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

FORM 10-K

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

For the fiscal year ended December 31, 2013

or

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____to_____

Commission file number: 001-35330

Lilis Energy, Inc.
(Name of registrant as specified in its charter)

NEVADA	**74-3231613**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1900 Grant Street, Suite #720, Denver, CO 80203
(Address of principal executive offices, including zip code)

Registrant's telephone number including area code: (303)-951-7920

Securities registered under Section 12(b) of the Act:

Common Stock, $0.0001 par value	The Nasdaq Global Market
Title of class	Name of exchange on which registered

Securities registered under Section 12(g) of the Act:

None

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

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

Indicate by check mark if 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 past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☒

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Act):

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☒

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

State the aggregate market value of voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the fiscal quarter ended June 28, 2013: $30,043,464

As of June 1, 2014, 27,628,827 shares of the registrant's common stock were issued and outstanding.

FORM 10-K ANNUAL REPORT
FISCAL YEAR ENDED DECEMBER 31, 2013
LILIS ENERGY, INC.

FORWARD-LOOKING STATEMENTS

This annual report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are "forward-looking statements" for purposes of federal and state securities laws, including, but not limited to, any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning future production, reserves or other resource development opportunities; any projected well performance or economics, or potential joint ventures or strategic partnerships; any statements regarding future economic conditions or performance; any statements regarding future capital-raising activities; any statements of belief; and any statements of assumptions underlying any of the foregoing.

Forward-looking statements may include the words "may," "should," "could," "estimate," "intend," "plan," "project," "continue," "believe," "expect" or "anticipate" or other similar words. These forward-looking statements present our estimates and assumptions only as of the date of this presentation. Except as required by law, we do not intend, and undertake no obligation, to update any forward-looking statement.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties. The factors impacting these risks and uncertainties include, but are not limited to:

- *the risk factors discussed in Part I, Item 1A of this Annual Report on Form 10-K;*
- *availability of capital on an economic basis, or at all, to fund our capital needs;*
- *failure to meet requirements under our debt instruments, which could lead to foreclosure of significant assets;*
- *inability to address our negative working capital position;*
- *the inability of management to effectively implement our strategies and business plans;*
- *potential default under our secured obligations or material debt agreements;*
- *estimated quantities and quality of oil and natural gas reserves;*
- *exploration, exploitation and development results;*
- *fluctuations in the price of oil and natural gas, including reductions in prices that would adversely affect our revenue, cash flow, liquidity and access to capital;*
- *availability of, or delays related to, drilling, completion and production, personnel, supplies and equipment;*
- *the timing and amount of future production of oil and gas;*
- *the completion, timing and success of our drilling activity;*
- *lower oil and natural gas prices and other market forces negatively affecting our revenues, ability to borrow or raise capital, or enter into joint venture arrangements;*
- *declines in the values of our natural gas and oil properties resulting in write-downs;*
- *inability to hire or retain sufficient qualified personnel;*
- *our ability to successfully identify and consummate acquisition transactions;*
- *our ability to successfully integrate acquired assets or dispose of non-core assets;*
- *increases in interest rates or our cost of borrowing;*
- *deterioration in general or regional (especially Rocky Mountain) economic conditions;*
- *the strength and financial resources of our competitors;*
- *the occurrence of natural disasters, unforeseen weather conditions, or other events or circumstances that could impact our operations or could impact the operations of companies or contractors we depend upon in our operations;*
- *inability to acquire or maintain mineral leases at a favorable economic value that will allow us to expand our development efforts;*
- *inability to successfully develop the acreage we currently hold;*
- *transportation capacity constraints or interruptions, curtailment of production, natural disasters, adverse weather conditions, or other issues affecting the DJ Basin;*
- *technique risks inherent in drilling in existing or emerging unconventional shale plays using horizontal drilling and completion techniques;*
- *delays, denials or other problems relating to our receipt of operational consents and approvals from governmental entities and other parties;*

- *unanticipated recovery or production problems, including cratering, explosions, fires and uncontrollable flows of oil, gas or well fluids;*
- *environmental liabilities;*
- *operating hazards and uninsured risks;*
- *loss of senior management or key technical personnel;*
- *adverse state or federal legislation or regulation that increases the costs of compliance, or adverse findings by a regulator with respect to existing operations, including those related to climate change and hydraulic fracturing;*
- *changes in U.S. GAAP or in the legal, regulatory and legislative environments in the markets in which we operate; and*
- *other factors, many of which are beyond our control.*

Many of these factors are beyond our ability to control or predict. These factors are not intended to represent a complete list of the general or specific factors that may affect us.

For a detailed description of these and other factors that could cause actual results to differ materially from those expressed in any forward-looking statement, we urge you to carefully review and consider the disclosures made in the "Risk Factors" sections of our SEC filings, available free of charge at the SEC's website (www.sec.gov).

GLOSSARY

In this report, the following abbreviation and terms are used:

Bbl. Stock tank barrel, or 42 U.S. gallons liquid volume, used in this report in reference to crude, condensate or natural gas liquids.

Bcf. Billion cubic feet of natural gas.

BOE. Barrels of crude oil equivalent, determined using the ratio of six mcf of natural gas to one bbl of crude oil, condensate or natural gas liquids.

BOE/d. BOE per day.

Completion. Installation of permanent equipment for production of natural gas or oil, or in the case of a dry hole, the reporting to the appropriate authority that the well has been abandoned.

Condensate. A mixture of hydrocarbons that exists in the gaseous phase at original reservoir temperature and pressure but that, when produced, is in the liquid phase at surface pressure and temperature.

Development well. A well drilled within the proved area of a natural gas or oil reservoir to the depth of a stratigraphic horizon known to be productive.

Drilling locations. Total gross locations specifically quantified by management to be included in our multi-year drilling activities on existing acreage. Our actual drilling activities may change depending on the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, drilling results and other factors.

Dry well. dry hole. A well found to be void of hydrocarbons or incapable of producing either oil or gas in sufficient quantities to justify completion as an oil or gas well.

Exploratory well. A well drilled to find a new field or to find a new reservoir in a field previously found to be productive of natural gas or oil in another reservoir.

Field. An area consisting of either a single reservoir or multiple reservoirs all grouped on or related to the same hydrocarbon accumulation, geological structural feature and/or stratigraphic condition.

Formation. An identifiable layer of subsurface rocks named after its geographical location and dominant rock type.

Gross acres, gross wells, or gross reserves. A well, acre or reserve in which the Company owns a working interest, reported at the 100% or 8/8ths level. For example, the number of gross wells is the total number of wells in which the Company owns a working interest.

Lease. A legal contract that specifies the terms of the business relationship between an energy company and a landowner or mineral rights holder on a particular tract of land.

Leasehold. Mineral rights leased in a certain area to form a project area.

Mbbls. Thousand barrels of crude oil or other liquid hydrocarbons.

Mboe. Thousand barrels of crude oil equivalent, determined using the ratio of six mcf of natural gas to one bbl of crude oil, condensate or natural gas liquids.

Mcf. Thousand cubic feet of natural gas.

Mcfe. Thousand cubic feet equivalent, determined using the ratio of six mcf of natural gas to one bbl of crude oil, condensate or natural gas liquids.

MMbtu. Million British Thermal Units.

MMcf. Million cubic feet of natural gas.

Net acres, net wells, or net reserves. The sum of the fractional working interest owned by the Company after royalty interests in gross acres, gross wells, or gross reserves, as the case may be.

Net barrel of production. The sum of the fractional revenue interest in gross production owned by the Company.

Ngl. Natural gas liquids, or liquid hydrocarbons found as a by-product of natural gas.

Overriding royalty interest. Is similar to a basic royalty interest except that it is created out of the working interest. For example, an operator possesses a standard lease providing for a basic royalty to the lesser or mineral rights owner of 1/8 of 8/8. This then entitles the operator to retain 7/8 of the total oil and natural gas produced. The 7/8 in this case is the 100% working interest the operator owns. This operator may assign his working interest to another operator subject to a retained 1/8 overriding royalty. This would then result in a basic royalty of 1/8, an overriding royalty of 1/8 and a working interest of 3/4. Overriding royalty interest owners have no financial or other obligation or responsibility for developing and operating the property. The only expenses borne by the overriding royalty owner are a share of the production or severance taxes and sometimes costs incurred to make the oil or gas salable [true?].

Plugging and abandonment. Refers to the sealing off of fluids in the strata penetrated by a well so that the fluids from one stratum will not escape into another or to the surface. Regulations of all states require plugging of abandoned wells.

Possible reserves. Those additional reserves that are less certain to be recoverable than probable reserves.

Probable reserves. Those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered.

Production. Natural resources, such as oil or gas, flowed or pumped out of the ground.

Productive well. A well that is capable of producing oil and/or gas in paying quantities.

Proved reserves. Those quantities of oil and natural gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible – from a given date forward, from known reservoirs, under existing economic conditions , operating methods, and governance regulations prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation.

Proved developed oil and gas reserves. Proved developed oil and gas reserves are proved reserves that can be expected to be recovered (i) through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and (ii) through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Proved undeveloped reserves. Proved undeveloped oil and gas reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

Project. A targeted development area where it is probable that commercial oil and/or gas can be produced from new wells.

Prospect. A specific geographic area which, based on supporting geological, geophysical or other data and also preliminary economic analysis using reasonably anticipated prices and costs, is deemed to have potential for the discovery of commercial hydrocarbons.

PV-10 (Present value of future net cash flow). The present value of estimated future net cash flow discounted to present value at 10%/annum to be generated from the production of estimated proved reserves, net of, capital expenditures and operating expenses, using the simple 12 month arithmetic of first of month prices and current costs (unless such prices or costs are subject to change pursuant to contractual provisions), without giving effect to non-property related expenses such as general and administrative expenses, debt service, future income tax expenses, depreciation, depletion and amortization or impairment, discounted using an annual discount rate of 10%. While this non-GAAP measure does not include the effect of income taxes as it would in the use of the standardized measure calculation, it does provide an indicative representation of the relative value of Lilis Energy on a comparative basis to other companies and from period to period.

Recompletion. The process of re-entering an existing well bore that is either producing or not producing and modifying the existing completion and/or completing new reservoirs in an attempt to establish new production or increase or re-activate existing production.

Reserves. Estimated remaining quantities of oil, natural gas and gas liquids anticipated to be economically recoverable, as of a given date, by application of development projects to known accumulations.

Reservoir. A subsurface formation containing a natural accumulation of natural gas and/or oil that is naturally trapped by impermeable rock or other geologic structures or water barriers and is individual and separate from other reservoirs.

Secondary Recovery. A recovery process that uses mechanisms other than the natural pressure or fluid drive of the reservoir, such as gas injection or water flooding, to produce residual oil and natural gas remaining after the primary recovery phase.

Shut-in. A well that has surface production valves closed and/or a down-hole plug to cease production for an undetermined amount of time. This could be for additional testing, could be to wait for pipeline or processing facility, or a number of other reasons.

Standardized measure. The present value of estimated future cash flows from proved oil and natural gas reserves, less future development, abandonment, production and income tax expenses, discounted at 10% per annum to reflect timing of future cash flows and using the same pricing assumptions as were used to calculate PV-10. Standardized measure differs from PV-10 because standardized measure includes the effect of future income taxes.

Successful. A well is determined to be successful if it is producing oil or natural gas in paying quantities.

Undeveloped acreage. Leased acreage on which wells have not been drilled or completed to a point that would permit the production of economic quantities of oil or natural gas regardless of whether such acreage contains proved reserves.

Water-flood. A method of secondary recovery in which water is injected into the reservoir formation to maintain or increase reservoir pressure and displace residual oil and enhance hydrocarbon recovery.

Working interest. The operating interest that gives the lessees/owners the right to drill, produce and conduct operating activities on the property, represents the share of the production revenue and the percentage of the development cost burden.

PART I

Items 1 and 2. BUSINESS AND PROPERTIES

Lilis Energy, Inc. (NASDAQ: LLEX), ("we," "us," "our," "Lilis Energy," "Lilis," or the "Company") is a Denver-based upstream independent oil and gas company engaged in the acquisition, drilling and production of oil and natural gas properties and prospects. We were incorporated in August of 2007 in the State of Nevada as Universal Holdings, Inc. In October 2009, we changed our name to Recovery Energy, Inc. and in December 2013, we changed our name to Lilis Energy, Inc.

Our executive offices are located at 1900 Grant Street, Suite #720, Denver, Colorado 80203, and our telephone number is (303) 951-7920. Our web site is www.lilisenergy.com. Additional information that may be obtained through our web site does not constitute part of this annual report on Form 10-K. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are accessible free of charge at our website. The SEC also maintains an internet site that contains reports, proxy and information statements and other information regarding our filings at www.sec.gov.

Our current operating activities are focused on the Denver-Julesburg Basin ("DJ Basin") in Colorado, Wyoming and Nebraska. Our business strategy is designed to maximize shareholder value by leveraging the knowledge, expertise and experience of our management team and via the future exploration and development of the approximately 112,000 net acres of developed and undeveloped acreage that are currently held by the Company, primarily in the northern DJ Basin.

Recent Developments

As of December 31, 2013, we had $18.77 million outstanding under our term loans and $15.58 million outstanding under our Debentures. During 2014, we consummated several transactions which reduced our term note as of June 1, 2014 to $13.77 million and our outstanding Debentures to $6.73 million. Both the debentures and term loan have extended their maturity dates.

As of December 3, 2013, we have a working capital deficit of approximately $12.70 million, and approximately $14.04 million in current liabilities. The Company secured financing and other transactions to improve the overall liquidity of the Company and to secure capital to fund our oil and gas development projects.

January 2014 Private Placement

On January 22, 2014, the Company entered into and closed a series of subscription agreements with accredited investors in a private placement transaction, pursuant to which the Company issued an aggregate of 2,959,125 units, with each unit consisting of (i) one share of the Company's common stock, par value $0.0001 (the "Common Stock") and (ii) one three-year warrant to purchase one share of Common Stock, at an exercise price equal to $2.50 per share (together, the "Units"), for a purchase price of $2.00 per Unit, for aggregate gross proceeds of $5,918,250 (the "January Private Placement"). In conjunction with the January Private Placement, certain of the Company's current and former officers and directors agreed to purchase an additional $1,425,000 of Units subject to receipt of shareholder approval as required by NASDAQ's continued listing requirements. The warrants issued in the private placement are not exercisable for six months following the closing of the January Private Placement.

Debenture Conversion

On January 31, 2014, the Company entered into a Debenture Conversion Agreement (the "Conversion Agreement"), with all of the holders of the Debentures. Under the terms of the Conversion Agreement, $9 million of the approximately $15.6 million in Debentures then outstanding immediately converted to Common Stock at a price of $2.00 per share of Common Stock. The balance of the debentures may be converted to Common Stock, subject to receipt of shareholder approval as required by the NASDAQ continued listing requirements. As additional inducement for the conversions, the Company issued to the converting Debenture holders warrants to purchase one share of Common Stock, at an exercise price equal to $2.50 per share, for each share of Common Stock issued upon conversion of the Debentures. The shares underlying the warrants have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws and may not be offered or sold in the United States absent registration or an applicable exemption from registration.

The Company intends to present proposals to approve i) participation by officers and directors in the January Private Placement, and ii) the conversion of the remaining outstanding Debentures at its 2014 annual meeting of shareholders, which is expected to take place in July 2014.

Hexagon Settlement

On May 19, 2014, we received an extension from Hexagon of the maturity date under our term loans, from May 16, 2014 to August 15, 2014. On May 30, 2014, we entered into a Settlement Agreement (the "Settlement Agreement") with Hexagon, which provides for the settlement of all amounts outstanding under the Term Loans. In connection with the execution of the Settlement Agreement, the Company made an initial cash payment of $5.0 million. The Settlement Agreement requires the Company to make an additional cash payment of $5.0 million (the "Second Cash Payment"), and at that time issue to Hexagon (i) a two-year $6.0 million unsecured note (the "Replacement Note"), bearing interest at an annual rate of 8%, and requiring principal and interest payments of $90,000 per month, matures May 30, 2016, and (ii) 943,208 shares of unregistered common stock (the "Shares"), which together will constitute full payment of the Term Loans. The parties have also agreed that if the Second Cash Payment is not made by June 30, 2014, an additional $1.0 million in principal will be added to the Replacement Note, and if the Replacement Note is not retired by December 31, 2014, the Company will issue an additional 1.0 million shares of its common stock to Hexagon. Finally, Hexagon agreed that it will not, until the earlier of June 30, 2014 or the date the Company achieves sustained average trading volume in excess of 100,000 shares per day for at least ten consecutive trading days, sell or otherwise transfer for value any shares of the Company's common stock or any securities convertible into the Company's common stock, and thereafter until December 31, 2014, Hexagon will not sell or otherwise transfer for value more than 10,000 shares per week of the Company's common stock or any securities convertible into the Company's common stock. Under the Settlement Agreement, Hexagon will release its security interest under the Term Loans once the Company has delivered the Second Cash Payment, the Replacement Note and the Shares.

Debentures Extension

On May 19, 2014, holders of the remaining Debentures agreed to extend the maturity date under the Debentures from May 16, 2014 to August 15, 2014, and to waive their right to declare an event of default in connection with the May 16, 2014 maturity date under the Debentures. On June 6, 2014, the holders of the remaining Debentures agreed to further extend the maturity date under the Debentures from August 15, 2014 to January 15, 2015.

May Private Placement

On May 30, 2014, we closed a private placement (the "May Private Placement") of our 8% Convertible Preferred Stock ("Preferred Stock") with accredited investors, pursuant to which we sold $7.50 million of Preferred Stock. The Preferred Stock provides for a dividend of 8% per annum, payable quarterly in arrears, which can be paid in cash or in shares of Common Stock if certain conditions are met. Each investor in the Preferred Stock was also granted a three-year warrant to purchase Common Stock equal to 50% of the number of shares that would be issuable upon full conversion of the Preferred Stock at the initial conversion price. The Company has the right to convert the Preferred Stock to Common Stock if the Common Stock is traded at $7.50 per share for ten consecutive trading days and the underlying shares of Common Stock are registered for resale. T.R. Winston & Company, LLC ("TR Winston") was the placement agent for the transaction and was paid a fee equal to 8% of the proceeds plus an additional 1% of the proceeds plus $25,000 in expenses. Of the $600,000 fee, the placement agent paid $94,150 in commissions to selected dealers and invested $454,000, or 76%, in the private placement for its own account. The Company used $5.00 million of the proceeds of the May Private Placement to make the first cash payment in connection with the Hexagon settlement (discussed above), and intends to use the remaining proceeds to fund its oil and gas development projects and for general administrative expenses.

On June 6, 2014, TR Winston executed a commitment to purchase or effect the purchase by third parties of an additional $15 million in Preferred Stock, which transaction is to be consummated within ninety (90) days.

Senior Management Changes

In April 2014, W. Phillip Marcum, our chief executive officer and chairman of our board of directors (the "Board"), resigned to pursue other interests, and the Board appointed Abraham Mirman, formerly our president, to the position of chief executive officer. At the same time, the Board appointed Robert A. Bell to the position of president and chief operating officer. A. Bradley Gabbard, formerly our chief operating officer and chief financial officer, remained in the position of chief financial officer until his resignation in May 2014. Upon Mr. Gabbard's resignation, the Board appointed Eric Ulwelling to the position of Acting Chief Financial Officer.

Overview of Our Business and Strategy

We have acquired and/or developed an oil and natural gas base of proved reserves, as well as a portfolio of exploration and development prospects with both conventional and unconventional reservoirs opportunities, with an emphasis on multiple producing horizons, and primary focus on the Niobrara shale and Codell unconventional resource plays. We believe these prospects offer the possibility of year-over-year, repeatable success allowing for meaningful production and reserve growth. Our acquisition, development and exploration pursuits are principally directed at oil and natural gas properties in the DJ Basin in Colorado, Nebraska, and Wyoming. Since early 2010, we have acquired and/or developed 25 producing wells. As of December 31, 2013 we owned interests in approximately 126,000 gross (112,000 net) leasehold acres, of which 114,000 gross (100,000 net) acres are classified as undeveloped acreage and all of which are located in Colorado, Wyoming and Nebraska within the DJ Basin. We intend to continue to evaluate and invest in internally generated prospects. It is our long-term goal to maximize production and reserves from our DJ Basin acreage position through the exploitation of both our conventional and Niobrara shale and Codell unconventional resource potential.

It is our belief that the oil and gas industry's most significant value creation occurs through maximizing ultimate oil and gas recovery via the drilling of successful development wells and a prudent exploitation program. Our primary mission is to maximize shareholder value via increasing ultimate recovery with high capital efficiency while maintaining a low cost structure. To achieve this, our business strategy includes the following elements to manage risk and maximize economic returns:

Participation in development prospects in a known producing basin. We pursue prospects in the DJ Basin on both an operated and non-operated basis, where we can capitalize on our development and production expertise and proven results in the area. We intend to operate the majority of our properties and evaluate each prospect based on its exploitation potential and economic merits.

Negotiated acquisitions of properties. We acquire producing properties based on our knowledge of pricing cycles of oil and natural gas and forecast exploitation potential of proved, probable and possible reserves.

Retain Operational Control and Significant Working Interest. In our principal development targets, we typically seek to maintain operational control of our development and drilling activities. As operator, we retain more control over the timing, selection and process of drilling prospects and completion design, which enhances our ability to maximize our return on invested capital and gives us greater control over the timing, allocation and amounts of capital expenditures. Due to our recent liquidity difficulties, a significant amount of our current drilling activity is not operated by us, which enables us to engage in production activities with a relatively low initial capital outlay. The majority of our acreage is contiguous, which will permit efficiencies in drilling and production operations.

Leasing of Prospective Acreage. In the course of our business, we identify drilling opportunities on properties that have not yet been leased. At times, we take the initiative to lease prospective acreage and we may sell all or any portion of the leased acreage to other companies that want to participate in the drilling and development of the prospect acreage.

Controlling Costs. We seek to maximize our returns on capital employed via prudent technical evaluations, design and planning to maximize capital efficiency and minimizing our general and administrative and operating expenses. We also minimize initial capital expenditures on geological and geophysical overhead, seismic data, hardware and software by partnering with cost efficient operators that have already invested capital in such. We also outsource some of our technical functions in order to help reduce general and administrative and capital obligations.

From time to time, we use commodity price hedging instruments to reduce our exposure to oil and natural gas price fluctuations and to help ensure that we have adequate base cash flow to fund our debt service costs and capital programs. From time to time, we will enter into futures contracts, collars and basis swap agreements, as well as fixed price physical delivery contracts. We intend to use hedging primarily to manage price risks and returns on certain acquisitions and drilling programs. Our policy is to consider hedging an appropriate portion of our production at commodity prices we deem attractive. In the future we may also be required by our lenders to hedge a portion of production as part of any financing.

Principal Oil and Gas Interests

All references to production, sales volumes and reserve quantities are net to our interest unless otherwise indicated.

As of December 31, 2013 we owned interests in approximately 126,000 gross (112,000 net) leasehold acres, of which 114,000 gross (100,000 net) acres are classified as undeveloped acreage and all of which are located in Colorado, Wyoming and Nebraska within the DJ Basin. Our primary targets within the DJ Basin are the conventional Dakota and Muddy "J" formations, and the developing unconventional Niobrara shale play. Additional horizons include the Codell, Greenhorn and other potential resource formations.

In June 2013, the Company purchased a 50% working interest in a section in Laramie County, Wyoming for $0.60 million with an additional $0.13 million as additions to the well equipment and intangible equipment. The purchase was classified as $0.30 million into undeveloped acreage and $0.43 million into oil and gas properties.

Effective as of December 31, 2013, the Company completed an assessment of impairment related to its inventory of undeveloped acreage, which resulted in a reduction of the carrying value in the amount of $9.58 million. This impairment was recognized by a transfer of the impairment value from unevaluated acreage to evaluated properties. In assessing impairment, the Company analyzed all of its undeveloped acreage with expiration dates during the years ended December 31, 2014 and 2015, and which are not otherwise renewable, and impaired such acreage in the amount of $6.38 million. In addition to impairment related to near and intermediate term expirations, the Company assessed carrying value of its remaining acreage, and concluded that an additional impairment of $3.20 million was necessary.

In February 2013, the Company completed the sale of certain oil and gas properties for $0.64 million.

During 2013, we made capital expenditures of approximately $1.89 million, which included $0.30 million related to undeveloped acreage, $1.13 million related to wells in progress for drilling 1 gross (0.25 net) well as non-operator in our North Wattenberg prospect, $0.46 million from re-completion of a well that provided production from a new zone as well as additional reserves and other minor additions to our oil and gas properties.

Reserves

The table below presents summary information with respect to the estimates of our proved oil and gas reserves for the year ended December 31, 2013. Prior to January 2010, we did not own any reserves nor did we have any production. We engaged Ralph E. Davis Associates, Inc. ("RE Davis") to audit internal engineering estimates for 100 percent of the PV-10 value of our proved reserves at year-end 2013. The prices used in the calculation of proved reserve estimates as of December 31, 2013, were $89.57 per Bbl and $4.747 per MCF; as of December 31, 2012, were $87.37 per Bbl and $2.75 per MCF; and as of December 31, 2011, were $88.16 per Bbl and $3.96 per MCF for oil and natural gas, respectively. The prices were adjusted for basis differentials, pipeline adjustments, and BTU content.

We emphasize that reserve estimates are inherently imprecise and that estimates of all new discoveries and undeveloped locations are more imprecise than estimates of established producing oil and gas properties. Accordingly, these estimates are expected to change as new information becomes available. The PV-10 values shown in the following table are not intended to represent the current market value of the estimated proved oil and gas reserves owned by us. Neither prices nor costs have been escalated. The following table should be read along with the section entitled "Risk Factors — Risks Related to Our Company". The actual quantities and present values of our proved oil and natural gas reserves may be less than we have estimated. No estimates of our proved reserves have been filed with or included in reports to any federal authority or agency, other than the Securities and Exchange Commission ("SEC"), since the beginning of the last fiscal year. We did not have third party engineers conduct an extensive review of probable and possible reserves or resources as of December 31, 2013.

	As of December 31,		
	2013	**2012**	**2011**
Reserve data:			
Proved developed			
Oil (MBbl)	171	213	216
Gas (MMcf)	313	186	148
MBOE(1)	223	244	241
Proved undeveloped			
Oil (MBbl)	672	138	392
Gas (MMcf)	2,251	221	-
MBOE (1)	1047	175	392
Total Proved			
Oil (MBbl)	843	351	608
Gas (MMcf)	2,564	407	148
MBOE	1,270	419	633
Proved developed reserves %	18%	58%	38%
Proved undeveloped reserves %	82%	42%	62%
Reserve value data :			
Proved developed PV-10	$ 7,675	$ 9,743	$ 10,204
Proved undeveloped PV-10	15,667	5,679	9,810
Total proved PV-10 (2)	$ 23,342	$ 15,422	$ 20,014
Standardized measure of discounted future cash flows	**$ 23,342**	**$ 15,422**	**$ 20,014**
Reserve life (years)	**33.25**	**42.42**	**22.58**

(1) BOE is determined using the ratio of six mcf of natural gas to one Bbl of crude oil, condensate or natural gas.

