

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

**PetroShare Corp.**

**Form: 10-Q**

**Date Filed: 2019-08-14**

Corporate Issuer CIK: 1568079

**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 **June 30, 2019**

**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 office) (Zip Code)

**(303) 500-1160**

(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	N/A	N/A

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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: 28,037,804 shares outstanding as of August 14, 2019.

**PETROSHARE CORP.  
FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2019**

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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, 2018, 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 24 of this report for important information contained herein.

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

PetroShare Corp.  
Condensed Consolidated Balance Sheets  
(unaudited)

	June 30, 2019	December 31, 2018
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash	\$ 3,758,009	\$ 2,636,943
Accounts receivable - joint interest billing, net of allowance	1,324,075	495,911
Accounts receivable - joint interest billing - related party	102,324	1,158,213
Accounts receivable - crude oil, natural gas and NGL sales	3,657,021	11,659,479
Prepaid expenses and other assets	705,153	178,259
Assets held for sale, net of costs to sell	—	16,090,898
<b>Total current assets</b>	<b>9,546,582</b>	<b>32,219,703</b>
<b>Crude oil and natural gas properties - using successful efforts method:</b>		
Proved crude oil and natural gas properties	41,992,807	41,017,944
Unproved crude oil and natural gas properties	1,531,515	2,055,752
Wells in progress	252,607	1,194,114
Less: accumulated depletion, depreciation and amortization and impairment	(17,008,211)	(14,395,458)
Crude oil and natural gas properties, net	<u>26,768,718</u>	<u>29,872,352</u>
<b>Property, plant and equipment, net</b>	<b>90,556</b>	<b>115,350</b>
<b>Other assets</b>	<b>522,000</b>	<b>357,070</b>
<b>TOTAL ASSETS</b>	<b>\$ 36,927,856</b>	<b>\$ 62,564,475</b>
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY (DEFICIT)</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 14,854,196	\$ 24,385,417
Accounts payable and accrued liabilities - related party	3,448	7,624,877
Oil and gas revenue distributions payable	2,727,615	2,501,095
Asset retirement obligation	1,430,985	843,796
Secured Credit Facility - related party	14,299,436	20,182,264
Convertible notes payable	9,358,100	9,358,100
Derivative liabilities - Secured credit facility	90,325	241,800
<b>Total current liabilities</b>	<b>42,764,105</b>	<b>65,137,349</b>
<b>Long-term liabilities</b>		
Other long-term liabilities	1,687,006	448,465
Asset retirement obligation	649,877	1,246,151
<b>Total liabilities</b>	<b>45,100,988</b>	<b>66,831,965</b>
<b>Shareholders' (deficit):</b>		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, none issued or outstanding	—	—
Common stock, \$0.001 par value, 200,000,000 shares authorized, 28,037,804 and 28,089,765 shares issued and outstanding, respectively	28,038	28,090
Additional paid-in capital	33,885,198	33,710,588
Accumulated deficit	(42,086,368)	(38,006,168)
<b>Total Shareholders' (Deficit)</b>	<b>(8,173,132)</b>	<b>(4,267,490)</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY (DEFICIT)</b>	<b>\$ 36,927,856</b>	<b>\$ 62,564,475</b>

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

**PetroShare Corp.**  
**Condensed Consolidated Statements of Operations**  
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<b>REVENUE:</b>				
Crude oil sales	\$ 5,549,270	\$ 4,042,615	\$ 9,728,216	\$ 5,467,848
Natural gas sales	205,558	397,978	822,696	792,389
NGL sales	193,259	184,943	368,705	434,231
Total revenue	<u>5,948,087</u>	<u>4,625,536</u>	<u>10,919,617</u>	<u>6,694,468</u>
<b>COSTS AND EXPENSES:</b>				
Lease operating expense	578,305	187,201	1,051,246	493,396
Production taxes, gathering and marketing	776,161	519,520	1,679,075	750,439
Depletion, depreciation and amortization	1,613,421	1,218,175	2,754,875	1,931,772
Loss on sale and abandonment of properties	—	—	822,290	—
Accretion of asset retirement obligation	60,037	27,255	121,821	55,612
(Gain) loss on settlement - asset retirement obligations	(38,742)	1,274	(38,255)	(54,178)
General and administrative expense	1,238,114	941,610	3,324,727	1,538,624
Total costs and expenses	<u>4,227,296</u>	<u>2,895,035</u>	<u>9,715,779</u>	<u>4,715,665</u>
<b>Operating income</b>	1,720,791	1,730,501	1,203,838	1,978,803
<b>OTHER INCOME (EXPENSE):</b>				
Change in fair value - derivative liability	74,763	(110,987)	151,475	(21,100)
Other income (expense)	21,297	(12,459)	19,719	(11,661)
Interest expense	(293,011)	(1,717,129)	(5,455,232)	(3,543,861)
Total other (expense)	<u>(196,951)</u>	<u>(1,840,575)</u>	<u>(5,284,038)</u>	<u>(3,576,622)</u>
<b>Net income (loss)</b>	<u>\$ 1,523,840</u>	<u>\$ (110,074)</u>	<u>\$ (4,080,200)</u>	<u>\$ (1,597,819)</u>
<b>Net income (loss) per share:</b>				
Basic	\$ 0.05	\$ (0.00)	\$ (0.15)	\$ (0.06)
Fully Diluted	\$ 0.05	\$ (0.00)	\$ (0.15)	\$ (0.06)
<b>Weighted average number of shares outstanding:</b>				
Basic	28,064,735	28,005,644	28,071,067	27,891,210
Fully diluted	29,564,735	28,005,644	28,071,067	27,891,210

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

**PetroShare Corp.**  
**Condensed Consolidated Statements of Changes in Shareholders' Equity (Deficit)**  
(unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated (Deficit)	Total
	Shares	Amount			
<b>Three months and six months ended June 30, 2018</b>					
<b>Balance at December 31, 2017</b>	27,718,802	\$ 27,719	\$28,553,736	\$(20,698,421)	\$ 7,883,034
Issuance of common stock in connection with conversion of convertible notes payable	135,963	136	203,811	—	203,947
Issuance of common shares as compensation	70,000	70	69,930	—	70,000
Beneficial conversion feature on Secured Credit Facility	—	—	1,342,680	—	1,342,680
Warrants issued in connection with Secured Credit Facility	—	—	1,625,956	—	1,625,956
Stock-based compensation	—	—	217,589	—	217,589
Net (loss)	—	—	—	(1,487,743)	(1,487,743)
<b>Balance at March 31, 2018</b>	<u>27,924,765</u>	<u>27,925</u>	<u>32,013,702</u>	<u>(22,186,164)</u>	<u>9,855,463</u>
Issuance of common stock as compensation	75,000	75	92,175	—	92,250
Issuance of restricted shares	65,000	65	64,935	—	65,000
Beneficial conversion feature on Secured Credit Facility	—	—	825,587	—	825,587
Stock-based compensation	—	—	215,957	—	215,957
Net (loss)	—	—	—	(110,074)	(110,074)
<b>Balance at June 30, 2018</b>	<u>28,064,765</u>	<u>\$ 28,065</u>	<u>\$33,212,356</u>	<u>\$(22,296,238)</u>	<u>\$10,944,183</u>
<b>Three months and six months ended June 30, 2019</b>					
<b>Balance at December 31, 2018</b>	28,089,765	\$ 28,090	\$33,710,588	\$(38,006,168)	\$ (4,267,490)
Restricted shares surrendered to satisfy tax withholding requirements	(12,433)	(13)	13	—	—
Stock-based compensation	—	—	129,133	—	129,133
Net (loss)	—	—	—	(5,604,040)	(5,604,040)
<b>Balance at March 31, 2019</b>	<u>28,077,332</u>	<u>28,077</u>	<u>33,839,734</u>	<u>(43,610,208)</u>	<u>(9,742,397)</u>
Restricted shares surrendered to satisfy tax withholding requirements	(39,528)	(39)	39	—	—
Stock-based compensation	—	—	45,425	—	45,425
Net income	—	—	—	1,523,840	1,523,840
<b>Balance at June 30, 2019</b>	<u>28,037,804</u>	<u>\$ 28,038</u>	<u>\$33,885,198</u>	<u>\$(42,086,368)</u>	<u>\$( 8,173,132)</u>

