

The following exhibits are filed, furnished or incorporated by reference in this report:

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Articles of Incorporation as filed with the Colorado Secretary of State on September 4, 2012	S-1	333-198881	3.1	September 22, 2014	
3.2	Bylaws of the Company dated November 30, 2012	S-1	333-198881	3.2	September 22, 2014	
10.1	Letter Agreement between the Company and Providence Energy Partners, LLC effective September 23, 2017					X
10.2	Letter Agreement between the Company and Providence Energy Partners III, LP effective September 23, 2017					X
10.3	Form of Series B Unsecured Convertible Promissory Note					X
10.4	Placement Agent Agreement between the Company and GVC Capital LLC dated September 11, 2017					X
10.5	Form of Subscription Agreement between the Company and Purchasers of the Series B Unsecured Convertible Promissory Notes					X
31.1	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).					X
31.2	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).					X
32.1*	Certification of the Principal Executive Officer and the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Schema Document					X
101.CAL	XBRL Calculation Linkbase Document					X
101.DEF	XBRL Definition Linkbase Document					X
101.LAB	XBRL Label Linkbase Document					X
101.PRE	XBRL Presentation Linkbase Document					X

* Furnished herewith. This document is not being "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. Registration Statements or other documents filed with the Securities and Exchange Commission shall not incorporate this exhibit by reference, except as otherwise expressly stated in such filing.



September 22, 2017

Via Email to dbissmeyer@providence-energy.com

Providence Energy Operators, LLC
Attn: David Bissmeyer, Chief Operating Officer
16400 North Dallas Parkway, Suite 400
Dallas, TX 75248

Re: Consent to Incur Additional Indebtedness

Dear David:

Reference is made to that certain Revolving Line of Credit Facility Agreement dated May 15, 2015 (Original Line of Credit Agreement), as same may be amended from time to time, by and between PetroShare Corp. (Company) and Providence Energy Operators, LLC (PEO); the Promissory Note between Company and PEO of even date and related thereto, as same may be amended from time to time (the PEO Note); and any Deed of Trust, Mortgage, Assignment of Production, Security Agreement and Financing Statement from Company to PEO of even date related thereto, as same may be amended from time to time (Mortgage); and, collectively with the Original Line of Credit Agreement and the PEO Note, the PEO Credit Documents).

The Company has prepared a confidential offering memorandum (COM) for an offering (the Offering) of up to \$7.5 million (including an over-allotment) of unsecured convertible promissory notes (the Series B Notes). The Series B Notes will bear interest at 15% per year, require that interest be paid quarterly beginning December 31, 2017, and that all accrued interest and principal be paid on or before December 31, 2018. The principal amount of the Series B Notes is convertible into common stock of the Company at \$1.50 per share. The forms of the COM and Series B Notes (collectively, the New Credit Documents) are attached hereto as Exhibits A and B, respectively. If this consent agreement is executed, it is agreed that the Company shall execute and enter into the Documents with no changes from the forms attached hereto.

The Company shall only use the funds raised by and from the Offering to pay accrued drilling costs for wells that underlie and securitize, and that are otherwise subject to and secured by, the PEO Credit Documents and to pay capital and operating expenses for the improvement and

maintenance of the wells and oil and gas leases that underlie and securitize, and that are otherwise subject to and secured by, the PEO Credit Documents (the "Purposes"). The Company shall not provide any security in connection with the Offering or the Series B Notes. For the sake of clarity, no Offering proceeds shall be used to repay or prepay any Company debt obligations; provided that Company shall be able to use such proceeds to repay or prepay amounts owed under the PEO Credit Documents.

In order to allow the Company to pursue the Offering and issue the Series B Notes as contemplated in the COM, and in consideration of the covenants of the Company in the immediately succeeding sentence, please confirm by execution of this letter that (i) PEO consents to the Company conducting the Offering and issuing the Series B Notes, including the incurrence of debt relating thereto (the "Series B Debt"); provided that any such additional debt shall not have any priority position over or equal to any debt subject to the PEO Credit Documents, whether currently outstanding or later incurred (the "PEO Debt") and provided further for the avoidance of doubt, the Series B Debt shall in all instances be secondary to, paid later than, and have lesser priority than, the PEO Debt; and provided further, that the foregoing shall not preclude the payments of interest on a quarterly basis to holders of the Series B Notes so long as the Series B Debt is outstanding and, (ii) solely with respect to the Company conducting the Offering and issuing the Series B Notes in accordance with this consent agreement, but not as to any other matter, and subject to the Company only using the Offering for the Purposes and the debt priority set forth in item (i) above, PEO waives such actions as an event of default under the PEO Credit Documents. In exchange for PEO's covenants in this consent agreement, and other valuable consideration, the Company hereby agrees (i) within 10 business days of the date hereof to issue to PEO an additional 250,000 shares of the Company's common stock, which PEO understands will be issued pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended ("Securities Act"), and applicable state securities law, and which shares will be "restricted securities" within the meaning of Rule 144 under the Securities Act and will bear a restrictive legend, (ii) the interest rate on the PEO Note shall be increased from 8% per year to 10% per year effective September 1, 2017, (iii) the Company will begin making interest payments on the PEO Note beginning in the fourth quarter of 2017; and (iv) the Company, through appropriate officers, will meet in person or by phone with representatives of PEO not less frequently than semi-monthly beginning November 1, 2017 to discuss the Company's working capital.

No waiver by PEO under this consent agreement shall operate as a waiver of any prior, other or subsequent default, whether of a like or a different character, under any of the PEO Credit Documents. Notwithstanding any other provision in this consent, and except as expressly set forth herein under items (i) and (ii) in the paragraph above, PEO does not by executing this consent agreement agree or consent to, or provide any waiver with respect to, the Credit Documents or any provisions contained therein, and in no event does PEO hereby provide any opinion as to whether the Credit Documents or the Offering contemplated thereby comply with applicable laws.

In the event that the Company uses the Offering, and/or the funds that are raised in connection therewith, for any use or purpose other than the Purposes, it shall be a material breach

of and an event of default under the each of the PEO Credit Documents. Further, except as set forth herein, if the Company attempts to or does in any way cause or allow the new debt to have a priority position or preference over or ahead or equal to that of any of the PEO Credit Documents, it shall be deemed to be a material breach of and event of default under each of the PEO Credit Documents.

The Company hereby represents and warrants that it is not currently in default under any of the PEO Credit Documents and that the transactions contemplated by the Offering and the Series B Notes, and the Company's execution of and performance under the Documents will not put Company into default or otherwise conflict with any of the PEO Credit Documents, subject to the limited waiver set forth herein. The Company further represents and warrants that the issuance of the 250,000 shares of stock to PEO is not and shall not be deemed or considered to be "interest" or violate any state or federal securities or other laws.

The Company hereby agrees to all of provisions contained in this consent agreement. The undersigned hereby confirms that he is duly authorized by Company to provide this consent agreement and understands that PEO is relying on the Company's representations and covenants in this consent agreement when providing the consent requested herein.

We appreciate your attention to this matter and the support that PEO has provided the Company. Please feel free to contact me if you have any questions.

Sincerely,

PETROSHARE CORP.

By: /s/ Stephen J. Foley

Stephen J. Foley, Chief Executive Officer

Agreed and accepted this 23rd day of September 2017.

PROVIDENCE ENERGY OPERATORS, LLC

By: /s/ Mark L. Nastri

Mark L. Nastri, Exec. VP and General Counsel

EXHIBIT A

Form of COM

EXHIBIT B

Form of Series B Note



September 22, 2017

Via Email to lallen@providence-energy.com

Providence Energy Partners III, LP
Attn: Luke Allen, VP of Business Development
16400 North Dallas Parkway, Suite 400
Dallas, TX 75248

Re: Consent to Incur Additional Indebtedness

Dear Luke:

Reference is made to that certain Revolving Line of Credit Facility Agreement dated October 13, 2016 ("Supplemental Line of Credit Agreement"), as same may be amended from time to time, by and between PetroShare Corp. ("Company") and Providence Energy Partners III, LP ("PEP III"), the Promissory Note between Company and PEP III of even date and related thereto, as same may be amended from time to time (the "PEP III Note"); and any Deed of Trust, Mortgage, Assignment of Production, Security Agreement and Financing Statement from Company to PEP III of even date related thereto, as same may be amended from time to time ("Mortgage"); and, collectively with the Supplemental Line of Credit Agreement and the PEP III Note, the "PEP III Credit Documents").

The Company has prepared a confidential offering memorandum ("COM") for an offering (the "Offering") of up to \$7.5 million (including an over-allotment) of unsecured convertible promissory notes (the "Series B Notes"). The Series B will Notes bear interest at 15% per year, require that interest be paid quarterly beginning December 31, 2017, and that all accrued interest and principal be paid on or before December 31, 2018. The principal amount of the Series B Notes is convertible into common stock of the Company at \$1.50 per share. The forms of the COM and Series B Notes (collectively, the "New Credit Documents") are attached hereto as Exhibits A and B, respectively. If this consent agreement is executed, it is agreed that the Company shall execute and enter into the Documents with no changes from the forms attached hereto.

The Company shall only use the funds raised by and from the Offering to pay accrued drilling costs for wells that underlie and securitize, and that are otherwise subject to and secured

by, the PEP III Credit Documents and to pay capital and operating expenses for the improvement and maintenance of the wells and oil and gas leases that underlie and securitize, and that are otherwise subject to and secured by, the PEP III Credit Documents (the "Purposes"). The Company shall not provide any security in connection with the Offering or the Series B Notes. For the sake of clarity, no Offering proceeds shall be used to repay or prepay any Company debt obligations; provided that Company shall be able to use such proceeds to repay or prepay amounts owed under the PEP III Credit Documents. Notwithstanding any other provision in this consent, except as expressly set forth herein under items (i) and (ii) above, PEP III does not by executing this consent agreement agree or consent to, or provide any waiver with respect to, the Credit Documents or any provisions contained therein, and in no event does PEP III hereby provide any opinion as to whether the Credit Documents or the Offering contemplated thereby comply with applicable laws.