(2) As we currently do not expect to pay income taxes in the near future, there is no difference between the PV-10 value and the standardized measure of discounted future net cash flows. Please see the definitions of standardized measure of discounted future net cash flows and PV-10 value in the "Glossary."

Changes in Proved Undeveloped Reserves

The increase of proved undeveloped reserves to 1,047 MBOE at year end 2013 from 175 MBOE at year end 2012, an increase of 872 MBOE or 498% reflects, in part, our uncertainty in 2012 regarding whether we would have sufficient capital to support our current development plan. Proved undeveloped reserves in 2012 were estimated under the assumption that certain farm-outs and joint venture arrangements would be require in order to finance development of such reserves. These assumptions lowered both the reserve values and capital requirements. This assumption was removed in the preparation of our 2013 reserve estimates due to our improving financial health. Proved undeveloped reserves also increased as a result of a change in the development plan for one of the Company's major properties. The development plan was revised from a vertical to a horizontal program due principally to recent development activities in adjacent and nearby drilling units.

Effective as of December 31, 2013, the Company completed an assessment of impairment related to its inventory of undeveloped acreage, which resulted in a reduction of the carrying value in the amount of $9.58 million. This impairment was recognized by a transfer of the impairment value from undeveloped acreage to developed properties. In assessing impairment, the Company analyzed all of its undeveloped acreage with expiration dates during the years ended December 31, 2014 and 2015, and that are not otherwise renewable, and impaired such acreage in the amount of $6.38 million. In addition to impairment related to near and intermediate term expirations, the Company assessed carrying value of its remaining acreage, and concluded that an additional impairment of $3.20 million was necessary.

At December 31, 2013, we have no proved undeveloped reserves that are scheduled for development five years or more beyond the date the reserves were initially recorded.

Internal Controls over Reserves Estimate

Our policy regarding internal controls over the recording of reserves is structured to objectively and accurately estimate our oil and gas reserve quantities and values in compliance with the regulations of the SEC. Responsibility for compliance in reserve bookings is delegated to our President / Chief Operating Officer with assistance from our internal geologist, senior geologist consultant, principal accounting officer, and a senior reserve engineering consultant.

Technical reviews are performed throughout the year by our senior reserve engineering consultant and our geologist and other consultants who evaluate all available geological and engineering data, under the guidance of the President / Chief Operating Officer. This data, in conjunction with economic data and ownership information, is used in making a determination of estimated proved reserve quantities. The 2013 reserve process was overseen by Kent Lina, our senior reserve engineering consultant. Mr. Lina was previously employed by the Company from October 2010 through December 2012, and prior to that employed by Delta Petroleum Company from March 2002 to September 2010 in various operations and reservoir engineering capacities culminating as the Senior V.P. of Corporate Engineering. Mr. Lina received a Bachelor of Science degree in Civil Engineering from University of Missouri at Rolla in 1981. Mr. Lina currently serves various industry clients as a senior reserve engineering consultant.

Third-party Reserves Study

An independent third party reserve study as of December 31, 2013 was performed by RE Davis using its own engineering assumptions and other economic data provided by us. One hundred percent of our total calculated proved reserve PV-10 value was audited by RE Davis. RE Davis is an independent petroleum engineering consulting firm that has been providing petroleum engineering consulting services for over 20 years. The technical person at RE Davis primarily responsible for overseeing our reserve audit is Allen C. Barron, the President and CEO, who received a Bachelor of Science degree in Chemical and Petroleum Engineering from the University of Houston and is a registered Professional Engineer in the States of Texas. He is also a member of the Society of Petroleum Engineers. The RE Davis report dated February 27, 2014 is filed as Exhibit 99.1 to this Annual Report.

Oil and gas reserves and the estimates of the present value of future net cash flows therefrom were determined based on prices and costs as prescribed by the SEC and Financial Accounting Standards Board ("FASB") guidelines. Reserve calculations involve the estimate of future net recoverable reserves of oil and gas and the timing and amount of future net cash flows to be received therefrom. Such estimates are not precise and are based on assumptions regarding a variety of factors, many of which are variable and uncertain. Proved reserves were estimated in accordance with guidelines established by the SEC and the FASB, which require that reserve estimates be prepared under existing economic and operating conditions with no provision for price and cost escalations except by contractual arrangements. For the year ended December 31, 2013, commodity prices over the prior 12-month period and year end costs were used in estimating net cash flows in accordance with SEC guidelines.

In addition to a third party reserve study, our reserves and the corresponding report are reviewed by our President / Chief Operating Officer, geologist and principal accounting officer and the audit committee of our board of directors. Our President / Chief Operating Officer is responsible for reviewing and verifying that the estimate of proved reserves is reasonable, complete, and accurate. The audit committee reviews the final reserves estimate in conjunction with RE Davis's audit letter.

Production

The following table summarizes the average volumes and realized prices, excluding the effects of our economic hedges, of oil and gas produced from properties in which we held an interest during the periods indicated. Also presented is a production cost per BOE summary:

	For the Year Ended December 31,		
	2013	2012	2011
Product			
Oil (Bbl.)	51,705	68,207	81,433
Oil (Bbls)-average price (1)	$ 83.4	$ 86.48	$ 87.78
Natural Gas (MCF)-volume	64,845	182,160	248,502
Natural Gas (MCF)-average price (2)	$ 5.25	$ 2.23	$ 2.20
Barrels of oil equivalent (BOE)	62,512	98,567	122,850
Average daily net production (BOE)	171	270	337
Average Price per BOE (1)	$ 74.43	$ 63.96	$ 62.64

(1) Does not include the realized price effects of hedges
(2) Includes proceeds from the sale of NGL's

Oil and gas production costs, production taxes, depreciation, depletion, and amortization

Average Price per BOE(1)	$ 74.43	$ 63.96	$ 62.64
Production costs per BOE	$ 19.48	$ 14.42	$ 12.33
Production taxes per BOE	$ 4.21	$ 2.31	$ 6.83
Depreciation, depletion, and amortization per BOE	$ 38.21	$ 46.15	$ 35.39
Total operating costs per BOE	$ 61.90	$ 62.88	$ 54.55
Gross margin per BOE	$ 12.53	$ 1.08	$ 8.09
Gross margin percentage	17%	2%	13%

(1) Does not include the realized price effects of hedges

Productive Wells

As of December 31, 2013, we had working interests in 27 gross (25 net) productive oil wells, and 1 gross (1 net) productive gas well. Productive wells are either wells producing in commercial quantities or wells capable of commercial production although currently shut-in. Multiple completions in the same wellbore are counted as one well. A well is categorized under state reporting regulations as an oil well or a gas well based on the ratio of gas to oil produced when it first commenced production, and such designation may not be indicative of current production.

Acreage

As of December 31, 2013 we owned 25 producing wells in Wyoming, Nebraska and Colorado within the DJ Basin, as well as approximately 126,000 gross (112,000 net) acres, of which 114,000 gross (100,000 net) acres were classified as undeveloped acreage. Our primary assets included acreage located in Laramie and Goshen Counties in Wyoming; Banner, Kimball, and Scotts Bluff Counties in Nebraska; and Weld, Arapahoe and Elbert Counties in Colorado.

The following table sets forth certain information with respect to our developed and undeveloped acreage as of December 31, 2013.

	Undeveloped		Developed	
	Gross	Net	Gross	Net
DJ Basin	114,000	100,000	12,000	12,000
Total	114,000	100,000	12,000	12,000

Currently, our inventory of developed and undeveloped acreage includes approximately 12,000 net acres that are held by production, approximately 25,000 net acres, 61,000, and 14,000 net acres that expire in the years 2014, 2015 and thereafter, respectively. Approximately 75% of our inventory of undeveloped acreage provides for extension of lease terms from two to five years, at the option of the Company, via payment of varying, but typically nominal, extension amounts. However, due to our current liquidity issues, we may enter into one or more transactions to sell a significant number of leases, both developed and undeveloped, to enable us to pay down our outstanding debt or satisfy other financial obligations.

Drilling Activity

The following table describes the development and exploratory wells we drilled from 2011 through 2013:

	For the Year Ended December 31,					
	2013		2012		2011	
	Gross	Net	Gross	Net	Gross	Net
Development:						
Productive wells	2	1	5	3	3	2.25
Dry wells	-	-	1	1	1	1
	2	1	6	4	4	3.25
Exploratory:						
Productive wells	-	-	-	-	-	-
Dry wells	-	-	-	-	-	-
Total	2	1	6	4	4	3.25

The number of wells drilled refers to the number of wells completed at any time during the respective year, regardless of when drilling was initiated. As of December 31, 2013 we had one horizontal well in progress in our North Wattenberg prospect.

Title to Properties

Substantially all of our leasehold interests are held pursuant to leases from third parties. The majority of our producing properties are subject to mortgages securing indebtedness under our term loans and Debentures, which we believe do not materially interfere with the use of, or affect the value of, such properties.

2014 Capital Budget

We anticipate an approximately $50.0 million capital budget for the year ending December 31, 2014. This entire capital budget is contingent on securing adequate working capital. We anticipate that approximately $33.0 million of this budget (if available) will be allocated toward the development of two unconventional reservoirs located in the Wattenberg field within the DJ Basin that will apply horizontal drilling in the well-defined Niobrara shale and Codell formations. The remainder of our capital budget is anticipated to be directed principally toward the conventional reservoir development of certain lower risk wells offset to existing production. We also anticipate the allocation of approximately 10% of our capital budget toward higher risk exploration activities, including the procurement of seismic data.

Our capital budget is subject to various factors, including availability of capital, market conditions, oilfield services and equipment availability, working interest, acquisitions, commodity prices and drilling/ production results. Results from the wells identified in the capital budget may lead to additional adjustments to the capital budget as the cash flow from the wells could provide additional capital which we may use to increase our capital budget. We do not anticipate any significant expansion of our current DJ Basin acreage position, however, the Wattenberg field continues to be a high priority acquisition target.

Other factors that could cause us to further increase our level of activity and adjust our capital expenditure budget include, but are not limited to, a reduction in service and material costs, the formation of joint ventures with other exploration and production companies, the divestiture of non-strategic assets, a further improvement in commodity prices or well performance that exceeds our forecasts, any of which could positively impact our operating cash flow. Factors that could cause us to reduce our level of activity and adjust our capital budget include, but are not limited to, increases in service and materials costs, reductions in commodity prices or under-performance of wells relative to our forecasts, any of which could negatively impact our operating cash flow.

Marketing and Pricing

We derive revenue and cash flow principally from the sale of oil and natural gas. As a result, our revenues are determined, to a large degree, by prevailing prices for crude oil and natural gas. We sell our oil and natural gas on the open market at prevailing market prices or through forward delivery contracts. The market price for oil and natural gas is dictated by supply and demand, and we cannot accurately predict or control the price we may receive for our oil and natural gas.

Our revenues, cash flows, profitability and future rate of growth will depend substantially upon prevailing prices for oil and natural gas. Prices may also affect the amount of cash flow available for capital expenditures and other cash requirements and our ability to borrow money or raise additional capital. Lower prices may also adversely affect the value of our reserves and make it uneconomical for us to commence or continue production levels of natural gas and crude oil. Historically, the prices received for oil and natural gas have fluctuated widely. Among the factors that can cause these fluctuations are:

- changes in global supply and demand for oil and natural gas;
- the actions of the Organization of Petroleum Exporting Countries, or OPEC;
- the price and quantity of imports of foreign oil and natural gas;
- acts of war or terrorism;
- political conditions and events, including embargoes, affecting oil-producing activity;
- the level of global oil and natural gas exploration and production activity;
- the level of global oil and natural gas inventories;
- weather conditions;
- technological advances affecting energy consumption; and
- the price and availability of alternative fuels.

Furthermore, regional natural gas, condensate, oil and NGL prices may move independently of broad industry price trends. Because some of our operations are located outside major markets, we are directly impacted by regional prices regardless of Henry Hub, WTI or other major market pricing.

From time to time, we enter into derivative contracts. These contracts economically hedge our exposure to decreases in the prices of oil and natural gas. Hedging arrangements may expose us to risk of significant financial loss in some circumstances including circumstances where:

- our production and/or sales of natural gas are less than expected;
- payments owed under derivative hedging contracts come due prior to receipt of the hedged month's production revenue; or
- the counterparty to the hedging contract defaults on its contract obligations.

In addition, hedging arrangements may limit the benefit we would receive from increases in the prices for oil and natural gas. We cannot assure you that any hedging transactions we may enter into will adequately protect us from declines in the prices of oil and natural gas.

As of December 31, 2013, we had one hedging agreement in place, an active commodity swap for 100 barrels of oil per day through January 31, 2014 at a price of $99.25 per barrel.

Major Customers

During the years ended December 31, 2013 and 2012, the Company had one primary customer, Shell Trading (US), which accounted for approximately 83 percent and 67 percent, respectively, of our revenues. The remaining earned in both 2013 and 2012 was generated from various other purchasers.

However, the Company does not believe that the loss of a single purchaser, including Shell Trading (US), would materially affect the Company's business because there are numerous other purchasers in the area in which the Company sells its production.

Seasonality

Generally, but not always, the demand and price levels for natural gas increase during colder winter months and decrease during warmer summer months. To lessen seasonal demand fluctuations, pipelines, utilities, local distribution companies, and industrial users utilize natural gas storage facilities and forward purchase some of their anticipated winter requirements during the summer. However, increased summertime demand for electricity has placed increased demand on storage volumes. Demand for crude oil and heating oil is also generally higher in the winter and the summer driving season — although oil prices are much more driven by global supply and demand. Seasonal anomalies, such as mild winters, sometimes lessen these fluctuations. The impact of seasonality on crude oil has been somewhat magnified by overall supply and demand economics attributable to the narrow margin of production capacity in excess of existing worldwide demand for crude oil.

Competition

The oil and gas industry is intensely competitive, particularly with respect to acquiring prospective oil and natural gas properties. We believe our leasehold position provides a solid foundation for an economically robust exploration program and our future growth. Our success and growth also depends on our geological, geophysical, and engineering expertise, design and planning, and our financial resources. We believe the location of our acreage, our technical expertise, available technologies, our financial resources and expertise, and the experience and knowledge of our management enables us to compete effectively in our core operating areas. However, we face intense competition from a substantial number of major and independent oil and gas companies, which have larger technical staffs and greater financial and operational resources than we do. Many of these companies not only engage in the acquisition, exploration, development, and production of oil and natural gas reserves, but also have refining operations, market refined products, own drilling rigs, and generate electricity.

We also compete with other oil and gas companies in attempting to secure drilling rigs and other equipment and services necessary for the drilling, completion, production, processing and maintenance of wells. Consequently, we may face shortages or delays in securing these services from time to time. The oil and gas industry also faces competition from alternative fuel sources, including other fossil fuels such as coal and imported liquefied natural gas. Competitive conditions may also be affected by future new energy, climate-related, financial, and other policies, legislation, and regulations.

In addition, we compete for people, including experienced geologists, geophysicists, engineers, and other professionals and consultants. Throughout the oil and gas industry, the need to attract and retain talented people has grown at a time when the number of talented people available is constrained. We are not insulated from this resource constraint, and we must compete effectively in this market in order to be successful.

Employees

As of December 31, 2013 we had eight full-time employees and no part-time employees. For the foreseeable future, we intend to only add additional personnel as our operational requirements grow. In the interim, we plan to continue to leverage the use of independent consultants and contractors to provide various professional services, including land, legal, engineering, geology, environmental and tax services. We believe that by limiting our management and employee costs, we are able to better control total costs and retain flexibility in terms of project management.

Government Regulations

General. Our operations covering the exploration, production and sale of oil and natural gas are subject to various types of federal, state and local laws and regulations. The failure to comply with these laws and regulations can result in substantial penalties. These laws and regulations materially impact our operations and can affect our profitability. However, we do not believe that these laws and regulations affect us in a manner significantly different than our competitors. Matters regulated include permits for drilling operations, drilling and abandonment bonds, reports concerning operations, the spacing of wells and unitization and pooling of properties, restoration of surface areas, plugging and abandonment of wells, requirements for the operation of wells, production and processing facilities, land use, subsurface injection, air emissions, and taxation of production, etc. At various times, regulatory agencies have imposed price controls and limitations on production. In order to conserve supplies of oil and natural gas, these agencies have restricted the rates of flow of oil and natural gas wells below actual production capacity, generally prohibit the venting or flaring of natural gas and impose certain requirements regarding production. Federal, state and local laws regulate production, handling, storage, transportation and disposal of oil and natural gas, by-products from oil and natural gas and other substances and materials produced or used in connection with oil and natural gas operations. While we believe we will be able to substantially comply with all applicable laws and regulations via our strict attention to regulatory compliance, the requirements of such laws and regulations are frequently changed. We cannot predict the ultimate cost of compliance with these requirements or their effect on our actual operations.

Federal Income Tax. Federal income tax laws significantly affect our operations. The principal provisions that affect us are those that permit us, subject to certain limitations, to deduct as incurred, rather than to capitalize and amortize/depreciate, our domestic "intangible drilling and development costs" and to claim depletion on a portion of our domestic oil and natural gas properties based on 15% of our oil and natural gas gross income from such properties (up to an aggregate of 1,000 barrels per day of domestic crude oil and/or equivalent units of domestic natural gas).

Environmental, Health, and Safety Regulations. Our operations are subject to stringent federal, state, and local laws and regulations relating to the protection of the environment and human health and safety ("EHS"). We are committed to strict compliance with these regulations and the utmost attention to EHS issues. Environmental laws and regulations may require that permits be obtained before drilling commences or facilities are commissioned, restrict the types, quantities, and concentration of various substances that can be released into the environment in connection with drilling and production activities, govern the handling and disposal of waste material, and limit or prohibit drilling and exploitation activities on certain lands lying within wilderness, wetlands, and other protected areas, including areas containing threatened or endangered animal species. As a result, these laws and regulations may substantially increase the costs of exploring for, developing, or producing oil and gas and may prevent or delay the commencement or continuation of certain projects. In addition, these laws and regulations may impose substantial clean-up, remediation, and other obligations in the event of any discharges or emissions in violation of these laws and regulations. Further, legislative and regulatory initiatives related to global warming or climate change could have an adverse effect on our operations and the demand for oil and natural gas. See "Risk Factors — Risks Related to the Oil and Gas Industry — Legislative and regulatory initiatives related to global warming and climate change could have an adverse effect on our operations and the demand for oil and natural gas."

Hydraulic fracturing is an important and common practice that is used to stimulate production of hydrocarbons, particularly natural gas, from tight unconventional formations. For additional information about hydraulic fracturing and related regulatory matters, see "Risk Factors— Risks Relating to the Oil and Gas Industry." Federal and state legislation and regulatory initiatives related to hydraulic fracturing could result in increased costs and additional operating restrictions or delays /cancellations in the completion of oil and gas wells.

Federal and state occupational safety and health laws require us to organize and maintain information about hazardous materials used, released, or produced in our operations. Some of this information must be provided to our employees, state and local governmental authorities, and local citizens. We are also subject to the requirements and reporting framework set forth in the federal workplace standards.

The discharge of oil, gas or other pollutants into the air, soil or water may give rise to liabilities to the government and third parties and may require us to incur costs to remedy discharges. Natural gas, oil or other pollutants, including salt water brine, may be discharged in many ways, including from a well or drilling equipment at a drill site, leakage from pipelines or other gathering and transportation facilities, leakage from storage tanks and sudden discharges from damage or explosion at natural gas facilities of oil and gas wells. Discharged hydrocarbons may migrate through soil to fresh water aquifers or adjoining property, giving rise to additional liabilities.

A variety of federal and state laws and regulations govern the environmental aspects of natural gas and oil production, transportation and processing. These laws and regulations may impose liability in the event of discharges, including for accidental discharges, failure to notify the proper authorities of a discharge, and other noncompliance. Compliance with such laws and regulations may increase the cost of oil and gas exploration, development and production; although we do not anticipate that compliance will have a material adverse effect on our capital expenditures or earnings. Failure to comply with the requirements of the applicable laws and regulations could subject us to substantial civil and/or criminal penalties and to the temporary or permanent curtailment or cessation of all or a portion of our operations.

The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), also known as the "superfund law," imposes liability, regardless of fault or the legality of the original conduct, on some classes of persons that are considered to have contributed to the release of a "hazardous substance" into the environment. These persons include the owner or operator of a disposal site or sites where the release occurred and companies that transport, dispose, or arrange for disposal of the hazardous substance(s) released. Persons who are or were responsible for releases of hazardous substances under CERCLA may be jointly and severally liable for the costs of cleaning up the hazardous substances and for damages to natural resources. It is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. We could be subject to liability under CERCLA, including for jointly owned drilling and production activities that generate relatively small amounts of liquid and solid waste that may be subject to classification as hazardous substances under CERCLA.

The Resource Conservation and Recovery Act of 1976, as amended ("RCRA") is the principal federal statute governing the treatment, storage and disposal of solid and hazardous wastes. RCRA imposes stringent operating requirements, and liability for failure to meet such requirements, on a person who is either a "generator" or "transporter" of hazardous waste or an "owner" or "operator" of a hazardous waste treatment, storage or disposal facility. At present, RCRA includes an exemption that allows certain oil and natural gas exploration and production waste to be classified as nonhazardous waste. A similar exemption is contained in many of the state counterparts to RCRA. As a result, we are not required to comply with a substantial portion of RCRA's hazardous waste requirements. At various times in the past, proposals have been made to amend RCRA to rescind the exemption that excludes oil and natural gas exploration and production wastes from regulation as hazardous waste. For example, in 2010 a petition was filed by the Natural Resources Defense Council with the Environmental Protection Agency ("EPA") requesting that the agency reassess its prior determination that certain E&P wastes are not subject to the RCRA hazardous waste requirements. EPA has not yet acted on the petition and it remains pending. Repeal or modification of the exemption by administrative, legislative or judicial process, or modification of similar exemptions in applicable state statutes, would increase the volume of hazardous waste we are required to manage and dispose of and would cause us to incur, perhaps significantly, increased operating expenses.

The Oil Pollution Act of 1990 ("OPA"), and regulations thereunder impose a variety of regulations on "responsible parties" related to the prevention of oil spills and liability for damages resulting from such spills in United States waters. The OPA assigns liability to each responsible party for oil removal costs and a variety of public and private damages, including natural resource damages. While liability limits apply in some circumstances, a party cannot take advantage of liability limits if the spill was caused by gross negligence or willful misconduct or resulted from violation of federal safety, construction or operating regulations. Few defenses exist to the liability imposed by OPA. In addition, to the extent we acquire offshore leases and those operations affect state waters, we may be subject to additional state and local clean-up requirements or incur liability under state and local laws. OPA also imposes ongoing requirements on responsible parties, including proof of financial responsibility to cover at least some costs in a potential spill. We cannot predict whether the financial responsibility requirements under the OPA amendments will adversely restrict our proposed operations or impose substantial additional annual costs to us or otherwise materially adversely affect us. The impact, however, should not be any more adverse to us than it will be to other similarly situated owners or operators.

The federal Clean Water Act (the "Clean Water Act"), imposes restrictions and controls on the discharge of produced waters and other oil and natural gas wastes into navigable waters. Permits must be obtained to discharge pollutants into state and federal waters and to discharge fill and pollutants into regulated waters and wetlands. Uncertainty regarding regulatory jurisdiction over wetlands and other regulated waters of the United States has complicated, and will continue to complicate and increase the cost of, obtaining such permits or other approvals. Certain state regulations and the general permits issued under the Federal National Pollutant Discharge Elimination System ("NPDES") program prohibit the discharge of produced waters and sand, drilling fluids, drill cuttings and certain other substances related to the crude oil and natural gas industry into certain coastal and offshore waters. Further, the EPA, has adopted regulations requiring certain crude oil and natural gas exploration and production facilities to obtain permits for storm water discharges. Costs may be associated with the treatment of wastewater or developing and implementing storm water pollution prevention plans. The Clean Water Act and comparable state statutes provide for civil, criminal and administrative penalties for unauthorized discharges of crude oil and other pollutants and impose liability on parties responsible for those discharges for the costs of cleaning up any environmental damage caused by the release and for natural resource damages resulting from the release. We believe that our operations comply in all material respects with the requirements of the Clean Water Act and state statutes enacted to control water pollution.

The Safe Drinking Water Act of 1974, as amended, establishes a regulatory framework for the underground injection of a variety of wastes, including bring produced and separated from crude oil and natural gas production, with the main goal being the protection of usable aquifers. The primary objective of injection well operating permits and requirements is to ensure the mechanical integrity of the wellbore and to prevent migration of fluids from the injection zone into underground sources of drinking water. Class II underground injection wells, a predominant storage method for crude oil and natural gas wastewater, are strictly controlled, and certain wastes, absent an exemption, cannot be injected into such wells. Failure to abide by our permits could subject us to civil or criminal enforcement. We believe that we are in compliance in all material respects with the requirements of applicable state underground injection control programs and our permits.

The federal Clean Air Act (the "Clean Air Act") and comparable state and local air pollution laws adopted to fulfill its mandate provide a framework for national, state and local efforts to protect air quality. Our operations utilize equipment that emits air pollutants which may be subject to federal and state air pollution control laws. These laws generally require utilization of air emissions control equipment to achieve prescribed emissions limitations and ambient air quality standards, as well as operating permits for existing equipment and construction permits for new and modified equipment. We believe that we are in compliance in all material respects with the requirements of applicable federal and state air pollution control laws. Over the next several years, we may be required to incur capital expenditures for air pollution control equipment or other air emissions-related issues. EPA promulgated significant new New Source Performance Standards ("NSPS OOOO") in 2012, which have added administrative and operational costs. EPA is reconsidering portions of NSPS OOOO and this process may result in additional federal control requirements. Colorado fully adopted NSPS OOOO in 2014. In addition, Colorado adopted new air regulations for the oil and gas industry effective April 14, 2014, that impose control and other requirements more stringent than NSPS OOOO. These new Colorado oil and natural gas air rules will likely increase our administrative and operational costs.

There are numerous state laws and regulations in the states in which we operate which relate to the environmental aspects of our business. These state laws and regulations generally relate to requirements to remediate spills of deleterious substances associated with oil and gas activities, the conduct of salt water disposal operations, and the methods of plugging and abandonment of oil and gas wells which have been unproductive. Numerous state laws and regulations also relate to air and water quality.

We do not believe that our environmental risks will be materially different from those of comparable companies in the oil and gas industry. We believe our present activities substantially comply, in all material respects, with existing environmental laws and regulations. Nevertheless, we cannot assure you that environmental laws will not result in a curtailment of production or material increase in the cost of production, development or exploration or otherwise adversely affect our financial condition and results of operations. Although we maintain liability insurance coverage for liabilities from pollution, environmental risks, generally are not fully insurable.

In addition, because we have acquired and may acquire interests in properties that have been operated in the past by others, we may be liable for environmental damage, including historical contamination, caused by such former operators. Additional liabilities could also arise from continuing violations or contamination not discovered during our assessment of the acquired properties.