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

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

	<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Net (loss)	\$ (4,080,200)	\$ (1,597,819)
<i>Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities:</i>		
Depletion, depreciation, and amortization	2,754,875	1,931,772
Amortization of right-of-use obligation	(13,298)	(13,298)
Accretion of asset retirement obligation	121,821	55,612
Accretion of debt discounts	4,817,736	3,162,617
Share-based compensation	174,558	660,794
Loss on sale and abandonment of oil and gas properties	822,290	—
Change in fair value - derivative liability	(151,475)	21,100
Bad debt expense	5,757	—
<i>Changes in operating assets and liabilities:</i>		
Accounts receivable - joint interest billing	(733,827)	(824,527)
Accounts receivable - joint interest billing - related party	322,169	(538,467)
Accounts receivable - crude oil, natural gas and NGL sales	864,820	(2,372,709)
Other operating assets and liabilities	643,835	(188,552)
Accounts payable and accrued liabilities	1,574,381	(1,059,316)
Oil and gas revenue distributions payable	226,520	(16,841)
Accounts payable and accrued liabilities - related party	(2,470,047)	49,390
Drilling advances - related party	—	(680,248)
Asset retirement obligations	(120,400)	(142,959)
<b>Net cash provided by (used in) operating activities</b>	<b>4,759,515</b>	<b>(1,553,451)</b>
<b>Cash flows from investing activities:</b>		
Development of crude oil and natural gas properties	(3,573,292)	(8,706,655)
Acquisitions of crude oil and natural gas properties	(65,157)	(237,727)
<b>Net cash (used in) investing activities</b>	<b>(3,638,449)</b>	<b>(8,944,382)</b>
<b>Cash flows from financing activities:</b>		
Borrowings under secured credit facility, net	—	11,163,192
<b>Net cash provided by financing activities</b>	<b>—</b>	<b>11,163,192</b>
<b>Cash:</b>		
Net increase in cash	1,121,066	665,359
Cash, beginning of period	2,636,943	713,924
<b>Cash, end of period</b>	<b>\$ 3,758,009</b>	<b>\$ 1,379,283</b>
<b>Supplemental cash flow disclosure:</b>		
Cash paid for interest, net of amounts capitalized	\$ 935,895	\$ 801,759
<b>Non-cash investing and financing activities:</b>		
Accrued development costs - crude oil and natural gas properties	\$ 10,352,922	\$ 25,513,409
Exchange proceeds from sale of assets for obligations to secured lender - related party	\$ 15,538,766	\$ —
Joint interest billing receivable offset against accounts payable - related party	\$ 733,720	\$ —
Reduce working interests - crude oil and natural gas properties	\$ 430,810	\$ —
Oil and gas properties - additions - accrued participation agreement payable – related party	\$ —	\$ 4,647,047
Conveyance of oil and gas properties - debt repayment	\$ —	\$ 2,052,500
Lender fees - secured credit facility	\$ —	\$ 1,250,000
Issuance of common stock warrants in connection with Secured credit facility	\$ —	\$ 1,521,451
Issuance of common stock in connection with conversion of notes payable and accrued interest	\$ —	\$ 203,944
Embedded discount features - Secured credit facility	\$ —	\$ 3,942,792
Initial line of credit - paid through Secured credit facility	\$ —	\$ 5,000,000
Supplemental line of credit - paid through Secured credit facility	\$ —	\$ 1,500,000
Accrued interest - paid through Secured credit facility	\$ —	\$ 1,086,608

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
JUNE 30, 2019

**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 and is currently focused in the Denver-Julesburg Basin, or DJ Basin, in northeast Colorado.

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

***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 herein are adequate to make the information presented not misleading. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018. Unless otherwise noted in this Interim Report, there have been no material changes to the disclosures contained in the notes to the audited financial statements for the year ended December 31, 2018.

The Condensed Consolidated Balance Sheet as of December 31, 2018 was derived from the audited financial statements included in the Company’s Annual Report on Form 10-K. In management’s opinion, the unaudited interim Condensed Consolidated Balance Sheet, Statements of Operations, Statements of Changes in Shareholders’ Equity (Deficit), and Statements of Cash Flows, 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 consolidated financial statements. The results of operations for the interim periods may not be indicative of results to be expected for the full fiscal year. Certain prior period amounts were reclassified to conform to the current presentation on the Condensed Consolidated Financial Statements.

***Principles of Consolidation***

The consolidated financial statements include the accounts and balances of the Company and its wholly-owned subsidiary, CFW Resources, LLC, a Colorado limited liability company. The Company’s undivided interests in joint operating ventures are proportionately consolidated.

***Use of Estimates***

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, as well as the disclosure of contingent assets and liabilities. Estimated quantities of crude oil, natural gas and natural gas liquids are the most significant of the Company’s estimates. All reserve data used in the preparation of these condensed consolidated financial statements are based on estimates. Reservoir engineering is a subjective process of estimating underground accumulations of crude oil, natural gas and natural gas liquids. There are numerous uncertainties inherent in estimating quantities of proved, probable and possible reserves. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. As a result, reserve estimates may be different from the quantities of crude oil, natural gas and natural gas liquids that are ultimately recovered.



PETROSHARE CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
JUNE 30, 2019

**Income (Loss) Per Share**

Basic earnings or loss per share is computed by dividing net income or loss by the weighted average number of common shares outstanding during the period. Diluted earnings or loss per common share is calculated by dividing net income or loss available to common stockholders by the diluted weighted-average number of common shares outstanding, which includes the effect of potentially dilutive securities. Potentially dilutive securities for this calculation consist primarily of warrants, outstanding options, and shares into which the convertible notes are convertible.

When the Company records a loss from operations, all potentially dilutive shares are anti-dilutive and are consequently excluded from the calculation of diluted net loss per common share. The impact of potentially dilutive securities during the three months ended June 30, 2019 did not have a material impact on the earnings per share of the Company.

**Revenue Recognition**

*Oil sales*

Under the Company's oil sales contracts, the Company sells oil production at the point of delivery and collects an agreed upon index price, net of pricing differentials. The Company recognizes revenue when control transfers to the purchaser at the point of delivery at the net price received. Payment is generally received from the customer in the month following delivery.

*Natural gas and natural gas liquids*

Under the Company's natural gas sales processing contracts, the Company delivers commingled natural gas and natural gas liquids (NGLs) to a midstream processing entity. The midstream processing entity gathers and processes the various hydrocarbons and remits proceeds to the Company for the resulting sale. Under these processing agreements, the Company recognizes revenue when control transfers to the purchaser at the point of delivery. Payment is generally received from the customer one to two months following delivery.