In order to allow the Company to pursue the Offering and issue the Series B Notes as contemplated in the COM, please confirm by execution of this letter that (i) PEP III consents to the Company conducting the Offering and issuing the Series B Notes, including the incurrence of debt relating thereto (the "Series B Debt"), provided that any such additional debt shall not have any priority position over or equal to any debt subject to the PEP III Credit Documents, whether currently outstanding or later incurred (the "PEP III Debt") and provided further for the avoidance of doubt, the Series B Debt shall in all instances be secondary to, paid later than, and have lesser priority than, the PEP III Debt; and provided further that the foregoing shall not preclude the payments of interest on a quarterly basis to holders of the Series B Notes so long as the Series B Debt is outstanding and, (ii) solely with respect to the Company conducting the Offering and issuing the Series B Notes in accordance with this consent agreement, but not as to any other matter, and subject to the Company only using the Offering for the Purposes and the debt priority set forth in item (i) above, PEP III waives such actions as an event of default under the PEP III Credit Documents. No waiver by PEP III under this consent agreement shall operate as a waiver of any prior, other or subsequent default, whether of a like or a different character, under any of the PEP III Credit Documents. Notwithstanding any other in this consent, and except as expressly set forth herein under items (i) and (ii) in the paragraph above, PEP III does not by executing this consent agreement agree or consent to, provide any waiver with respect to, the Credit Documents or any provisions contained therein, and in no event does PEP III hereby provide any opinion as to whether the Credit Documents or the Offering contemplated thereby comply with applicable laws.

In the event that the Company uses the Offering, and/or the funds that are raised in connection therewith, for any use or purpose other than the Purposes, it shall be a material breach of and an event of default under the each of the PEP III Credit Documents. Further, except as set forth herein, if the Company attempts to or does in any way cause or allow the new debt to have a priority position or preference over or ahead or equal to that of any of the PEP III Credit Documents, it shall be deemed to be a material breach of and event of default under each of the PEP III Credit Documents.

The Company hereby represents and warrants that it is not currently in default under any of the PEP III Credit Documents and that the transactions contemplated by the Offering and the

Series B Notes, and the Company's execution of and performance under the Documents will not put Company into default or otherwise conflict with any of the PEP III Credit Documents, subject to the limited waiver set forth herein.

The Company hereby agrees to all of provisions contained in this consent agreement. The undersigned hereby confirms that he is duly authorized by Company to provide this consent agreement and understands that PEP III is relying on the Company's representations and covenants in this consent agreement when providing the consent requested herein.

We appreciate your attention to this matter and the support that PEP III has provided the Company. Please feel free to contact me if you have any questions.

Sincerely,

PETROSHARE CORP.

By: /s/ Stephen J. Foley

Stephen J. Foley, Chief Executive Officer

Agreed and accepted this 23rd day of September 2017.

PROVIDENCE ENERGY PARTNERS III, LP

By: Providence Energy Partners GP, LLC

Its: General Partner

By: /s/ Mark L. Nastri

Mark L. Nastri, Exec. VP and General Counsel

EXHIBIT A

Form of COM

EXHIBIT B

Form of Series B Note

NEITHER THIS SERIES B NOTE NOR THE SHARES ISSUABLE UPON CONVERSION HEREOF HAVE BEEN REGISTERED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "SEC") OR THE SECURITIES COMMISSION OF ANY STATE PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SECTION 4(A)(2) OF THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND/OR REGULATION D PROMULGATED THEREUNDER. NEITHER THIS SERIES B NOTE NOR THE SHARES ISSUABLE UPON CONVERSION HEREOF MAY BE SOLD, PLEDGED, TRANSFERRED OR ASSIGNED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND UNDER APPLICABLE STATE SECURITIES LAWS, OR IN A TRANSACTION WHICH IS EXEMPT FROM REGISTRATION UNDER THE PROVISIONS OF THE SECURITIES ACT AND UNDER PROVISIONS OF APPLICABLE STATE SECURITIES LAWS.

Note 2017 N-B-«Note_»

SERIES B UNSECURED CONVERTIBLE PROMISSORY NOTE

\$«Note_Amount»

Englewood, Colorado
«Issuance_Date»

FOR VALUE RECEIVED, PetroShare Corp, a Colorado corporation, and its successors and assigns, (the "Company") promises to pay to the order of «Investor_Name» (the "Holder"), the principal sum of «Dollar_Amount» and No/100s Dollars (\$«Note_Amount») ("Principal Amount") in lawful money of the United States of America, together with interest on so much of the principal balance thereof as is from time to time outstanding at the rate hereinafter provided, and payable as hereinafter provided.

This Series B Note is one of a series of Notes, designated the Series B Unsecured Convertible Promissory Notes (individually referred to herein as the "Series B Note," the series of notes is referred to herein collectively as the "Series B Notes"). All the Series B Notes shall rank *pari passu* in respect to payment of principal and interest and upon any dissolution, liquidation or winding-up of the Company. Any action permitted by this Series B Note that is taken by one holder will be deemed to have been taken by all holders in proportion to the Principal Amount of each Holder's Series B Note as compared to the total Principal Amount of the Series B Notes then outstanding.

1. Interest Rate. The unpaid balance of this Series B Note shall bear interest at the rate of fifteen percent (15%) per year, simple interest. Interest shall be calculated on a 365-day year and the actual number of days in each month.

2. Payment/Maturity Date. Interest on the Series B Note shall be paid quarterly, on the last day of March, June, September and December in each year, beginning December 31, 2017, and continuing until the Series B Note is finally paid. The total outstanding principal balance hereof, together with accrued and unpaid interest, shall be paid on December 31, 2018. Interest must be paid in cash.

3. Conversion.

(a) The Holder shall have the option to convert all or any part of the Principal Amount of this Series B Note, together with all accrued interest thereon, in accordance with the provisions of and upon satisfaction of the conditions contained in this Series B Note, into fully paid and non-assessable shares of the Company's common stock as is determined by dividing that portion of the outstanding principal balance and accrued interest under this Series B Note as of such date that the Holder elects to convert by the Conversion Price. The initial Conversion Price is \$1.50.

(b) No fractional shares of common stock shall be issued upon conversion of this Series B Note, and in lieu thereof the number of shares of common stock to be issued upon each conversion shall be rounded-up to the nearest whole number of shares of common stock.

(c) The Holder's conversion right set forth in this Paragraph may be exercised at any time and from time to time but prior to payment in full of the principal and accrued interest on this Series B Note.

(d) The Holder may exercise the right to convert all or any portion of this Series B Note only by delivery of a properly completed conversion notice in the form attached to this Series B Note on a Business Day to the Company's principal executive offices. Such conversion shall be deemed to have been made immediately prior to the close of business on the Business Day of such delivery of the conversion notice (the "Conversion Date"), and the Holder shall be treated for all purposes as the record holder of the shares of common stock into which this Series B Note is converted as of such date. For purposes of this Series B Note, a Business Day is any day the Federal Reserve Bank is open.

(e) As promptly as practicable after the Conversion Date, the Company at its expense shall issue and deliver to the Holder of this Series B Note a stock certificate or certificates representing the number of shares of common stock into which this Series B Note has been converted.

(f) Upon the full conversion of this Series B Note, the Company shall be forever released from all of its obligations and liabilities under this Series B Note.

(g) Holder acknowledges that this Series B Note, as well as the shares of common stock issuable upon conversion of this Series B Note, are "restricted securities," as such term is defined in Rule 144 promulgated under the Securities Act of 1933, as amended (the "Securities Act"). Holder agrees that Holder will not attempt to pledge, transfer, convey or otherwise dispose of such restricted securities except in a transaction that is the subject of either: (i) an effective registration statement under the Securities Act and any applicable state securities laws; or (ii) an opinion of counsel rendered by legal counsel satisfactory to the Company, which opinion of counsel shall be satisfactory to the Company, to the effect that such registration is not required. The Company may rely on such an opinion of Holder's counsel in making such determination. Holder consents to the placement of a legend on the securities stating that the shares represented by the certificate have not been registered under the Securities Act and setting forth or referring to the restrictions on transferability and sale thereof.

(h) If the common stock to be issued on conversion of this Series B Note shall be changed into any other class or classes of stock, whether by capital reorganization, reclassification, or otherwise, or if the Company shall declare a dividend of its common stock, combine the shares of its common stock into a lesser number of shares or divide the shares into a greater number of shares, the holder of this Series B Note shall, upon its conversion be entitled to receive, in lieu of the common stock which the Holder would have become entitled to receive but for such change, a number of shares of such other class or classes of stock that would have been subject to receipt by the Holder if it had exercised its rights of conversion immediately before such changes.

(i) If at any time there shall be a capital reorganization of the Company's common stock (other than a subdivision, combination, reclassification or exchange of shares provided for elsewhere in this Paragraph 3) or merger of the Company into another corporation, or the sale

of the Company's properties and assets as, or substantially as, an entirety to any other person, then, as a part of such reorganization, merger or sale, lawful provision shall be made so that the Holder of this Series B Note will be entitled to receive the number of shares of stock or other securities or property from the successor corporation resulting from such merger to which the Holder would have been entitled as a result of such capital reorganization, merger or sale if this Series B Note had been converted immediately before such capital reorganization, merger or sale.

(j) Upon the occurrence of each adjustment or readjustment pursuant to any provision hereof, the Company at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and prepare and furnish to the Holder of this Series B Note a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based.

4 . Redemption. The Company may redeem this Series B Note, in whole in or part, on 30 days' notice and without penalty at any time, provided, however, that the Company has paid or pays at the time of redemption an amount that would result in the Holder having received a minimum of six months' interest.

5. Reservation of Shares. At all times while this Series B Note shall be convertible into shares of common stock, the Company shall reserve and keep available out of its authorized but unissued shares of common stock solely for the purpose of effecting the conversion of this Series B Note such number of its shares of such common stock as shall from time to time be sufficient to effect the conversion of this Series B Note in full. In the event that the number of authorized but unissued shares of such common stock shall not be sufficient to effect the conversion of the entire outstanding principal amount of this Series B Note, then in addition to such other remedies as shall be available to the Holder, the Company shall take such corporate action as may be necessary to increase its authorized but unissued shares of such common stock to such number of shares as shall be sufficient for such purpose.

6 . Default. At the option of Holder, the unpaid principal balance of this Series B Note and all accrued interest thereon shall become immediately due, payable, and collectible, without notice or demand, upon the occurrence at any time of any of the following events, each of which shall be deemed to be an event of default hereunder (a "Default"):

(a) The Company fails to make any payment of interest or principal on the date on which such payment becomes due and payable under this Series B Note;

(b) The Company breaches any representation, warranty or covenant or defaults in the timely performance of any other obligation in its agreements with the Series B Note holders and the breach or default continues uncured for a period of five Business Days after the date on which notice of the breach or default is first given to the Company, or ten trading days after the Company becomes, or should have become aware of such breach or default;

(c) The Company files for protection from its creditors under the federal bankruptcy code or a third party files an involuntary bankruptcy petition against the Company; or

(d) The Company's common stock is not listed on the OTCQB or other public trading market.