Federal Leases. For those operations on federal oil and gas leases, such operations must comply with numerous regulatory restrictions, including various non-discrimination statutes, and certain of such operations must be conducted pursuant to certain on-site security regulations and other permits issued by various federal agencies. In addition, on federal lands in the United States, the Minerals Management Service, or MMS, prescribes or severely limits the types of costs that are deductible transportation costs for purposes of royalty valuation of production sold off the lease. In particular, MMS prohibits deduction of costs associated with marketer fees, cash out and other pipeline imbalance penalties, or long-term storage fees. Further, the MMS has been engaged in a process of promulgating new rules and procedures for determining the value of crude oil produced from federal lands for purposes of calculating royalties owed to the government. The natural gas and crude oil industry as a whole has resisted the proposed rules under an assumption that royalty burdens will substantially increase. We cannot predict what, if any, effect any new rule will have on our operations.

Some of our operations are conducted on federal lands pursuant to oil and gas leases administered by the Bureau of Land Management ("BLM"). These leases contain relatively standardized terms and require compliance with detailed regulations and orders, which are subject to change. In addition to permits required from other regulatory agencies, lessees must obtain a permit from the BLM before drilling and comply with regulations governing, among other things, engineering and construction specifications for production facilities, safety procedures, the valuation of production and payment of royalties, the removal of facilities, and the posting of bonds to ensure that lessee obligations are met. Under certain circumstances, the BLM may require our operations on federal leases to be suspended or terminated.

In May 2010, the BLM adopted changes to its oil and gas leasing program that require, among other things, a more detailed environmental review prior to leasing oil and natural gas resources, increased public engagement in the development of master leasing and development plans prior to leasing areas where intensive new oil and gas development is anticipated, and a comprehensive parcel review process. These changes have increased the amount of time and regulatory costs necessary to obtain oil and gas leases administered by the BLM. In addition, the BLM is currently conducting a rulemaking that will require, among other things, disclosure of chemicals and more stringent well integrity measures associated with hydraulic fracturing operations on public land. BLM has not indicated when it will issue a final rule. BLM also announced its intention to conduct a separate rulemaking to address venting and flaring of natural gas from oil and gas operations on public land. These hydraulic fracturing-related rulemakings may adversely affect our operations conducted on federal lands.

Other Laws and Regulations. Various laws and regulations require permits for drilling wells and also cover spacing of wells, the prevention of waste of natural gas and oil including maintenance of certain gas/oil ratios, rates of production and other matters. The effect of these laws and regulations, as well as other regulations that could be promulgated by the jurisdictions, in which we have production, could be to limit the number of wells that could be drilled on our properties and to limit the allowable production from the successful wells completed on our properties, thereby limiting our revenues.

To date we have not experienced any material adverse effect on our operations from obligations under environmental, health, and safety laws and regulations. We believe that we are in substantial compliance with currently applicable environmental, health, and safety laws and regulations, and that continued compliance with existing requirements will not have a materially adverse impact on us.

Item 1A. RISK FACTORS

Investing in our shares involves significant risks, including the potential loss of all or part of your investment. These risks could materially affect our business, financial condition and results of operations and cause a decline in the market price of our shares. You should carefully consider all of the risks described in this annual report, in addition to the other information contained in this annual report, before you make an investment in our shares. In addition to other matters identified or described by us from time to time in filings with the SEC, there are several important factors that could cause our future results to differ materially from historical results or trends, results anticipated or planned by us, or results that are reflected from time to time in any forward-looking statement. Some of these important factors, but not necessarily all important factors, include the following:

Risks Related to Our Company

Our level of indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry and prevent us from meeting our obligations under our indebtedness. As of December 31, 2013, our total outstanding debt under our credit agreements and convertible debentures equaled $34.35 million, including $18.77 million outstanding under our credit agreements with Hexagon. While transactions in 2014 have significantly reduced our debt, our degree of leverage could have important consequences, including the following:

- it may limit our ability to obtain additional debt or equity financing for working capital, capital expenditures, further exploration, debt service requirements, acquisitions and general corporate or other purposes;
- a substantial portion of our cash flows from operations will be dedicated to the payment of principal and interest on our indebtedness and will not be available for other purposes, including our operations, capital expenditures and future business opportunities;
- the debt service requirements of other indebtedness in the future could make it more difficult for us to satisfy our financial obligations;
- as we have pledged most of our oil and natural gas properties and the related equipment, inventory, accounts and proceeds as collateral for the borrowings under our credit facility, they may not be pledged as collateral for other borrowings and would be at risk in the event of a default thereunder;
- it may limit our ability to adjust to changing market conditions and place us at a competitive disadvantage compared to our competitors that have less debt;
- we are vulnerable in the present downturn in general economic conditions and in our business, and we will likely be unable to carry out capital spending and exploration activities that are currently planned; and
- we may from time to time be out of compliance with covenants under our term loan agreements, which will require us to seek waivers from our lenders, which may be difficult to obtain.

We may incur additional debt, including secured indebtedness, or issue preferred stock in order to maintain adequate liquidity and develop our properties to the extent desired. A higher level of indebtedness and/or preferred stock increases the risk that we may default on our obligations. Our ability to meet our debt obligations and to reduce our level of indebtedness depends on our future performance. General economic conditions, natural gas and oil prices and financial, business and other factors affect our operations and our future performance. Many of these factors are beyond our control. Factors that will affect our ability to raise cash through an offering of our capital stock or a refinancing of our debt include financial market conditions, the value of our assets, the number of shares of capital stock we have authorized, unissued and unreserved and our performance at the time we need capital.

Currently, a significant portion of our revenue after field level operating expenses is required to be paid to our lenders as debt service. Assuming we are able to consummate the restructuring contemplated by the Hexagon Settlement, the terms of the Replacement Note with Hexagon require us to pay $90,000 per month in debt service, representing a significant portion of our monthly operating cash flow. If we fail to make any such minimum payments, Hexagon may declare a default and accelerate the amounts due. In that event, all of our debt may be declared to be in default. We will seek to obtain additional capital through the sale of our equity or debt securities, the successful deployment of our cash on hand, bank lines of credit, joint ventures, and project financing. Consequently, there can be no assurance we will be able to obtain continued access to capital as and when needed or, if so, that the terms of any available financing will be commercially reasonable. If we are unable to access additional capital in significant amounts as needed, we may not be able to develop our current prospects and properties, may have to forfeit our interest in certain prospects and may not otherwise be able to develop our business. In such an event, our stock price could be materially adversely affected.

We have historically incurred losses and cannot assure investors as to future profitability. We have historically incurred losses from operations during our history in the oil and natural gas business. We had a cumulative deficit of approximately $115.94 million and $106.22 million as of December 31, 2013 and 2012, respectively. Many of our properties are in the exploration stage, and to date we have established a limited volume of proved reserves on our properties. Our ability to be profitable in the future will depend on successfully addressing our near-term capital need to refinance our term loan indebtedness and fund our 2014 capital budget, and implementing our acquisition, exploration, development and production activities, all of which are subject to many risks beyond our control. Even if we become profitable on an annual basis, we cannot assure you that our profitability will be sustainable or increase on a periodic basis.

We will require additional capital in order to achieve commercial success and, if necessary, to finance future losses from operations as we endeavor to build revenue, but we do not have any commitments to obtain such capital and we cannot assure you that we will be able to obtain adequate capital as and when required. The business of oil and gas acquisition, drilling and development is capital intensive and the level of operations attainable by an oil and gas company is directly linked to and limited by the amount of available capital. We believe that our ability to achieve commercial success and our continued growth will be dependent on our continued access to capital either through the additional sale of our equity or debt securities, bank lines of credit, project financing, joint ventures, sale or lease of undeveloped acreage, or cash generated from oil and gas operations. We will seek to obtain additional capital through the sale of our equity or debt securities, the successful deployment of our cash on hand, bank lines of credit, joint ventures, and project financing. Consequently, there can be no assurance we will be able to obtain continued access to capital as and when needed or, if so, that the terms of any available financing will be commercially reasonable. If we are unable to access additional capital in significant amounts as needed, we may not be able to develop our current prospects and properties, may have to forfeit our interest in certain prospects and may not otherwise be able to develop our business. In such an event, our stock price could be materially adversely affected.

We have limited management and staff and will be dependent upon partnering arrangements. We had eight employees at the end of December 31, 2013. We leverage the services of independent consultants and contractors to perform various professional services, including engineering, oil and gas well planning and supervision, and land, legal, environmental and tax services. We also pursue alliances with partners in the areas of geological and geophysical services and prospect generation, evaluation and prospect leasing. Our dependence on third party consultants and service providers creates a number of risks, including but not limited to:

- the possibility that such third parties may not be available to us as and when needed; and
- the risk that we may not be able to properly control the timing and quality of work conducted with respect to our projects.

If we experience significant delays in obtaining the services of such third parties or poor performance by such parties, our results of operations and stock price could be materially adversely affected.

The loss of our Chief Executive Officer, Chief Operating Officer, President, or Interim/Acting Chief Financial Officer could adversely affect us. We are dependent on the experience of our executive officers to guide the implementation of our operational objectives and growth strategy. The loss of the services of any of these individuals could have a negative impact on our operations and our ability to implement our strategy. Our executive employment contracts include long term incentives to retain key personnel but retention of personnel is not guaranteed.

In addition to acquiring producing properties, we may also grow our business through the acquisition and development of exploratory oil and gas prospects, which is the riskiest method of establishing oil and gas reserves. In addition to acquiring producing properties, we may acquire, drill and develop exploratory oil and gas prospects that may or may not be profitable to produce. Developing exploratory oil and gas properties requires significant capital expenditures and involves a high degree of financial, technical and operational risk. The budgeted costs of drilling, completing, and operating exploratory wells are often exceeded due to subsurface uncertainties and can increase significantly when market drilling costs rise. Drilling may be unsuccessful for many reasons, including unexpected geological issues, poor reservoir quality, title problems, weather, cost overruns, equipment shortages, and operational/mechanical difficulties. Moreover, the successful drilling or completion of an exploratory oil or gas well does not ensure a profit on investment. Exploratory wells bear a much greater investment and operational risk than development wells. We cannot assure you that our exploration, exploitation and development activities will result in profitable operations. If we are unable to successfully identify, acquire and develop commercial, exploratory oil and gas prospects, our results of operations, financial condition and stock price may be materially adversely affected.

If oil or natural gas prices decrease or exploration and development efforts are unsuccessful, wells in progress are deemed unsuccessful, or major tracts of undeveloped acreage expire, or other similar adverse events occur, we may be required to write-down the carrying value of our developed properties. We use the full cost method of accounting whereby all costs related to the acquisition and development of oil and natural gas properties are capitalized into a single cost center referred to as a full cost pool. These costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling wells, completing productive wells, or plugging and abandoning non-productive wells, costs related to expired leases, or leases underlying producing and non-producing wells, and overhead charges directly related to acquisition and exploration activities. Under the full cost method of accounting, capitalized oil and natural gas property that comprise the full cost pool, less accumulated depletion and net of deferred income taxes, may not exceed an amount equal to the present value, discounted at 10%, of estimated future net revenues from proved oil and natural gas reserves. This ceiling test is performed at least quarterly. Should the capitalized costs of the full cost pool exceed this ceiling, we would recognize impairment expense. During the year ended December 31, 2013, we did not recognize an impairment charge. Future write-downs could occur for numerous reasons, including, but not limited to reductions in oil and gas prices that lower the estimate of future net revenues from proved oil and natural gas reserves, revisions to reserve estimates, or from the addition of non-productive capitalized costs to the full cost pool that do not result in corresponding increase in oil and gas reserves. Impairments of undeveloped acreage and plugging and abandonment of wells in progress are other areas where costs may be capitalized into the full cost pool, without any corresponding increase in reserve values; as such, these situations could result in future additional impairment expenses.

Hedging transactions may limit our potential gains or result in losses. In order to manage our exposure to price risks in the marketing of our oil and natural gas, from time to time, we may enter into derivative contracts that economically hedge our oil and gas price on a portion of our production. These contracts may limit our potential gains if oil and natural gas prices were to rise substantially over the price established by the contract. In addition, such transactions may expose us to the risk of financial loss in certain circumstances, including instances in which:

- there is a change in the expected differential between the underlying price in the hedging agreement and actual prices received;
- our production and/or sales of oil or natural gas are less than expected;
- payments owed under derivative hedging contracts come due prior to receipt of the hedged month's production revenue; or
- the other party to the hedging contract defaults on its contract obligations.

Hedging transactions we may enter into may not adequately protect us from declines in the prices of oil and natural gas. In addition, the counterparties under our derivatives contracts may fail to fulfill their contractual obligations to us.

As of December 31, 2013, we had one hedging agreement in place, an active commodity swap for 100 barrels of oil per day through January 31, 2014 at a price of $99.25 per barrel.

Our large inventory of undeveloped acreage and large percentage of undeveloped proved reserves may create additional economic risk. Our success is largely dependent upon our ability to develop our large inventory of future drilling locations, undeveloped acreage and undeveloped reserves. As of December 31, 2013, approximately 82% of our total proved reserves and 89% of our total acreage were undeveloped. To the extent our drilling results are not as successful as we anticipate, natural gas and oil prices decline, or sufficient funds are not available to drill these locations and reserves, we may not capture the expected or projected value of these properties. In addition, delays in the development of our reserves or increases in costs to drill and develop such reserves will reduce the economic PV-10 value of and delay cash flow from our estimated proved undeveloped reserves and future net revenues estimated for such reserves and may result in some projects becoming uneconomic.

We may have difficulty managing growth in our business, which could adversely affect our financial condition and results of operations. Significant growth in the size and scope of our operations would place a strain on our financial, technical, operational and management resources. The failure to continue to upgrade our technical, administrative, operating and financial staff and control systems or the occurrences of unexpected expansion difficulties, including the failure to recruit and retain experienced managers, geologists, engineers and other professionals in the oil and gas industry could have a material adverse effect on our business, financial condition and results of operations and our ability to timely execute our business plan.

The actual quantities and present value of our proved reserves may be lower than we have estimated. In addition, the present value of future net cash flow from our proved reserves will not necessarily be the same as the current market value of our estimated proved oil and natural gas reserves. This annual report contains estimates of our proved oil and natural gas reserves and the estimated future net revenues from these reserves contained in our filings with the SEC. The reserve estimate included in this annual report was prepared by our current reserve engineer consultant, reviewed by our Chief Operating Officer, Interim/Acting Chief Financial Officer, and geologist, and audited by RE Davis. The process of estimating oil and natural gas reserves is complex and requires significant decisions and assumptions in the evaluation of available geological, geophysical, engineering, cost basis, commodity pricing and economic data for each reservoir. Accordingly, these estimates are inherently imprecise. Actual future production, oil and natural gas prices, revenues, taxes, development and operating expenses, and quantities of recoverable oil and natural gas reserves most likely will vary from these estimates and vary over time. Such variations may be significant and could materially affect the estimated quantities and present value of our proved reserves. In addition, we may adjust estimates of proved reserves to reflect production history, results of exploration and development drilling, results of secondary and tertiary recovery applications, prevailing oil and natural gas prices and other factors, many of which are beyond our control. You should also not assume that our initial rates of production of our wells are representative of future overall production from other wells or over the life of the wells, or that early results suggesting lack of reservoir continuity will prove to be accurate.

You should not assume that the present value of future net cash flow referred to in this annual report is the current market value of our estimated oil and natural gas reserves. In accordance with SEC requirements, the estimated discounted future net cash flows from proved reserves are generally based on the un-weighted average of the closing prices during the first day of each of the year preceding the end of the fiscal year. Actual future prices and costs may be materially higher or lower than the prices and costs as of the date of the estimate. Any change in global markets consumption by oil or natural gas purchasers or in governmental regulations or taxation will also affect actual future net cash flows. The timing of both the production and the expenses from the development and production of our oil and natural gas properties will affect the timing of actual future net cash flows from proved reserves and their present value. In addition, the 10% discount factor, which is required by the SEC to be used in calculating discounted future net cash flows for reporting purposes, is not necessarily the most appropriate discount factor nor does it necessarily reflect discount factors used in the marketplace to assess asset values for the purchase and sale of oil and natural gas.

Properties that we acquire may not produce oil or natural gas as projected, and we may be unable to determine reserve potential, identify liabilities associated with the properties or obtain protection from sellers against them, which could cause us to incur losses. One of our growth strategies is to pursue selective acquisitions of undeveloped acreage potentially containing oil and natural gas reserves. If we choose to pursue an acquisition, we will perform a review of the target properties; however, these reviews are inherently incomplete as they are based on the quality, availability and interpretation of the reviewed data, the acumen and the assumptions of the evaluation personnel. Generally, it is not feasible to review in depth every individual property, well, facility and/or file involved in each acquisition. Even a detailed review of records and properties may not necessarily reveal existing or potential problems, nor will it permit a buyer to become sufficiently familiar with the properties to assess fully their deficiencies and potential. We may not perform an inspection on every well, and environmental problems, such as groundwater contamination, are not necessarily observable even when an inspection is undertaken. Even when problems are identified, we may not be able to obtain effective contractual protection against all or part of those problems, and we may assume environmental and other risks and liabilities in connection with the acquired properties.

All of our producing properties and operations are located in the DJ Basin region, making us vulnerable to risks associated with operating in one major geographic area. All of our estimated proved reserves at December 31, 2013, and all of our 2013, 2012 and 2011 sales were generated in the DJ Basin in southeastern Wyoming, northeastern Colorado and southwestern Nebraska. Although the area is a well-established oilfield infrastructure, as a result, we may be disproportionately exposed to the impact of delays or interruptions of production from these wells caused by transportation capacity constraints, curtailment of production, availability of equipment, facilities, personnel or services, significant governmental regulation, natural disasters, adverse weather conditions, plant closures for scheduled maintenance or interruption of transportation of oil or natural gas produced from the wells in this area. In addition, the effect of fluctuations on supply and demand may become more pronounced within specific geographic oil and gas producing areas such as the DJ Basin, which may cause these conditions to occur with greater frequency or magnify the effect of these conditions. Due to the concentrated nature of our portfolio of properties, a number of our properties could experience any of the same conditions at the same time, resulting in a relatively greater impact on our results of operations than they might have on other companies that have a more diversified portfolio of properties. Such delays or interruptions could have a material adverse effect on our financial condition and results of operations.

The marketability of our production is dependent upon transportation and processing facilities over which we may have no control. The marketability of our production depends in part upon the availability, proximity and capacity of pipelines, natural gas gathering systems, rail service, and processing facilities in addition to competing oil and gas production available to 3rd party purchasers. We deliver crude oil and natural gas produced from these areas through trucking, gathering systems and pipelines, some of which we do not own. The lack of availability of capacity on third-party systems and facilities could reduce the price offered for our production or result in the shut-in of producing wells or the delay or discontinuance of development plans for properties. Although we have some contractual control over the transportation of our production through firm transportation arrangements, third-party systems and facilities may be temporarily unavailable due to market conditions or mechanical reliability or other reasons, including adverse weather conditions or work-loads. Activist or other efforts may delay or halt the construction of additional pipelines or facilities. Third-party systems and facilities may not be available to us in the future at a price that is acceptable to us. Any significant change in market factors or other conditions affecting these infrastructure systems and facilities, as well as any delays in constructing new infrastructure systems and facilities, could delay production, thereby harming our business and, in turn, our results of operations, cash flows, and financial condition.

Our ability to produce crude oil and natural gas economically and in commercial quantities could be impaired if we are unable to acquire adequate supplies of water for our drilling and completion operations. Drilling and completion activities require the use of water. For example, the hydraulic fracturing process requires the use and disposal of significant quantities of water. In certain areas, there may be insufficient local aquifer capacity to provide a source of water for drilling activities. Water must be obtained from other sources and transported to the drilling site. Our inability to secure sufficient amounts of water, or to dispose of or recycle the water used in our operations, could adversely impact our operations in certain areas.

Our success is influenced by oil, natural gas, and NGL prices in the specific areas where we operate, and these prices may be lower than prices at major markets. Regional natural gas, condensate, oil and NGLs prices may move independently of broad industry price trends. Because some of our operations are located outside major markets, we are directly impacted by regional prices regardless of Henry Hub, WTI or other major market pricing.

Unless we find new oil and gas reserves to replace actual production, our reserves and production will decline, which would materially and adversely affect our business, financial condition and results of operations. Producing oil and gas reservoirs generally are characterized by declining production rates and depletion that vary depending upon reservoir characteristics subsurface and surface pressures and other factors. Thus, our future oil and gas reserves and production and, therefore, our cash flow and revenue are highly dependent on our success in efficiently obtaining additional reserves. We may not be able to develop, find or acquire reserves to replace our current and future production at costs or other terms acceptable to us, or at all, in which case our business, financial condition and results of operations would be materially and adversely affected.

Part of our strategy involves drilling in existing or emerging unconventional shale plays using available horizontal drilling and completion techniques. The results of our planned exploratory and development drilling in these plays are subject to drilling and completion execution risks and drilling results may not meet our economic expectations for reserves or production. As a result, we may incur material write-downs and the value of our undeveloped acreage could decline if drilling results are unsuccessful. Unconventional operations involve utilizing drilling and completion techniques as developed by ourselves and our service providers. Risks that we face while drilling include, but are not limited to, not reaching the desired objective due to drilling problems, not landing our wellbore in the desired drilling zone or specific target, staying in the desired drilling zone while drilling horizontally through the formation, running our casing the entire length of the wellbore and being able to run tools and other equipment consistently through the horizontal wellbore. Risks that we face while completing our wells include, but are not limited to, mechanical integrity, being able to fracture stimulate the planned number of stages, being able to run tools the entire length of the wellbore during completion operations, proper design and engineering vs. reservoir parameters, and successfully cleaning out the wellbore after completion of the final fracture stimulation stage.

Our in-house experience with horizontal well applications utilizing the latest drilling and completion techniques specifically in the Niobrara and/or Codell formations is limited; however, we contract local experts in the area to design, plan and conduct our drilling and completion operations. Ultimately, the success of these drilling and completion techniques can only be developed over time as more wells are drilled and production profiles are established over a sufficiently long time period. If our drilling results are less than anticipated or we are unable to execute our drilling program because of capital constraints, lease expirations, access to gathering systems and limited takeaway capacity or otherwise, and/or natural gas and oil prices decline, the return on our investment in these areas may not be as attractive as we anticipate and we could incur material write-downs of undeveloped properties and the value of our undeveloped acreage could decline in the future.

The unavailability or high cost of drilling rigs, equipment supplies or personnel could adversely affect our ability to execute our exploration and development plans. The oil and gas industry is cyclical and, from time to time, there are shortages of drilling rigs, equipment, supplies or qualified personnel. During these periods, the costs of and demand for rigs, equipment and supplies may increase substantially and their availability may be limited. In addition, the demand for, and wage rates of, qualified personnel, including drilling rig crews, may rise as the number of rigs in service increases. The higher prices of oil and gas during the last several years have increased activity which has resulted in shortages of drilling rigs, equipment and personnel, which have resulted in increased costs and delays in the areas where we operate. If drilling rigs, equipment, supplies or qualified personnel are unavailable to us due to excessive costs or demand or otherwise, our ability to execute our exploration and development plans could be materially and adversely affected and, as a result, our financial condition and results of operations could be materially and adversely affected.

Covenants in our credit agreements impose significant restrictions and requirements on us. Our three credit agreements contain a number of covenants imposing significant restrictions on us, including the maximum monthly payment requirement, restrictions on our repurchase of, and payment of dividends on, our capital stock and limitations on our ability to incur additional indebtedness, make investments, engage in transactions with affiliates, sell assets and create liens on our assets. These restrictions may affect our ability to operate our business, to take advantage of potential business opportunities as they arise and, in turn, may materially and adversely affect our business, financial conditions and results of operations.

We could be required to pay liquidated damages to some of our investors if we fail to maintain the effectiveness of a prior registration statement. We could default and accrue liquidated damages under registration rights agreements covering approximately 3,200,000 shares of Common Stock if we fail to maintain the effectiveness of a prior registration statement as required in the agreements. In such case, we would be required to pay monthly liquidated damages of up to $0.23 million. The maximum aggregate liquidated damages are capped at $1.37 million. If we do not make a monthly payment within seven days after the date payable, we are required to pay interest at an annual rate of 18% on the unpaid amount. If we default under the registration rights agreement and accrue liquidated damages, we could be required to either raise additional outside funds through financing or curtail operations.

We are exposed to operating hazards and uninsured risks. Our operations are subject to the risks inherent in the oil and natural gas industry, including the risks of:

- fire, explosions and blowouts;
- negligence of personnel,
- weather
- pipe or equipment failure;
- abnormally pressured formations; and
- environmental accidents such as oil spills, natural gas leaks, ruptures or discharges of toxic gases, brine or well fluids into the environment (including groundwater contamination).

These events may result in substantial losses to us from:

- injury or loss of life;
- significantly increased costs;
- severe damage to or destruction of property, natural resources and equipment;
- pollution or other environmental damage;
- clean-up responsibilities;
- regulatory investigation;
- penalties and suspension of operations; or
- attorney's fees and other expenses incurred in the prosecution or defense of litigation.

We maintain insurance against some, but not all, of these risks. We cannot assure you that our insurance will be adequate to cover these losses or liabilities. We do not carry business interruption insurance. Losses and liabilities arising from uninsured or underinsured events may have a material adverse effect on our financial condition and operations.

The producing wells in which we have an interest occasionally experience reduced or terminated production. These curtailments can result from mechanical failures, contract terms, pipeline and processing plant interruptions, market conditions, operator priorities, and weather conditions, etc. and weather conditions. These curtailments can last from a few days to many months.

We may be subject to risks in connection with acquisitions, and the integration of significant acquisitions may be difficult. We periodically evaluate acquisitions of reserves, properties, prospects and leaseholds and other strategic transactions that appear to fit within our overall business strategy. The successful acquisition of producing properties requires an assessment of several factors, including:

- recoverable reserves;
- future oil and natural gas prices and their appropriate differentials;
- well and facility integrity;
- development and operating costs;
- regulatory constraints and plans; and
- potential environmental and other liabilities.

The accuracy of these assessments is inherently uncertain. In connection with these assessments, we perform a review of the subject properties. Our review will not reveal all existing or potential problems nor will it permit us to become sufficiently familiar with the properties to fully assess their deficiencies and potential recoverable reserves. Inspections may not always be performed on every well, and environmental problems are not necessarily observable even when an inspection is undertaken. Even when problems are identified, the seller may be unwilling or unable to provide effective contractual protection against all or part of the problems. We often are not entitled to contractual indemnification for environmental liabilities and acquire properties on an "as is" basis.

Significant acquisitions and other strategic transactions may involve other risks, including:

- diversion of our management's attention to evaluating, negotiating and integrating significant acquisitions and strategic transactions;
- challenge and cost of integrating acquired operations, information management and other technology systems and business cultures with those of ours while carrying on our ongoing business;
- difficulty associated with coordinating geographically separate organizations;
- challenge of attracting and retaining capable personnel associated with acquired operations; and
- failure to realize the full benefit that we expect in estimated proved reserves, production volume, cost savings from operating synergies or other benefits anticipated from an acquisition, or to realize these benefits within the expected time frame.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of our business. Members of our senior management and other staff may be required to devote considerable amounts of time to this integration process, which will decrease the time they will have to manage our business. If our senior management and staff are not able to effectively manage the integration process, or if any significant business activities are interrupted as a result of the integration process, our business could suffer.