*Disaggregation of Revenue.* The following table presents revenues disaggregated by product for the periods presented:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2019	2018	2019	2018
Operating revenues				
Crude oil sales	\$ 5,549,270	\$ 4,042,615	\$ 9,728,216	\$ 5,467,848
Natural gas sales	205,558	397,978	822,696	792,389
NGL sales	193,259	184,943	368,705	434,231
Total operating revenues	<u>\$ 5,948,087</u>	<u>\$ 4,625,536</u>	<u>\$ 10,919,617</u>	<u>\$ 6,694,468</u>

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**  
**JUNE 30, 2019**

***Recently Adopted Accounting Pronouncements:***

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-02, Leases (Topic 842), followed by other related ASUs that provided targeted improvements and additional practical expedient options (collectively "ASC 842"). ASC 842 requires lessees to recognize right-of-use ("ROU") assets and lease payment liabilities on the balance sheet for leases representing the Company's right to use the underlying assets over the lease term. Each lease that is recognized on the balance sheet is classified as either finance or operating, with such classification affecting the pattern and classification of expense recognition in the *Statements of Operations* and presentation within the *Statements of Cash Flows*.

The Company adopted ASC 842 on January 1, 2019 using the modified retrospective method. The Company elected as part of its adoption to also use the optional transition methodology whereby previously reported periods continue to be reported in accordance with historical accounting guidance for leases that were in effect for those prior periods. Policy elections and practical expedients that the Company has implemented as part of adopting ASC 842 include (a) excluding from the balance sheet leases with terms that are less than or equal to one year, (b) for all existing asset classes that contain both lease and non-lease components, combining these components together and accounting for them as a single lease component, (c) the package of practical expedients, which among other things, allows the Company to avoid reassessing contracts that commenced prior to adoption that were properly evaluated under legacy GAAP, and (d) excluding land easements, which were not accounted for under the previous leasing guidance, that existed or expired before adoption of ASC 842. The scope of ASC 842 does not apply to leases used in the exploration for minerals or use thereof, including oil, natural gas and natural gas liquids.

The Company's adoption of ASC 842 resulted in an increase in other assets, accounts payable and accrued liabilities, and other liabilities line items on the accompanying *Condensed Consolidated Balance Sheets* as a result of the additional ROU assets and related lease liabilities. Upon adoption on January 1, 2019, the Company recognized approximately \$0.2 million in ROU assets and liabilities for its operating leases. There was no cumulative effect to accumulated deficit upon the adoption of this guidance.

**NOTE 3—GOING CONCERN**

In the Report of the Independent Registered Public Accounting Firm as of and for the year ended December 31, 2018, the auditor included an explanatory paragraph concerning the Company's ability to continue as a going concern.

Pursuant to Accounting Standards Update ("ASU") 2014-15, "Presentation of Financial Statements – Going Concern," 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 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 may be unable to meet its obligations as they become due within one year from the financial statement issuance date.

The uncertainty regarding the Company's ability to continue as a going concern as of June 30, 2019 is based on several capital resource and liquidity factors, including substantial near-term liabilities, significant accumulated deficit and negative working capital, among other factors. At June 30, 2019, the Company had a cash balance of approximately \$3.8 million, other current assets of approximately \$5.8 million and current liabilities of \$42.8 million, resulting in negative working capital of \$33.2 million. The Company had a net loss, including non-cash charges, of \$4.1 million for the six months ended June 30, 2019. At June 30, 2019, the Company was in default on the outstanding principal balances of \$9.4 million under both issues of convertible notes. The Company is also in default under the terms of the Secured Credit Facility (Note 6) and as a result, \$14.3 million of outstanding principal is due. Some accounts payable obligations to vendors are past the due date and some of those vendors have filed liens on certain of the Company's assets and commenced legal action to foreclose those liens. The Company has been unable to access the debt or equity markets to obtain any additional funding during 2019.

PETROSHARE CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
JUNE 30, 2019

Management has evaluated these conditions and determined that increased revenues from the Company's operated properties may allow the Company to meet its obligations. However, to continue to execute its business plan, and meet its debt obligations, additional working capital will be required. As part of the analysis, the Company considered selective participation in certain operated drilling programs based on availability of working capital and the timing of production-related cash flows. There is uncertainty that management's plans, if executed, will allow the Company to meet all of its obligations.

As a result, there is substantial doubt about the Company's ability to continue as a going concern for one year after the date the condensed consolidated financial statements are issued. The Company's 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 as a going concern.

**NOTE 4 – FAIR VALUE MEASUREMENTS**

ASC Topic 820, "Fair Value Measurements and Disclosures", establishes a hierarchy for inputs used in measuring fair value for financial assets and liabilities that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions of what market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of the inputs as follows:

- Level 1: Quoted prices available in active markets for identical assets or liabilities;
- Level 2: Quoted prices in active markets for similar assets and liabilities that are observable for the asset or liability;
- Level 3: Unobservable pricing inputs that are generally less observable from objective sources, such as discounted cash or valuation models.

The financial assets and liabilities are classified in the Condensed Consolidated Balance Sheets based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

As disclosed in Note 6, the Secured Credit Facility contained embedded elements that required identification and quantification of fair value. The estimated fair values as of February 1, 2018, the closing date of the facility, are presented in Note 6. As of June 30, 2019, the estimated fair values of the Company's financial liabilities are presented in the following table:

	June 30, 2019
Registration rights penalty derivative liability	\$ 90,325
Share purchase option derivative liability	—
Total	<u>\$ 90,325</u>

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The following table presents a roll-forward of the fair value of the derivative liabilities associated with the Company's Secured Credit Facility, categorized as Level 3:

	Six Months Ended June 30, 2019	Year Ended December 31, 2018
<b>Beginning balance</b>	\$ 241,800	\$ —
Additions	—	1,670,017
<i>Total (gains) or losses (realized / unrealized)</i>		
Included in operations	(151,475)	(1,428,217)
Included in other comprehensive income	—	—
<b>Ending Balance</b>	<u>\$ 90,325</u>	<u>\$ 241,800</u>

*Estimated Fair Value of Financial Assets and Liabilities Not Measured at Fair Value*

The Company's financial instruments consist primarily of cash, accounts receivable, accounts payable, and credit facility borrowings. The carrying values of cash, accounts receivable and accounts payable are representative of their fair values due to their short-term maturities. The carrying amount of the Company's Secured Credit Facility approximates fair value as it bears interest at variable rates over the term of the loan.

**NOTE 5—CRUDE OIL AND NATURAL GAS PROPERTIES**

The Company's oil and gas properties are located entirely within the State of Colorado in the United States. The net capitalized costs related to the Company's crude oil and natural gas activities were as follows:

	June 30, 2019	December 31, 2018
Proved oil and gas properties	\$ 41,992,807	\$ 41,017,944
Unproved oil and gas properties (1)	1,531,515	2,055,752
Wells in progress (2)	252,607	1,194,114
Total capitalized costs	43,776,929	44,267,810
Accumulated DDA and impairment (3)	(17,008,211)	(14,395,458)
Net capitalized costs	<u>\$ 26,768,718</u>	<u>\$ 29,872,352</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.
- (3) Includes the accumulated expenses for depletion, depreciation, and amortization (DDA) plus accumulated expenses for impairment.