Upon the occurrence of any event which might, upon notice or the passage of time constitute a Default, the Company shall notify the Holder of the Series B Note and the Holders of all other Series B Notes of the occurrence of the event of default within ten days.

7 . Default Interest and Attorney Fees. Upon declaration of a Default hereunder, the balance of the principal remaining unpaid, interest accrued thereon, and all other costs and fees shall be immediately due and payable. In the event of Default, the Company agrees to pay all costs of collection including reasonable attorney's fees.

8 . Representations, Warranties and Covenants of the Company. The Company represents, warrants and covenants with the Holder as follows:

(a) Authorization; Enforceability. All action on the part of the Company, necessary for the authorization, execution and delivery of this Series B Note and the performance of all obligations of the Company hereunder has been taken, and this Series B Note constitutes a valid and legally binding obligation of the Company, enforceable in accordance with its terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, and (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies.

(b) Governmental Consents. No consent, approval, qualification, order or authorization of, or filing with, any local, state or federal governmental authority is required on the part of the Company in connection with the Company's valid execution, delivery or performance of this Series B Note.

(c) No Violation. The execution, delivery and performance by the Company of this Series B Note and the consummation of the obligations contemplated hereby will not result in a violation in any material respect of its Articles of Incorporation or Bylaws, or of any provision of any mortgage, agreement, instrument or contract to which it is a party or by which it is bound or, to the best of its knowledge, of any federal or state judgment, order, writ, decree, statute, rule or regulation applicable to the Company or be in material conflict with or constitute, with or without the passage of time or giving of notice, either a material default under any such provision or an event that results in the creation of any material lien, charge or encumbrance upon any assets of the Company or the suspension, revocation, impairment, forfeiture or nonrenewal of any material permit, license, authorization or approval applicable to the Company, its business or operations, or any of its assets.

(d) Covenants. So long as any Series B Note is outstanding, the Company will not pay any dividends or other distributions to the holders of any shares of its preferred stock or common stock unless all payments have been made to the Holders on a current basis.

9. Assignment of Series B Note. This Series B Note may not be assigned by Company. The Series B Note may be assigned by Holder with the express written consent of the Company and satisfaction of applicable securities laws.

10. Loss of Series B Note. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Series B Note, and in case of loss, theft or destruction of indemnification in form and substance acceptable to the Company in its reasonable discretion, and upon surrender and cancellation of this Series B Note, if mutilated, the Company shall execute and deliver a new Series B Note of like tenor and date.

11. Non-Waiver. No delay or omission on the part of Holder in exercising any rights or remedy hereunder shall operate as a waiver of such right or remedy or of any other right or remedy under this Series

B Note. A waiver on any one or more occasion shall not be construed as a bar to or waiver of any such right and/or remedy on any future occasion.

12. Maximum Interest. In no event whatsoever shall the amount paid, or agreed to be paid, to Holder for the use, forbearance, or retention of the money to be loaned hereunder ("Interest") exceed the maximum amount permissible under applicable law. If the performance or fulfillment of any provision hereof, or any agreement between Company and Holder shall result in Interest exceeding the limit for Interest prescribed by law, then the amount of such Interest shall be reduced to such limit. If, from any circumstance whatsoever, Holder should receive as Interest an amount which would exceed the highest lawful rate, the amount which would be excessive Interest shall be applied to the reduction of the principal balance owing hereunder (or, at the option of Holder, be paid over to Company) and not to the payment of Interest.

13. Purpose of Loan. Company certifies that the loan evidenced by this Series B Note is obtained for business or commercial purposes and that the proceeds thereof will not be used primarily for personal, family, household or agricultural purposes.

14. Waiver of Presentment. Company and the endorsers, sureties, guarantors and all persons who may become liable for all or any part of this obligation shall be jointly and severally liable for such obligation and hereby jointly and severally waive presentment and demand for payment, notice of dishonor, protest and notice of protest, and any and all lack of diligence or delays in collection or enforcement hereof. Said parties consent to any modification or extension of time (whether one or more) of payment hereof, the release of all or any part of the security for the payment hereof, and the release of any party liable for payment of this obligation. Any modification, extension, or release may be without notice to any such party and shall not discharge said party's liability hereunder.

15. Governing Law. As an additional consideration for the extension of credit, Company and each endorser, surety, guarantor, and any other person who may become liable for all or any part of this obligation understand and agree that the loan evidenced by this Series B Note is made in the State of Colorado and the provisions hereof will be construed in accordance with the laws of the State of Colorado.

16. Binding Effect. The term "Company" as used herein shall include the original Company issuing this Series B Note and any party who may subsequently become liable for the payment hereof by virtue of an assignment by the Company with the consent of the Holder, provided that Holder may, at its option, consider the original Company issuing this Series B Note alone as issuer unless Holder has consented in writing to the substitution of another party as Company.

17. Relationship of Parties. Nothing herein contained shall create or be deemed or construed to create a joint venture or partnership between Company and Holder, as Holder is acting hereunder as a lender only.

18. Severability. Invalidation of any of the provisions of this Series B Note or of any paragraph, sentence, clause, phrase, or word herein, or the application thereof in any given circumstance, shall not affect the validity of the remainder of this Series B Note.

19. Amendment. This Series B Note may not be amended, modified, or changed, except only by an instrument in writing signed by the Company and the Holder.

20. Time of the Essence. Time is of the essence for the performance of each and every obligation of Company hereunder.

21. Notices. All notices, consents, approvals, requests, demands and other communications which are required or may be given hereunder shall be in writing and shall be duly given if personally delivered, sent by overnight courier or posted by United States registered or certified mail, return receipt requested, postage prepaid and addressed to the other parties at the addresses set forth below.

If to the Company:

PetroShare Corp.
9635 Maroon Circle, Suite 400
Englewood, Colorado 80112
Attention: Stephen J. Foley, Chief Executive Officer

If to the Holder, at the address as shown on the register maintained by the Company for such purpose.

The Company or the Holder may change their address for purposes of this Paragraph by giving to the other addressee notice of such new address in conformance with this Paragraph. If the Company receives any notice pursuant to this Series B Note or any other Note of this series, it must, not later than five business days thereafter, dispatch a copy of such notice to the Holder of this Series B Note and to each other Holder of any Series B Note as reflected in the current Note Register.

IN WITNESS WHEREOF, the undersigned has executed this Series B Note as of «Issuance_Date».

PETROSHARE CORP.,
a Colorado corporation

By: _____

Stephen J. Foley,
Chief Executive Officer

NOTICE OF CONVERSION

To: **PETROSHARE CORP.**

The undersigned hereby elects to convert \$ _____ principal amount of the attached Series B Note, together with any accrued but unpaid interest on the outstanding principal balance, into shares of Common Stock (the "Common Stock") of **PETROSHARE CORP.**, pursuant to the terms of the attached Series B Note.

Please issue a certificate or certificates representing said shares of Common Stock in the name of the undersigned or in such other name* as is specified below:

(Name)

(Address)

Dated:

Signature

* If you desire the Common Stock to be issued in a name other than the name in which the Series B Note was issued, additional paperwork may be required to ensure compliance with applicable securities laws.

PLACEMENT AGENT AGREEMENT

September 11, 2017

PetroShare Corp.
9635 Maroon Circle, Suite 400
Englewood, CO 80112

Gentlemen:

GVC Capital LLC (the "Placement Agent"), hereby confirms its agreement with you (the "Company") as follows:

SECTION 1
Description of Securities

The Company proposes to offer and sell to a limited number of accredited investors up to \$6,000,000 of Series B Unsecured Convertible Promissory Notes (the "Offering"). The Series B Notes bear interest at 15% per year and mature on December 31, 2018 (the "Series B Notes"). The Series B Notes can be converted at any time into shares of the Company's common stock, initially at a conversion price of \$1.50 per share.

The Offering is for a minimum of \$1,000,000 of Series B Notes (the "Minimum Offering") and a maximum of \$6,000,000 of Series B Notes (the "Maximum Offering"). If the Minimum Offering is not sold by September 22, 2017 (the "Escrow Date") unless extended, all funds received from prospective investors will be promptly refunded to them, without interest and without deduction for commissions or expenses. The Escrow Date may be extended by mutual agreement of the Placement Agent and Company, however, in no case may the Escrow Date be later than October 31, 2017. If the Offering is over-subscribed, the Company may elect in its sole discretion, to accept subscriptions for an additional \$1,500,000, for a total Offering of \$7,500,000.

The Series B Notes are more fully described in the Company's Private Placement Memorandum dated September 8, 2017. As used in this Agreement, the term "Memorandum" refers to that Private Placement Memorandum.

SECTION 2
Representations, Warranties and Covenants of the Company

In order to induce the Placement Agent to enter into this Agreement, the Company hereby represents and warrants to and agrees with the Placement Agent as follows:

2.01. Private Placement Memorandum. The Memorandum with respect to the Series B Notes and all exhibits thereto, copies of which have heretofore been delivered by the Company to the Placement Agent, has been carefully prepared by the Company in conformity with Regulation D ("Regulation D") promulgated pursuant to the Securities Act of 1933, as amended (the "Act"), and with comparable provisions of the securities laws of such states as may be reasonably requested by the Placement Agent. The Memorandum does not include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, the Company does not make any representations or warranties as to information contained in or omitted from the Memorandum in reliance upon written information furnished on behalf of the Placement Agent specifically for use therein. Any additional written information authorized by the Company to be provided to prospective purchasers shall not contain any

untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

2.02. No Material Adverse Change. Except as may be reflected in or contemplated by the Memorandum, subsequent to the dates as of which information is given in the Memorandum, and prior to the Closing Date (as defined hereinafter), (i) there shall not be any material adverse change in the business, properties, options to lease, leases, financial condition, management, or otherwise of the Company or in the Company's business taken as a whole, (ii) there shall not have been any material transaction entered into by the Company other than transactions in the ordinary course of business; (iii) the Company shall not have incurred any material obligations, contingent or otherwise, which are not disclosed in the Memorandum; (iv) there shall not have been nor will there be any change in the capital stock or adverse change in the short-term or long-term debt (except current payments) of the Company; and (v) the Company has not and will not have paid or declared any dividends or other distributions.