Prospects in which we decide in which to participate may not yield oil or natural gas in commercially viable quantities or quantities sufficient to meet our targeted rate of return. A prospect is a property in which we own an interest and contains what we believe, based on available reservoir, seismic and/or geological information, to be indications of commercial oil or natural gas. Our prospects are in various stages of evaluation, ranging from a prospect that is ready to be drilled to a prospect that will require substantial additional technical assessment, data acquisition and/or seismic data processing and interpretation. There is no definitive method to predict in advance of drilling and testing and wider-scale development whether any particular prospect will yield oil or natural gas in sufficient quantities to be economically viable. The use of reservoir, geologic and seismic data and other technologies and the study of producing fields in the same area will not enable us to know conclusively prior to drilling whether oil or natural gas will be present or, if present, whether oil or natural gas will be present in commercial quantities. We cannot assure you that the analysis we perform using data from other wells, more fully explored prospects or producing fields will be useful in predicting the characteristics and potential reserves associated with our drilling prospects.

Our reserve estimates will depend on many assumptions that may turn out to be inaccurate. Any material inaccuracies in our reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves. The process of estimating oil and natural gas reserves is complex. It requires interpretations of available technical data and many assumptions, including assumptions ranging from subsurface parameters to economic/market factors. Any significant inaccuracies in these interpretations or assumptions could materially affect the estimated quantities and the calculation of the present value of reserves shown in these reports.

In order to prepare reserve estimates in its reports, our independent petroleum consultant projected production rates and timing of development expenditures. Our independent petroleum consultant also analyzed available geological, geophysical, production and engineering data. The extent, quality and reliability of this data can vary and may not be in our control. The process also requires economic assumptions about matters such as oil and natural gas prices, drilling and operating expenses, capital expenditures, infrastructure, taxes and availability of funds. Therefore, estimates of oil and natural gas reserves are inherently imprecise.

Actual future production, oil and natural gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and natural gas reserves will most likely vary from our estimates. Any significant variance could materially affect the estimated quantities and present value of our reserves. In addition, our independent petroleum consultant may adjust estimates of proved reserves to reflect production history, drilling results, prevailing oil and natural gas prices and other factors, many of which are beyond our control due in-part to SEC guidelines.

Risks Relating to the Oil and Gas Industry

Oil and natural gas prices are highly volatile, and our revenue, profitability, cash flow, future growth and ability to borrow funds or obtain additional capital, as well as the carrying value of our properties, are substantially dependent on prevailing prices of oil and natural gas. Historically, the markets for oil and natural gas have been volatile. These markets will likely continue to be volatile in the future. The prices we receive for our production and the levels of our production depend on numerous factors beyond our control. These factors include the following:

- changes in global supply and demand for oil and natural gas;
- the actions of the Organization of Petroleum Exporting Countries ("OPEC");
- the price and quantity of imports of foreign oil and natural gas;
- acts of war or terrorism;
- political conditions and events, including embargoes, affecting oil-producing activity;
- the level of global oil and natural gas exploration and production activity;
- the level of global oil and natural gas inventories;
- weather conditions;
- technological advances affecting energy consumption;
- the price and availability of alternative fuels; and
- market concerns about global warming or changes in governmental policies and regulations due to climate change initiatives.

Volatile oil and natural gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

Our revenues, operating results, profitability and future rate of growth depend primarily upon the prices we receive for oil and, to a lesser extent, natural gas that we sell. Prices also affect the amount of cash flow available for capital expenditures and our ability to borrow money or raise additional capital. In addition, we may need to record asset carrying value write-downs if prices fall. A significant decline in the prices of natural gas or oil could adversely affect our financial position, financial results, cash flows, access to capital and ability to grow.

Our industry is highly competitive, which may adversely affect our performance, including our ability to participate in ready to drill prospects in our core areas. We operate in a highly competitive environment. In addition to capital, the principle resources necessary for the exploration and production of oil and natural gas are:

- leasehold prospects under which oil and natural gas reserves may be discovered;
- drilling rigs and related equipment to explore for such reserves; and
- knowledgeable personnel to conduct all phases of oil and natural gas operations.

We must compete for such resources with both major oil and natural gas companies and independent operators. Virtually all of these competitors have financial and other resources substantially greater than ours. We cannot assure you that such capital, materials and resources will be available when needed. If we are unable to access capital, material and resources when needed, we risk suffering a number of adverse consequences, including:

- the breach of our obligations under the oil and gas leases by which we hold our prospects and the potential loss of those leasehold interests;
- loss of reputation in the oil and gas community;
- inability to retain staff;
- inability to attract capital;
- a general slowdown in our operations and decline in revenue; and
- decline in market price of our common shares.

Legislative and regulatory initiatives related to global warming and climate change could have an adverse effect on our operations and the demand for oil and natural gas. In December 2009, the EPA determined that emissions of carbon dioxide, methane and other "greenhouse gases" present an endangerment to public health and the environment because emissions of such gases are, according to the EPA, contributing to warming of the earth's atmosphere and other climatic changes. Based on these findings, the EPA has begun adopting and implementing regulations to restrict emissions of greenhouse gases under existing provisions of the CAA. The EPA recently adopted two sets of rules regulating greenhouse gas emissions under the CAA, one of which requires a reduction in emissions of greenhouse gases from motor vehicles and the other of which regulates emissions of greenhouse gases from certain large stationary sources. The EPA has also adopted rules requiring the reporting of greenhouse gas emissions from specified large greenhouse gas emission sources in the United States on an annual basis, including petroleum refineries, as well as certain onshore oil and natural gas production facilities.

In addition, the United States Congress has from time to time considered adopting legislation to reduce emissions of greenhouse gases and almost one-half of the states have already taken legal measures to reduce emissions of greenhouse gases, primarily through the planned development of greenhouse gas emission inventories and/or regional greenhouse gas cap and trade programs. Most of these cap and trade programs work by requiring major sources of emissions, such as electric power plants, or major producers of fuels, such as refineries and gas processing plants, to acquire and surrender emission allowances. The number of allowances available for purchase is reduced each year in an effort to achieve the overall greenhouse gas emission reduction goal.

The adoption of legislation or regulatory programs to reduce emissions of greenhouse gases could require us to incur increased operating costs, such as costs to purchase and operate emissions control systems, to acquire emissions allowances or comply with new regulatory or reporting requirements. Any such legislation or regulatory programs could also increase the cost of consuming, and thereby reduce demand for, the oil, NGLs, and natural gas we produce. Consequently, legislation and regulatory programs to reduce emissions of greenhouse gases could have an adverse effect on our business, financial condition and results of operations. Finally, it should be noted that some scientists have concluded that increasing concentrations of greenhouse gases in the Earth's atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, droughts, and floods and other climatic events. If any such effects were to occur, they could have an adverse effect on our financial condition and results of operations.

Federal and state legislative and regulatory initiatives relating to hydraulic fracturing could result in increased costs and additional operating restrictions or delays in the completion of oil and natural gas wells.

Hydraulic fracturing is an important and common practice that is used to stimulate production of natural gas and/or oil from dense subsurface rock formations. The process involves the injection of water, sand and chemicals under pressure into the formation to fracture the surrounding rock and stimulate production by providing and linking up induced flow paths for the oil and/or gas contained in the rocks. We routinely use hydraulic fracturing techniques in many of our drilling and completion programs. The process is typically regulated by state oil and natural gas commissions, but the EPA has asserted federal regulatory authority over certain hydraulic fracturing activities involving diesel fuel under the federal Safe Drinking Water Act. In addition, legislation has been introduced before Congress to provide for federal regulation of hydraulic fracturing under the Safe Drinking Water Act and to require disclosure of the chemicals used in the hydraulic fracturing process. Under the proposed legislation, this information would be available to the public via the internet, which could make it easier for third parties opposing the hydraulic fracturing process to initiate legal proceedings based on allegations that specific chemicals used in the fracturing process could adversely affect groundwater. At the state level, some states have adopted, and other states are considering adopting legal requirements that could impose more stringent permitting, public disclosure or well construction requirements on hydraulic fracturing activities. Some counties in Colorado, for instance, have amended their land use regulations to impose new requirements on oil and gas development, while other local governments have entered memoranda of agreement with oil and gas producers to accomplish the same objective. Beyond that, in 2012, Longmont, Colorado prohibited the use of hydraulic fracturing. The oil and gas industry and the State are challenging that ban—and the authority of local jurisdictions to regulate oil and gas development—in court. In November 2013, four other Colorado cities and counties passed voter initiatives either placing a moratorium on hydraulic fracturing or banning new oil and gas development. These initiatives too are the subject of pending legal challenge. While these initiatives cover areas with little recent or ongoing oil and gas development, they could lead opponents of hydraulic fracturing to push for statewide referendums, especially in Colorado. If new or more stringent federal, state, or local legal restrictions relating to the hydraulic fracturing process are adopted in areas where we operate, we could incur potentially significant added costs to comply with such requirements, experience delays or curtailment in the pursuit of exploration, development, or production activities, and perhaps even be precluded from drilling wells.

The White House Council on Environmental Quality is coordinating an administration-wide review of hydraulic fracturing practices and a committee of the U.S. House of Representatives has conducted an investigation of hydraulic fracturing practices. Furthermore, a number of federal agencies are analyzing, or have been requested to review, environmental issues associated with hydraulic fracturing. The EPA has commenced a study of the potential environmental effects of hydraulic fracturing on drinking water and groundwater, with final results expected by 2014. In addition, the U.S. Department of Energy is conducting an investigation into practices the agency could recommend to better protect the environment from drilling using hydraulic fracturing completion methods. The U.S. Department of the Interior is conducting a rule making, likely to result in new disclosure requirements and other mandates for hydraulic fracturing on federal lands. These ongoing studies, depending on their degree of pursuit and any meaningful results obtained, could spur initiatives to further regulate hydraulic fracturing under the Safe Drinking Water Act or other regulatory mechanisms.

We are subject to numerous laws and regulations that can adversely affect the cost, manner or feasibility of doing business. Our operations are subject to extensive federal, state and local laws and regulations relating to the exploration, production and sale of oil and natural gas, and operating safety. Future laws or regulations, any adverse change in the interpretation of existing laws and regulations or our failure to comply with existing legal requirements may result in substantial penalties and harm to our business, results of operations and financial condition. We may be required to make large and unanticipated capital expenditures to comply with governmental regulations, such as:

- land use restrictions;
- lease permit restrictions;
- drilling bonds and other financial responsibility requirements, such as plugging and abandonment bonds;
- spacing of wells;
- unitization and pooling of properties;
- safety precautions;
- operational reporting; and
- taxation.

Under these laws and regulations, we could be liable for:

- personal injuries;
- property and natural resource damages;
- well reclamation cost; and
- governmental sanctions, such as fines and penalties.

Our operations could be significantly delayed or curtailed and our cost of operations could significantly increase as a result of regulatory requirements or restrictions. We are unable to predict the ultimate cost of compliance with these requirements or their effect on our operations. It is also possible that a portion of our oil and gas properties could be subject to eminent domain proceedings or other government takings for which we may not be adequately compensated. See "Business and Properties—Government Regulations" for a more detailed description of our regulatory risks.

Our operations may incur substantial expenses and resulting liabilities from compliance with environmental laws and regulations. Our oil and natural gas operations are subject to stringent federal, state and local laws and regulations relating to the release or disposal of materials into the environment or otherwise relating to environmental protection. These laws and regulations:

- require the acquisition of a permit before drilling or facility mobilization and commissioning, or injection or disposal commences;
- restrict the types, quantities and concentration of substances that can be released into the environment in connection with drilling and production and processing activities, including new environmental regulations governing the withdrawal, storage and use of surface water or groundwater necessary for hydraulic fracturing of wells;
- limit or prohibit drilling activities on certain lands lying within wilderness, wetlands and other protected areas; and
- impose substantial liabilities for pollution resulting from our operations.

Failure to comply with these laws and regulations may result in:

- the assessment of administrative, civil and criminal penalties;
- incurrence of investigatory or remedial obligations; and
- the imposition of injunctive relief.

Changes in environmental laws and regulations occur frequently and any changes that result in more stringent or costly waste handling, storage, transport, disposal or cleanup requirements could require us to make significant expenditures to reach and maintain compliance and may otherwise have a material adverse effect on our industry in general and on our own results of operations, competitive position or financial condition. Under these environmental laws and regulations, we could be held strictly liable for the removal or remediation of previously released materials or property contamination regardless of whether we were responsible for the release or contamination or if our operations met previous standards in the industry at the time they were performed. Our permits require that we report any incidents that cause or could cause environmental damages. See "Business and Properties—Government Regulations" for a more detailed description of our environmental risks.

Risks Relating to Our Common Stock

There is a limited public market for our shares and we cannot assure you that an active trading market or a specific share price will be established or maintained. Our Common Stock trades on the Nasdaq Global Market, generally in small volumes each day. The value of our Common Stock could be affected by:

- actual or anticipated variations in our operating results;
- changes in the market valuations of other oil and gas companies;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- adoption of new accounting standards affecting our industry;
- additions or departures of key personnel;
- sales of our Common Stock or other securities in the open market;
- actions taken by our lenders or the holders of our convertible debentures;
- changes in financial estimates by securities analysts;
- conditions or trends in the market in which we operate;
- changes in earnings estimates and recommendations by financial analysts;
- our failure to meet financial analysts' performance expectations; and
- other events or factors, many of which are beyond our control.

In a volatile market, you may experience wide fluctuations in the market price of our Common Stock. These fluctuations may have an extremely negative effect on the market price of our Common Stock and may prevent you from obtaining a market price equal to your purchase price when you attempt to sell our Common Stock in the open market. In these situations, you may be required either to sell at a market price which is lower than your purchase price, or to hold our Common Stock for a longer period of time than you planned. An inactive market may also impair our ability to raise capital by selling shares of capital stock and may impair our ability to acquire other companies or oil and gas properties by using Common Stock as consideration.

We may not satisfy the NASDAQ Capital Market's requirements for continued listing. If we cannot satisfy these requirements, NASDAQ could delist our Common Stock. Our Common Stock is listed on the NASDAQ Capital Market, under the symbol LLEX. To continue to be listed on NASDAQ, we are required to satisfy a number of conditions. In past years, we defaulted on several of these requirements and regained compliance only after we carried out capital-raising and other transactions. We cannot assure you that we will be able to satisfy the NASDAQ listing requirements in the future. If we are delisted from NASDAQ, trading in our Common Stock may be conducted, if available, on the "OTC Bulletin Board Service" or, if available, via another market. In the event of such delisting, an investor would likely find it significantly more difficult to dispose of, or to obtain accurate quotations as to the value of our Common Stock, and our ability to raise future capital through the sale of our Common Stock or other securities convertible into our Common Stock could be severely limited. In addition, if our common stock were delisted from NASDAQ, our Common Stock could be considered a "penny stock" under the U.S. federal securities laws. Additional regulatory requirements apply to trading by broker-dealers of penny stocks that could result in the loss of an effective trading market for our Common Stock.

Our Common Stock may be subject to penny stock rules which limit the market for our Common Stock. The SEC has adopted Rule 15g-9 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

- that a broker or dealer approve a person's account for transactions in penny stocks; and
- that broker or dealer receives from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- obtain financial information and investment experience objectives of the person; and
- make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the SEC relating to the penny stock market, which, in highlight form:

- sets forth the basis on which the broker or dealer made the suitability determination; and
- that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our Common Stock and cause a decline in the market value of our stock.

Sales of a substantial number of shares of our Common Stock, or the perception that such sales might occur, could have an adverse effect on the price of our Common Stock. As of December 31, 2013, approximately 9% of our Common Stock was held by Hexagon, and 6 other investors hold more than 5% each. Sales by Hexagon or our other large investors of a substantial number of shares of our Common Stock into the public market, or the perception that such sales might occur, could have an adverse effect on the price of our Common Stock.

We may issue shares of preferred stock with greater rights than our Common Stock. Our articles of incorporation authorize our board of directors to issue one or more series of preferred stock and set the terms of the preferred stock without seeking any further approval from our stockholders. Any preferred stock that is issued may rank ahead of our Common Stock, in terms of dividends, liquidation rights and voting rights.

There may be future dilution of our Common Stock. At June 1, 2014, we had outstanding options to purchase 14,636,424 shares of Common Stock exercisable at a weighted average exercise price of $7.24, warrants to purchase 18,233,049 shares of Common Stock exercisable at a weighted average exercise price of $5.24, and Debentures currently convertible into 3,665,859 shares of our Common Stock at a $2.00 conversion price (which include a full-ratchet anti-dilution provision that provides for the adjustment of the conversion price in the event we sell additional equity or convertible securities at a price that is below the $2.00 conversion price of the Debentures). In addition, on May 30, 2014 we entered into a settlement agreement pursuant to which we are committed to issuing 943,208 shares of Common Stock to Hexagon, and on June 6, 2014, TR Winston executed a commitment to purchase or effect the purchase by third parties of an additional $15 million in Preferred Stock.

If we sell additional equity or convertible debt securities, such sales could result in increased dilution to our existing stockholders and cause the price of our outstanding securities to decline. To the extent outstanding warrants or options to purchase Common Stock under our employee and director stock option plans are exercised, the price vesting triggers under the performance shares granted to our executive officers are satisfied, or additional shares of restricted stock are issued to our employees, holders of our Common Stock will experience dilution.

We do not expect to pay dividends on our Common Stock. We have never paid dividends with respect to our Common Stock, and we do not expect to pay any dividends, in cash or otherwise, in the foreseeable future. We intend to retain any earnings for use in our business. In addition, the credit agreement relating to our credit facility prohibits us from paying any dividends and the indenture governing our senior notes restricts our ability to pay dividends. In the future, we may agree to further restrictions.

Our Common Stock is an unsecured equity interest in our Company. As an equity interest, our Common Stock is not secured by any of our assets. Therefore, in the event we are liquidated, the holders of the Common Stock will receive a distribution only after all of our secured and unsecured creditors have been paid in full. There can be no assurance that we will have sufficient assets after paying our secured and unsecured creditors to make any distribution to the holders of the Common Stock.

Securities analysts may not initiate coverage of our shares or may issue negative reports, which may adversely affect the trading price of the shares. We cannot assure you that securities analysts will cover our company. If securities analysts do not cover our company, this lack of coverage may adversely affect the trading price of our shares. The trading market for our shares will rely in part on the research and reports that securities analysts publish about us and our business. If one or more of the analysts who cover our company downgrades our shares, the trading price of our shares may decline. If one or more of these analysts ceases to cover our company, we could lose visibility in the market, which, in turn, could also cause the trading price of our shares to decline. Further, because of our small market capitalization, it may be difficult for us to attract securities analysts to cover our company, which could significantly and adversely affect the trading price of our shares.

Failure to maintain an effective system of internal control over financial reporting may have an adverse effect on our stock price. Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, and the rules and regulations promulgated by the Securities and Exchange Commission, or the SEC, to implement Section 404, we are required to furnish a report by our management to include in our annual report on Form 10-K regarding the effectiveness of our internal control over financial reporting. The report includes, among other things, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management.

We may discover areas of our internal control over financial reporting which may require improvement. If we are unable to assert that our internal control over financial reporting is effective now or in any future period, or if our auditors are unable to express an opinion on the effectiveness of our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price.

Item 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

Item 3. LEGAL PROCEEDINGS

Parker v. Tracinda Corporation , Denver District Court, Case No. 2011CV561. In November 2012, the Company filed a motion to intervene in garnishment proceedings involving Roger Parker, the Company's former Chief Executive Officer and Chairman. The Defendant has served various writs of garnishment on the Company to enforce a judgment against Mr. Parker seeking, among other things, shares of unvested restricted stock. The Company has asserted rights to lawful set-offs and deductions in connection with certain tax consequences, which may be material to the Company. As a result of bankruptcy proceedings filed by Mr. Parker, the garnishment proceedings have been stayed. At this stage, we cannot express an opinion as to the probable outcome of this matter.

In re Roger A. Parker: Tracinda Corp. v. Recovery Energy, Inc. and Roger A. Parker , United States Bankruptcy Court for the District of Colorado, Case No. 13-10897-EEB. On June 10, 2013, Tracinda Corp. ("Tracinda") filed a complaint (Adversary No. 13-01301 EEB) against the Company and Roger Parker in connection with the personal bankruptcy proceedings of Roger Parker, alleging that the Company improperly failed to remit to Tracinda certain property in connection with a writs of garnishment issued by the Denver District Court (discussed above). The Company filed an answer to this complaint on July 10, 2013. A trial date has not been set.

There are no other material pending legal proceedings to which we or our properties are subject.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Recent Market Prices

On November 2, 2011 our Common Stock began trading on the Nasdaq Global Market under the symbol "RECV." Between September 25, 2009 and November 1, 2011 our stock traded on the OTC Bulletin Board under the symbol "RECV.OB." On December 1, 2013, in connection with our name changes our Common Stock began trading on the Nasdaq Global Market under the symbol "LLEX."

The following table shows the high and low reported sales prices of our Common Stock for the periods indicated.

	High	Low
	2013	
Fourth Quarter	$ 2.74	$ 1.64
Third Quarter	$ 2.55	$ 1.49
Second Quarter	$ 1.88	$ 1.34
First Quarter	$ 2.35	$ 1.52
	2012	
Fourth Quarter	$ 4.95	$ 1.40
Third Quarter	$ 4.75	$ 1.64
Second Quarter	$ 3.99	$ 2.25
First Quarter	$ 4.90	$ 2.31

On June 1, 2014, there were approximately 78 owners of record of our Common Stock.

Dividend Policy

We have never paid any cash dividends on our Common Stock and do not anticipate paying any dividends in the foreseeable future. Our current business plan is to retain any future earnings to finance the expansion and development of our business. Any future determination to pay cash dividends will be at the discretion of our board of directors, and will be dependent upon our financial condition, results of operations, capital requirements and other factors as our board may deem relevant at that time.

Recent Sales of Unregistered Securities

The following issuances of the Company's shares were made by the Company in 2013.

Period	Total shares purchased (1)	Weighted-average price paid per share	Total shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
January 1, 2013 – January 31, 2013	100,000	(1)	—	—
February 1, 2013 – February 28, 2013	129,202(2)	$ 2.09	—	
June 1, 2013 – June 30, 2013	1,000,000	(3)	—	—
July 1, 2013 –July 31, 2013	162,283(2)	$ 1.71	—	—
August 1, 2013 – August 30, 2013	180,235(2)	$ 1.57	—	—
November 1, 2013 – November 30, 2013	164,562(2)	$ 1.84	—	—

(1) Represents warrants issued as compensation under consulting agreements. The warrants have a strike price of $4.24 per share of Common Stock.
(2) Represents shares issued as interest under the Debentures.
(3) Represents 100,000 restricted shares of our Common Stock and 900,000 warrants with a strike price of $4.25, issued in connection with an investment banking agreement.

We have previously disclosed by way of quarterly reports on Form 10-Q and current reports on Form 8-K filed with the SEC all other sales by us of our unregistered securities during 2013.

Item 6. SELECTED FINANCIAL DATA

Not applicable.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our financial statements included in Part IV of this annual report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors including those set forth under Item "1A. Risk Factors."

General

Lilis Energy, Inc. is an independent oil and gas company engaged in the acquisition, drilling and production of oil and natural gas properties and prospects within the Denver-Julesburg ("DJ") Basin. Our business strategy is designed to create shareholder value by developing our undeveloped acreage and leveraging the knowledge, expertise and experience of our management team.

We principally target low to medium risk projects that have the potential for multiple producing horizons, and offer repeatable success allowing for meaningful production and reserve growth. Our acquisition and exploration pursuits of oil and natural gas properties are principally in Colorado, Nebraska, and Wyoming within the DJ Basin and, specifically, in the Greater Wattenberg field.

During the period ended March 31, 2014, the company generated the below unaudited financial results:

	Three months ended March 31, 2014
Revenues	
Oil sales	$ 700,087
Gas sales	87,666
Operating fees	34,728
Realized gain on commodity price derivatives	11,143
Total revenues	833,624
Costs and expenses	
Production costs	416,323
Production taxes	93,680
General and administrative	3,343,052
Depreciation, depletion and amortization	388,635
Total costs and expenses	4,241,690
Loss from operations	(3,408,066)
Other Income (expenses)	
Other income	53
Inducement expense	(6,165,475)
Convertible notes conversion derivative gain (loss)	1,150,000
Interest expense	(1,516,331)
Total other expenses	(6,531,753)
Net loss	$ (9,939,819)

During the period ended March 31, 2014, the Company's production information is as follows:

	For the Three Months Ended March 31, 2014
Product	
Oil (Bbl.)	8,455
Oil (Bbls)-average price (1)	$ 82.80
Natural Gas (MCF)-volume	10,997
Natural Gas (MCF)-average price (2)	$ 7.97
Barrels of oil equivalent (BOE)	10,288
Average daily net production (BOE)	114
Average Price per BOE (1)	$ 76.58

(1) Does not include the realized price effects of hedges
(2) Includes proceeds from the sale of NGL's

Financial Condition and Liquidity

Information about our year-end financial position is presented in the following table (in thousands):

	Year ended December 31,	
	2013	2012
Financial Position Summary		
Cash and cash equivalents	$ 165	$ 970
Working capital (deficit)	$ (12,696)	$ (1,041)
Balance outstanding on term loans and convertible debentures payable	$ 34,511	$ 32,736
Shareholders' equity	$ 5,518	$ 12,082

As of December 31, 2013, the Company had $18.77 million outstanding under its term loans with Hexagon, LLC ("Hexagon") and $15.58 million outstanding under its 8% Senior Secured Convertible Debentures (the "Debentures"). Both the term loans and the Debentures were to mature on May 16, 2014.

Since December 31, 2013, the Company has consummated the following transactions: (i) on January 22, 2014, the Company completed a private placement of units consisting of one share of Common Stock and one three-year warrant to purchase one share of Common Stock for aggregate gross proceeds of $5,918,250, plus an additional $1,425,000 in proceeds committed by certain officers and directors of the Company, which we expect to be funded upon our receipt of the required shareholder approval; (ii) on January 31, 2014, the Company entered into a Debenture Conversion Agreement, under which $9.0 million in Debentures was immediately converted to Common Stock at a price of $2.00 per common share; (iii) on May 19, 2014, the Company received extensions from both Hexagon and the remaining Debenture holders of the maturity dates under the Company's term loans and Debentures, respectively, from May 16, 2014 to August 15, 2014; (iv) on May 30, 2014, the Company and Hexagon entered into an agreement providing for the settlement of all amounts outstanding under the term loans, in exchange for two cash payments of $5.0 million each to be made by the Company to Hexagon, as well as the issuance to Hexagon of a two-year $6.0 million unsecured 8% note and 943,208 shares of unregistered Common Stock; (v) on May 30, 2014 the Company consummated a private placement to accredited investors of 8% Convertible Preferred Stock and three-year warrants to purchase Common Stock equal to 50% of the number of shares issuable upon full conversion of the Preferred Stock for gross proceeds of $7.50 million; (vi) on June 6, 2014, the holders of the remaining Debentures agreed to further extend the maturity date under the Debentures from August 15, 2014 to January 15, 2015; and (vii) on June 6, 2014, TR Winston executed a commitment to purchase or effect the purchase by third parties of an additional $15 million in Preferred Stock, which transaction is to be consummated within ninety (90) days. The consummation of these transactions has been partially reflected in the Company's balance sheet via the classification of certain portions of the Hexagon term loans and Debentures as long-term debt. Absent these transactions, all such debt would have otherwise been classified as current liabilities.