On February 27, 2019, the Company completed the sale of certain assets. Based upon the preliminary settlement statement, the \$16.5 million sale price for the assets yielded net proceeds of approximately \$15.3 million, after adjustments for title defects, inventory, reconciliation of other amounts payable and receivable from the buyer, and transaction costs of the sale. Final settlement of the transaction was scheduled for May 28, 2019. The Company provided the buyer a final settlement statement and final settlement is pending. All of the net proceeds from the sale were remitted to the Secured Lenders as required by the Secured Lenders and have been applied to reduce amounts allegedly owed by the Company under the Secured Credit Facility. Additional information about the use of proceeds from the sale can be found in Note 6.

The assets were classified as Held for Sale as of December 31, 2018 and included as current assets in the financial statements. During the period from January 1, 2019 to February 27, 2019, the assets sold generated revenues of \$1.1 million and operating expenses of \$0.3 million, resulting in net operating income for those properties of \$0.8 million. The terms of the transaction provide that 2019 revenues and expenses accrue to the benefit of the buyer, and accordingly, the Company recorded an adjustment of \$0.8 million to the purchase price and the corresponding loss on sale of properties during the six months ended June 30, 2019.

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**NOTE 6—DEBT**

*10% Convertible Notes*

As of June 30, 2019, the 10% Convertible Notes had an outstanding principal balance of \$4.6 million and are in default. The 10% Convertible Notes were not paid on their due date of December 31, 2018. The Company's failure to retire the 10% Convertible Notes was an event of default. The Company has continued to accrue and pay interest at the rate of 10%, in the approximate amount of \$0.1 million each calendar quarter.

*Series B Convertible Notes*

As of June 30, 2019, the Series B Convertible Notes had an outstanding principal balance of \$4.7 million and are in default. The Series B Convertible Notes were not paid on their due date of December 31, 2018. The Company's failure to retire the Series B Convertible Notes was an event of default. The Company has continued to accrue and pay interest at the rate of 15%, in the approximate amount of \$0.2 million each calendar quarter.

*Secured Credit Facility*

On February 1, 2018, the Company closed on a \$25.0 million Secured Credit Facility with Providence Wattenberg, LP and 5NR Wattenberg, LLC ("Secured Lenders"). The Secured Credit Facility incorporated certain provisions of a Letter Agreement entered into by the Company on December 21, 2017 under which the Company borrowed \$5.0 million from the Secured Lenders. The closing on February 1, 2018 represented additional borrowings of \$20.0 million.

The Company is in default under certain provisions of the Secured Credit Facility. The default conditions included the non-payment of the 10% Convertible Notes and the Series B Convertible Notes on December 31, 2018, and non-payment of the underwriting fee payable to PEO on February 1, 2019. Other defaults related to non-payment of certain accounts payable and accrued liabilities within a 90-day allowable time period, liens filed in Adams County, Colorado against certain of the Company's assets, among other conditions.

On March 26, 2019, the Secured Lenders required that the Company pay to them the net proceeds from the Company's sale of non-operated assets and subsequently applied the net proceeds of \$15.3 from sale to the outstanding accrued interest, penalties and principal, resulting in a remaining principal balance of \$14.3 million.

On April 2, 2019, the Secured Lenders delivered their formal Notice of Default under the terms of the Secured Credit Facility to confirm their previous communications. The Secured Lenders have commenced foreclosure proceedings on the collateral assets.

During the six months ended June 30, 2019, the Company amortized all of the remaining unamortized debt discounts associated with the Secured Credit Facility, which discounts had aggregated \$4.8 million as of December 31, 2018. In light of the Secured Lenders demand to accelerate the maturity date of the Secured Credit Facility, it was appropriate to fully amortize the remaining discounts.

**NOTE 7—ASSET RETIREMENT OBLIGATION**

The Company records an estimated liability to recognize the anticipated costs of its obligation to properly plug and abandon oil and gas wells at the end of their productive life. No new obligations were incurred during the six months ended June 30, 2019.

The following table summarizes the changes in asset retirement obligations associated with the Company's oil and gas properties for the periods presented:

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	Six months ended June 30, 2019	Year ended December 31, 2018
Asset retirement obligation, beginning of period	\$ 2,089,947	\$ 1,123,444
Liabilities settled	(130,906)	(192,996)
Liabilities incurred	—	58,511
Revisions in estimated liabilities	—	983,352
Accretion	121,821	117,636
Asset retirement obligation, end of period	<u>\$ 2,080,862</u>	<u>\$ 2,089,947</u>
Current liability	\$ 1,430,985	\$ 843,796
Long-term liability	<u>\$ 649,877</u>	<u>\$ 1,246,151</u>

**NOTE 8—ACCOUNTS PAYABLE AND ACCRUED LIABILITIES, EXCLUDING RELATED PARTIES**

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

	June 30, 2019	December 31, 2018
Trade payables and accrued liabilities	\$ 4,501,274	\$ 2,093,428
Liabilities incurred in connection with development of crude oil and natural gas properties	10,352,922	22,291,989
Total	<u>\$ 14,854,196</u>	<u>\$ 24,385,417</u>

**NOTE 9—SHAREHOLDERS' EQUITY (DEFICIT)**

**Common Stock**

Activity for the six months ended June 30, 2019 included the following:

On March 15, 2019, at a special meeting, the shareholders of the Company approved an amendment to the Company's Articles of Incorporation ("Amendment") to increase the authorized common stock from 100,000,000 shares to 200,000,000 shares. The Amendment was effective on March 20, 2019 upon filing the Amendment with the Colorado Secretary of State.

Activity for the six months ended June 30, 2018 included the following:

On February 23, 2018, the Company issued 70,000 shares of common stock at \$1.00 per share in lieu of cash compensation.

On March 12, 2018, the Company issued 135,963 shares of common stock in connection with the conversion of 10% convertible notes payable in the principal amount of \$200,000 plus accrued interest. The shares were issued at the contractual rate of \$1.50 per share.

On April 18, 2018, the Company issued 75,000 shares of common stock valued at \$1.23 per share in connection with the appointment of three new members to its Board of Directors.

On June 1, 2018, the Company issued 65,000 shares of common stock valued \$1.40 per share to employees of the Company as compensation. All vesting rights associated with the shares have been satisfied.

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**Warrants**

The table below summarizes warrants outstanding as of June 30, 2019:

	Shares Underlying Outstanding Warrants	Exercise Price Per Share	Expiration Date
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
Secured Credit Facility Warrants	1,500,000	\$ 0.01	2/1/2020
<b>Total</b>	<b>9,088,800</b>		

Activity for the six months ended June 30, 2018 included the following:

On February 1, 2018, in connection with the closing of the Secured Credit Facility, the Company issued 1,500,000 common stock purchase warrants. The warrants are exercisable at \$0.01 per share and expire on February 1, 2020. (Notes 6 and 11).

**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"). The Plan terminates 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.

No additional shares were granted under the Plan for the six months ended June 30, 2019. As of June 30, 2019, the amount of future compensation expense related to unvested restricted stock grants was nil.

On March 1, 2018, the Company issued options to purchase 325,000 shares of the Company's common stock, which options are exercisable at \$1.03 per share. The options were issued to employees and an officer of the Company and are exercisable at any time on or before March 1, 2023.