2.03. No Defaults. The Company is not in default, or has obtained waivers of any defaults, in the performance of any obligation, agreement or condition contained in any debenture, note or other evidence of indebtedness or any indenture or loan agreement of the Company, other than as set forth in the Memorandum. The execution and delivery of this Agreement and the consummation of the transactions herein contemplated, and compliance with the terms of this Agreement will not conflict with or result in a breach of any of the terms, conditions or provisions of, or constitute a default under, the articles of incorporation or bylaws of the Company, or any note, indenture, mortgage, deed of trust, or other agreement or instrument to which the Company is a party or by which it or any of its property is bound, or any existing law, order, rule, regulation, writ, injunction, or decree or any government, governmental instrumentality, agency or body, arbitrator, tribunal or court, domestic or foreign, having jurisdiction over the Company or its property. The consent, approval, authorization, or order of any court or governmental instrumentality, agency or body is not required for the consummation of the transactions herein contemplated except such as may be required under the Act or under the securities laws of any state or jurisdiction.

2.04. Organization and Standing. The Company is, and at the Closing Date will be, duly organized and validly existing in good standing as a corporation under the laws of its state of formation and with full power and authority to own its property and conduct its business, present and proposed, as described in the Memorandum; the Company has full power and authority to enter into this Agreement and to issue the Series B Notes described in the Memorandum. The Company has paid all fees required by the jurisdiction of organization.

2.05. Capitalization. Prior to the Closing Date, the capitalization of the Company shall be as described in the Memorandum.

2.06. Legality of Series B Notes. The Series B Notes have been duly and validly authorized and, when issued or sold and delivered against payment therefor as provided in this Agreement, will be validly issued and represent binding obligations of the Company. The Series B Notes will conform in all material respects to all statements with regard thereto in the Memorandum.

2.07. Prior Sales. No securities of the Company have been sold by the Company at any time prior to the date hereof, except as set out in the Memorandum. No prior securities sales by the Company are required to be integrated with the proposed sale of the Series B Notes such that the availability of Regulation D or any other claimed exemption from the registration requirements of the Act would be made unavailable to the offer and sale of the Series B Notes.

2.08. Litigation. There is and at the Closing Date there will be no action, suit or proceeding before any court or governmental agency, authority or body pending or to the knowledge of the Company threatened which might result in judgments against the Company, or its officers, directors, employees or agents which the Company is obligated to indemnify, not adequately covered by insurance and which collectively might result in any material adverse change in the condition (financial or otherwise) of the Company, the business or the prospects of the Company or would materially affect the properties or assets of the Company.

2.09. Finder. No person has acted as a finder in connection with the transactions contemplated herein, and the Company will indemnify the Placement Agent with respect to any claim for finder's fees in connection herewith.

2.10. Contracts. Each contract to which the Company is a party and to which reference is made in the Memorandum has been duly and validly executed by the Company, is in full force and effect in all material respects in accordance with its respective terms, and none of such contracts has been assigned by the Company; and the Company knows of no present situation or condition or fact which would prevent compliance with the terms of such contracts, as amended to date.

2.11. Authority. The execution and delivery by the Company of this Agreement has been duly authorized, and this Agreement is the valid, binding and legally enforceable obligation of the Company.

2.12. Use of Proceeds. The Company will apply the proceeds from the sale of the Series B Notes as set forth in the Memorandum. The Company will also establish procedures to ensure proper application and stewardship of such proceeds.

2.13. Accredited Investors. The Company represents, warrants and agrees that all sales of the Series B Notes shall be made only to "accredited investors" (as such term is defined in Rule 501 of Regulation D under the Securities Act), and that it reasonably believes that such purchasers are accredited investors.

2.14. No Disqualification Events. With respect to the Offering, the Company represents that neither it, nor any of its directors, executive officers, general partners, managing members or other officers participating in the Offering, any beneficial owner of 20% or more of the Company's outstanding voting equity securities, or any promoter connected with the Company in any capacity at the time of the Offering (each, an "Issuer Covered Person"), is subject to any disqualifications described in Rule 506(d)(1)(i) to (viii) under the Securities Act (a "Disqualification Event") except for a Disqualification Event (i) contemplated by Rule 506(d)(2) or (d)(3) of Regulation D and (ii) a description of which has been furnished in writing to the Placement Agent prior to the date hereof or, in the case of a Disqualification Event occurring after the date hereof, prior to the date of any offering of the Series B Notes. The Company has complied, to the extent applicable, with its disclosure obligations under Rule 506(e).

2.15. Other Covered Persons. The Company is not aware of any person (other than any Issuer Covered Person or Agent Covered Person (as defined in Sections 2.14 and 11.04)) that has been or will be paid (directly or indirectly) remuneration for solicitation of purchasers in connection with the sale of the Series B Notes.

SECTION 3
Issue, Sale and Delivery of the Series B Notes

3.01. Placement Agent Appointment. The Company hereby appoints the Placement Agent as its exclusive agent to solicit purchasers for up to \$1,000,000 of Series B Notes ("Escrow Series B Notes") on a "best efforts, all-or-none" basis, and to solicit purchasers for an additional \$5,000,000 of Series B Notes, on a "best efforts" basis for a total of \$6,000,000. If the Offering is over-subscribed, the Company may elect in its sole discretion, to accept subscriptions for an additional \$1,500,000, for a total Offering of \$7,500,000.

If the Minimum Offering is not sold by the later of September 22, 2017 (the "Escrow Date") unless extended, all funds received from prospective investors will be promptly refunded to them, without interest and without deduction for commissions or expenses. The Escrow date may be extended by mutual agreement of the Placement Agent and the Company, however, in no case may the Escrow Date be later than October 31, 2017.

The Placement Agent, on the basis of the representations and warranties herein contained, but subject to the terms and conditions herein set forth, accepts such appointment and agrees to use its best efforts to find purchasers for the Series B Notes, provided that the Company reserves the right to reject in good faith any prospective investor ("Investor") and no commission shall be payable to the Placement Agent in respect of any proposed sale to any rejected Investor. No other person will be or has been authorized to solicit purchasers for the Series B Notes, except those persons selected by the Placement Agent. Each Investor must subscribe for at least \$25,000 and must certify to the Company that such investor is an "Accredited Investor" as defined in Rule 501(a) of Regulation D. The Company and the Placement Agent may mutually agree to accept a subscription for less than \$25,000.

3.02. Escrow Account. It is hereby agreed between the Company and the Placement Agent that unless \$1,000,000 of Series B Notes ("Escrow Series B Notes") are sold and paid for by Investors by the Escrow Date, unless extended as provided in Section 3.01, this Agreement shall automatically be terminated and the entire proceeds received from the sale of the Series B Notes shall be returned to the Investors, without deduction therefrom or interest thereon. During the period of the offering, the proceeds from the sale of all of the Series B Notes shall be promptly deposited in an escrow account ("Escrow Account") entitled "PetroShare Corp. Escrow Account" with Fortis Private Bank (the "Escrow Agent"). The agreement establishing the Escrow Account ("Escrow Agreement") shall be in form and content satisfactory to counsel for the Placement Agent and the Company. The proceeds from any sale of Series B Notes after the Initial Closing (hereinafter defined) shall continue to be deposited to the Escrow Account. If the Escrow Series B Notes are sold by the Escrow Date, unless extended as provided in Section 3.01, funds will be released in accordance with paragraph 3.06 until a total of \$7,500,000 of Series B Notes are sold.

3.03. Subscription Agreement. Each Investor desiring to purchase Series B Notes will be required to complete and execute a Subscription Agreement and, if applicable, other offering documents. The Placement Agent shall have the right to review such documents for each Investor and to reject the tender of any Investor that it deems not acceptable. All documents concerning any Investor the Placement Agent has not rejected will be promptly forwarded to the Company at the address set forth in Section 12.01. The Company, upon receipt of the documents, will determine within three (3) business days whether it wishes to accept the Investor. Payment for the Series B Notes subscribed for in the Subscription Agreements that have been accepted by the Company is to be delivered to the Company on the Closing Date (as hereinafter defined).

3.04. Subscription Acceptance. The acceptance of subscriptions for Series B Notes tendered by Investors will be conditional upon the tendering of Subscriptions and payment for at least \$1,000,000 of Series B Notes (the "Minimum Offering") by the Escrow Date, unless extended.

3.05. Compensation of Placement Agent. In consideration for the Placement Agent's execution of this Agreement, and for the performance of its obligations hereunder, the Company agrees to pay the Placement Agent a cash commission of five percent (5%) of the gross proceeds received from the sale of the Series B Notes sold by the Placement Agent and one (1%) of the gross proceeds received from the sale of the Series B Notes to the Company's officers, directors and any person referred to the Placement Agent; provided that in the event Minimum Subscriptions are not received or Minimum Payments are not made and the offering is terminated, the Placement Agent shall not receive any commission. Additionally, the Company will pay the Placement Agent a cash commission of two (2%) of the amount of every 10% Convertible Note due December 21, 2018 converted on or prior to October 15, 2017 by a person not referred to the Placement Agent by the Company. Any commissions payable to the Placement Agent under this paragraph shall be payable on the Closing Date or as otherwise provided herein.

3.06. Payment. Payment for Series B Notes sold shall be made by the Escrow Agent to the Company at such place as may be agreed on among the Company and the Placement Agent, at such a time and on such a date, as shall be fixed by agreement between the parties, which in no case shall be, with respect to the Series B Notes, no later than eight (8) days after the Escrow Date. The delivery of the Series B Notes against payment therefore is defined as the "Closing" and the time and date thereof are defined as the "Closing Date." The Initial Closing Date will be held when the Minimum Offering is received and deemed cleared by the Escrow Agent ("Initial Closing"). It is anticipated that there may be additional Closings as additional funds are received, and the final Closing will be referred to as the "Final Closing." The Final Closing could also be the Initial Closing in the event that no Series B Notes are sold after the Initial Closing. As soon as practicable after each Closing Date, the Company shall deliver by mail to each Investor a certificate for the securities underlying the Series B Notes that have been purchased and which contains a legend conforming to the requirements of Rule 502(d)(3) under the Act.

3.07. Obligations of Placement Agent. The Company agrees that the obligations of the Placement Agent under this Agreement: (i) shall not preclude the Placement Agent from contemporaneously participating in the offering or underwriting of securities of other issuers; (ii) shall not impose any obligation on the Placement Agent to require its registered representatives to offer or to sell the Series B Notes except to use its best efforts to find subscribers, (iii) shall not otherwise limit or prevent the Placement Agent from carrying on its customary business as a securities broker-dealer, and (iv) shall not require the Placement Agent to engage in any conduct which violates any law or industry standard of conduct applicable to the Placement Agent.

3.08. Representations and Warranties. The parties hereto each represent that as of each Closing Date, the representations and warranties herein contained and the statements contained in all the certificates heretofore or simultaneously delivered by any party to another, pursuant to this Agreement, shall in all material respects be true and correct.