The closing of these transactions provided the Company with working capital for general corporate purposes, as well as a portion of the initial capital requirements to initiate further development activities on two of its Wattenberg prospects. However, the Company will require additional capital to satisfy its obligations to Hexagon under the settlement agreement, to fund its current drilling commitments and capital budget plans, to help fund its ongoing overhead, and to provide additional capital to generally improve its working capital position. We anticipate that such additional funding will be provided by a combination of capital raising activities, including the selling of additional debt and/or equity securities, the selling of certain assets and by the development of certain of the Company's undeveloped properties via arrangements with joint venture partners. If we are not successful in obtaining sufficient cash sources to fund the aforementioned capital requirements, we may be required to curtail our expenditures, restructure our operations, sell assets on terms which may not be deemed favorable and/or curtail other aspects of our operations, including deferring portions of capital budget. There is no assurance that any such funding will be available to the Company.

Cash Flows

Cash used in operating activities during the year ended December 31, 2013 was $1.21 million. Use of cash coupled with the cash used in investing activities, exceeded cash provided by financing activities by $0.80 million, and resulted in a corresponding decrease in cash. This net use of cash contributed to a $1.65 million decrease in working capital as of December 31, 2013, compared to working capital as of December 31, 2012.

The following table compares cash flow items during the year ended December 31, 2013 to December 31, 2012 (in thousands):

	Year ended December 31,	
	2013	2012
Cash provided by (used in):		
Operating activities	$ (1,218)	$ (3,389)
Investing activities	(1,204)	(1,405)
Financing activities	1,617	3,056
Net change in cash	$ (805)	$ (1,738)

During the year ended December 31, 2013, net cash used in operating activities was $1.22 million, compared to $3.39 million during the year ended December 31, 2012, a decrease of cash used in operating activities of $2.17 million, or 63%. The primary changes in operating cash during the year ended December 31, 2013 were $9.72 million of net loss, $0.18 million in a decrease in cash for other assets, offset by an increase of cash of $0.47 million for accounts receivable, $0.17 million for restricted cash, and $0.13 million in accounts payable and accrued expenses. The cash flows from operating activities were adjusted for non-cash charges of $2.39 million of depreciation, depletion, amortization and accretion expenses, $ 2.41 million of debt discount accretion, $0.68 million of amortization of deferred financing costs, $1.17 million issuance of stock for convertible debentures interest, $1.99 million for issuance of stock for services and compensation, and offset by a decrease in cash for a non-cash change in fair value of convertible debentures conversion option of $0.72 million.

During the year ended December 31, 2013, net cash used in investing activities was $1.20 million, compared to net cash used in investing activity of $1.41 million during the year ended December 31, 2012, a decrease of cash used in investing activities of $0.21 million, or 15%. The primary changes in investing cash during the year ended December 31, 2013 were an increase in cash of $0.64 million related to our sale of oil and gas properties which was offset by a decrease in cash of $1.40 million of drilling expenditures, and $0.40 million in expenditures related to additions to oil and gas properties.

During the year ended December 31, 2013, net cash provided by financing activities was $1.62 million, compared to net cash provided by financing activities of $3.06 million during the year ended December 31, 2012, a decrease of $1.44 million, or 47%. The changes in financing cash during the year ended December 31, 2013 were primarily due to proceeds from debt issuance of $2.18 million, which was partially offset by net repayments of debt of $0.56 million.

Capital Resources

The Company will require additional capital to fund its current capital obligations, capital budget plans, to help fund its ongoing. general and administrative and operating expenses and other cash requirements, and to provide additional capital to generally improve its working capital position. We anticipate that such additional funding will be provided by a combination of capital raising activities, including the selling of additional debt and/or equity securities, the selling of certain assets and by the development of certain undeveloped properties via arrangements with joint venture partners. If we are not successful in obtaining sufficient cash resources to fund the aforementioned capital requirements, we may be required to curtail our expenditures, restructure our operations, sell assets on terms which may not be deemed favorable and/or curtail other aspects of our operations, including deferring certain capital expenditures. There is no assurance that any such funding will be available to the Company.

During the year ended December 31, 2014, The Company has been provided three Joint Venture Authorization for Expenditure cash calls totaling $5.10 million by the operator of three horizontal wells in the North Wattenberg field. Per the terms of the JOA, if the Company does not generate enough capital from equity or debt raises, then the Company may be placed in non-pay status with the operator per a Notice of Default. Should this occur, after thirty days without cure, the operator may forward the Company a Notice of Non-Consent and will be imposed up to a 300% penalty to buy-back working interest in the new drilled wells.

Results of Operations

Year ended December 31, 2013 compared to the year ended December 31, 2012

The following table compares operating data for the fiscal year ended December 31, 2013 to December 31, 2012:

	Year ended December 31,	
	2013	2012
Revenue		
Oil sales	$ 4,312,325	$ 5,898,459
Gas sales	340,609	406,216
Operating fees	148,474	174,779
Realized (loss) gain on commodity price derivatives	(17,572)	780,135
Unrealized (loss) gain on commodity price derivatives	2,475	-
Total revenues	4,786,311	7,259,589
Costs and expenses		
Production costs	1,217,853	1,421,177
Production taxes	263,437	227,455
General and administrative	4,965,279	4,331,328
Depreciation, depletion and amortization	2,388,871	4,549,303
Bad debt expense	-	77,957
Impairment of developed properties	-	26,658,707
Total costs and expenses	8,835,440	37,265,927
Loss from operations	(4,049,129)	(30,006,338)
Other income	11,062	5,896
Convertible notes conversion derivative gain	730,000	320,000
Interest expense	(6,410,996)	(8,056,232)
Net Loss	$ (9,719,063)	$ (37,736,674)

Total revenues

Total revenues were $4.79 million for the year ended December 31, 2013, compared to $7.26 million for the year ended December 31, 2012, a decrease of $2.47 million, or 34%. The decrease in revenues was due primarily to a decrease in production volumes. During the years ended December 2013 and 2012, production amounts were 62,513 and 98,567 BOE, respectively, a decrease of 36,054, or 37%. The decrease in production amounts were from several wells having an unusual amount of downtime from extreme weather and normal decline curves. The decrease was partially offset by an increase in overall average price per BOE to $74.43 in 2013 from $63.96 in 2012, an increase of $10.47 or 16%. Additionally, in 2013 the Company had decreases in realized gains from commodity price hedges and operating fees.

The following table shows a comparison of production volumes and average prices:

	For the Year Ended December 31,	
	2013	2012
Product		
Oil (Bbl.)	51,705	68,207
Oil (Bbls)-average price (1)	$ 83.4	$ 86.48
Natural Gas (MCF)-volume	64,845	182,160
Natural Gas (MCF)-average price (2)	$ 5.25	$ 2.23
Barrels of oil equivalent (BOE)	62,512	98,567
Average daily net production (BOE)	171	270
Average Price per BOE (1)	$ 74.43	$ 63.96

(1) Does not include the realized price effects of hedges

(2) Includes proceeds from the sale of NGL's

Oil and gas production costs, production taxes, depreciation, depletion, and amortization

Average Price per BOE(1)	$ 74.43	$ 63.96
Production costs per BOE	19.48	14.42
Production taxes per BOE	4.21	2.31
Depreciation, depletion, and amortization per BOE	38.21	46.15
Total operating costs per BOE	$ 61.90	$ 62.88
Gross margin per BOE	$ 12.53	$ 1.08
Gross margin percentage	17%	2%

(1) Does not include the realized price effects of hedges

Commodity Price Derivative Activities

Changes in the market price of oil can significantly affect our profitability and cash flow. In the past we have entered into various commodity derivative instruments to mitigate the risk associated with downward fluctuations in oil prices. These derivative instruments consisted exclusively of swaps. The duration and size of our various derivative instruments varies, and depends on our view of market conditions, available contract prices and our operating strategy.

As of December 31, 2013, the Company maintained an active commodity swap for 100 barrels of oil per day through January 31, 2014 at a price of $99.25 per barrel. Commodity price derivative realized losses were $0.01 million for the year ended December 31, 2013, compared to a realized gain of $0.78 million during the year ended December 31, 2012, a decrease in realized gains/losses of $0.79 million or 102%. Commodity price derivative unrealized gains were $0.02 million for the year ended December 31, 2013, compared to no unrealized gains during the year ended December 31, 2012, an increase in unrealized gains of $0.02 million or 100%.

Production costs

Production costs were $1.22 million during the year ended December 31, 2013, compared to $1.42 million for the year ended December 31, 2012, a decrease of $0.20 million, or 14%. Decrease in production costs in 2013 was from a decrease in the number of work overs, property improvements, and onsite work on productive wells. Production costs per BOE increased to $19.48 in 2013 from $14.42 in 2012, an increase of $5.06 per BOE, or 35%.

Production taxes

Production taxes were $0.26 million for the year ended December 31, 2013, compared to $0.23 million for the year ended December 31, 2012, an increase of $0.03 million, or 13%. Increase in production taxes was from a change in product mix per state. Currently, ad valorem, severance and conservation taxes range from 1% to 13% based on the state and county from which production is derived. Production taxes per BOE increased to $4.21 during the year ended December 31, 2013 from $2.31 during the year ended December 31, 2012, an increase of $1.90 or 82%.

General and administrative

General and administrative expenses were $4.97 million during the year ended December 31, 2013, compared to $4.33 million during the year ended December 31, 2012, an increase of $0.64 million, or 15%. Non-cash general and administrative items for the year ended December 31, 2013 were $2.09 million compared to income of $0.40 million during the year ended December 31, 2012, an increase in non-cash expense of $2.49 million, or 623%. In 2012, general and administrative included an adjustment to non-cash compensation expenses for our previous CEO for a net reduction in general and administrative expenses (non-cash compensation expense) of $3.16 million. The non-cash salary amount was offset by a decrease in non-cash consulting of $0.50 million and non-cash severance of $0.23 million. The cash general and administrative expenses were $2.88 million during the year ended December 31, 2013, compared to cash general and administrative expense of $4.47 million during the year ended December 31, 2012 a decrease of $1.59 million, or a decrease of 36%. The decrease in cash general and administrative expense was primarily a result of a reduction of employee count.

On November 15, 2012, Roger Parker retired from the Company as its Chief Executive Officer. At the time of his retirement, Mr. Parker had 1,350,000 shares of unvested Common Stock outstanding. As a result of his separation from the Company, it was deemed improbable that these shares would vest to Mr. Parker in his capacity as an employee of the Company due to the termination of employment; however, it was deemed probable that these shares will vest under his separation agreement. As a result, the Company reversed all of the compensation expense, in the amount of $6.75 million, associated with stock grants to Mr. Parker during his tenure as an employee. In conjunction with Mr. Parker's retirement, the Company and Mr. Parker entered into a separation agreement that provided, in part, for the payment of severance equal to one year of Mr. Parker's salary. Pursuant to the termination agreement, the 1,350,000 shares of unvested restricted stock that would otherwise have been forfeited upon his termination where scheduled to vest in two tranches, 675,000 on May 15, 2013, and the remaining 675,000 on November 15, 2013, subject to Mr. Parker's execution of a mutual release, and Mr. Parker's availability to the Company for a minimum of 10 hours per week during the severance period on a consulting basis. Thus, the Company recorded a consulting expense (in the amount of $3.59 million) related to the shares of stock that we expected to vest during the severance period of the separation agreement. The net difference of these two amounts resulted in a reduction in 2012 general and administrative expenses (non-cash compensation expense) of $3.16 million. Currently, the shares are still considered unvested, pending, among other things, the conclusion of the legal proceedings discussed in Part I, Item 3, "Legal Proceedings."

Depreciation, depletion, and amortization

Depreciation, depletion, and amortization were $2.39 million during the year ended December 31, 2013, compared to $4.55 million during the year ended December 31, 2012, a decrease of $2.19 million, or 48%. Decrease in depreciation, depletion, and amortization was from our total proved undeveloped reserves increasing in 2013 to 1,047 MBOE from 175 MBOE in 2012. This increase of 872 MBOE or 498% reflects the current change in our expectations regarding whether we will have sufficient capital to support our current development plan. As a result of this change, the proved undeveloped reserves that were recorded on a promoted basis in 2012 were restored to normal levels in 2013 with additional horizontal drilling. The increase in reserves was also affected by a decrease in production to 62,513 BOE in 2013, from 98,567 BOE in 2012, a decrease of 36,054, or 37%. Depreciation, depletion, and amortization per BOE decreased to $38.21 from $46.15, respectively, for the years ended December 31, 2013 and 2012, a decrease of $7.94, or 17%.

Impairment of developed properties

During the year ended December 31, 2013, the Company did not impair any of its evaluated properties.

During the year ended December 31, 2012, the Company impaired evaluated properties of $26.66 million. The 2012 impairment was a result of capitalized costs exceeding the standardized measure of reserve values, and in particular was related to the impairment of undeveloped acreage and wells in progress related to the Company's Chugwater prospect, in the total amount of $17.09 million, which were transferred to the full cost pool. As a result of the Company's review for impairment in its undeveloped acreage, the Company also transferred $5.94 million of undeveloped acreage costs relating principally to leases that have terms that expire throughout 2015 which the Company determined not to extend. Furthermore, the Company reduced the PV-10 of the proved undeveloped reserve acreage pursuant to an assumption that certain farm-outs and joint ventures arrangements would be required in order to finance development of certain reserve, which reduced the production amounts for such reserves to 25% of the Company's 100% ownership. As a result, the ceiling test performed by the Company yielded an increased impairment. The combination of these impairments and the respective transfers to the full cost pool resulted in a total 2012 impairment expense of $26.66 million.

Interest Expense

Interest expense was $6.41 million during the year ended December 31, 2013, compared to $8.06 million during the year ended December 31, 2012, a decrease of $1.65 million, or 20%. Interest expense during December 31, 2013 and 2012, includes non-cash interest expense and amortization of the deferred financing costs, accretion of the convertible debentures payable discount, and convertible debentures interest paid in Common Stock of $4.04 million and $4.85 million, respectively. Cash interest expense was $2.37 million, during the year ended December 31, 2013, compared to cash interest expense of $3.2 million, during the year ended December 31, 2012, remained consistent due to the level of debt.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Capital Budget

We anticipate an approximate $50.0 million capital budget for the period that runs through the end of 2014. This entire capital budget is subject to the securing of adequate capital. Although we secured approximately $5.0 million via the January Private Placement and an additional $7.50 million via the May Private Placement, some of the proceeds from these transactions were applied to the payment and servicing of our debt. We anticipate that approximately $33.0 million of this budget will be allocated toward the exploitation of two unconventional reservoirs located in the Wattenberg field within the DJ Basin that will apply horizontal drilling in the Niobrara shale and Codell formations. The balance of our capital budget is anticipated to be directed principally toward the conventional reservoir developments including lower risk offset wells to existing production and higher risk exploration activities, which includes the procurement of seismic data.

The execution of, and results from, our capital budget are contingent on various factors, including, but not limited to the sourcing of capital, market conditions, oilfield services and equipment availability, commodity prices and drilling/ production results. Results from the wells identified in the capital budget may lead to additional adjustments to the capital budget as the cash flow from the wells could provide additional capital which we may use to increase our capital budget.

Other factors that could impact our level of activity and capital expenditure budget include, but are not limited to, a reduction or increase in service and material costs, the formation of joint ventures with other exploration and production companies, the divestiture of non-strategic assets. We do not anticipate any significant expansion of our current DJ Basin acreage position in the near term; however, we are targeting attractive Wattenberg acquisitions.

Overview of Our Business, Strategy, and Plan of Operations

We have acquired and developed a producing base of oil and natural gas proved reserves, as well as a portfolio of exploration and other undeveloped assets with conventional and non-conventional reservoir opportunities, with an emphasis on those with multiple producing horizons, in particular the Muddy “J” conventional reservoirs and the Niobrara shale and Codell resource plays. We believe these assets offer the possibility of repeatable year-over-year success and significant and cost-effective production and reserve growth. Our acquisition, development and exploration pursuits are principally directed at oil and natural gas properties in the DJ Basin in Colorado, Nebraska, and Wyoming. Since early 2010, we have acquired and/or developed 25 producing wells. As of December 31, 2013 we owned interests in approximately 126,000 gross (112,000 net) leasehold acres, of which 114,000 gross (100,000 net) acres are classified as undeveloped acreage and all of which are located in Colorado, Wyoming and Nebraska within the DJ Basin. We are primarily focused on our Wattenberg North and South Wattenberg Field assets which include attractive unconventional reservoir drilling opportunities in mature development areas with that offer low risk Niobrara and Codell formation productive potential. We also believe that our conventional reservoir development potential in our Silo- East, Hanson and Wilke/Lukassen well areas will yield competitive results. We expect to pursue an aggressive multi-well program.

Our intermediate goal is to create significant value via the investment of up to $50.0 million in our inventory of low and controlled-risk conventional and unconventional properties, while maintaining a low cost structure. To achieve this, our business strategy includes the following elements:

Pursuing the initial development of our Greater Wattenberg Field unconventional assets. We currently have two key unconventional reservoir properties located in the Greater Wattenberg field. We participated in the drilling of one non-operated horizontal well in our North Wattenberg asset during the fourth quarter of 2013, which was completed in the first quarter of 2014 and is now on post-frac production. We are also participating in three additional non-operated horizontal wells on this property that were drilled in the first quarter, 2014. We also plan to operate the drilling of two horizontal wells on our South Wattenberg property during the third quarter of 2014 in which we have a 50% working interest and a 25% working interest in two wells. Drilling activities on both properties will target the prolific and well established Niobrara and Codell formations. Subject to the securing of additional capital, we expect to participate in up to 18 wells in these two assets, with an expected investment that exceeds up to $26.0 million. As of June 1, 2014, the Company has participated in the following in the Watttenberg Field: 1) one horizontal well that is currently on-line, and 2) 3 horizontal wells that are drilled and commencing completion operations in 2nd Quarter 2014.

Extending the development of certain conventional prospects within our inventory of other DJ Basin properties. Subject to the securing of additional capital, we anticipate the expenditure of up to an additional $25.0 million in drilling and development costs on three of our DJ Basin assets where initial exploitation has yield positive results. Additional drilling activities will be conducted on each property in an effort to fully assess each property and define field productivity and economic limits.

Engaging in certain exploration activities, including geologic and geophysics projects, to define additional prospects within our inventory of DJ Basin properties that may have significant development upside. Subject to the securing of additional capital, we anticipate an expenditure of $2.0 to $5.0 million in 2014 to acquire seismic data on at least three key DJ Basin target areas to identify both conventional and unconventional drilling opportunities.

Controlling Costs. We seek to maximize our returns on capital employed by minimizing our production costs via prudent engineering and field management, and by closely monitoring general and administrative expenses. We also minimize initial capital expenditures on geological and geophysical overhead, seismic data, hardware and software by partnering with cost efficient operators that have already invested capital in such. We also outsource some of our technical functions in order to help reduce general and administrative and capital requirements.

From time to time, we use commodity price hedging instruments to reduce our exposure to oil and natural gas price fluctuations and to help ensure that we have adequate cash flow to fund our debt service costs and capital programs. From time to time, we will enter into futures contracts, collars and basis swap agreements, as well as fixed price physical delivery contracts. We intend to use hedging primarily to manage price risks and returns on certain acquisitions and drilling programs. Our policy is to consider hedging an appropriate portion of our production at commodity prices we deem attractive. In the future we may also be required by our lenders to hedge a portion of production as part of any financing.

Currently, our inventory of developed and undeveloped acreage includes approximately 12,000 net acres that are held by production, approximately 25,000 net acres, 61,000, 8,000 and 6,000 net acres that expire in the years 2014, 2015, 2016 and thereafter, respectively. Approximately 75% of our inventory of undeveloped acreage provides for extension of lease terms from two to five years, at the option of the Company, via payment of varying, but typically nominal, extension amounts. However, due to our current liquidity issues, we may enter into one or more transactions to sell a significant number of leases, both developed and undeveloped, to enable us to pay down our outstanding debt or satisfy other financial obligations.

The business of oil and natural gas property acquisition, exploration and development is highly capital intensive and the level of operations attainable by an oil and gas company is directly linked to and limited by the amount of available capital. Therefore, a principal part of our plan of operations is to raise the additional capital required to finance the exploration and development of our current oil and natural gas prospects and the acquisition of additional properties to balance our existing organic cash flow. We will need to raise additional capital to fund our exploration and development budget. We will seek additional capital through the sale of our securities, through debt and project financing, joint venture agreements with industry partners, and through sale of assets. Our ability to obtain additional capital through new debt instruments, project financing and sale of assets may be subject to the repayment of our existing obligations.

We intend to use the services of independent consultants and contractors to provide various professional services, including land, legal, environmental, technical, investor relations and tax services. We believe that by limiting our management and employee costs, we may be able to better control lifting costs and retain general and administrative flexibility.

Marketing and Pricing

We derive revenue principally from the sale of oil and natural gas. As a result, our revenues are determined, to a large degree, by prevailing prices for crude oil and natural gas. We sell our oil and natural gas on the open market at prevailing market prices or through forward delivery contracts. The market price for oil and natural gas is dictated by supply and demand, and we cannot accurately predict or control the price we may receive for our oil and natural gas.

Our revenues, cash flows, profitability and future rate of growth will depend substantially upon prevailing prices for oil and natural gas. Prices may also affect the amount of cash flow available for capital expenditures and our ability to borrow money or raise additional capital. Lower prices may also adversely affect the value of our reserves and make it uneconomical for us to commence or continue production levels of oil and natural gas. Historically, the prices received for oil and natural gas have fluctuated widely. Among the factors that can cause these fluctuations are:

- changes in global supply and demand for oil and natural gas;
- the actions of the Organization of Petroleum Exporting Countries, or OPEC;
- the price and quantity of imports of foreign oil and natural gas;
- acts of war or terrorism;
- political conditions and events, including embargoes, affecting oil-producing activity;
- the level of global oil and natural gas exploration and production activity;
- the level of global oil and natural gas inventories;
- weather conditions;
- technological advances affecting energy consumption; and
- the price and availability of alternative fuels.

From time to time, we will enter into hedging arrangements to reduce our exposure to decreases in the prices of oil and natural gas. Hedging arrangements may expose us to risk of significant financial loss in some circumstances including circumstances where:

- our production and/or sales of natural gas are less than expected;
- payments owed under derivative hedging contracts come due prior to receipt of the hedged month's production revenue; or
- the counter party to the hedging contract defaults on its contract obligations.

In addition, hedging arrangements may limit the benefit we would receive from increases in the prices for oil and natural gas. We cannot assure you that any hedging transactions we may enter into will adequately protect us from declines in the prices of oil and natural gas. On the other hand, where we choose not to engage in hedging transactions in the future, we may be more adversely affected by changes in oil and natural gas prices than our competitors who engage in hedging transactions.

Obligations and Commitments

We had the following contractual obligations and commitments as of December 31, 2013 (in thousands):

	Payments due by period				
Contractual obligations	Total	Within 1 year	1-3 years	3-5 years	More than 5 years
Secured debt	$ 18,774	$ 10,663	$ 8,111	$ -	$ -
Interest on secured debt	716	66	650	-	-
Convertible debentures	15,580	-	15,580	-	-
Interest on convertible debentures	468	234	234	-	-
Operating leases	138	118	20	-	-
Total contractual cash obligations	$ 35,676	$ 11,081	$ 24,595	$ -	$ -

As discussed in previous sections of this report, a significant portion of the secured debt listed above was refinanced and restructured in March 2014. Likewise, approximately $9.0 million of the convertible debentures were converted to Common Stock in January 2014, and the remainder is expected to convert upon securing shareholder approval.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements in conformity with generally accepted accounting principles in the United States, or GAAP, requires our management to make assumptions and estimates that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. The following is a summary of the significant accounting policies and related estimates that affect our financial disclosures.

Critical accounting policies are defined as those significant accounting policies that are most critical to an understanding of a company's financial condition and results of operation. We consider an accounting estimate or judgment to be critical if (i) it requires assumptions to be made that were uncertain at the time the estimate was made, and (ii) changes in the estimate or different estimates that could have been selected could have a material impact on our results of operations or financial condition.

Use of Estimates

The financial statements included herein were prepared from our records in accordance with GAAP, and reflect all normal recurring adjustments which are, in the opinion of management, necessary to provide a fair statement of the results of operations and financial position for the interim periods. The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of oil and gas reserves, assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates on an on-going basis and base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances. Although actual results may differ from these estimates under different assumptions or conditions, we believe that our estimates are reasonable. Our most significant financial estimates are associated with our estimated proved oil and gas reserves, assessments of impairment imbedded in the carrying value of undeveloped acreage and proven properties, as well as valuation of Common Stock used in various issuances of Common Stock, options and warrants, and estimated derivative liabilities.

Oil and Natural Gas Reserves

We follow the full cost method of accounting. All of our oil and gas properties are located within the United States, and therefore all costs related to the acquisition and development of oil and gas properties are capitalized into a single cost center referred to as a full cost pool. Depletion of exploration and development costs and depreciation of production equipment is computed using the units-of-production method based upon estimated proved oil and gas reserves. Under the full cost method of accounting, capitalized oil and gas property costs less accumulated depletion and net of deferred income taxes may not exceed an amount equal to the present value, discounted at 10%, of estimated future net revenues from proved oil and gas reserves less the future cash outflows associated with the asset retirement obligations that have been accrued on the balance sheet plus the cost, or estimated fair value if lower, of unproved properties. Should capitalized costs exceed this ceiling, impairment would be recognized. Under the SEC rules, we prepared our oil and gas reserve estimates as of December 31, 2013, using the average, first-day-of-the-month price during the 12-month period ending December 31, 2013.

Estimating accumulations of gas and oil is complex and is not exact because of the numerous uncertainties inherent in the process. The process relies on interpretations of available geological, geophysical, engineering and production data. The extent, quality and reliability of this technical data can vary. The process also requires certain economic assumptions, some of which are mandated by the SEC, such as gas and oil prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. The accuracy of a reserve estimate is a function of the quality and quantity of available data; the interpretation of that data; the accuracy of various mandated economic assumptions; and the judgment of the persons preparing the estimate.