On April 18, 2018, the Company issued options to purchase 75,000 shares of the Company's common stock, which options are exercisable at \$1.23 per share. The options were issued to directors of the Company. The options may be exercised at any time on or before December 31, 2022.

A summary of options outstanding under the Plan at June 30, 2019 is as follows:

	Number of Shares	Weighted Average Exercise Price	Remaining Contractual Term (Years)
Outstanding, December 31, 2018	5,037,000	\$ 0.79	3.87
Exercisable, December 31, 2018	4,621,000	\$ 0.75	3.86
Granted	—	—	—
Exercised	—	—	—
Forfeited	—	—	—
Outstanding, June 30, 2019	5,037,000	\$ 0.79	3.38
Exercisable, June 30, 2019	5,037,000	\$ 0.79	3.38

As of June 30, 2019, the amount of future compensation expense related to unvested stock option grants was nil.

Total stock based compensation expense, including restricted stock grants, stock options, and other equity based compensation, for the three months ended June 30, 2019 and 2018 was \$45,425 and \$0.4 million, respectively. Total stock based compensation expense, including restricted stock grants, stock options, and other equity based compensation, for the six months ended June 30, 2019 and 2018 was \$0.2 million and \$0.7 million, respectively.

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NOTE 11—RELATED PARTY TRANSACTIONS

*Providence Energy Operators (“PEO”) and Affiliates*

As of June 30, 2019, PEO beneficially owned approximately 11.6% of the Company’s outstanding common stock. The table below summarizes related party balances with PEO and its affiliates as of:

	June 30, 2019	December 31, 2018
<b>Liabilities</b>		
Revenue distribution payable and accrued liabilities	\$ (3,448)	\$ (2,133,622)
Secured Credit Facility	(14,299,436)	(25,000,000)
Loan commitment fee – Secured Credit Facility	—	(1,250,000)
Default penalty interest – Secured Credit Facility	—	(312,500)
Make-whole premium – Secured Credit Facility	—	(3,347,874)
Break-up fee payable, participation agreement	—	(580,881)
<b>Assets</b>		
Accounts receivable – joint interest billing	\$ 102,324	\$ 1,158,213

*Secured Credit Facility*

As a result of defaults under the Secured Credit Facility, the Company accrued additional penalty interest and the make-whole premium was recorded as of December 31, 2018.

Total interest expense related to the Secured Credit Facility, including the accrual of additional penalty interest and make-whole premium and the accretion of debt discounts, of \$nil and \$4.8 million was recognized during the three and six months ended June 30, 2019 respectively.

On March 26, 2019, Secured Lenders notified the Company that they were applying the net proceeds from the February 27, 2019 non-operated property sale (Note 5) against the make-whole premium, accrued default interest, other outstanding liabilities and the outstanding principal balance of the Secured Credit Facility (Note 6).

The table below presents the application of the proceeds from the property sale:

Principal Balance December 31, 2018	\$ 25,000,000
Total Sale Proceeds Received	15,538,766
Less	
Accrued broker fees	(250,000)
Expenses	(17,702)
Available cash	15,271,064
Underwriting fee	(1,250,000)
January 2019 default interest	(105,706)
February 2019 interest	(452,865)
March 1, 2019 - March 26, 2019 interest	(377,768)
Make-whole premium	(2,384,161)
Allocated to Principal	10,700,564
Remaining Principal Balance June 30, 2019	<u>\$ 14,299,436</u>



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*Operations*

At June 30, 2019, the Company has recorded \$0.1 million in *Accounts receivable – joint interest billing – related party*. This amount relates to amounts billed and unbilled to PEO related to its participation with the Company in the Shook horizontal wells and PEO's ownership interest in the vertical wells that the Company operates.

Included in the balance sheet caption *Accounts payable and accrued liabilities - related party* at June 30, 2019 are royalties and revenue distributions payable of \$nil. This amount relates to undistributed revenue from the Shook wells and vertical wells.

*10% Convertible Notes*

As of June 30, 2019 and December 31, 2018, the principal balance of the 10% Convertible Notes held by officers and directors amounted to \$0.1 million and \$0.1 million respectively. Interest expense for the three and six months ended June 30, 2019 and 2018 amounted to \$2,000 and \$4,000 respectively.

*Series B Convertible Notes*

As of June 30, 2019 and December 31, 2018, the principal balance of the Series B Convertible Notes held by officers and directors amounted to \$0.6 million and \$0.6 million respectively. Interest expense for the three and six months ended June 30, 2019 and 2018 amounted to \$21,375 and \$42,750 respectively.

**NOTE 12—LEASES**

*Operating Lease*

The Company evaluates contractual arrangements at inception to determine if individual agreements are a lease or contain an identifiable lease component as defined by ASC 842. The Company currently has one contract that meets the definition of a long-term lease. The Company leases its office facilities under a four-year non-cancelable operating lease agreement expiring in March 2021. Annual payments approximate \$0.1 million. Operating lease costs for the three months and six months ended June 30, 2019 were less than \$0.1 million.

**NOTE 13—SUBSEQUENT EVENTS**

As disclosed in our Quarterly Report for the Quarterly period ended March 31, 2019, Providence Wattenberg, LP, as administrative agent for the lenders under that certain Secured Credit Agreement dated February 1, 2018 ("Credit Agreement"), commenced a Public Trustee's foreclosure under the Deed of Trust Securing our obligations under the Credit Agreement. On July 16, 2019, the District Court in Adams County issued its order approving the Public Trustee's sale in accordance with the applicable procedural rules. The sale is currently scheduled for August 27, 2019. See Part II. Other Information, Item 1 Legal Proceedings for additional discussion.

## 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., and its subsidiary as the context requires.

The following discussion analyzes (i) our financial condition at June 30, 2019 and compares it to December 31, 2018, and (ii) our results of operations for the three and six months ended June 30, 2019 and 2018. The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and related notes included in this report and our audited consolidated 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, 2018. 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 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 pursued the development of our leasehold interests along a new pipeline corridor that has introduced takeaway capacity for both oil and gas across much of our acreage in the Southern Wattenberg field. We have established seven operated drill site spacing units that have been approved by the Colorado Oil and Gas Conservation Commission ("COGCC"). We believe the improved takeaway capacity enhances the value of our undeveloped leasehold in the area and will lead to expedited development by us and other industry participants.

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 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 second quarter of 2019:

- Sales volumes for the three months ended June 30, 2019 were 132,993 BOE as compared to 96,725 BOE for the 2018 period.
- Average daily production for the second quarter 2019 was 1,461 BOE, as compared to 1,063 BOE for the 2018 period.
- Average realized sales price for the second quarter 2019 was \$44.72 per BOE, as compared to \$47.82 for the 2018 period.