3.09. Form D. The Placement Agent agrees that it will timely supply the Company from time to time with all information required from the Placement Agent for the completion of Form D to be filed with the Securities and Exchange Commission (the "Commission") and such additional information as the Company may reasonably request to be supplied to the securities authorities of such states in which the Series B Notes have been qualified for sale or are exempt from qualification or registration. A copy of all

such filings shall be delivered to the Placement Agent and counsel for the Placement Agent promptly prior to their being filed.

SECTION 4

Offering of the Series B Notes on Behalf of the Company

4.01. Agent. In offering the Series B Notes for sale, the Placement Agent shall offer the Series B Notes solely as an agent for the Company, and such offer shall be made upon the terms and subject to the conditions set forth herein and in the Memorandum. The Placement Agent shall commence making such offers as an agent for the Company as soon after the date of the Memorandum (the "Offering Date") as it in its sole discretion may deem advisable; provided, however, that if the Placement Agent does not commence such offering within ten (10) business days after the Offering Date, it shall promptly advise the Company.

4.02. Selected Dealers. The Placement Agent may offer and sell the Series B Notes for the account of the Company through registered broker-dealers selected by it ("Selected Dealers") and pursuant to a form of Selected Dealer Agreement between the Placement Agent and the Selected Dealers, pursuant to which the Placement Agent may allow such concession (out of its commissions) as it may determine. Such Agreement shall provide that the Selected Dealers are acting as agents of the Company. On such sale or allotment by the Placement Agent of any of the Series B Notes to Selected Dealers, the Placement Agent shall require the Selected Dealer selling any such Series B Notes to agree to offer and sell the same on the terms and conditions of offering as set forth in the Memorandum and in this Agreement.

SECTION 5

Memorandum

5.01. Delivery and Form of Memorandum. The Company will procure, at its expense, as many copies of the Memorandum as the Placement Agent may reasonably require for the purposes contemplated by this Agreement and shall deliver said copies of the Memorandum within two (2) business days after execution of this Agreement at addresses, and in the quantity at each address, as specified by the Placement Agent. Each Memorandum shall be of a size and format as determined by the Placement Agent and shall be suitable for mailing and other distribution.

5.02. Amendment of Memorandum. If during the offering any event occurs or any event known to the Company relating to or affecting the Company shall occur as a result of which the Memorandum as then amended or supplemented would include an untrue statement of a material fact, or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, or if it is necessary at any time after the Offering Date to amend or supplement the Memorandum to comply with the Act, the Company will immediately notify the Placement Agent thereof and the Company will prepare such further amendment to the Memorandum or supplemental or amended Memorandum or Memoranda as may be required and furnish and deliver to the Placement Agent, all at the cost of the Company, a reasonable number of copies of the supplemental or amended Memorandum which as so amended or supplemented will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the Memorandum not misleading in the light of the circumstances existing at the time it is delivered.

5.03. Use of Memorandum. The Company authorizes the Placement Agent and the Selected Dealers, if any, in connection with the offer and sale of the Series B Notes and all dealers to whom any of the Series B Notes may be sold by the Placement Agent or by any Selected Dealer, to use the Memorandum as from time to time amended or supplemented, in connection with the offering and sale of the Series B

Notes and in accordance with the provisions of the Act, the rules and regulations of the Commission (the "Rules and Regulations") thereunder, including Rule 506(b) thereof and applicable state securities laws.

SECTION 6
Covenants of the Company

The Company covenants and agrees with the Placement Agent that:

6.01. Notification of Changes. After the date hereof, the Company will not at any time, whether before or after the date of the Memorandum, make any amendment or supplement to the Memorandum of which amendment or supplement the Placement Agent shall not have previously been advised and a copy of which shall not have previously been furnished to the Placement Agent a reasonable time period prior to the proposed date of such amendment or supplement, or which the Placement Agent or counsel for the Placement Agent shall have reasonably objected to in writing solely on the grounds that it is not in compliance with the Act, the Rules and Regulations or with other federal or state laws.

6.02. Proceeding. The Company will promptly advise the Placement Agent, and will confirm such advice in writing, upon the happening of any event which, in the judgment of the Company, makes any material statement in the Memorandum untrue or which requires the making of any changes in the Memorandum in order to make the statements therein not misleading, and upon the refusal of any state securities administrator or similar official to qualify, or the suspension of the qualification of the Series B Notes for offering or sale in any jurisdiction where the Series B Notes are not exempt from qualification or registration, or of the institution of any proceedings for the suspension of any exemption or for any other purposes. The Company will use every reasonable effort to prevent any such refusal to qualify or any such suspension and to obtain as soon as possible the lifting of any such order, the reversal of any such refusal, and the termination of any such suspension.

6.03. Blue Sky Filings. As a condition of Closing, the Company will take whatever action is necessary in connection with filing or maintaining any appropriate exemption from qualification or registration under the applicable laws of such states as may be selected by the Placement Agent and agreed to by the Company, and continue such qualifications and exemptions in effect so long as required for the purposes of the offer and sale of the Series B Notes.

6.04. Agreement to Provide Information. The Company, at its own expense, will prepare and give and will continue to give such financial statements and other information to and as may be required by the Commission or the governmental authorities of states in which the Series B Notes may be registered, qualified or exempt from qualification or registration.

6.05. Costs of Offering. The Company will pay, whether or not the transactions contemplated hereunder are consummated or this Agreement is terminated, all costs and expenses incident to the performance of its obligations under this Agreement, including all expenses incident to the authorization and issuance of the Series B Notes, any taxes incident to the initial sale of the Series B Notes hereunder, the fees and expenses of the Company's counsel and accountants, the costs and expenses incident to the preparation and printing of the Memorandum and any amendments or supplements thereto, the cost of preparing and printing all exhibits to the Memorandum, the Blue Sky filings, the cost of furnishing to the Placement Agent copies of the Memorandum as herein provided, and the cost of any filing with the Commission or pursuant to state securities laws, including all filing fees. In addition, the Company will pay on behalf of the Placement Agent all fees and expenses of any legal counsel (not contemplated for this offering) which it may employ to represent it separately in connection with or on account of the Offering

and will pay any mailing, telephone, travel and clerical costs and all other office costs incurred, or to be incurred, by the Placement Agent or by its representatives in connection with the Offering. Placement Agent expenses will not exceed \$5,000.

6.06. Due Diligence. Prior to the Initial Closing, the Company will cooperate with the Placement Agent in such investigation as the Placement Agent may make or cause to be made of the properties, business, management and operations of the Company in connection with the offering of the Series B Notes, and the Company will make available to the Placement Agent in connection therewith such information in its possession as the Placement Agent may reasonably request.

6.07. Documentation. Prior to the Initial Closing, the Company will deliver to the Placement Agent true and correct copies of the articles and bylaws of the Company and of the minutes of all meetings of the directors and shareholders of the Company held since inception; true and correct copies of all material contracts to which the Company is a party; and such other documents and information as is reasonably requested by the Placement Agent. To the extent such documents had previously been provided, only amendments or updates need be furnished.

6.08. Management Cooperation. The Company shall provide the Placement Agent, at any time, an opportunity to meet with and question management of the Company and authorize management of the Company to speak at such meetings as the Placement Agent reasonably requests.

6.09. Information to Investors. The Company shall make available to each Investor at a reasonable time prior to his purchase of the Series B Notes the opportunity to ask questions and receive answers concerning the terms and conditions of the offering, and to obtain any additional information that the Company has or that it can acquire without unreasonable effort or expense that is necessary to verify the accuracy of information furnished to the Investors.

6.10. Periodic Reports. The Company will provide to the Placement Agent for not less than three (3) years following the Final Closing, quarterly and annual financial statements, copies of all correspondence to shareholders and copies of all press releases or news items concerning the Company. For purposes of this Section 6.10, the filing of such financial statements and correspondence with shareholders on the Edgar filing system maintained by the SEC and the public dissemination of press releases or news items shall be deemed sufficient satisfaction hereof.

6.11. Compliance with Conditions Precedent. The Company will use all reasonable efforts to comply or cause to be complied with the conditions precedent to the several obligations of the Placement Agent specified in this Agreement.

6.13. Form D. The Company agrees to file with the Commission, and states where required, all reports on Form D in accordance with the provisions of Regulation D promulgated under the Act and to promptly provide copies of filings to the Placement Agent and its counsel.

SECTION 7 Indemnification

7.01. Indemnification by Company. The Company agrees to indemnify, defend and hold harmless the Placement Agent, its agents, managers, members, representatives, and each person who controls the Placement Agent within the meaning of either Section 15 of the Act or Section 20 of the Securities Exchange Act of 1934 ("Agent Indemnified Persons") from and against any and all losses, claims, damages, liabilities or expenses, joint or several, (including reasonable legal or other expenses incurred by

each such person in connection with defending or investigating any such claims or liabilities, whether or not resulting in any liability to such Agent Indemnified Persons) which they or any of them may incur under the Act, the Rules and Regulations, any state securities law, or any rules and regulations under any state securities laws or any other statute or at common law or otherwise and to reimburse such Agent Indemnified Persons for any legal or other expense (including the cost of any investigation and preparation) incurred by any of them in connection with any litigation, whether or not resulting in any liability, but only insofar as such losses, claims, damages, liabilities and expenses arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Memorandum or any amendment or supplement thereto or any authorized sales literature or any application or other document filed with the Commission or any state or other jurisdiction in order to qualify the Series B Notes under the securities laws thereof, or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, all as of the date of the Memorandum or such amendment or supplement, as the case may be; provided, however, that the indemnity agreement contained in this Section 7.01 shall not apply to amounts paid in settlement of any such litigation if such settlements are effected without the consent of the Company, nor shall it apply to any Agent Indemnified Persons in respect of any such losses, claims, damages, liabilities or actions arising out of or based upon any such untrue statement or alleged untrue statement, or any such omission or alleged omission, if such statement or omission was made in reliance upon information furnished in writing to the Company by such Agent Indemnified Persons specifically for use in connection with the preparation of the Memorandum or any such amendment or supplement thereto. This indemnity agreement is in addition to any other liability that the Company may otherwise have to the Agent Indemnified Persons.