We believe estimated reserve quantities and the related estimates of future net cash flows are the most important estimates made by an exploration and production company such as ours because they affect the perceived value of our company, are used in comparative financial analysis ratios, and are used as the basis for the most significant accounting estimates in our financial statements, including the quarterly calculation of depletion, depreciation and impairment of our proved oil and natural gas properties. Proved oil and natural gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future periods from known reservoirs under existing economic and operating conditions. We determine anticipated future cash inflows and future production and development costs by applying benchmark prices and costs, including transportation, quality and basis differentials, in effect at the end of each quarter to the estimated quantities of oil and natural gas remaining to be produced as of the end of that quarter. We reduce expected cash flows to present value using a discount rate that depends upon the purpose for which the reserve estimates will be used. For example, the standardized measure calculation requires us to apply a 10% discount rate. Although reserve estimates are inherently imprecise, and estimates of new discoveries and undeveloped locations are more imprecise than those of established proved producing oil and natural gas properties, we make considerable effort to estimate our reserves, including through the use of independent reserves engineering consultants. We expect that quarterly reserve estimates will change in the future as additional information becomes available or as oil and natural gas prices and operating and capital costs change. We evaluate and estimate our oil and natural gas reserves as of December 31 and quarterly throughout the year. For purposes of depletion, depreciation, and impairment, we adjust reserve quantities at all quarterly periods for the estimated impact of acquisitions and dispositions. Changes in depletion, depreciation or impairment calculations caused by changes in reserve quantities or net cash flows are recorded in the period in which the reserves or net cash flow estimate changes.

Oil and Natural Gas Properties—Full Cost Method of Accounting

We use the full cost method of accounting whereby all costs related to the acquisition and development of oil and natural gas properties are capitalized into a single cost center referred to as a full cost pool. These costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling and overhead charges directly related to acquisition and exploration activities.

Capitalized costs, together with the costs of production equipment, are depleted and amortized on the unit-of-production method based on the estimated gross proved reserves as determined by independent petroleum engineers. For this purpose, we convert our petroleum products and reserves to a common unit of measure.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. This undeveloped acreage is assessed quarterly to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to the full cost pool and becomes subject to depletion calculations.

Proceeds from the sale of oil and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless the sale would alter the rate of depletion by more than 25%. Royalties paid, net of any tax credits received, are netted against oil and natural gas sales.

In applying the full cost method, we perform a ceiling test on properties that restricts the capitalized costs, less accumulated depletion, from exceeding an amount equal to the estimated undiscounted value of future net revenues from proved oil and natural gas reserves, as determined by independent petroleum engineers. The estimated future revenues are based on sales prices achievable under existing contracts and posted average reference prices in effect at the end of the applicable period, and current costs, and after deducting estimated future general and administrative expenses, production related expenses, financing costs, future site restoration costs and income taxes. Under the full cost method of accounting, capitalized oil and natural gas property costs, less accumulated depletion and net of deferred income taxes, may not exceed an amount equal to the present value, discounted at 10%, of estimated future net revenues from proved oil and natural gas reserves, plus the cost, or estimated fair value if lower, of unproved properties. Should capitalized costs exceed this ceiling, we would recognize impairment.

Revenue Recognition

The Company derives revenue primarily from the sale of produced natural gas and crude oil. The Company reports revenue as the gross amount received before taking into account production taxes and transportation costs, which are reported as separate expenses and are included in oil and gas production expense in the accompanying consolidated statements of operations. Revenue is recorded in the month the Company's production is delivered to the purchaser, but payment is generally received between 30 and 90 days after the date of production. No revenue is recognized unless it is determined that title to the product has transferred to the purchaser. At the end of each month, the Company estimates the amount of production delivered to the purchaser and the price the Company will receive. The Company uses its knowledge of its properties, its historical performance, NYMEX and local spot market prices, quality and transportation differentials, and other factors as the basis for these estimates.

Share Based Compensation

The Company accounts for share-based compensation by estimating the fair value of share-based payment awards made to employees and directors, including stock options restricted stock grants, and employees stock purchases related to employee stock purchase plans, on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense ratably over the requisite service periods.

Derivative Instruments

Periodically, the Company entered into swaps to reduce the effect of price changes on a portion of our future oil production. We reflect the fair market value of our derivative instruments on our balance sheet. Our estimates of fair value are determined by obtaining independent market quotes as well as utilizing a valuation model that is based upon underlying forward curve data and risk free interest rates. Changes in commodity prices will result in substantially similar changes in the fair value of our commodity derivative agreements. We do not apply hedge accounting to any of our derivative contracts, therefore we recognize mark-to-market gains and losses in earnings currently.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements appear immediately after the signature page of this report. See "Index to Financial Statements" included in this report.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the year covered by this Annual Report, management performed, with the participation of our Chief Executive Officer ("CEO"), and Acting Chief Financial Officer ("CFO"), an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act of 1934, as amended, or Exchange Act. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosures. Based on this evaluation, our CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2013.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed under the supervision of the CEO and CFO, 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 in the United States, or GAAP. A company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projection of any evaluation of effectiveness to future periods is 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.

Our management, with the participation of our CEO and CFO, assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. Management's assessment of internal control over financial reporting was conducted using the criteria in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2012. Management concluded that, as of December 31, 2013, the Company's internal control over financial reporting was effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter-ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth the names, ages and positions of the persons who are our directors and executive officers as of June 5, 2014:

Name	Age	Position
Abraham "Avi" Mirman	44	Chief Executive Officer
Robert A. "Bob" Bell	55	President and Chief Operating Officer, Director
Eric Ulwelling	36	Acting Chief Financial Officer
Nuno Brandolini	60	Chairman of the Board of Directors
D. Kirk Edwards	59	Director
Bruce B. White	60	Director
Timothy N. Poster	44	Director

Abraham Mirman: Chief Executive Officer. Mr. Mirman has served as our Chief Executive Officer since April 2014, previously serving as our President since he joined the Company in September 2013. In addition, Mr. Mirman has served as the Managing Director, Investment Banking at T.R. Winston & Company, LLC since April 2013, and continues to devote a portion of his time to serving in that role. Between 2012 and February 2013, he served as Head of Investment Banking at John Thomas Financial, and between 2011 and 2012, he served as Head of Investment Banking at BMA Securities. Between 2006 and 2011, Mr. Mirman served as Chairman of the Board of Cresta Capital Strategies LLC. Mr. Mirman has extensive experience in financial and securities matters, including in obtaining financing for and providing financial advisory services to micro-cap public companies, including oil and gas and other energy companies.

Eric Ulwelling: Interim Chief Financial Officer. Mr. Ulwelling, who was appointed to the position of Interim Chief Financial Officer in May 2014, joined the Company in 2012 as Controller. From 2009-2011, Mr. Ulwelling served as a controller with Applied Natural Gas Fuels, Inc. From 2006 to 2009, he worked as an auditor with Singer Lewak, servicing publicly traded companies, and prior to that worked as an auditor with Pannell Kerr Forster. Mr. Ulwelling received a Bachelor of Science in Accounting from California State University of Fullerton, in 2002.

Robert A. Bell: President and Chief Operating Officer; Director. Mr. Bell was appointed to the position of President and Chief Operating Officer in April 2014, and has served as a member of our Board since February 2014. He has served as the President and Chief Executive Officer of Peak Operator LLC, a privately held heavy oil operator in Southern California, since October 2012, and continues to devote a portion of his time to serving in that role. Mr. Bell's career began in 1981 in technical and management roles with major oil companies including Exxon and Unocal through 1996. Mr. Bell progressed into both public and private, mid-cap and small-cap, oil and gas enterprise executive roles including vice president-exploitation/co-president of Plains E&P (PXP), president of Tri-Valley Oil & Gas (TIV), and vice-president of operations/co-owner of Bonanza Creek Oil & Gas (BCEI). He also gained valuable experience in service sector management roles including with Schlumberger. Mr. Bell's diverse engineering, management and executive experience is multi-disciplinary, global, spans large-scale developments to mature, marginal developments, and light oil, heavy oil and natural gas assets, and includes prior direct experience in the DJ Basin and unconventional reservoirs such as the Monterey and Bakken formations. Mr. Bell is a 1981 Petroleum & Natural Gas Engineering graduate from Penn State University. Mr. Bell has not held any other public company directorship positions in the past five years.

Director Qualifications:

- Leadership Experience – President and Chief Executive Officer of Peak Operator LLC.
- Industry Experience – Multiple executive roles in both public and private, mid-cap and small-cap, oil and gas enterprises including vice president-exploitation/co-president of Plains E&P (PXP), president of Tri-Valley Oil & Gas (TIV), and vice-president of operations/co-owner of Bonanza Creek Oil & Gas (BCEI).

Nuno Brandolini: Chairman of the Board of Directors. Mr. Brandolini was appointed to the board of directors in February 2014, and became chairman in April 2014. He is a general partner of Scorpion Capital Partners, L.P., a private equity firm. Prior to forming Scorpion Capital and its predecessor firm, Scorpion Holding, Inc., in 1995, Mr. Brandolini served as managing director of Rosecliff, Inc., a leveraged buyout fund co-founded by Mr. Brandolini in 1993. Mr. Brandolini served previously as a vice president in the investment banking department of Salomon Brothers, Inc., and a principal with the Batheus Group and Logic Capital, two venture capital firms. Mr. Brandolini began his career as an investment banker with Lazard Freres & Co. Mr. Brandolini is a director of Cheniere Energy, Inc. (NYSE MKT: LNG), a Houston-based company primarily engaged in LNG related businesses. Mr. Brandolini received a law degree from the University of Paris and an M.B.A. from the Wharton School.

Director Qualifications:

- Leadership Experience – Executive positions with several private equity firms, and board position with Cheniere Energy, Inc.
- Industry Experience – Service on the board of Cheniere Energy, Inc., as well as personal investments in the oil and gas industry.

Timothy N. Poster: Director. Mr. Poster joined our board of directors in June 2010. He has been executive vice president of strategy and development for Wynn Resorts (NASDAQ GS: WYNN) since September 2011. From August 2010 through September 2011 Mr. Poster was a partner in Fertitta Entertainment, a worldwide investment venture fund. From July, 2008 through August, 2010 he was senior vice president of strategy and development for Wynn Las Vegas, a subsidiary of Wynn Resorts. In 2000, Mr. Poster sold Travelscape.com, which he had founded and developed, to Expedia. In 2004, Mr. Poster acquired Golden Nugget Hotels & Casinos in Las Vegas and Laughlin, Nevada which he sold in 2005. Between selling the Golden Nugget in 2005 and joining Wynn Las Vegas in July 2008, Mr. Poster managed his investments. Mr. Poster received his bachelor's degree in finance from the University of Southern California in 1995.

Director Qualifications:

- Leadership Experience – Executive vice president for Wynn Resorts, former partner in Fertitta Entertainment, former owner of Golden Nugget Hotel & Casino, founder of Travelscape.com, Bachelors degree in finance from the University of Southern California.
- Industry Experience – Personal investments in the oil and gas industry.

Bruce B. White: Director. Mr. White joined our board in April 2012. He is currently a senior vice president of High Sierra Water Services, LLC and has served in that capacity since the purchase of Conquest Water Services, LLC by High Sierra in June 2011. Mr. White co-founded Conquest Water Services in 1993 and served as a co-managing partner to build that company into a DJ Basin service company. Mr. White has more than 25 years of experience operating in the DJ Basin, including exploration, drilling, development and other well operations, many of which were conducted through Conquest Oil Company, founded by White in 1984, which he continues to serve as president. White was also a founding member of the Denver Julesburg Petroleum Association, the predecessor to the Colorado Oil and Gas Association (COGA), and served as its president during 1987 and 1988. A veteran of the Vietnam War, Mr. White served in the Navy for six years; he attended Grossmont College in El Cajon, California.

Director Qualifications:

- Leadership Experience – Founder of Conquest Oil Company and Conquest Water Services; Senior Vice President of High Sierra Water Services
- Industry Experience – Extensive experience in oil and gas development and services industries at the entities and in the capacities described above.

D. Kirk Edwards: Director. Mr. Edwards joined our board in April 2012. Mr. Edwards is president of Las Colinas Energy Partners, LP, where he manages a diverse oil and gas royalty base, surface lands, and non-operated working interests in more than 9,000 wells located throughout the U.S. and the Gulf Coast of Mexico. He also serves as lead manager for Las Colinas Minerals, LP, MacLondon Royalty Company, MacLondon Energy, LP, Alexis Energy, LP, and Noelle Land & Minerals LLC. Mr. Edwards worked in various disciplines as a Petroleum Engineer including Field, Reservoir, and Drilling Engineer for Texaco, Inc. from 1981-1986. In 1987, he founded Odessa Exploration, Inc., an independent oil and gas company, which he sold to Key Energy Services, Inc. in 1993. He served as a director, executive vice president and in other capacities of Key Energy Services until 2001. Mr. Edwards is a past president of the Permian Basin Petroleum Association, and is a past director and former chairman of the board of the Federal Reserve Bank of Dallas' El Paso Branch. Mr. Edwards received a Bachelor of Science degree in Chemical Engineering from the University of Texas at Austin in 1981, and is a registered Professional Engineer in the State of Texas.

Director Qualifications:

- Leadership Experience – President of Las Colinas Energy Partner, LP. Lead manager for Las Colinas Minerals, LP, MacLondon Royalty Company, MacLondon Energy, LP, Alexis Energy, LP, and Noelle Land & Minerals LLC. He served as a director, executive vice president and in other capacities of Key Energy Services until 2001. Mr. Edwards is a past president of the Permian Basin Petroleum Association, and is a past director and former chairman of the board of the Federal Reserve Bank of Dallas' El Paso Branch.

- Industry Experience – Extensive experience in oil and gas development and services industries at the entities and in the capacities described above.

Directors hold office for a period of one year from their election at the annual meeting of stockholders and until a particular director's successor is duly elected and qualified. Officers are elected by, and serve at the discretion of, our board of directors. None of the above individuals has any family relationship with any other. It is expected that our board of directors will elect officers annually following each annual meeting of stockholders.

Section 16(a) Beneficial Ownership Reporting Compliance

The executive officers and directors of the Company and persons who own more than 10% of the Company's Common Stock are required to file reports with the SEC, disclosing the amount and nature of their beneficial ownership in Common Stock, as well as changes in that ownership. Based solely on its review of reports and written representations that the Company has received, the Company believes that all required reports were timely filed during 2013 and the portion of 2014 preceding the date of this Annual Report, except that filings under Section 16(a) with respect to the following transactions were not timely:

- The appointment of Eric Ulwelling as an executive officer of the Company on February 6, 2012, and the following grants to Mr. Ulwelling after such appointment:
  - 16,667 shares of Common Stock on February 6, 2012.
  - 16,667 shares of Common Stock on November 23, 2012.
  - 8,333 shares of Common Stock on May 6, 2013.
  - 25,000 shares of Common Stock on May 10, 2013.
  - 30,000 shares of Common Stock on October 16, 2013.
  - 6,500 shares of Common Stock on February 5, 2014.

- The following sales by Mr. Ulwelling:
  - 3,000 shares of Common Stock on May 22, 2013.
  - 5,000 shares of Common Stock on November 22, 2013.
  - 1,200 shares of Common Stock on December 5, 2013.

- The appointment of Abraham Mirman as an executive officer of the Company on September 16, 2013.

- The grant to Abraham Mirman on September 16, 2013 of 100,000 restricted shares of Common Stock.

- The purchase by Abraham Mirman on January 31, 2014, of 110,861 shares of the Company's common stock and 110,861 warrants to purchase Common Stock in connection with Mr. Mirman's conversion of Debentures.

- The following grants to Bruce B. White:
  - On April 24, 2014 of 13,378 restricted shares of Common Stock.
  - On June 20, 2013 of 31,250 restricted shares of Common Stock.
  - On April 24, 2013 of 25,641 restricted shares of Common Stock.

- The grant to D. Kirk Edwards on June 20, 2013 of 31,250 restricted shares of Common Stock.

- The grant to W. Phillip Marcum on June 20, 2013 of 93,750 restricted shares of Common Stock.

- The grant to A. Bradley Gabbard on June 20, 2013 of 93,750 restricted shares of Common Stock.

- The grant to Timothy N. Poster on June 20, 2013 of 31,250 restricted shares of Common Stock.

- The purchase by A. Bradley Gabbard on June 18, 2013 of Debentures convertible into 51,292 shares of Common Stock.

- The purchase by W. Phillip Marcum on June 18, 2013 of Debentures convertible into 51,292 shares of Common Stock.

- The appointment of Nuno Brandolini and Robert A. Bell to the Board on February 13, 2014.

The Board of Directors and Committees Thereof

Our board of directors conducts its business through meetings and through its committees. Our board of directors held 19 meetings in 2013. Each director attended at least 75% of the meetings of the Board held after such director's appointment. Our policy regarding directors' attendance at the annual meetings of stockholders is that all directors are expected to attend, absent extenuating circumstances.

Affirmative Determinations Regarding Director Independence and Other Matters

Our board of directors follows the standards of independence established under the rules of The NASDAQ Stock Market® ("NASDAQ") in determining if directors are independent and has determined that four of our current directors, Timothy N. Poster, D. Kirk Edwards, Bruce B. White and Nuno Brandolini are "independent directors" under those rules. Robert A. Bell was an "independent director" prior to his appointment in April 2014 as our president and chief operating officer. No independent director receives, or has received, any fees or compensation from us other than compensation received in his or her capacity as a director. There were no transactions, relationships or arrangements not otherwise disclosed that were considered by the board of directors in determining that any of the directors are independent.

Committees of the Board of Directors

Pursuant to our amended and restated bylaws, our board of directors is permitted to establish committees from time to time as it deems appropriate. To facilitate independent director review and to make the most effective use of our directors' time and capabilities, our board of directors has established an audit committee and a compensation committee. The membership and function of these committees are described below.

Compensation Committee

Our compensation committee currently consists of Mr. Edwards, Mr. Poster and Mr. White. Mr. Poster is chair of the compensation committee. The compensation committee met once during 2013, but on several occasions met separately in connection with a meeting of the full board, and acted by written consent thereafter. The compensation committee reviews, approves and modifies our executive compensation programs, plans and awards provided to our directors, executive officers and key associates. The compensation committee also reviews and approves short-term and long-term incentive plans and other stock or stock-based incentive plans. In addition, the committee reviews our compensation and benefit philosophy, plans and programs on an as-needed basis. In reviewing our compensation and benefits policies, the compensation committee may consider the recruitment, development, promotion, retention, compensation of executive and senior officers of the Company, trends in management compensation and any other factors that it deems appropriate. The compensation committee may engage consultants in determining or recommending the amount of compensation paid to our directors and executive officer. The compensation committee is governed by a written charter that is reviewed, and amended if necessary, on an annual basis. A copy of the charter is available on our website at www.lilisenergy.com under "Investors."

Audit Committee

Our audit committee currently consists of Mr. Edwards, Mr. Poster and Mr. White. Mr. Edwards is currently the audit committee chair and meets the definition of an audit committee financial expert. The board has determined that each of Mr. Edwards, Mr. Poster and Mr. White is independent as required by NASDAQ for audit committee members. The audit committee is governed by a written charter that is reviewed, and amended if necessary, on an annual basis. A copy of the charter is available on our website at www.lilisenergy.com under "Investors."

Communications with the Board of Directors

Stockholders may communicate with our board of directors or any of the directors by sending written communications addressed to the board of directors or any of the directors, Lilis Energy, Inc., 1900 Grant Street, Suite #720, Denver, CO 80203, Attention: Corporate Secretary. All communications are compiled by the corporate secretary and forwarded to the board or the individual director(s) accordingly.

Nomination of Directors

Our board of directors has not established a nominating committee because the board believes that it is unnecessary in light of the board's small size. In the event that vacancies on our board of directors arise, the board considers potential candidates for director, which may come to the attention of the board through current directors, professional executive search firms, stockholders or other persons. Our board does not set specific, minimum qualifications that nominees must meet in order to be recommended as directors, but believes that each nominee should be evaluated based on his or her individual merits, taking into account the needs of the Company and the composition of our board. We do not have any formal policy regarding diversity in identifying nominees for a directorship, but consider it among the various factors relevant to any particular nominee. We do not discriminate based upon race, religion, sex, national origin, age, disability, citizenship or any other legally protected status. In the event we decide to fill a vacancy that exists or we decide to increase the size of the board, we identify, interview and examine appropriate candidates. We identify potential candidates principally through suggestions from our board and senior management. Our chief executive officer and board members may also seek candidates through informal discussions with third parties. We also consider candidates recommended or suggested by stockholders.

The board will consider candidates recommended by stockholders if the names and qualifications of such candidates are submitted in writing in accordance with the notice provisions for stockholder proposals set forth below under the caption "Stockholder Proposals" in this Annual Report to our corporate secretary, Lilis Energy, Inc., 1900 Grant Street, Suite #720, Denver, CO 80203, Attention: Corporate Secretary. The board considers properly submitted stockholder nominations for candidates for the board of directors in the same manner as it evaluates other nominees. Following verification of the stockholder status of persons proposing candidates, recommendations are aggregated and considered by the board and the materials provided by a stockholder to the corporate secretary for consideration of a nominee for director are forwarded to the board. All candidates are evaluated at meetings of the board. In evaluating such nominations, the board seeks to achieve the appropriate balance of industry and business knowledge and experience in light of the function and needs of the board of directors. The board considers candidates with excellent decision-making ability, business experience, personal integrity and reputation. Our management recommended our incumbent directors for election at our 2014 annual meeting. We did not receive any other director nominations.

Stockholder Proposals

Notice of any stockholder proposal that is intended to be included in the Company's proxy statement and form of proxy for our 2015 annual meeting of stockholders must be received by our corporate secretary no later than 120 days prior to the date that is one year after the date we mail our 2014 proxy statement. Such notice must be in writing and must comply with the other provisions of Rule 14a-8 under the Securities Exchange Act of 1934. Any notices regarding stockholder proposals must be received by the Company at its principal executive offices at 1900 Grant Street, Suite #720, Denver, CO 80203, Attention: Corporate Secretary. In addition, if a stockholder intends to present a proposal at the 2014 annual meeting without including the proposal in the proxy materials related to that meeting, and if the proposal was not received by the deadline set forth in the 2013 proxy materials, then the proxy or proxies designated by our board of directors for the 2014 annual meeting may vote in their discretion on any such proposal any shares for which they have been appointed proxies without mention of such matter in the proxy statement or on the proxy card for such meeting.

Code of Ethics

Our board of directors has adopted a Code of Business Conduct and Ethics (the "Code") that applies to all of our officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions. The Code codifies the business and ethical principles that govern all aspects of our business. A copy of the Code is available on our website at www.lilisenergy.com under "Investor Relations" and "Corporate Governance." We undertake to provide a copy of the Code to any person, at no charge, upon a written request. All written requests should be directed to: Lilis Energy, Inc., 1900 Grant Street, Suite #720, Denver, CO 80203, Attention: Corporate Secretary.

Board Leadership Structure

The board's current leadership structure separates the positions of chairman and principal executive officer. The board has determined our leadership structure based on factors such as the experience of the applicable individuals, the current business and financial environment faced by the Company, particularly in view of its financial condition and industry conditions generally and other relevant factors. After considering these factors, we determined that separating the positions of chairman of the board and principal executive officer is the appropriate leadership structure at this time. The board is currently responsible for the strategic direction of the Company. The chief executive officer is currently responsible for the day to day operation and performance of the company. The board feels that this provides an appropriate balance of strategic direction, operational focus, flexibility and oversight.

The Board's Role in Risk Oversight

It is management's responsibility to manage risk and bring to the board's attention any material risks to the company. The board has oversight responsibility for the Company's risk policies and processes relating to the financial statements and financial reporting processes and the guidelines, policies and processes for mitigating those risks.

Item 11. EXECUTIVE COMPENSATION

Executive Compensation for Fiscal Year 2013

The compensation earned by our executive officers for fiscal 2013 consisted of base salary and long-term incentive compensation consisting of awards of stock grants.

Summary Compensation Table

The table below sets forth compensation paid to our executive officers for the 2013 and 2012 fiscal years.

Name and Principal Position	Year	Salary	Bonus	Stock Awards(1)	Option Awards(2)	Other Compensation(3)	Total
Abraham Mirman (president from September 2013 to April 2014; chief executive officer from April 2014 to present)	**2013**	$ 50,000	$ -	$ 245,000	$ 804,400	$ 4,000	$ 1,103,400
	2012	$ -	$ -	$ -	$ -	$ -	$ -
W. Phillip Marcum (chief executive officer) (4)	2013	70,000	-	150,000	261,873	18,000	499,873
	2012	-	-	-	-	-	-
A. Bradley Gabbard(5) (chief financial officer; president)(5)	2013	70,000	-	150,000	261,873	18,000	499,873
	2012	182,146	-	199,999	-	5,275	387,420

(1) Represents restricted stock awards under our EIP. The grant date fair values for restricted stock awards were determined by multiplying the number of shares awarded times the Company's stock price on the date of grant.
(2) The dollar amounts indicated represent the aggregate grant date fair value computed in accordance with FASB ASC Topic 718, excluding the effect of estimated forfeitures.
(3) Reflects reimbursement of health insurance premiums.
(4) Mr. Marcum resigned his positions with the Company effective as of April 18, 2014.
(5) Mr. Gabbard resigned his positions with the Company effective as of May 16, 2014.

Outstanding Equity Awards at Fiscal Year-End

	Option Awards					Stock Awards			
Name	Number of securities underlying unexercised option exercisable	Number of securities underlying options unexercisable	Equity incentive plan awards; Number of securities underlying unexercised unearned options	Option exercise price	Option expiration date	Number of shares or units of stock that have not vested	Market value of shares of units of stock that have not vested(3)	Equity incentive plan awards: Number of unearned shares, units or other rights that have not vested	Equity incentive plan awards: Market or payout value of unearned shares, units or other rights that have not vested
	(#)	(#)	(#)	($)		(#)	($)	(#)	($)
Abraham Mirman	-	-	2,000,000(1)	$ 2.45	(2)	-	-	-	-
			600,000(1)	$ 2.45	(2)				
A. Bradley Gabbard	100,000	200,000(3)	-	$ 1.60	-	-	-	93,750(4)	$ 150,000
W. Phillip Marcum	100,000	200,000(3)	-	$ 1.60	-	-	-	93,750(5)	$ 150,000

(1) Vesting is based on the achievement of certain performance metrics as set forth in Note 13 "Share Based and Other Compensation" of the financial statements included herewith.
(2) Options expire upon the earlier of (a) five (5) years from the date they vest and become exercisable or (b) September 16, 2023. See Note 13 "Share Based and Other Compensation" of the financial statements included herewith for a discussion of the circumstances under which the options will vest.
(3) Subject to vesting as follows: 100,000 were to vest on June 25, 2014 and 100,000 were to vest on June 25, 2015. Upon the termination of Mr. Gabbard's employment on May 16, 2014, all unvested options held by Mr. Gabbard were terminated pursuant to the terms of the EIP. Pursuant to the Separation Agreement entered into in connection with the termination of Mr. Marcum's employment, all unvested options held by Mr. Marcum vested immediately.
(4) All 93,750 shares vested April 15, 2014.
(5) Pursuant to the Separation Agreement entered into in connection with the termination of Mr. Marcum's employment, all 93,750 shares were forfeited in exchange for a lump sum payment of $150,000.

Employment Agreements and Other Compensation Arrangements

2012 Equity Incentive Plan ("EIP")

Our Board and stockholders approved our 2012 Equity Incentive Plan ("EIP") in August 2012. The EIP provides for grants of equity incentives to attract, motivate and retain the best available personnel for positions of substantial responsibility; to provide additional incentives to our employees, directors and consultants; and to promote the success and growth of our business. Equity incentives that may be granted under our EIP include: (i) incentive stock options qualified as such under U.S. federal income tax laws; (ii) stock options that do not qualify as incentive stock options; (iii) stock appreciation rights ("SARs"); (iv) restricted stock awards; (v) restricted stock units; and (vi) unrestricted stock awards.