- On April 16, 2019, COLORADO SB-181 ("SB-181") was signed into law. This bill introduces significant changes to the regulation of oil and gas development in the State of Colorado. The bill changes the mandate of the COGCC from that of promoting development of oil and gas to prioritizing the protection of public safety, health, welfare, and the environment. In addition, the bill changes the composition of the Colorado Oil and Gas Conservation Commission ("COGCC") to include more health and safety advocates. Several local governments, including Adams County where much of our leasehold interests are located, have adopted a moratorium on new permits pending the adoption of the new regulation under SB-181. The legislation also allows for more local control over the surface development of oil and gas properties and alters the State statute allowing for "forced pooling" of oil and gas properties. This legislation could significantly impact our ability to obtain permits to drill.
- On April 2, 2019, the Secured Lenders delivered their formal Notice of Default under the terms of the Secured Credit Facility. After the application of proceeds from the sale of our non-operated assets of February 27, 2019, the remaining outstanding principal balance of the Secured Credit Facility is \$14.3 million.
- On various dates in 2019, we received Notices of Alleged Violations ("NOAVs") from the COGCC pertaining to five wells that we operate. We have settled and made payments related to two of the wells and have accrued \$0.6 million as of June 30, 2019 related to the remaining outstanding alleged violations. We are working with the COGCC to settle these remaining matters. We have no way to definitively ascertain what the outcome of the remaining NOAVs will be.

### **Going Concern**

As described in the notes to our unaudited 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, debt obligations currently in default, accumulated losses and negative working capital.

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 June 30, 2019 compared to June 30, 2018

The following table summarizes our operating results and averages for the three months ended June 30, 2019 and 2018:

	For the Three months ended	
	June 30,	
	2019	2018
Revenue		
Crude Oil	\$ 5,549,270	\$ 4,042,615
Natural Gas	205,558	397,978
NGLs	193,259	184,943
Total revenue	\$ 5,948,087	\$ 4,625,536
Total operating expense (1)	\$ 1,354,466	\$ 706,721
Net income (loss)	\$ 1,523,840	\$ (110,074)
Depletion, depreciation and amortization expense (2)	\$ 1,601,188	\$ 1,199,842
Sales volume(3)(4)		
Crude Oil (Bbls)	100,670	63,551
Natural Gas (Mcf)	114,724	124,457
NGLs (Bbls)	13,203	12,431
BOE	132,993	96,725
Average sales price(5)		
Crude Oil (per Bbl)	\$ 55.12	\$ 63.61
Natural Gas (per Mcf)	\$ 1.79	\$ 3.20
NGLs (per Bbl)	\$ 14.64	\$ 14.88
BOE	\$ 44.72	\$ 47.82
Average per BOE		
Operating expense	\$ 10.18	\$ 7.31
Depletion, depreciation and amortization expense	\$ 12.04	\$ 12.40

(1) Overall lifting costs (includes oil and gas production costs, production taxes, gathering and marketing).

(2) Excludes depreciation expense related to assets that are not included in oil and gas properties.

(3) Some volumes are estimated based on preliminary reports from third party operators. Final reports may differ, but such differences are not expected to be material.

(4) Sales volumes are based upon crude oil, natural gas and NGL's sold or delivered during the period and differ from crude oil, natural gas and NGL's produced during the period.

(5) Averages calculated based upon non-rounded figures.

**Overview:** For the three months ended June 30, 2019, we recognized net income of \$1,523,840 or \$0.05 per share, compared to a net loss of \$0.1 million or \$0.00 per share for the three months ended June 30, 2018. Net income in the second quarter of 2019 resulted from decreased non-cash charges, especially costs and expenses related to the Secured Credit Facility which were fully amortized in the first quarter of 2019. Our production during the second quarter of 2019 averaged 1,461 BOE/D compared to 1,063 BOE/D in the second quarter of 2018. Increased production during the current year is attributable to the Shook pad horizontal wells coming on-line in the second half of 2018, offset by the sale of our non-operated assets on February 27, 2019.

**Revenues:** Crude oil, natural gas and NGL sales revenue was \$5.9 million for the three months ended June 30, 2019 compared to \$4.6 million for the three months ended June 30, 2018. Revenue increases in the second quarter of 2019 compared to 2018 resulted from increased sales volumes and a more liquids-weighted sales mix, somewhat offset by decreasing oil prices, as described in "Volumes and Prices" below.

**Volumes and Prices:** Total crude oil, natural gas and NGL sales volume was 132,993 BOE for the second quarter of 2019, up from 96,725 BOE for the second quarter of 2018. The increase in production in the second quarter of 2019 is due to our operated Shook pad coming on-line in the third quarter of 2018, partially offset by the sale of our non-operated assets in February 2019.

The decrease in average sales price per BOE in the second quarter of 2019 relates to a change in the sales mix of volumes sold and realized prices; crude oil increased to 76% of our sales volume in 2019 as compared to 66% of our sales volume in the 2018 period while the average oil price decreased from \$63.61 in 2018 to \$55.12 per Bbl in 2019; Natural gas decreased to 14% of our sales volumes in 2019 as compared to 21% in 2018 and prices decreased to \$1.79 per Mcf from \$3.20 per Mcf; and NGL decreased to 10% of our sales volumes in 2019 from 13% in 2018 while prices decreased to \$14.64 per Bbl from \$14.88 per Bbl. Overall, the average sales price we received per BOE decreased from \$47.82 in the second quarter of 2018 to \$44.72 in the second quarter of 2019.

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

	Three months ended June 30,	
	2019	2018
Lifting costs	\$ 578,305	\$ 187,201
Production taxes	266,031	513,396
Transportation and other costs	510,130	6,124
Total	<u>\$ 1,354,466</u>	<u>\$ 706,721</u>

Total operating expense increased \$0.6 million to \$1.4 million for the three months ended June 30, 2019 as compared to \$0.7 million for the three months ended June 30, 2018. Much of the increase was due to increased lifting costs related to our operated properties and increased transportation costs during the 2019 period.

Lease operating costs per BOE were \$4.35 and \$1.94 for the three months ended June 30, 2019 and 2018, respectively. As a percent of crude oil, natural gas and NGL sales revenue, routine LOE was 9.72% and 4.05% for the three months ended June 30, 2019 and 2018, respectively. Overall operating costs (crude oil and natural gas operating costs, including production taxes) per BOE was \$10.18 for the three months ended June 30, 2019, compared to \$7.31 for the three months ended June 30, 2018. The increase in lease operating and overall costs between comparable periods is primarily attributable to the costs of our operated properties, including lifting costs and transportation costs. Increased lifting costs relate primarily to increased charges for pumping services and transportation costs relate to increased third party gathering fees.

**Depletion, depreciation and amortization expense:** Depletion, depreciation, and amortization increased \$0.4 million to \$1.6 million for the three months ended June 30, 2019. The increase in expense was the result of increased production volumes related primarily to operated horizontal wells that commenced production during the latter half of 2018.

**Interest expense:** During the three months ended June 30, 2019, we recognized interest expense of \$0.3 million compared to \$1.7 million in the three months ended June 30, 2018. Interest expense recognized during the 2019 period was comprised of interest expense on our convertible notes payable. Interest expense in the 2018 period was related to accretion of debt discounts and debt issuance costs on our Secured Credit Facility and convertible notes payable.

**Change in fair value – derivative liabilities:** During the three months ended June 30, 2019, we recognized other income of \$0.1 million related to the change in fair value of the derivative liabilities embedded in the Secured Credit Facility. During the comparable period in 2018, we recognized other expense of \$0.1 million for the same reason.

**General and administrative expenses:** We recognized general and administrative expenses of \$1.2 million during the three months ended June 30, 2019 compared to \$0.9 million in the three months ended June 30, 2018, an increase of \$0.3 million. Increases in general and administrative expense for the 2019 result from increased insurance charges, accounting and audit fees and investor relations expense which includes costs related to the Company's engaging a broker to explore a potential disposition of assets. Furthermore, expenses during 2018 were reduced by \$0.6 million in overhead cost recovery charges.