7.02. Notification to Company. The Agent Indemnified Persons agree to notify the Company promptly of the commencement of any litigation or proceeding against the Agent Indemnified Persons, of which they may be advised, in connection with the offer and sale of any of the Series B Notes of the Company, and to furnish to the Company at its request copies of all pleadings therein and permit the Company to participate therein and apprise the Company of all the developments therein. In case of the commencement of any action in which indemnity may be sought from the Company on account of the indemnity agreement contained in Section 7.01, the Agent Indemnified Persons within ten (10) days after the receipt of written notice of the commencement of any action against the Agent Indemnified Persons, shall notify the Company in writing of the commencement thereof. The failure to notify the Company shall not relieve the Company of any liability that the Company may have to an Indemnified Party, except to the extent that the Company did not otherwise have knowledge of the commencement of the action and the Company's ability to defend against the action was prejudiced by such failure. Such failure shall not relieve the Company from any other liability that it may have to the Indemnified Party. In case any such action shall be brought against the Agent Indemnified Persons of which the Agent Indemnified Persons shall have notified the Company of the commencement thereof, the Company shall be entitled to participate in (and to the extent that it shall wish, to direct) the defense thereto at its own expense, but such defense shall be conducted by counsel of recognized standing and reasonably satisfactory to the Agent Indemnified Persons in such litigation. After notice that the Company elects to direct the defense, the Company will not be liable for any legal or other expenses incurred by the Agent Indemnified Persons without the prior written consent of the Company. The Company shall not be liable for amounts paid in settlement of any litigation if such settlement was effected without its consent.

7.03. Indemnification by Placement Agent. The Placement Agent agrees to indemnify and hold harmless the Company, its agents, officers, directors, representatives, guarantors, sureties and each person who controls the Company within the meaning of either Section 15 of the Act or Section 20 of the Securities Exchange Act of 1934 ("Company Indemnified Persons") from and against any and all losses, claims, damages, liabilities or expenses, joint or several, (including reasonable legal or other expenses incurred by

each such person in connection with defending or investigating any such claims or liabilities, whether or not resulting in any liability to such person) which they or any of them may incur under the Act, any Rules or Regulations, any state securities law or the rules and regulations under any state securities laws or any other statute or at common law or otherwise and to reimburse persons indemnified as above for any legal or other expense (including the cost of any investigation and preparation) incurred by any of them in connection with any litigation, whether or not resulting in any liability, but only insofar as such losses, claims, damages, liabilities and litigation arise out of or are based upon (i) any sales practices of the Placement Agent in offering or selling the Series B Notes; (ii) statements made by any representative of the Placement Agent that is not authorized in writing by the Company; (iii) any breach of a representation or warranty made by the Placement Agent in this Agreement; and (iv) any statement in or omission from the Memorandum or any amendment or supplement thereto, or any application or other document filed with the Commission or in any state or other jurisdiction in order to qualify the Series B Notes under the securities laws thereof, or any information furnished pursuant to Section 3.09 hereof, if such statements or omissions were made in reliance upon information furnished in writing to the Company by the Placement Agent or on its behalf specifically for use in connection with the preparation of the Memorandum or amendment or supplement thereto or application or document filed. This indemnity agreement is in addition to any other liability which the Placement Agent may otherwise have to the Company and other indemnified persons.

7.04. Notification to Placement Agent. The Company and other Company Indemnified Persons agree to notify the Placement Agent promptly of commencement of any litigation or proceedings against the Company or other Company Indemnified Persons, in connection with the offer and sale of any of the Series B Notes and to furnish to the Placement Agent, at its request, copies of all pleadings therein and permit the Placement Agent to be an observer therein and apprise the Placement Agent of all developments therein. In case of commencement of any action in which indemnity may be sought from the Placement Agent on account of the indemnity agreement contained in Section 7.03, the Company or other Company Indemnified Persons shall notify the Placement Agent of the commencement thereof in writing within ten (10) days after the receipt of written notice of the commencement of any action against the Company or against any other person indemnified. The failure to notify the indemnifying party shall not relieve it of any liability that it may have to an Indemnified Party, except to the extent that the indemnifying party did not otherwise have knowledge of the commencement of the action and the indemnifying party's ability to defend against the action was prejudiced by such failure. Such failure shall not relieve the indemnifying party from any other liability that it may have to the Indemnified Party. In case any such action shall be brought against the Company or any other person indemnified of which the Company shall have notified the Placement Agent of the commencement thereof, the Placement Agent shall be entitled to participate in (and to the extent that it shall wish, to direct) the defense thereto at its own expense, but such defense shall be conducted by counsel of recognized standing and reasonably satisfactory to the Company or other persons indemnified in such litigation. After notice that the Placement Agent elects to direct the defense, the Placement Agent will not be liable for any legal or other expenses incurred by the indemnified party without the prior written consent of the Placement Agent. The Placement Agent shall not be liable for amounts paid in settlement of any litigation if such settlement was effected without its consent.

7.05. Indemnification of Selected Dealers. The Company agrees to indemnify Selected Dealers, if any, and their agents, officers, directors, and representatives, on substantially the same terms and conditions as it indemnifies the Placement Agent and Agent Indemnified Persons pursuant to Section 7.01 provided that each such Selected Dealer will have agreed in writing with the Placement Agent to indemnify the Company and its agents, officers, directors, representatives, guarantors and sureties on substantially the same terms and conditions as the Placement Agent indemnifies the Company in Section 7.03. The

Company hereby authorizes the Placement Agent to enter into agreements with Selected Dealers providing for such indemnity by the Company.

7.06. Contribution. If the indemnification provided for in Sections 7.01, 7.03 and 7.05 is unavailable to an indemnified party in respect of any losses, claims, damages or liabilities referred to therein, then each indemnifying party under either such paragraph, in lieu of indemnifying such indemnified party thereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities: (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and by the Placement Agent or Selected Dealers on the other from the offering and sale of the Series B Notes, or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and of the Placement Agent or Selected Dealers on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Placement Agent or Selected Dealers on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bears to the total commissions received by the Placement Agent or Selected Dealers, as in each case set forth in the Memorandum. The relative fault of the Company and of the Placement Agent or Selected Dealers shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the Company or by the Placement Agent or Selected Dealers and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company and the Placement Agent agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an indemnified party as a result of the losses, claims, damages and liabilities referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 7, the Placement Agent shall not be required to contribute any amount in excess of the amount by which the total price at which the Series B Notes sold by it and distributed exceeds the amount of any damages which such Placement Agent otherwise has been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution hereunder from any person who was not guilty of such fraudulent misrepresentation.

7.07. Limitation of Legal Expenses. Notwithstanding anything herein to the contrary, the indemnification for legal expenses included in Sections 7.01, 7.03 and 7.05 shall be limited to the legal expenses of one law firm, except in the event of a bona fide conflict of interest, in which event such legal expenses shall be limited to the legal expenses of two law firms.

SECTION 8 Effectiveness of Agreement

8.01. This Agreement shall become effective upon execution by all parties hereto.

SECTION 9
Conditions of the Placement Agent's Obligations

The Placement Agent's obligations to act as agent of the Company hereunder shall be subject to the accuracy of the representations and warranties on the part of the Company herein contained, to the performance by the Company of all its agreements herein contained, to the fulfillment of or compliance by the Company with all covenants and conditions hereof, and to the following additional conditions:

9.01. No Material Changes. Except as contemplated herein or as set forth in the Memorandum, during the period subsequent to the date of the last balance sheet included in the Memorandum the Company: (a) shall have conducted its business in the usual and ordinary manner as the same was being conducted on the date of the last balance sheet included in the Memorandum, and (b) except in the ordinary course of its business, the Company shall not have incurred any material liabilities, claims or obligations (direct or contingent) or disposed of any material portion of its assets, or entered into any material transaction or suffered or experienced any materially adverse change in its condition, financial or otherwise. The capitalization and short term debt of the Company shall be substantially the same as at the date of the latest balance sheet included in the Memorandum, without considering the proceeds from the sale of the Series B Notes, other than as may be set forth in the Memorandum, and except as the financial statements of the Company reflect the result of continued losses from operations consistent with prior periods.

9.02. Authorization. The authorization for the issuance of the securities comprising the Series B Notes and the use of the Memorandum and all corporate proceedings and other legal matters incident thereto and to this Agreement shall be reasonably satisfactory in all respects to counsel to the Placement Agent.

9.03. Officers' Certificate. The Company shall furnish to the Placement Agent a certificate signed by the President and Chief Financial Officer of the Company, dated as of each Closing Date, to the effect that:

(a) The representations and warranties of the Company in this Agreement are true and correct in all material respects at and as of the date of the certificate, and the Company has complied in all material respects with all the agreements and has satisfied in all material respects all the conditions on its part to be performed or satisfied at or prior to the date of the certificate.

(b) Each has carefully examined the Memorandum and any amendments and supplements thereto, and to the best of their knowledge the Memorandum and any amendments and supplements thereto contain all statements required to be stated therein, and all statements contained therein are true and correct, and the Memorandum nor any amendment or supplement thereto includes any untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading and, during the Offering, the Memorandum will be amended or supplemented to include all information necessary to be included in the Memorandum so that it does not become inaccurate or misleading.

(c) No order prohibiting the offer or sale of the Series B Notes has been issued and, to the best of the knowledge of the respective signers, no proceeding for that purpose has been initiated or is threatened by the Commission or any applicable state.

(d) Except as set forth in the Memorandum, since the respective dates of the periods for which information is given in the Memorandum and prior to the date of the certificate, (i) there has not been any materially adverse change, financial or otherwise, in the affairs or condition of

the Company, and (ii) the Company has not incurred any material liabilities, direct or contingent, or entered into any material transactions, otherwise than in the ordinary course of business.

(e) Subsequent to the date of the Memorandum, no dividends or distribution whatever have been declared and/or paid on or with respect to the Common Stock of the Company.

9.04. State Qualification or Exemption. The Company shall use its best efforts to register or secure an exemption from registration or qualification in those states requested by the Placement Agent, and such qualification or exemption shall be in effect and not subject to any stop order or other proceeding on the Closing Date.

9.05. Satisfactory Form of Documents. All opinions, letters, certificates and evidence mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof only if they are in form and substance satisfactory to counsel to the Placement Agent, whose approval shall not be unreasonably withheld.

9.06. Adverse Events. Between the date hereof and each Closing Date, the Company shall not have sustained any loss on account of fire, explosion, flood, accident, calamity or any other cause, of such character as materially adversely affects its business or property considered as an entity, whether or not such loss is covered by insurance.

9.07. Litigation. Between the date hereof and each Closing Date, there shall be no litigation instituted or threatened against the Company and there shall be no proceeding instituted or threatened against the Company before or by any federal or state commission, regulatory body or administrative agency or other governmental body, domestic or foreign, wherein an unfavorable ruling, decision or finding would materially adversely affect the business, franchises, licenses, operations or financial condition or income of the Company.

9.08 Certificates. Any certificate signed by an officer of the Company and delivered to the Placement Agent shall be deemed a representation and warranty by the Company to the Placement Agent as to the statements made therein.