Our compensation committee believes long-term incentive-based equity compensation is an important component of our overall compensation program because it:

- rewards the achievement of our long-term goals;
- aligns our executives' interests with the long-term interests of our stockholders;
- aligns compensation with sustained long-term value creation;
- encourages executive retention with vesting of awards over multiple years; and
- conserves our cash resources.

Our EIP is administered by our compensation committee, subject to the ultimate authority of our Board, which has full power and authority to take all actions and to make all determinations required or provided for under the EIP, including designation of grantees, determination of types of awards, determination of the number of shares of Common Stock subject an award and establishment of the terms and conditions of awards.

Under our EIP, originally 900,000 shares of our Common Stock were available for issuance. At the annual meeting of stockholders held on June 27, 2013, the Company's stockholders approved an amendment to the EIP to increase the number of common shares available for grant under the EIP from 900,000 shares to 1,800,000 shares. At a special meeting of stockholders held on November 13, 2013, the stockholders approved an amendment to the EIP to increase the number of common shares available for grant under the EIP from 1,800,000 shares to 6,800,000 shares and to increase the number of common shares eligible for grant under the EIP in a single year to a single participant from 1,000,000 shares to 3,000,000 shares. The number of shares issued or reserved pursuant to our EIP is subject to adjustment as a result of certain mergers, exchanges or other changes in our Common Stock.

As of December 31, 2013, 118,801 shares were available for issuance under the EIP.

During 2013, the compensation committee made grants of restricted stock and stock options under the EIP, including those to our directors and named executive officers set forth in the table below, subject to the vesting requirements set forth below.

Name	Restricted Stock Grant Value	Stock Option Grant Value
A. Bradley Gabbard	$ 150,000(1)	$ 261,873(4)
Abraham Mirman	245,000(2)	659,000(5)
W. Phillip Marcum	$ 150,000(3)	$ 261,873(4)

(1) All 93,750 shares vested April 15, 2014.
(2) These grants will vest, subject to performance thresholds detailed in his employment agreement.
(3) Pursuant to the Separation Agreement entered into in connection with the termination of Mr. Marcum's employment, all 93,750 shares were forfeited in exchange for a lump sum payment of $150,000.
(4) Calculated using a grant date fair value of $0.872 per share. We calculated the grant date fair value using a Black-Scholes model.
(5) Calculated using a grant date fair value of $0.3025 for 2,000,000 options, and $0.09 for 600,000 options, based on an independent valuation expert. See Note 13 "Share Based and Other Compensation" of the financial statements included herewith.

Employment Agreements and Other Arrangements

Messrs. Marcum and Gabbard

The Company entered into Employment Agreements with Mr. Marcum and Mr. Gabbard on June 20, 2013. The Employment Agreements contemplated that each of Mr. Marcum and Mr. Gabbard would receive an annual salary of $220,000, of which $150,000 would be payable in periodic installments in accordance with the Company's regular payroll practices, and $70,000 would be paid in lump sum at the end of then-current fiscal year, or, in the sole discretion of the Board, prorated over the one year period upon completion of a financing transaction. Each executive was eligible for a performance bonus in an amount up to 50% of annual base compensation payable on an annual basis and subject to determination by the compensation committee of the Board, based on the achievement by the Company of performance goals established by the compensation committee for the preceding fiscal year, which may include targets related to the Company's earnings before interest, taxes, depreciation and amortization, hydrocarbon production level, and hydrocarbon reserve amounts. Each executive also received an incentive grant of 300,000 stock options with a fair market value exercise price (as defined in the EIP), with one-third vesting immediately and two-thirds vesting in two annual installments on each of the next two anniversaries of the grant date, in each case subject to approval by the shareholders of the Company. Such stock options were to vest 100% upon a termination of employment by the Company without cause, by the executive for good reason, upon a change of control of the Company or upon the death or disability of executive, provided that such vesting be subject to approval by the shareholders of the Company. Each executive was also eligible to participate in all incentive, retirement, profit-sharing, life, medical, dental, disability and other benefit plans and programs as are from time to time generally available to executives of the Company with comparable responsibilities, subject to the provisions of those programs. Any such benefits will be paid for by the Company. Upon a termination due to death or disability, a termination initiated by the executive for any reason except for good reason, or a termination initiated by the Company with cause, the Company's obligation to pay any compensation or benefits ceases on the separation date. If the separation was initiated by the executive for good reason or by the Company for any reason other than cause, the Company would continue to pay the executive's monthly salary as then in effect for a period equal to twelve (12) months commencing on the separation date.

As a result of the Company's liquidity position, each of Mr. Marcum and Mr. Gabbard agreed to take 93,750 shares of Common Stock (based upon the closing price of $1.60 on June 24, 2013) in lieu of his respective base salary of $150,000 for 2013 (including amounts deferred to date), which shares were scheduled to vest on April 15, 2014.

On April 24, 2014, the Company entered into a separation agreement (the "Marcum Agreement") with Mr. Marcum in connection with his departure from the Company. The Marcum Agreement provides, among other things, that, consistent with his resignation for good reason under his Employment Agreement, (i) the Company will pay him 12 months of severance through payroll continuation, in the gross amount of $220,000, less all applicable withholdings and taxes, (ii) that all stock options held by Mr. Marcum as of the time of his termination immediately vested, and (iii) that Mr. Marcum will remain eligible to receive any performance bonus granted by the Company to its senior executives with respect to Company and/or executive performance in 2013. In addition, the Marcum Agreement provides that the Company will pay Mr. Marcum $150,000 in accrued base salary for his service in 2013, less all applicable withholdings and taxes, in exchange for Mr. Marcum's forfeiture of the 93,750 shares of unvested restricted Common Stock of the Company that was issued to Marcum in June 2013 in lieu of such base salary. Mr. Marcum may elect to apply amounts payable under the Marcum Agreement against his commitment to invest $125,000 in the Company's previously disclosed private offering, upon shareholder approval of the participation of the Company's officers and directors in that offering. The Marcum Agreement also contains certain mutual non-disparagement covenants, as well as certain mutual confidentiality, non-solicitation and non-compete covenants. In addition, Mr. Marcum and the Company each mutually released and discharged all known and unknown claims against the other and their respective representatives that they had or presently may have, including claims relating to Mr. Marcum's employment. The Marcum Agreement effectively terminated the Employment Agreement entered into between Mr. Marcum and the Company.

Mr. Mirman

In connection with his appointment as the Company's President, the Company entered into an Employment Agreement with Mr. Mirman (the "Mirman Agreement") dated September 16, 2013. The Mirman Agreement provides, among other things, that Mr. Mirman would receive an annual salary of $240,000 which was deferred until the Company successfully consummated a financing of any kind of not less than $2 million in gross proceeds. Additionally, he was granted 100,000 shares of Common Stock, which vested immediately and are fully paid and non-assessable as an inducement for joining the Company. Mr. Mirman was granted an option to purchase 600,000 shares of Common Stock of the Company, at a strike price equal to the Company's closing share price on the September 16, 2013, which become exercisable upon the date the Company receives gross cash proceeds or drawing availability of at least $30,000,000, measured on a cumulative basis and including certain restructuring transactions. Mr. Mirman was provided an incentive bonus package and an additional stock option grant, which will be granted once certain conditions specified in the Mirman Agreement are met.

Mr. Bell

In connection with his appointment as President and Chief Operating Officer, the Company entered into an employment agreement with Mr. Bell (the "Bell Agreement"), which has an initial term of three years, provides for an annual base salary of $240,000 subject to adjustment by the Company, as well as a signing bonus of $100,000 and 100,000 shares of Common Stock, subject to certain conditions set forth in the Bell Agreement. In addition, Mr. Bell will receive an equity incentive bonus consisting of a non-statutory stock option to purchase up to 1,500,000 shares of Common Stock and a cash incentive bonus of up to $1,000,000, both subject to Mr. Bell's continued employment. In addition, Mr. Bell's incentive bonuses are subject to the Company's achievement of certain production thresholds set forth in the Bell Agreement. The Bell Agreement effectively terminates the Independent Director Appointment Agreement between Mr. Bell and the Company, effective as of March 1, 2014. Mr. Bell remained a member of the Board, but will no longer be considered a non-employee director.

Narrative Disclosure to Summary Compensation Table

Overview

The following Compensation Discussion and Analysis describes the material elements of compensation for the named executive officers identified in the Summary Compensation Table above. As more fully described below, the compensation committee reviews and recommends to the full board of directors the total direct compensation programs for our named executive officers. Our chief executive officer also reviews the base salary, annual bonus and long-term compensation levels for the other named executive officers.

Compensation Philosophy and Objectives

Our compensation philosophy has been to encourage growth in our oil and natural gas reserves and production, encourage growth in cash flow, and enhance stockholder value through the creation and maintenance of compensation opportunities that attract and retain highly qualified executive officers. To achieve these goals, the compensation committee believes that the compensation of executive officers should reflect the growth and entrepreneurial environment that has characterized our industry in the past, while ensuring fairness among the executive management team by recognizing the contributions each individual executive makes to our success.

Based on these objectives, the compensation committee has recommended an executive compensation program that includes the following components:

- a base salary at a level that is competitive with the base salaries being paid by other oil and natural gas exploration and production enterprises that have characteristics similar to the Company and could compete with the Company for executive officer level employees;
- annual incentive compensation to reward achievement of the Company's objectives, individual responsibility and productivity, high quality work, reserve growth, performance and profitability and that is competitive with that provided by other oil and natural gas exploration and production enterprises that have some characteristics similar to the Company; and
- long-term incentive compensation in the form of stock-based awards that is competitive with that provided by other oil and natural gas exploration and production enterprises that have some characteristics similar to the Company.

As described below, the compensation committee periodically reviews data about the compensation of executives in the oil and gas industry. Based on these reviews, we believe that the elements of our executive compensation program have been comparable to those offered by our industry competitors.

Elements of Lilis's Compensation Program
The three principal components of the Company's compensation program for its executive officers, base salary, annual incentive compensation and long-term incentive compensation in the form of stock-based awards, are discussed below.

Base Salary.
Base salaries (paid in cash) for our executive officers have been established based on the scope of their responsibilities, taking into account competitive market compensation paid by our peer companies for similar positions. We have reviewed our executives' base salaries in comparison to salaries for executives in similar positions and with similar responsibilities at companies that have certain characteristics similar to the Company. Base salaries are reviewed annually, and typically are adjusted from time to time to realign salaries with market levels after taking into account individual responsibilities, performance, experience and other criteria.

The compensation committee reviews with the chief executive officer his recommendations for base salaries for the named executive officers, other than himself, each year. New base salary amounts have historically been based on an evaluation of individual performance and expected future contributions to ensure competitive compensation against the external market, including the companies in our industry with which we compete. The compensation committee has targeted base salaries for executive officers, including the chief executive officer, to be competitive with the base salaries being paid by other oil and natural gas exploration and production enterprises that have some characteristics similar to the Company. We believe this is critical to our ability to attract and retain top level talent.

Long Term Incentive Compensation.
We believe the use of stock-based awards creates an ownership culture that encourages the long-term performance of our executive officers. Our named executive officers generally receive a stock grant upon becoming an employee of the Company. These grants vest over time.

Other Benefits.
All employees may participate in our 401(k) retirement savings plan ("401(k) Plan"). Each employee may make before tax contributions in accordance with the Internal Revenue Service limits. We provide this 401(k) Plan to help our employees save a portion of their cash compensation for retirement in a tax efficient manner. We make a matching contribution in an amount equal to 100% of the employee's elective deferral contribution below 3% of the employee's compensation and 50% of the employee's elective deferral that exceeds 3% of the employee's compensation but does not exceed 5% of the employee's compensation.

All fulltime employees, including our named executive officers, may participate in our health and welfare benefit programs, including medical, dental and vision care coverage, disability insurance and life insurance.

Compensation of Directors

The table below sets forth the compensation earned by our non-employee directors during the 2013 fiscal year. There were no non-equity incentive plan compensation, stock options, change in pension value or any non-qualifying deferred compensation earnings during the 2013 fiscal year.

Name	Fees Earned or Paid in Cash Compensation	Stock Awards	Option Awards	All Other Compensation	Total
Timothy N. Poster	$ -	$ 90,000	$ 213,690	$ -	$ 303,690
Bruce B. White	$ -	$ 90,000	$ 213,690	$ -	$ 303,690
D. Kirk Edwards	$ -	$ 90,000	$ 213,690	$ -	$ 303,690

We have entered into independent director agreements with each of our non-employee directors. Pursuant to these agreements, we generally pay each of our non-employee directors' annual cash compensation of $40,000 (payable quarterly), and an additional $10,000 per year (payable quarterly) to the chairman of each of our audit and compensation committees (currently Mr. Edwards and Mr. Poster, respectively). In 2013, our directors agreed to receive restricted shares of our common stock in lieu of their cash compensation, and for each director to receive restricted shares equal to $50,000 as of the date of grant (without regard to additional fees payable to the chairs of committees). Accordingly, the Company granted Mr. Poster, Mr. Edwards and Mr. White each 31,250 shares on June 20, 2013.

In addition, on each anniversary of the date an independent director was initially appointed to our board (June 1, 2010 for Mr. Poster, April 24, 2012 for Mr. White, and May 18, 2012 for Mr. Edwards), so long as such director continues to be an independent director on such date, we issue to such director a number of shares of our Common Stock equal to $40,000 divided by the most recent closing price per share prior to the date of each annual grant. These grants are fully vested upon issuance. Accordingly, the Company granted Mr. Poster 24,096 shares on June 3, 2013, granted Mr. Edwards 23,810 shares on May 20, 2013, and granted Mr. White 25,641 on April 24, 2013.

The agreements permit a director to engage in other business activities in the energy industry, some of which may be in conflict with the best interests of Lilis Energy, and also states that if a director becomes aware of a business opportunity, he has no affirmative duty to present or make such opportunity available to the Company, except as may be required by his fiduciary duty as a director or by applicable law.

Indemnification of Directors and Officers

Pursuant to our certificate of incorporation we provide indemnification of our directors and officers to the fullest extent permitted under Nevada law. We believe that this indemnification is necessary to attract and retain qualified directors and officers.

Narrative Disclosure of Compensation Policies and Practices as they Relates to Risk Management

In accordance with the requirements of Regulation S-K, Item 402(e), to the extent that risks may arise from our compensating policies and practices that are reasonably likely to have a material adverse effect on the Company, we are required to discuss these policies and practices for compensating our employees (including employees that are not named executive officers) as they relate to our risk management practices and the possibility of incentivizing risk-taking. We have determined that the compensation policies and practices established with respect to our employees are not reasonably likely to have a material adverse effect on the Company and, therefore, no such disclosure is necessary. The compensation committee and the board for directors are aware of the need to routinely assess our compensation policies and practices and will make a determination as to the necessity of this particular disclosure on an annual basis.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Securities Authorized for Issuance under Equity Compensation Plans

The following table represents the securities authorized for issuance under our equity compensation plans as of December 31, 2013.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders (1)	—	—	1,208,384
Equity compensation plans not approved by security holders	900,000(2)	$ 4.25	—
Total	—	—	1,208,384

(1) Represents securities available for issuance under our EIP as of December 31, 2013.
(2) Represents warrants issued to TR Winston in connection with an investment banking agreement. See Item 13 "Certain Relationships and Related Transactions, and Director Independence."

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information with respect to beneficial ownership of our Common Stock as of June 1, 2014 by each of our executive officers and directors and each person known to be the beneficial owner of 5% or more of the outstanding Common Stock. This table is based upon the total number of shares outstanding as of June 1, 2014 of 27,628,827. Unless otherwise indicated, the persons and entities named in the table have sole voting and sole investment power with respect to the shares set forth opposite the stockholder's name, subject to community property laws, where applicable. Beneficial ownership is determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended. In computing the number of shares beneficially owned by a person or a group and the percentage ownership of that person or group, shares of our Common Stock subject to options or warrants currently exercisable or exercisable within 60 days after the date hereof are deemed outstanding by such person or group, but are not deemed outstanding for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated, the address of each stockholder listed in the table is c/o Lilis Energy, 1900 Grant Street, Suite #720, Denver, CO 80203.

Name and Address of Beneficial Owner	Common Stock Held Directly	Common Stock Acquirable Within 60 Days	Total Beneficially Owned	Percent of Class Beneficially Owned
Directors and Executive Officers				
Abraham Mirman, Chief Executive Officer	310,861	103,735	414,596(1)	1.49%
Robert A. Bell, President, Chief Operating Officer, and Director	150,000	-	150,000(2)	0.54%
Eric Ulwelling, Acting Chief Financial Officer	93,967	-	93,967(3)	0.34%
A. Bradley Gabbard, Former Chief Financial Officer	484,010	210,861	694,871(4)	2.50%
W. Phillip Marcum, Former Chief Executive Officer	274,053	410,861	684,914(5)	2.44%
Nuno Brandolini, Chairman	175,000	166,494	341,494(6)	1.23%
Timothy N. Poster, Director	219,786	-	219,786	0.80%
Bruce White, Director	220,269	-	220,269(7)	0.80%
D. Kirk Edwards, Director	237,687	-	237,687(8)	0.86%
Officers and directors as a group (nine persons)	**2,165,633**	**891,951**	**3,057,584**	**10.72%**
Pierre Calland Rutimatstrasse 16, 3780 Gstadd, Switzerland Tortola, British Virgin Islands	3,879,724	1,235,202	5,114,926(9)	17.72%
Wallington Investment Holdings, Ltd. Trident Chambers P.O. Box 146, Road Town Tortola, British Virgin Islands	3,310,984	51,868	3,362,852(10)	12.15%
G. Tyler Runnels 1999 Avenue of the Stars #2550 Los Angeles, CA 90067	1,818,109	323,238	2,141,347(11)	7.66%
Scott J. Reiman 730 17th Street, Suite 800 Denver, CO 80202	2,558,471	0	2,558,471(12)	9.26%
Hexagon, LLC 730 17th Street, Suite 800 Denver, CO 80202	2,250,000	0	2,250,000(13)	8.14%

Steven B. Dunn and Laura Dunn Revocable Trust DTD 10/28/10 16689 Schoenborn Street North Hills, CA 91343	2,379,686	416,667	2,796,353(14)	9.97%

(1) Includes (i) 110,861 shares of Common Stock held by The Bralina Group, LLC, in which Mr. Mirman has voting and dispositive power, (ii) 110,861 shares of Common Stock issuable upon exercise of warrants held by The Bralina Group, LLC, in which Mr. Mirman has voting and dispositive power, and (iii) 103,735 shares of Common Stock issuable upon conversion of the Company's Series A 8% Convertible Preferred Stock.

(2) Includes 50,000 shares of Common Stock subject to future vesting.

(3) Includes 75,389 shares of restricted Common Stock subject to future vesting.

(4) Includes 100,000 shares of Common Stock issuable upon the exercise of stock options exercisable until August 14, 2014, and 110,861 shares of Common Stock issuable upon the exercise of warrants. Mr. Gabbard resigned from his positions as an officer and a director of the Company on May 16, 2014.

(5) Includes 300,000 shares of Common Stock issuable upon the exercise of vested stock options exercisable until April 24, 2019, and 110,861 shares of Common Stock issuable upon the exercise of warrants. Mr. Marcum resigned from his positions as an officer and a director of the Company on April 18, 2014.

(6) Includes (i) 50,000 shares of restricted Common Stock subject to future vesting, (ii) 125,000 shares of Common Stock issuable upon exercise of warrants, and (iii) 41,494 shares of Common Stock issuable upon conversion of the Company Series A 8% Convertible Preferred Stock.

(7) Includes 16,667 shares of Common Stock subject to future vesting.

(8) Includes 16,667 shares of Common Stock subject to future vesting.

(9) Based upon information received from the shareholder. 3,310,984 shares of Common Stock are owned directly by Wallington Investment Holdings, Ltd. and indirectly by Mr. Pierre Caland, the holder of sole voting and dispositive power over such shares. 568,740 shares of Common Stock are owned directly by Silvercreek Investment Limited Inc. and indirectly by Mr. Caland, the holder of sole voting and dispositive power over such shares. Does not include (i) 1,027,506 shares of Common Stock issuable to Wallington upon the conversion of the remaining Debentures, with the right to convert being subject to shareholder approval, or (ii) 2,254,359 shares of Common Stock issuable upon the exercise of warrants, some of which are subject to conversion caps and some of which are not yet exercisable by their terms.

(10) Does not include (i) 1,027,506 shares of Common Stock issuable upon the conversion of the remaining Debentures, with the right to convert being subject to shareholder approval, or (ii) 2,254,359 shares of Common Stock issuable upon the exercise of warrants, some of which are subject to conversion caps and some of which are not yet exercisable by their terms.

(11) Includes (i) 952,090 shares held directly by TR Winston, of which Mr. Runnels is the majority owner, (ii) 1,025 shares held by G. Tyler Runnels directly, (iii) 15,000 shares held by G. Tyler Runnels through his self-directed 401(k) Plan, and (iv) 849,994 shares held by The Runnels Family Trust DTD 1-11-2000, of which Mr. Runnels, with Jasmine N. Runnels, is trustee. Does not include (i) 418,296 shares of Common Stock issuable to The Runnels Family Trust DTD 1-11-2000 upon the conversion of the remaining Debentures, with the right to convert being subject to shareholder approval, or (ii) 844,830 shares of Common Stock issuable to The Runnels Family Trust upon exercise of warrants, some of which are subject to conversion caps and some of which are not yet exercisable by their terms.

(12) Based upon Schedule 13D filed with the SEC on June 5, 2014. Includes (i) 1,250,000 shares owned by Hexagon, LLC ("Hexagon"), (ii) 1,000,000 shares underlying warrants held by Hexagon, (iii) 129,008 shares owned by Labyrinth Enterprises LLC, which is controlled by Scott J. Reiman, (iv) 129,463 shares owned by Reiman Foundation, which is controlled by Scott J. Reiman and (v) 50,000 shares owned by Scott J. Reiman. Mr. Reiman is President of Hexagon.

(13) Based upon Schedule 13D filed with the SEC on June 5, 2014. Includes (i) 1,250,000 shares owned by Hexagon, and (ii) 1,000,000 shares underlying warrants held by Hexagon.

(14) Based upon information received from a representative of Steven B. Dunn and Laura Dunn. Includes (i) 2,205,768 shares owned by Steven B. Dunn and Laura Dunn Revocable Trust, (ii) 86,959 shares owned by Beau 8, LLC, and (iii) 86,959 shares owned by Winston 8, LLC. Steven B. Dunn and Laura Dunn are trustees of the Trust and also share voting and dispositive power with respect to the shares owned by the LLCs. Does not include (i) 500,000 shares of Common Stock issuable upon the conversion of the remaining Debentures, with the right to convert being subject to shareholder approval, or (ii) 925,223 shares of Common Stock issuable to the Steven B. Dunn and Laura Dunn Revocable Trust upon the exercise of warrants, some of which are subject to conversion caps and some of which are not yet exercisable by their terms.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

During fiscal years 2012 and 2013, we have engaged in the following transactions with related parties:

T.R. Winston & Company, LLC

On September 8, 2012, the Company issued 50,000 shares, valued at $0.23 million, to T.R. Winston & Company LLC ("TR Winston") for acting as a placement agent of the Debentures issued on March 19, 2012, to certain existing debenture holders. The Company is amortizing the $0.23 million over the life of the loan as deferred financing costs. The Company amortized $0.13 million of deferred financing costs into interest expense during the year ended December 31, 2013, and has $0.22 million of deferred financing costs to be amortized through May 2014.

TR Winston and G. Tyler Runnels, its majority owner, also participated as investors in the Debentures, and purchased an aggregate of $1.41 million in Debentures between February 2011 and June 2013.

On April 15, 2013, the Company entered into an amendment of the Debentures to extend their maturity dates from February 8, 2014 to May 16, 2014. In consideration for the extended maturity date, the Company provided the holders of the Debentures an additional security interest in 15,000 acres of its undeveloped acreage.

On April 16, 2013, the Company entered into an agreement with a family trust controlled by Mr. Runnels to issue up to an additional $5.0 million in additional Debentures to existing Debenture holders, of which $1.5 million of would be issued on or before July 16, 2013. Between June 2013 through October 2013, the Company issued a total of $2.2 million in additional Debentures to existing Debenture holders. In November 2013, the Company paid TR Winston a commission of $40,000 in connection with the sale of these Debentures.

On May 10, 2013, the Company entered into a one-year, non-exclusive investment banking agreement with TR Winston. Among other things, the agreement provided for (i) initial compensation to TR Winston in the amount of 100,000 common shares, and three-year warrants to purchase up to 900,000 shares of the Company's common stock at a strike price of $4.25 per share (the "Retainer Fee"), (ii) a cash fee equal to 5% of the gross proceeds of any equity financing involving solely the issuance of common stock, or 6% for all other equity issuances, (iii) a cash expense allowance equal to 1% of the gross proceeds of any equity financing, (iv) warrants to purchase common stock equal to either 4% of the shares of common stock issued in connection with an equity offering or 2% of the shares to be issued upon conversion of convertible equity in such offering, (v) 3% of the total gross proceeds of any non-revolving, non-convertible credit facility debt financing, (vi) 1% of the amount initially drawn at closing on any revolving credit line or facility, and (vii) 1% of the issuance price of any credit enhancement instrument, including on an insured or guaranteed basis. (See Note 12-Shareholders Equity.)

Under the investment banking agreement, in addition to the Retainer Fee, the Company paid TR Winston $40,000 in connection with the 2013 Debenture offerings, $576,570 in connection with the January 2014 Private Offering (paid in cash and restricted stock), and $225,000 (paid in 112,500 shares of restricted stock) in connection with the Debenture Conversion Agreement. TR Winston invested $0.17 million of these fees in the January Private Placement. The Company is obligated to pay TR Winston additional fees of $0.16 million upon shareholder approval of the participation of certain directors and officers in the January 2014 Private Placement and conversion of the remaining outstanding Debentures.

In September 2013, the Company appointed Abraham Mirman as its President. Prior to joining the Company, Mr. Mirman was employed by TR Winston as its Managing Director of Investment Banking and continues to devote a portion of his time to serving in that role. In connection with the appointment of Mr. Mirman, the Company and TR Winston amended the investment banking agreement to provide that, upon the receipt by the Company of gross cash proceeds or drawing availability of at least $30,000,000, measured on a cumulative basis and including certain restructuring transactions, subject to the Company's continued employment of Mr. Mirman, TR Winston would receive from the Company a lump sum payment of $1 million. Mr. Mirman's compensation arrangements with TR Winston provide that upon TR Winston's receipt from the Company of the lump sum payment, TR Winston would make a payment of $1 million to Mr. Mirman. Mr. Mirman also received, as part of his compensation arrangement with TR Winston, the 100,000 common shares of the Company that were issued to TR Winston in conjunction with the investment banking agreement.