## Results of Operations for the six months ended June 30, 2019 compared to June 30, 2018

The following table summarizes our operating results and averages for the six months ended June 30, 2019 and 2018:

	For the Six months ended	
	June 30,	
	2019	2018
Revenue		
Crude Oil	\$ 9,728,216	\$ 5,467,848
Natural Gas	822,696	792,389
NGLs	368,705	434,231
Total revenue	\$ 10,919,617	\$ 6,694,468
Total operating expense(1)	\$ 2,730,321	\$ 1,243,835
Net (loss)	\$ (4,080,200)	\$ (1,597,819)
Depletion, depreciation and amortization expense (2)	\$ 2,730,082	\$ 1,900,175
Sales volume(3)(4)		
Crude Oil (Bbls)	184,129	87,570
Natural Gas (Mcf)	312,752	279,186
NGLs (Bbls)	24,052	23,824
BOE	260,306	157,925
Average sales price(5)		
Crude Oil (per Bbl)	\$ 52.83	\$ 62.44
Natural Gas (per Mcf)	\$ 2.63	\$ 2.84
NGLs (per Bbl)	\$ 15.33	\$ 18.23
BOE	\$ 41.95	\$ 42.39
Average per BOE		
Operating expense	\$ 10.49	\$ 7.88
Depletion, depreciation and amortization expense	\$ 10.49	\$ 12.03

(1) Overall lifting costs (includes oil and gas production costs, production taxes, gathering and marketing).

(2) Excludes depreciation expense related to assets that are not included in oil and gas properties.

(3) Some volumes are estimated based on preliminary reports from third party operators. Final reports may differ, but such differences are not expected to be material.

(4) Sales volumes are based upon crude oil, natural gas and NGL's sold or delivered during the period and differ from crude oil, natural gas and NGL's produced during the period.

(5) Averages calculated based upon non-rounded figures.

**Overview:** For the six months ended June 30, 2019, we realized a net loss of \$4.1 million or \$0.15 per share, compared to a net loss of \$1.6 million or \$0.06 per share for the six months ended June 30, 2018. Our production averaged 1,438 BOE/D during the first six months of 2019 compared to 873 BOE/D in the first six months of 2018 an increase of 65%. Despite the increase in production, our net loss in the 2019 period widened due to significantly higher accretion and amortization charges on our secured credit facility and losses incurred in connection with the disposition of assets.

**Revenues:** Crude oil, natural gas and NGL sales revenue was \$10.9 million for the six months ended June 30, 2019 compared to \$6.7 million for the six months ended June 30, 2018. Revenue increases in the 2019 period compared to 2018 resulted from increased sales volumes and a more liquids-weighted sales mix, somewhat offset by slight decrease in oil prices, as described in "Volumes and Prices" below.

**Volumes and Prices:** Crude oil, natural gas and NGL sales volumes were 260,306 BOE for the six months ended June 30, 2019, up from 157,925 BOE for the 2018 period. The significant increase in production in the 2019 quarter is due to our operated Shook pad coming online in the third quarter of 2018 partially offset by the sale of our non-operated assets in February 2019. As described elsewhere herein, we sold our interests in our non-operated horizontal assets on February 27, 2019. Production from the wells we sold totaled 37,117 BOE from January 1, 2019 to February 26, 2019, and generated revenue of \$1.1 million.

The decrease in average sales price per BOE in the 2019 period relates to a change in the sales mix of volumes sold and realized prices; crude oil increased to 71% of our sales volume in 2019 as compared to 55% of our sales volume in 2018 while the average oil price decreased from \$62.44 in 2018 to \$52.83 per Bbl in 2019; Natural gas decreased to 20% of our sales volumes in 2019 as compared to 29% in 2018 and prices decreased to \$2.63 per Mcf from \$2.84 per Mcf; and NGL decreased to 9% of our sales volumes in 2019 from 15% in 2018 while prices decreased to \$15.33 per Bbl from \$18.23 per Bbl. Overall, the average sales price we received per BOE decreased from \$42.39 in the 2018 period to \$41.95 in the 2019 period.

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

	Six months ended	
	June 30,	
	2019	2018
Lifting costs	\$ 1,051,246	\$ 493,396
Production taxes	679,545	738,199
Transportation and other costs	999,530	12,240
Total	<u>\$ 2,730,321</u>	<u>\$ 1,243,835</u>

Total operating expense increased \$1.5 million to \$2.7 million for the six months ended June 30, 2019 as compared to \$1.2 million for the six months ended June 30, 2018. Much of the increase was due to increased lifting costs related to our operated properties and increased transportation costs during the 2019 period.

Lifting costs per BOE were \$4.04 and \$3.12 for the six months ended June 30, 2019 and 2018, respectively. As a percent of crude oil, natural gas and NGL sales revenue, lifting cost was 9.63% and 7.37% for the six months ended June 30, 2019 and 2018, respectively. Overall operating costs (crude oil and natural gas operating costs, including production taxes) per BOE was \$10.49 for the six months ended June 30, 2019, compared to \$7.88 for the six months ended June 30, 2018. The increase in lease operating and overall costs between comparable periods is primarily attributable to the costs of our operated properties. Increased lifting costs relate primarily to increased charges for pumping services and transportation costs relate to increased third party gathering fees.

**Depletion, depreciation and amortization expense:** Depletion, depreciation, and amortization increased \$0.8 million to \$2.7 million for the six months ended June 30, 2019 compared to 2018. The increase in expense was the result of increased production volumes related primarily to operated horizontal wells that commenced production during the latter half of 2018.

**Interest expense:** During the six months ended June 30, 2019, we recognized interest expense of \$5.5 million compared to \$3.5 million in the six months ended June 30, 2018. Interest expense recognized during the 2019 period was comprised of interest expense on our convertible notes and interest expense recorded at the default interest rate of approximately 22% plus the accelerated accretion of debt discounts and debt issuance costs on our Secured Credit Facility. It includes an acceleration of all the unamortized costs and discounts relating to the Secured Credit Facility, as the Senior Secured Lender has declared that the Facility in default and all outstanding amounts are due and payable. We determined that the contractual amortization period through February 2020 was no longer appropriate and we recorded an accelerated expense of \$4.8 million during the period.

**Change in fair value – derivative liability:** During the six months ended June 30, 2019, we recognized other income of \$0.2 million related to an increase in the fair value of the compound derivative liability embedded in the Secured Credit Facility. Accounting standards require us to re-measure the value of the derivative liability each reporting period, and any changes in fair value are included in Other income or Other expense. Changes in fair value can be material. During the comparable period in 2018, we recorded other expense of \$21,000 related to the liabilities.

**General and administrative expenses:** We reported general and administrative expenses of \$3.3 million during the six months ended June 30, 2019 compared to \$1.5 million in the six months ended June 30, 2018. During the 2018 period, the reported expense was reduced by drilling overhead charges and drilling completion charges billed to our working interest partners of approximately \$1.0 million. Consistent with industry practice and pursuant to the operating agreements with our partners, they are required to reimburse us for certain overhead expenses incurred in connection with the drilling, completion and producing activities of wells in which we share working interests.