SECTION 10 Termination

10.01. Failure to Comply with Agreement. This Agreement may be terminated by either party hereto by notice to the other party in the event that such party shall have failed or been unable to comply with any of the terms, conditions or provisions of this Agreement required by the Company or the Placement Agent to be performed, complied with or fulfilled by it within the respective times herein provided for, unless compliance therewith or performance or satisfaction thereof shall have been expressly waived by the non-defaulting party in writing.

10.02. Government Restrictions. This Agreement may be terminated by either party by notice to the other party at any time if, in the judgment of either party, payment for and delivery of the Series B Notes are rendered impracticable or inadvisable because: (i) additional material governmental restrictions not in force and effect on the date hereof shall have been imposed upon the trading in securities generally, or minimum or maximum prices shall have been generally established on the New York Stock Exchange, the Chicago Board of Trade or the Commodity Futures Trading Commission, or trading in securities generally shall have been suspended, or a general moratorium shall have been established by federal or state

authorities; or (ii) a war or other national calamity shall have occurred; or (iii) the condition of any matter affecting the Company or any other circumstance is such that it would be undesirable, impracticable or inadvisable in the judgment of the Placement Agent to proceed with this Agreement or with the sale of the Series B Notes.

10.03. Liability on Termination. Any termination of this Agreement pursuant to this Section 10 shall be without liability of any character (including, but not limited to, loss of anticipated profits or consequential damages on the part of any party thereto); except that the Company and the Placement Agent shall be obligated to pay, respectively, all losses, claims, damages or liabilities, joint or several, under Section 7.01 in the case of the Company, Section 7.03 in the case of the Placement Agent and Section 7.06 as to all parties.

SECTION 11
Placement Agent's Representations, Warranties and Covenants

The Placement Agent represents and warrants to and agrees with the Company that:

11.01. Registration. The Placement Agent is registered as a broker-dealer with the Securities and Exchange Commission, and is a member in good standing of the Financial Industry Regulatory Authority ("FINRA"). The Placement Agent is registered or otherwise qualified to sell the Series B Notes in each state in which the Placement Agent may sell such Series B Notes or is exempt from such registration or qualification.

11.02. Ability to Act as Agent. There is not now pending or, to the knowledge of the Placement Agent, threatened against the Placement Agent any action or proceeding of which the Placement Agent has been advised, either in any court of competent jurisdiction, before the FINRA, the Securities and Exchange Commission or any state securities commission concerning the Placement Agent's activities as a broker or dealer, nor has the Placement Agent been named as a "cause" in any action or proceeding, any of which may be expected to have a material adverse effect upon the Placement Agent's ability to act as agent to the Company as contemplated herein.

11.03. Terminate Agreement. In the event any action or proceeding of the type referred to in Section 11.02 above (except for actions referred to in the Memorandum) shall be instituted or, to the knowledge of the Placement Agent, threatened against the Placement Agent at any time prior to termination of this Agreement, or in the event there shall be filed by or against the Placement Agent in any court pursuant to any federal, state, local or municipal statute, a petition in bankruptcy or insolvency or for reorganization or for the appointment of a receiver or trustee of its assets or if the Placement Agent makes an assignment for the benefit of creditors, the Company shall have the right on three (3) days' written notice to the Placement Agent to terminate this Agreement without any liability to the Placement Agent of any kind.

11.04. No Disqualification Events. With respect to the Offering, the Placement Agent represents that neither it, nor any of its directors, executive officers, general partners, managing members or other officers participating in the Offering (each, an "Agent Covered Person"), is subject to any Disqualification Event, except for a Disqualification Event contemplated by Rule 506(d)(2) or (d)(3).

11.05. Accredited Investors. The Placement Agent represents, warrants and agrees that all sales of the Series B Notes shall be made only to "accredited investors" (as such term is defined in Rule 501 of Regulation D under the Securities Act), and that it reasonably believes that such purchasers are accredited investors.

11.06 The Placement Agent agrees not to engage in any general solicitation or general advertising in connection with offering, including those activities described in Rule 502(c) of Regulation D under the Act.

SECTION 12
Notice

Except as otherwise expressly provided in this Agreement:

12.01. Notice to Company. Whenever notice is required by the provisions of this Agreement to be given to the Company, such notice shall be in writing addressed to the Company as provided below:

PetroShare Corp.

9635 Maroon Circle, Suite 400
Englewood, CO 80112
Attn: Stephen J. Foley, CEO
(303) 500-1160

12.02. Notice to Placement Agent. Whenever notice is required by the provisions of this Agreement to be given to the Placement Agent, such notice shall be given in writing addressed to the Placement Agent as follows:

GVC Capital LLC
5350 S. Roslyn Street, Suite 400
Greenwood Village, CO 80111
Attn: Vicki D.E. Barone, Senior Managing Partner

SECTION 13
Miscellaneous

13.01. Benefits. This Agreement is made solely for the benefit of the Placement Agent, the Company, their respective agents, officers, directors, managers, members, representatives, guarantors, sureties and any controlling person referred to in Section 15 of the Act or Section 20 of the Securities Exchange Act of 1934, and their respective successors and assigns, and no other person shall acquire or have any right under or by virtue of this Agreement. The term "successor" or the term "successors and assigns" as used in this Agreement shall not include any purchasers, as such, of any of the Series B Notes.

13.02. Survival. The respective indemnities, agreements, representations, warranties, covenants and other statements of the Company or the Company's officers, as set forth in or made pursuant to this Agreement and the indemnity agreements of the Company and the Placement Agent contained in Section 7 hereof shall survive and remain in full force and effect, regardless of (i) any investigation made by or on behalf of the Company or the Placement Agent or any affiliated persons thereof or any controlling person of the Company or of the Placement Agent, (ii) delivery of or payment for the Series B Notes and (iii) the Closing Date, and any successor of the Company, the Placement Agent and Selected Dealers, or any controlling person, or other person indemnified by Section 7, as the case may be, shall be entitled to the benefits hereof.

13.03. Governing Law. The laws of the State of Colorado hereof will govern the validity, interpretation and construction of this Agreement and of each part. The parties agree that any dispute that arises between them relating to this Agreement or otherwise shall be submitted for resolution in conformity with the Securities Arbitration Rules of the American Arbitration Association. The parties agree that the situs of an arbitration hearing before the arbitrators shall be in Denver, Colorado, and each party shall request such situs.

13.04. Counterparts. This Agreement may be executed in any number of counterparts, each of which will constitute an original.

Please confirm that the foregoing correctly sets forth the Agreement between you and the Placement Agent.

Very truly yours,

GVC CAPITAL LLC

By: /s/ Vicki D. E. Barone

Vicki D. E. Barone, Senior Managing Partner

We hereby confirm as of the date hereof that the above letter sets forth the Agreement between the Placement Agent and us.

PETROSHARE CORP.

9/11/2017

Date

By: /s/ Stephen J. Foley

Stephen J. Foley, CEO

PetroShare Placement Agent Agree. GVC FINAL 9-11-17

IMPORTANT: PLEASE READ CAREFULLY BEFORE SIGNING.
SIGNIFICANT REPRESENTATIONS ARE CALLED FOR HEREIN.

**SUBSCRIPTION AGREEMENT
and
LETTER OF INVESTMENT INTENT**

PetroShare Corp.
9635 Maroon Circle, Suite 400
Englewood, CO 80112

The undersigned ("Subscriber") wishes to subscribe for Series B Unsecured Convertible Promissory Notes (the "Series B Notes") of PetroShare Corp. (the "Company"). The Subscriber understands that once this Subscription Agreement is completed, it should be returned to **GVC Capital LLC as the Placement Agent at 5350 S. Roslyn Street, Suite 400, Greenwood Village, CO 80111**, together with a check or wire transfer for the amount of the subscription.

1. Subscription Commitment. The Subscriber hereby subscribes for the purchase of Series B Notes in the principal amount of \$_____. No subscription will be accepted for less than \$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. Escrow Account**".

\$_____

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 proceeds from the sale of the Series B Notes first sold in the principal amount of \$1,000,000 will be deposited with the Escrow Agent for the offering and dispersed in accordance with the Company's Private Offering Memorandum dated September 11, 2017 (the "Memorandum").

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 Memorandum. Subscriber has carefully reviewed and is familiar with the terms of the Memorandum. 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, and the documents referred to in 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 Series B Notes 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 Series B Notes 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 Series B Notes and has the net worth to undertake such risks.

(e) No General Solicitation. The Subscriber was not offered or sold the Series B Notes, 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 Series B Notes in light of the Subscriber's financial condition and investment need.

(g) Investment Risks. The Subscriber recognizes that the Series B Notes as an investment involve 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 Series B Notes. The Subscriber acknowledges that (i) the purchase of the Series B Notes is a long-term investment; (ii) the Subscriber must bear the economic risk of investment for an indefinite period of time because the Series B Notes have not been registered under the Securities Act or under the securities laws of any state and, therefore, neither the Series B Notes, the shares of common stock nor the warrants can 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 Series B Notes or the common stock; (iv) there is presently no trading market for the Series B Notes and the Subscriber may be unable to liquidate the Subscriber's investment in the event of an emergency, or pledge the Series B Notes as collateral for a loan; and (v) the transferability of the Series B Notes, as well as shares of common stock issuable upon

the conversion of the Series B Notes, is restricted and requires conformity with the restrictions contained in paragraph 3 below and legends will be placed on the Series B Notes and any certificate(s) issuable upon the conversions of the Series B Notes 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)(i)(C) of the Internal Revenue Code.

(k) Restrictive Legend. Stop transfer instructions will be placed with the transfer agent for the common stock into which the Series B Notes are convertible, and a legend will be placed on every Series B Note 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) Placement Agent. The Subscriber understands that GVC Capital LLC is acting as placement agent (the "Placement Agent") on this transaction. The Company will pay the Placement Agent a sales commission as disclosed in the Memorandum. The Placement Agent may re-allow a portion of the commission to participating selling agents.

(m) 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 Series B Notes, Investment Intent The Subscriber has been advised and understands that: (a) the Series B Notes 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 Series B Notes 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 Series B Notes 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 Series B Notes; and the Subscriber's financial condition is such that it is not likely that it will be necessary to dispose of any of such Series B Notes 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 Series B Notes in any manner, the Subscriber shall not do so

unless and until (i) said Series B Notes 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 Series B Notes 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 Series B Notes in the state set forth on the signature page hereof, and the Series B Notes 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 assets in excess of \$5,000,000 which was not formed for the purpose of investing in the Series B Notes and 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.

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)

Category VIII - The Subscriber is a trust with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring the Series B Notes, whose purchase is directed by a person who has such knowledge and experience in financial and business matters that he is capable of evaluating the merits and risks of the prospective investment.

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 Series B Notes;
 - (b) The Subscriber is duly authorized, empowered and qualified to execute and deliver this Subscription Agreement, to subscribe for and purchase the Series B Notes 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 Series B Notes 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 . Agreement Among Lenders. Subscriber acknowledges and agrees that the holders of the Series B Notes will become parties to an Agreement Among Lenders describing certain rights and responsibilities of the Series B Note holders with regard to the Series B Notes. Subscriber acknowledges receipt of a copy of the Agreement Among Lenders and affirms Subscriber's consent and agreement to the terms thereof. Subscriber further agrees that by executing this Subscription Agreement, Subscriber shall be deemed to have executed and acknowledged the Agreement Among Lenders subject to the terms and conditions set forth therein.

12. Survival. The representation and warranties of the Subscriber set forth herein shall survive the sale of the Series B Notes pursuant to this Subscription Agreement.

13. 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.

14. 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.

15. 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.

16. 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, the Placement Agent, 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.

17. 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): (see following page)

Please print above the exact name(s) in which the Series B Notes are to be held.

18. 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

COPY OF DRIVER'S LICENSE OR PASSPORT REQUIRED IF NON-GVC CUSTOMER

Customer Identification Program Notice: To help the government fight the funding of terrorism and money laundering activities, federal law requires financial institutions to obtain, verify, and record information that identifies each client. This means that we will require you to provide the following information: name, date of birth, address, identification number, and a piece of documentary identification. If you are an individual and do not have an account with GVC Capital, please include a copy of your driver's license or passport. If you are an entity, please provide a copy of your articles of incorporation, trust document, or other identifying document. If you are unable to produce the information required, we may not be able to complete your investment transaction.

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 Typed or Printed	(_____) Telephone Number
	_____ Email Address

* If Series B Notes are being subscribed for by an entity, the Certificate of Signatory must also be completed.

CERTIFICATE OF SIGNATORY

To be completed if Series B Notes 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 Series B Notes, 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 _____, 2017.

Signature

COPY OF DRIVER'S LICENSE OR PASSPORT REQUIRED IF NON-GVC CUSTOMER

Customer Identification Program Notice: To help the government fight the funding of terrorism and money laundering activities, federal law requires financial institutions to obtain, verify, and record information that identifies each client. This means that we will require you to provide the following information: name, date of birth, address, identification number, and a piece of documentary identification. If you are an individual and do not have an account with GVC Capital, please include a copy of your driver's license or passport. If you are an entity, please provide a copy of your articles of incorporation, trust document, or other identifying document. If you are unable to produce the information required, we may not be able to complete your investment transaction.

ACCEPTANCE

This Subscription Agreement is accepted as of _____, 2017.

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 **GVC Capital LLC, 5350 S. Roslyn Street, Suite 400, Greenwood Village, CO 80111**.

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 9 if subscribing as an individual (includes Community Property, Joint Tenants, Tenants-in-Common) or on page 10 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, including an executed Investor Questionnaire, to **5350 S. Roslyn Street, Suite 400, Greenwood Village, CO 80111** along with your check payable to "PetroShare Corp. Escrow Account"; or wire your subscription funds to the PetroShare Corp. escrow account as follows:

Receiving Bank Name:	Fortis Private Bank
ABA Routing Number:	107006428
Account Number:	031006459
Name on Account:	PetroShare Corp. Escrow Account

If you have any questions, please call Mike Donnelly, 720-488-4729.

GVC Capital LLC
Privacy Policy Concerning Clients' Financial Information Dated January 1, 2017

This privacy disclosure statement puts in writing the privacy policies that GVC follows. Our policy is based on the recognition that our clients have an expectation that non-public personal information will be kept confidential. We have adopted this Privacy Policy concerning information you have provided to us and information we obtained in providing services to you.

Information about you is collected in the normal course of business for purposes of providing services to you. This information is not collected for resale. We provide information to unaffiliated third parties that is necessary for us to provide services to you. The information that is collected, the source of the information and the parties to which the information is provided are explained below.

Categories of Non-public Information We Collect In the Normal Course of Business

1. Information you provide in establishing an account. This is information provided by you on forms used to open and maintain an account with us and our affiliates and otherwise provided by you in using our services. Examples of such information are your name, address, employment, age, assets and investment objectives and experience.

2. Information about your transactions. This includes information obtained from you concerning a transaction that we have done on your behalf. We also have information about assets held for you. If your account was transferred to us, we may have received information from another financial institution. Our Brokerage services are introduced by us to a clearing firm that effects transactions and maintains assets for you. We have access to information about these transactions and assets. We anticipate that the clearing firm will separately provide you with their privacy policies concerning client financial information that is collected or available to them.

Categories of Non-public Information That is Disclosed:

We do not disclose any non-public personal information about our clients or former clients to anyone, except as required or permitted by law. Examples of such disclosures include:

1. All information about your account may be disclosed to any person that you authorized pursuant to the documentation you have provided us. For example, information about accounts held jointly shall be disclosed to all persons jointly sharing the account.

2. Any information that is compelled to be produced by law, such as pursuant to a subpoena issued by a court.

3. Information provided with your consent or at your direction, such as disclosure to a non-affiliated mortgage lender with whom you are applying for a mortgage loan.

4. Information to a financial institution where your account is transferred.

5. Information provided by us to non-affiliated third parties that assist us in providing our services to you such as data processing firms that prepare and print your account statements.

Parties to Whom We May Disclose Non-public Information

We may disclose both identification and transaction information to affiliated and non-affiliated parties as permitted by law for the following reasons:

1. Non-financial Entities. Such entities include persons we engage to prepare confirmations, account statements and other account records and transfer agents to permit the issuance of security certificates to you.
2. Financial Entities. Such entities include a clearing firm that is a securities broker-dealer that we introduce transactions or accounts in certain types of security products.

Our Policies Protecting the Confidentiality of Information About You

We restrict access to non-public personal information about you to those employees and non-affiliated third parties who need to know that information so as to enable us to provide products and services to you.

Such employees include your account executive, personnel in the trading department who effect or route your transactions, operations personnel who prepare and reconcile records of your transactions and your security and money positions, and management and compliance personnel who oversee our business.

Non-affiliated third parties include our clearing firm or others that:

1. Prepare confirmations, account statements and other records of your account.
2. Transmit trade information to securities regulators and other government agencies as required by applicable rules.
3. Regulate our business in accordance with applicable law.
4. Maintain accounts.
5. Facilitate the clearing and settlement of transactions.
6. Such other parties as permitted by law.

We maintain physical, electronic and procedural safeguards to guard against persons not authorized by us from having access to your non-public personal information.

Internally, we maintain all written records in secured locations that are accessible only to authorized personnel. Account executives are provided with transaction records of accounts that they have responsibility for servicing. Electronic records are maintained on secure computers that are password protected. Employees undergo background checks as a condition of employment.

We appreciate being able to provide our services to you and will continue to do so while maintaining the confidentiality of the information needed to provide such services. If you have any questions concerning this notice, please call Vicki Barone at (303) 694-0862.

GVC CAPITAL BUSINESS CONTINUITY PLANNING

GVC Capital LLC has developed a Business Continuity Plan on how we will respond to events that significantly disrupt our business. Since the timing and impact of disasters and disruptions is unpredictable, we will have to be flexible in responding to actual events as they occur. With that in mind, we are providing you with this information on our business continuity plan.

Contacting Us — If after a significant business disruption you cannot contact us as you usually do at 303-694-0862, please go to our web site at www.gvccap.com.

Our Business Continuity Plan — We plan to quickly recover and resume business operations after a significant business disruption and respond by safeguarding our employees and property, making a financial and operational assessment, protecting the firm's books and records, and allowing our customers to transact business. In short, our business continuity plan is designed to permit our firm to resume operations as quickly as possible, given the scope and severity of the significant business disruption. Our business continuity plan addresses: data back-up and recovery; all mission critical systems; financial and operational assessments; alternative communications with customers, employees, and regulators; alternate physical location of employees; critical supplier, contractor, bank and counter-party impact; regulatory reporting; and assuring our customers prompt access to their funds and securities if we are unable to continue our business.

Varying Disruptions — Significant business disruptions can vary in their scope, such as only our firm, a single building housing our firm, the business district where our firm is located, the city where we are located, or the whole region. Within each of these areas, the severity of the disruption can also vary from minimal to severe. In a disruption to only our firm or a building housing our firm, we will transfer our operations to a local site when needed and expect to recover and resume business within an hour. In a disruption affecting our business district, city, or region, we will transfer our operations to a site outside of the affected area, and recover and resume business within a few hours. In either situation, we plan to continue in business, transfer operations to our clearing firm if necessary, and notify you through our web site [www.gvccap.com] or a telephone recording from our main line, [303-694-0862] how to contact us. If the significant business disruption is so severe that it prevents us from remaining in business, we will assure our customer's prompt access to their funds and securities.

For more information — If you have questions about our business continuity planning, you can contact us at (303) 694-0862 or send inquiries to our main office: 5350 S. Roslyn St. Suite 400 Greenwood Village, CO 80111.

Complaints, Concerns, or Questions may be directed to:

Vicki Barone (303) 694-0862
GVC Capital LLC
5350 S. Roslyn St. Suite 400
Greenwood Village, CO 80111



CERTIFICATION
Pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002

I, STEPHEN J. FOLEY, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PetroShare Corp. for the period ended September 30, 2017;
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
 - d. Disclosed in this Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 14, 2017

/s/ Stephen J. Foley

Stephen J. Foley, *Chief Executive Officer*
(*Principal Executive Officer*)

CERTIFICATION
Pursuant to Section 302 of the
Sarbanes-Oxley Act of 2002

I, PAUL D. MANISCALCO, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PetroShare Corp. for the period ended September 30, 2017;
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
 - d. Disclosed in this Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 14, 2017

/s/ Paul D. Maniscalco

Paul D. Maniscalco, *Chief Financial Officer*
(*Principal Financial and Accounting Officer*)

CERTIFICATION
Pursuant to 18 U.S.C. Section 1350
As Adopted Pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of PetroShare Corp., a Colorado corporation (the "Company") for the period ended September 30, 2017 as filed with the Securities and Exchange Commission (the "Report"), each of the undersigned officers of the Company does hereby certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that to the best of our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 14, 2017

/s/ Stephen J. Foley

Stephen J. Foley, *Chief Executive Officer*
(*Principal Executive Officer*)

/s/ Paul D. Maniscalco

Paul D. Maniscalco,
Chief Financial Officer
(*Principal Financial and Accounting Officer*)