The increase of \$1.8 million, or 50%, from 2018 to 2019 is not indicative of future trends. Total general and administrative expenses incurred during the six months ended June 30, 2018 was \$2.5 million exclusive of overhead reimbursement charges as discussed above, indicating an increase of \$0.7 million from amounts incurred during the six months ended June 30, 2019 as compared to the 2018 period.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Overview**

Our liquidity continued to suffer during the second quarter of 2019. Our working capital deficit decreased slightly from March 31, 2019, from \$36.3 million at that date to \$33.2 million at June 30, 2019, however the deficit is basically unchanged from December 31, 2018. Current assets and current liabilities decreased by almost an equal amount from December 31, 2018 to June 30, 2019 reflecting the sale of our interest in certain non-operated assets that were classified as current assets and the proceeds that were used to pay down current liabilities. We had a cash balance of \$3.8 million on June 30, 2019, of which \$3.6 million is expected to be used to pay production taxes and accrued ad valorem taxes. We continue to seek outside financing, an asset sale or other strategic alternatives.

Our liquidity need became more acute during the second quarter of 2019 with the filing of a foreclosure action against all of our assets by the secured lender and the filing of several civil lawsuits to foreclose oil and gas liens filed by vendors on our Shook wells. The foreclosure sale on our assets by the secured lender is currently scheduled for August 27, 2019. If we are unable to negotiate an extension of that sale or if the date of that sale is not postponed by the court in connection with the lien foreclosures, we may lose all of our assets or be forced to file for bankruptcy protection. The sum of the liabilities subject to this foreclosure and the lien foreclosure action is \$20.5 million.

In order to address our liquidity needs, we are exploring the sale of additional assets to satisfy our creditors. However as of this filing of this report the sale of the assets is not assured.

### **Cash Flows**

#### Operating Activities

Operating activities provided net cash of \$4.8 million during the six months ended June 30, 2019. This was an improvement of \$6.3 million compared to the six months ended June 30, 2018, when our operating activities used \$1.5 million of cash. Although our net loss for the 2019 period increased relative to the 2018 period, a majority of the increased loss represented material non-cash items, including DD&A, accretion of debt discounts and losses recorded in connection with the sale of non-operated properties. Changes in operating assets and liabilities, such as accounts receivable and accounts payable, accounted for the remainder of the difference.

#### Investing Activities

Net cash used in investing activities during the six months ended June 30, 2019 was \$3.6 million compared to \$8.9 million during the six months ended June 30, 2018, representing a decrease of cash used of \$5.3 million. Cash expenditures during both period represent the payment of costs incurred to complete the development of our Shook assets. Our development efforts were significantly curtailed in 2019 due to liquidity constraints.

#### Financing Activities

There were no cash flows from financing activity during the six months ended June 30, 2019. During the six months ended June 30, 2018, we closed on the Secured Credit Facility which provided net cash proceeds of \$11.2 million and provided the resources to repay \$6.5 million in principal and \$1.1 million in accrued interest from other financings.

#### 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 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 those set forth in the "RISK FACTORS" section in our report on Form 10-K and the following:

- 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 drilling projects;
- Variation between planned and actual capital expenditures; and
- The outcome of pending litigation and a foreclosure sale and our efforts to restructure, including a possible asset sale.

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.

#### **Item 4. Controls and Procedures**

##### **Disclosure Controls and Procedures**

(a) We maintain a system of controls and procedures designed to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended ("Exchange Act"), is recorded, processed, summarized and reported, within time periods specified in the SEC's rules and forms and to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. As of June 30, 2019, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, management has evaluated the effectiveness of our disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

(b) There were no changes in our internal control over financial reporting during the quarter ended June 30, 2019 that materially affected or are reasonably likely to materially affect, our internal controls over financial reporting.

## PART II. OTHER INFORMATION

### Item 1 Legal Proceedings –

#### *Foreclosure of Oil and Gas Liens*

On May 7, 2019, CTAP, LLC, a Colorado limited liability company (“CTAP”), filed a civil action in the District Court of Adams County, Colorado against us seeking a declaratory judgment, foreclosure of a materialman’s lien and damages in connection with material delivered to us at our Shook pad and associated oil and gas wells. CTAP seeks a judgement against us in an unspecified amount for the breach of contract, quantum meruit and foreclosure lien, in addition to a declaratory judgement that the lien is valid. The lien filed against our interest in the Shook wells related to the leasehold and other property interests claims the amount due of \$325,568.

The lawsuit filed by CTAP has been consolidated with similar suits filed by 1888 Industrial Services, LLC and Liberty Oilfield Services, LLC in one action in the District Court of Adams County (see related disclosure in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019, filed with the SEC on May 15, 2019). We have filed answers to the complaints filed by each of these parties denying material allegations of the complaints. No additional material developments have occurred in these actions since the filing of our last Quarterly Report. We intend to defend these actions to the best of our ability, although we have accrued the entire amount claimed by each vendor in our *Condensed Consolidated Balances Sheets at June 30, 2019 and December 31, 2018*.

#### *Public Trustee’s Foreclosure*

As disclosed in our Quarterly Report for the quarterly period ended March 31, 2019, Providence Wattenberg, LP, as administrative agent for the lenders under that certain Secured Credit Agreement dated February 1, 2018 (“Credit Agreement”), commenced a Public Trustee’s foreclosure under the Deed of Trust Securing our obligations under the Credit Agreement. On July 16, 2019, the District Court in Adams County issued its order approving the Public Trustee’s sale in accordance with the applicable procedural rules. The sale is currently scheduled for August 27, 2019. At the time of the sale, the Public Trustee will entertain bids for all the property subject to the Deed of Trust, which is substantially all the property in which we presently have an interest. We are currently evaluating our options in an effort to halt the sale and satisfy our obligations under the Credit Agreement and the Deed of Trust.

### Item 1A. Risk Factors.

There are many risks inherent in our business. Factors that could materially adversely affect our business, financial condition, operating results or liquidity, and the trading price of our common stock are described under Item 1A, Risk Factors, of the Annual Report on Form 10-K filed with the SEC on April 4, 2019. There have been no material changes regarding risk factors since that date.

**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	
<a href="#">3.1.1</a>	Articles of Incorporation as filed with the Colorado Secretary of State on September 4, 2012	S-1	333-198881	3.1	September 22, 2014	
3.1.2	Articles of Amendment to Articles of Incorporation as filed with the Colorado Secretary of State on October 10, 2017	10-K	001-37943	3.2	April 4, 2019	
<a href="#">3.1.3</a>	Articles of Amendment to Articles of Incorporation as filed with the Colorado Secretary of State on March 20, 2019	10-K	001-37943	3.3	April 4, 2019	
<a href="#">3.2</a>	Bylaws of the Company dated November 30, 2012	S-1	333-198881	3.2	September 22, 2014	
<a href="#">31.1</a>	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).					X
<a href="#">31.2</a>	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).					X
<a href="#">32.1*</a>	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.

**SIGNATURES**

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

**PetroShare Corp.**

Date: August 14, 2019

By: /s/ STEPHEN J. FOLEY

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

Date: August 14, 2019

By: /s/ PAUL D. MANISCALCO

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Paul D. Maniscalco,  
*Chief Financial Officer*  
*(Principal Financial and Accounting 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 June 30, 2019;
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: August 14, 2019

/s/ PAUL D. MANISCALCO

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

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**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 June 30, 2019;
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: August 14, 2019

/s/ STEPHEN J. FOLEY

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

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**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 June 30, 2019 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: August 14, 2019

/s/ STEPHEN J. FOLEY

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

/s/ PAUL D. MANISCALCO

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

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