January 22, 2014, the Company paid TR Winston a commission equal to $486,000 (equal to 8% of gross proceeds at the closing of the January Private Placement). Of this $486,000 commission, $313,750 was paid in cash and $172,250 was paid in 86,125 Units. In addition, the Company paid TR Winston a non-accountable expense allowance of $182,250 (equal to 3% of gross proceeds at the closing of the January Private Placement) in cash. If the participation of certain of the Company's current and former officer and directors is approved by the Company's shareholders, the Company will pay TR Winston a commission equal to $114,000 (equal to 8% of gross proceeds of the Units members of the Company's officers and board of directors agreed to purchase in the January Private Placement) in 57,000 Units, and the Company will pay TR Winston a non-accountable expense allowance of $42,750 (equal to 3% of gross proceeds of the Units members of the Company's officers and board of directors agreed to purchase in the January Private Placement) in 21,375 Units. The Units issued to TR Winston were the same Units sold in the January Private Placement and were invested in the January Private Placement.

January 31, 2014, the Company paid TR Winston a commission equal to $450,000 (equal to 5% of the amount of Debentures converted pursuant to the Conversion Agreement) in the form of Common Stock at a price of $2.00 per share. In addition, the Company agreed to pay TR Winston a 5% fee on the conversion of any additional Debentures converted pursuant to the Conversion Agreement, payable in Common Stock at a price of $2.00 per share.

On March 28, 2014, the Company and TR Winston entered into a Transaction Fee Agreement in connection with the May Private Placement, pursuant to which the Company agreed to compensate TR Winston 5% of the gross proceeds of the May Private Placement, plus a $25,000 expense reimbursement. On April 29, 2014, the Company and TR Winston amended the Transaction Fee Agreement to increase TR Winston's compensation to 8% of the gross proceeds, plus an additional 1% of the gross proceeds as an expense reimbursement in addition to the $25,000 originally contemplated.

On May 19, 2014, the Company and the holders of the Debentures agreed to extend the maturity date under the Debentures until August 15, 2014, and on June 6, 2014, they agreed to further extend the maturity date under the Debentures from August 15, 2014 to January 15, 2015.

On May 30, 2014, the Company paid TR Winston a commission equal to $600,000 (equal to 8% of gross proceeds at the closing of the May Private Placement). Of this $600,000 commission, $51,850 was paid in cash to TR Winston, $94,150 was paid in cash to other brokers designated by TR Winston, and $454,000 was paid in shares of Preferred Stock. In addition, the Company paid TR Winston a non-accountable expense allowance of $75,000 (equal to 1% of gross proceeds at the closing of the May Private Placement) in cash.

June 6, 2014, TR Winston executed a commitment to purchase or effect the purchase by third parties of an additional $15 million in Preferred Stock, which transaction is to be consummated within ninety (90) days.

G. Tyler Runnels, the majority owner of TR Winston, beneficially holds more than 5% of the Company's Common Stock, including the holdings of TR Winston and his personal holdings. Mr. Mirman, the Company's Chief Executive Officer and former President, has served as the Managing Director, Investment Banking at TR Winston since April 2013, and continues to devote a portion of his time to serving in that role.

Hexagon

Hexagon, the Company's primary lender, also holds over 5% of the Company's common stock. On April 15, 2013, the Company and Hexagon agreed to amend the term loans to extend their maturity dates to May 16, 2014. Pursuant to the amendment, Hexagon agreed to (i) reduce the interest rate under the term loans from 15% to 10% beginning retroactively with March 2013, (ii) permit the Company to make interest-only payments for March, April, May, and June 2013, after which time the minimum secured term loan payment became $0.23 million, and (iii) forbear from exercising its rights under the term loan credit agreements for any breach that may have occurred prior to the amendment. In consideration for the extended maturity date, the reduced interest rate and minimum loan payment under the secured term loans, the Company provided Hexagon an additional security interest in 15,000 acres of its undeveloped acreage. (See Note 8-Loan Agreements.)

On May 19, 2014, the Company and Hexagon agreed to amend the term loans to extend their maturity dates to August 15, 2014, and agreed in principal to the settlement of all amounts outstanding under the term loans.

In addition, Hexagon and its affiliates have interests in certain of the Company's wells independent of Hexagon's interests under the term loans, for which Hexagon or its affiliates receive revenue and joint-interest billings.

Officers and Directors of the Company

Certain of the Company's directors and officers participated or committed to participate, directly and indirectly, as investors in the 2013 Debenture offerings, for an aggregate investment of $653,970.

On January 22, 2014, members of the Company's officers and board of directors agreed to purchase $1,4250,000 of the Units offered in the January Private Placement subject to receipt of shareholder approval as required by the Company's listing with NASDAQ.

On January 31, 2014, the Company entered into the Conversion Agreement with the holders of the Debentures, including The Bralina Group, LLC, in which Mr. Mirman has voting and dispositive power, W. Phillip Marcum, the Company's then Chief Executive Officer, and A. Bradley Gabbard, the Company's then Chief Financial Officer, pursuant to which, among other things, the parties agreed to convert $9 million of the approximately $15.8 million in outstanding principal and accrued and unpaid interest into shares of Common Stock at an exchange price of $2.00 per share. Each holder of the Debentures received one warrant to purchase one share of Common Stock at an exercise price equal to $2.50 per share for each share of Common Stock so issued.

On May 19, 2014, the Company and the holders of the Debentures agreed to extend the maturity date under the Debentures until August 15, 2014, and on June 6, 2014, they agreed to further extend the maturity date under the Debentures from August 15, 2014 to January 15, 2015.

Employment Agreements with Officers

See "Employment Agreements and Other Arrangements" above.

Compensation of Directors

See "Compensation of Directors" above.

Conflict of Interest Policy

The Board of Directors has recognized that transactions between the Company and certain related persons present a heightened risk of conflicts of interest. We have a corporate conflict of interest policy that prohibits conflicts of interests unless approved by the board of directors. Our board of directors has established a course of conduct whereby it considers in each case whether the proposed transaction is on terms as favorable or more favorable to the Company than would be available from a non-related party. Our board also looks at whether the transaction is fair and reasonable to us, taking into account the totality of the relationships between the parties involved, including other transactions that may be particularly favorable or advantageous to us. Each of the related party transactions described above was presented to our board of directors for consideration and each of these transactions was unanimously approved by our board of directors after reviewing the criteria set forth in the preceding two sentences.

Director Independence

Our Board of Directors has determined that each of Bruce B. White, Kirk D. Edwards, Timothy N. Poster and Nuno Brandolini qualifies as an independent director under rules promulgated by the SEC and NASDAQ listing standards, and has concluded that none of these directors has a material relationship with the Company that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Hein & Associates LLP became our independent registered public accounting firm on January 19, 2010. There were no disagreements in 2012 or 2013 on any matter of accounting principles or practices, financial statement disclosures or auditing scope or procedures.

The following table sets forth fees billed by our principal accounting firm of Hein & Associates LLP for the years ended December 31, 2012 and 2013:

	Year Ended December 31,	
	2013	**2012**
Audit Fees	$ 205,000	$ 175,000
Audit Related Fees	-	-
Tax Fees	12,000	12,000
All Other Fees	-	-
	$ 217,000	$ 187,000

Audit Fees. Fees for audit services consisted of the audit of our annual financial statements and reports on internal controls required by the Sarbanes-Oxley Act of 2002 and reviews of our quarterly financial statements.

Audit Related Fees. Fees billed for audit related services related to professional services rendered by Hein & Associates for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements but are not included in audit fees above.

Tax Fees. Fees for tax services consisted of tax preparation.

Audit Committee Pre-Approval Policy

The Company's independent registered public accounting firm may not be engaged to provide non-audit services that are prohibited by law or regulation to be provided by it, nor may the Company's independent registered public accounting firm be engaged to provide any other non-audit service unless it is determined that the engagement of the principal accountant provides a business benefit resulting from its inherent knowledge of the Company while not impairing its independence. Our Audit Committee must pre-approve permissible non-audit services. During fiscal year 2013, our Audit Committee approved 100% of the non-audit services provided by its independent registered public accounting firm.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

INDEX TO FINANCIAL STATEMENTS

a)

b) Financial statement schedules

Not applicable.

c) Exhibits

The information required by this Item is set forth on the exhibit index that follows the signature page to this Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LILIS ENERGY, INC.

Date: June 11, 2014

By: /s/ Abraham Mirman
Abraham Mirman
Chief Executive Officer
(Authorized Signatory)

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and the capacities and on the dates indicated.

Signature	Title	Date
/s/ Abraham Mirman Abraham Mirman	Chief Executive Officer (Principal Executive Officer)	June 11, 2014
/s/ Eric Ulwelling Eric Ulwelling	Interim/Acting Chief Financial Officer and Chief Accounting Officer, (Principal Financial Officer)	June 11, 2014
/s/ Robert A. Bell Robert A. Bell	Director , Chief Operating Officer, and President	June 11, 2014
/s/ Timothy N. Poster Timothy N. Poster	Director	June 11, 2014
/s/ D. Kirk Edwards D. Kirk Edwards	Director	June 11, 2014
/s/ Bruce B. White Bruce B. White	Director	June 11, 2014
/s/ Nuno Brandolini Nuno Brandolini	Director	June 11, 2014

Exhibit Index

The following exhibits are either filed herewith or incorporated herein by reference:

2.1	Membership Unit Purchase Agreement by and among Recovery Energy, Lanny M. Roof, Judith Lee and Michael Hlvasa dated as of September 21, 2009 (incorporated herein by reference to Exhibit 10.1 from our current report filed on Form 8-K filed on September 22, 2009).
3.1	Amended and Restated Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 from our current report filed on Form 8-K filed on October 20, 2011).
3.2	Certificate of Amendment to the Articles of Incorporation of Recovery Energy, Inc. (incorporated herein by reference to Exhibit 3.1 from our current report filed on Form 8-K filed on November 19, 2013).
3.3	Amended and Restated Bylaws (incorporated herein by reference to Exhibit 3.2 to the Company's current report on Form 8-K filed on June 18, 2010).
4.1	Warrant to Purchase Common Stock dated December 11, 2009 (incorporated by reference to Exhibit 4.2 to the Company's current report filed on Form 8-K filed on December 17, 2009).
4.2	Form of Warrant (incorporated by reference to Exhibit 4.1 to the Company's current report filed on Form 8-K on January 28, 2014).
4.3	Form of Warrant (incorporated by reference to Exhibit 4.1 to the Company's current report filed on Form 8-K on February 6, 2014).
4.4	Warrant to Purchase Common Stock of Recovery Energy, Inc. issued to Hexagon Investments, LLC dated April 14, 2010 (incorporated herein by reference to Exhibit 10.4 to the Company's current report filed on Form 8-K filed on April 20, 2010).
4.5	Form of Warrant Issued in Private Placement (incorporated herein by reference to Exhibit 4.1 to the Company's current report filed on Form 8-K filed on June 4, 2010).
4.6	Warrant to Purchase Common Stock of Recovery Energy, Inc. issued to Hexagon Investments, LLC (incorporated herein by reference to Exhibit 4.2 to the Company's current report filed on Form 8-K filed on June 4, 2010).
4.7	Five Year Warrant to Market Development Consulting Group, Inc. (incorporated herein by reference to Exhibit 10.2 to the Company's current report filed on Form 8-K filed on June 18, 2010).
4.8	Three Year Warrant to Market Development Consulting Group, Inc. (incorporated herein by reference to Exhibit 10.3 to the Company's current report filed on Form 8-K filed on June 18, 2010).
4.9	Warrant to Globe Media (incorporated herein by reference to Exhibit 10.4 to the Company's current report filed on Form 8-K filed on June 18, 2010).
4.10	Form of $2.20 Warrant Issued to Persons Exercising $1.50 Warrants (incorporated herein by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed on October 8, 2010).
4.11	Warrant Issued to Hexagon Investments, LLC on January 1, 2011 (incorporated herein by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed on January 4, 2011).
10.1	Credit Agreement with Hexagon Investments, LLC dated effective as of January 29, 2010 (incorporated herein by reference to Exhibit 10.12 to the Company's current report filed on Form 8-K filed on March 4, 2010).
10.2	Promissory Note for financing with Hexagon Investments, LLC dated as of January 29, 2010 (incorporated herein by reference to Exhibit 10.13 to the Company's current report filed on Form 8-K filed on March 4, 2010).
10.3	Nebraska Mortgage to Hexagon Investments, LLC dated as of January 29, 2010 (incorporated herein by reference to Exhibit 10.14 to the Company's current report filed on Form 8-K filed on March 4, 2010).
10.4	Colorado Mortgage to Hexagon Investments, LLC dated as of January 29, 2010 (incorporated herein by reference to Exhibit 10.15 to the Company's current report filed on Form 8-K filed on March 4, 2010).
10.5	Credit Agreement with Hexagon Investments, LLC dated effective as of March 25, 2010 (incorporated herein by reference to Exhibit 10.17 to the Company's current report filed on Form 8-K filed on March 25, 2010).
10.6	Promissory Note for financing with Hexagon Investments, LLC dated as of March 25, 2010 (incorporated herein by reference to Exhibit 10.18 to the Company's current report filed on Form 8-K filed on March 25, 2010).
10.7	Nebraska Mortgage to Hexagon Investments, LLC dated as of March 25, 2010 (incorporated herein by reference to Exhibit 10.19 to the Company's current report filed on Form 8-K filed on March 25, 2010).
10.8	Wyoming Mortgage to Hexagon Investments, LLC dated as of March 25, 2010 (incorporated herein by reference to Exhibit 10.20 to the Company's current report filed on Form 8-K filed on March 25, 2010).
10.9	Credit Agreement with Hexagon Investments, LLC dated as of April 14, 2010 (incorporated herein by reference to Exhibit 10.2 to the Company's current report filed on Form 8-K filed on April 20, 2010).
10.10	Promissory Note with Hexagon Investments, LLC dated April 14, 2010 (incorporated herein by reference to Exhibit 10.3 to the Company's current report filed on Form 8-K filed on April 20, 2010).

10.11	Wyoming Mortgage to Hexagon Investments, LLC dated April 14, 2010 (incorporated herein by reference to Exhibit 10.5 to the Company's current report filed on Form 8-K filed on April 20, 2010).
10.12	Letter Agreement with Hexagon Investments, LLC (incorporated herein by reference to Exhibit 10.4 to the Company's current report filed on Form 8-K filed on June 4, 2010).
10.13	Registration Rights Agreement with Hexagon Investments, Inc. (incorporated herein by reference to Exhibit 10.5 to the Company's current report filed on Form 8-K filed on June 18, 2010).
10.14	Stockholders Agreement with Hexagon Investments Incorporated (incorporated herein by reference to Exhibit 10.1 to the Company's current report filed on Form 8-K filed on June 29, 2010).
10.15	Amendments to Hexagon Investments, LLC Promissory Notes dated December 29, 2010 (incorporated herein by reference to Exhibit 10.2 to the Company's current report on Form 8-K filed on January 4, 2011).
10.16	Amendments to three Credit Agreements with Hexagon, LLC, dated March 15, 2012 (incorporated herein by reference to Exhibit 10.55 to the Company's annual report filed on Form 10-K on March 21, 2012).
10.17	Second Amendments to three Credit Agreements with Hexagon, LLC, dated July 31, 2012 (incorporated herein by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed on August 2, 2012).
10.18	Third Amendment to Credit Agreement (First Credit Agreement), dated November 8, 2012.
10.19	Third Amendment to Credit Agreement (Second Credit Agreement), dated November 8, 2012.
10.20	Third Amendment to Credit Agreement (Third Credit Agreement), dated November 8, 2012.
10.21	Fourth Amendment to Credit Agreement (First Credit Agreement), dated April 15, 2013 (incorporated herein by reference to Exhibit 10.57 to the Company's annual report on Form 10-K for the year ended December 31, 2012).
10.22	Fourth Amendment to Credit Agreement (Second Credit Agreement), dated April 15, 2013 (incorporated herein by reference to Exhibit 10.58 to the Company's annual report on Form 10-K for the year ended December 31, 2012).
10.23	Fourth Amendment to Credit Agreement (Third Credit Agreement), dated April 15, 2013 (incorporated herein by reference to Exhibit 10.59 to the Company's annual report on Form 10-K for the year ended December 31, 2012).
10.24	First Amendment to Nebraska Mortgage to Hexagon, LLC, dated March 1, 2013.
10.25	Wyoming Mortgage to Hexagon, LLC, dated March 1, 2013.
10.26	Form of Securities Purchase Agreement (incorporated herein by reference to Exhibit 10.1 to the Company's current report filed on Form 8-K filed on June 4, 2010).
10.27	Form of Registration Rights Agreement (incorporated herein by reference to Exhibit 10.2 to the Company's current report filed on Form 8-K filed on June 4, 2010).
10.28	Consulting Agreement with Market Development Consulting Group, Inc. dated January 17, 2014.
10.29	Form of Convertible Debenture Securities Purchase Agreement dated February 2, 2011 (incorporated herein by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed on February 3, 2011).
10.30	Form of Convertible Debenture (incorporated herein by reference to Exhibit 10.2 to the Company's current report on Form 8-K filed on February 3, 2011).
10.31	Amendment to 8% Senior Secured Convertible Debentures dated December 16, 2011 (incorporated herein by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed on December 19, 2011).
10.32	Second Amendment to 8% Senior Secured Convertible Debentures dated March 19, 2012 (incorporated herein by reference to Exhibit 10.56 to the Company's annual report filed on Form 10-K on March 21, 2012).
10.33	Securities Purchase Agreement for additional 8% Senior Secured Convertible Debentures dated March 19, 2012 (incorporated herein by reference to Exhibit 10.57 to the Company's annual report filed on Form 10-K on March 21, 2012).
10.34	Form of 8% Senior Secured Convertible Debentures dated March 19, 2012 (incorporated herein by reference to Exhibit 10.58 to the Company's annual report filed on Form 10-K on March 21, 2012).
10.35	Amendment to 8% Senior Secured Convertible Debenture and Waiver under Securities Purchase Agreement, dated July 23, 2012.
10.36	Amendment to Securities Purchase Agreement dated August 7, 2012 (incorporated herein by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed on August 9, 2012).
10.37	Amendment to Securities Purchase Agreement dated August 7, 2012 (incorporated herein by reference to Exhibit 10.2 to the Company's current report on Form 8-K filed on August 9, 2012).
10.38	Amendment to 8% Senior Secured Convertible Debentures due February 8, 2014, dated April 15, 2013 (incorporated herein by reference to Exhibit 10.56 to the Company's annual report on Form 10-K for the year ended December 31, 2013).
10.39	Letter Agreement with Debenture Holder dated April 16, 2013.
10.40	Securities Purchase Agreement dated June 18, 2013 (incorporated herein by reference to Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2013).
10.42	Form of Convertible Debenture (incorporated herein by reference to Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2013).
10.43	Letter Agreement dated June 18, 2013 regarding 8% Senior Secured Debentures (incorporated herein by reference to Exhibit 10.3 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2013).
10.44	Letter of Intent with Shoreline Energy Corp.
10.45†	Recovery Energy, Inc. 2012 Equity Incentive Plan dated August 31, 2012, as amended on November 13, 2013 (incorporated by reference to Exhibit 10.1 to the Company's current report filed on Form 8-K on November 19, 2013).
10.46†	Separation Agreement with Roger A. Parker dated as of November 15, 2012 (incorporated herein by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed on December 4, 2012).

10.47	Employment Agreement between the Company and A. Bradley Gabbard (incorporated herein by reference to Exhibit 10.4 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2013)
10.48†	Employment Agreement between the Company and W. Phillip Marcum (incorporated herein by reference to Exhibit 10.5 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2013).
10.49†	Employment Agreement between the Company and Abraham Mirman, dated September 16, 2013 (incorporated herein by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed on September 20, 2013).
10.50†	Independent Director Appointment Agreement with W. Phillip Marcum dated April 27, 2012 (incorporated herein by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed on May 2, 2012).
10.51†	Independent Director Appointment Agreement with Bruce B. White dated April 27, 2012 (incorporated herein by reference to Exhibit 10.2 to the Company's current report on Form 8-K filed on May 2, 2012).
10.52†	Amended and Restated Independent Director Appointment Agreement with Timothy N. Poster dated April 27, 2012 (incorporated herein by reference to Exhibit 10.32 to the Company's current report on Form 8-K filed on June 1, 2010).
10.53†	Independent Director Appointment Agreement with D. Kirk Edwards dated May 18, 2012 (incorporated by reference to Exhibit 10.1 to the Company's current report filed on Form 8-K on May 18, 2012).
10.55 †	Independent Director Appointment Agreements dated March 1, 2014.
10.56 †	Investment Banking Agreement with T.R. Winston dated as of May 10, 2013.
10.57 †	Amendment to Investment Banking Agreement with T.R. Winston dated as of September 16, 2013.
10.58 †	Stock Option Award Agreement with A. Bradley Gabbard dated as of June 25, 2013.
10.59 †	Stock Option Award Agreement with W. Phillip Marcum dated as of June 25, 2013.
10.60 †	Stock Option Award Agreement (600K) with Abraham Mirman dated as of September 16, 2013.
10.61 †	Stock Option Award Agreement (2M) with Abraham Mirman dated as of September 16, 2013.
10.62 †	Stock Option Award Agreement with D. Kirk Edwards dated as of October 24, 2013.
10.63 †	Stock Option Award Agreement with Bruce White dated as of October 24, 2013.
10.64 †	Stock Option Award Agreement with Timothy Poster dated as of October 24, 2013.
21.1	List of subsidiaries of the registrant (incorporated herein by reference to Exhibit 21.1 to the Company's registration statement on Form S-1 (333-164291).
23.1	Consent of Hein & Associates, LLP (included in its report on page F-1)
23.2	Consent of RE Davis.
31.1	Certifications Pursuant to Section 302 of Sarbanes Oxley Act of 2002.
31.2	Certifications Pursuant to Section 302 of Sarbanes Oxley Act of 2002.
32.1	Certifications Pursuant to Section 906 of Sarbanes Oxley Act of 2002.
32.2	Certifications Pursuant to Section 906 of Sarbanes Oxley Act of 2002.
99.1	Report of RE Davis.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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† Indicates a management contract or any compensatory plan, contract or arrangement.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Lilis Energy, Inc.

We have audited the accompanying consolidated balance sheets of Lilis Energy, Inc. and subsidiaries (together, the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lilis Energy, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Hein & Associates LLP
Denver, Colorado
June 11, 2014

LILIS ENERGY, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2013	December 31, 2012
Assets		
Current assets		
Cash	$ 165,365	$ 970,035
Restricted cash	504,623	671,382
Accounts receivable (net of allowance of $50,000 at December 31, 2013 and 2012, respectively)	467,337	934,591
Prepaid assets	195,716	13,458
Commodity price derivative receivable	6,679	-
Total current assets	1,339,720	2,589,466
Oil and gas properties (full cost method), at cost:		
Evaluated properties	68,213,467	58,610,095
Unevaluated acreage, excluded from amortization	18,663,569	28,067,005
Wells in progress, excluded from amortization	1,145,794	193,515
Total oil and gas properties, at cost	88,022,830	86,870,615
Less accumulated depreciation, depletion, amortization, and impairment	(45,457,637)	(43,187,962)
Net oil and gas properties, at cost	42,565,193	43,682,653
Other assets:		
Office equipment, net	91,161	90,630
Deferred financing costs, net	294,699	974,856
Restricted cash and deposits	215,541	215,435
Total other assets	601,401	1,280,921
Total Assets	$ 44,506,314	$ 47,553,040

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

LILIS ENERGY, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2013	December 31, 2012
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	$ 1,932,618	$ 1,831,590
Accrued expenses	1,439,956	1,411,016
Short term notes payable	10,662,904	388,351
Total current liabilities	14,035,478	3,630,957
Long term liabilities		
Asset retirement obligation	1,104,952	911,546
Term notes payable	8,111,436	18,947,963
Convertible notes payable, net of discount	14,586,618	10,300,361
Convertible notes conversion derivative liability	1,150,000	1,680,000
Total long-term liabilities	24,953,006	31,839,870
Total liabilities	38,988,484	35,470,827
Commitments and contingencies – Note 2,8,9,10,13 and 14		
Shareholders' equity		
Preferred stock, 10,000,000 authorized, none issued and outstanding	-	-
Common stock, $0.0001 par value: 100,000,000 shares authorized; 19,671,901 and 17,436,825 shares issued and outstanding as of December 31, 2013 and December 31, 2012, respectively	1,967	1,839
Additional paid in capital	121,451,232	118,296,679
Accumulated deficit	(115,935,369)	(106,216,305)
Total shareholders' equity	5,517,830	12,082,213
Total Liabilities and Shareholders' Equity	$ 44,506,314	$ 47,553,040

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

LILIS ENERGY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2013 and 2012

	2013	2012
Revenue		
Oil sales	$ 4,312,325	$ 5,898,459
Gas sales	340,609	406,216
Operating fees	148,474	174,779
Realized gains (loss) on commodity price derivatives	(17,572)	780,135
Unrealized gains on commodity price derivatives	2,475	-
Total revenue	4,786,311	7,259,589
Costs and expenses		
Production costs	1,217,853	1,421,177
Production taxes	263,437	227,455
General and administrative	4,965,279	4,331,328
Depreciation, depletion and amortization	2,388,871	4,549,303
Bad debt expense	-	77,957
Impairment of developed properties	-	26,658,707
Total costs and expenses	8,835,440	37,265,927
Loss from operations	(4,049,129)	(30,006,338)
Other income (expenses):		
Other income	11,062	5,896
Convertible notes conversion derivative gain	730,000	320,000
Interest expense	(6,410,996)	(8,056,232)
Total other income (expenses)	(5,669,934)	(7,730,336)
Net Loss	$ (9,719,063)	$ (37,736,674)
Net loss per common share		
Basic and diluted	$ (0.51)	$ (2.11)
Weighted average shares outstanding:		
Basic and diluted	18,990,383	17,902,013

The accompanying notes are an integral part of these financial statements

LILIS ENERGY, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended December 31, 2013 and 2012

	Common Stock		Additional Paid-In	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance, December 31, 2011	17,436,825	$ 1,744	$ 118,146,119	$ (68,479,631)	$ 49,668,232
Common stock issued in connection with interest payment on convertible debt	278,225	28	894,063	-	894,091
Common stock issued for deferred financing costs	50,000	5	229,995	-	230,000
Common stock issued for services	100,000	10	348,990	-	349,000
Common stock issued for compensation (board and employees)	529,351	52	1,836,512	-	1,836,564
Modification of common stock issued for compensation	-	-	(3,159,000)	-	(3,159,000)
Net Loss	-	-	-	(37,736,674)	(37,736,674)
Balance, December 31, 2012	18,394,401	$ 1,839	$ 118,296,678	$ (106,216,305)	$ 12,082,212
Common stock issued in connection with interest payment on convertible debt	636,282	64	1,167,933	-	1,167,997
Common stock issued in connection with Investment Banking Agreement	100,000	10	159,990	-	160,000
Common stock issued in connection with 2013 Executive and Board Compensation under the amended agreement	281,250	28	(28)	-	-
Common stock issued for compensation (board and employees)	259,968	26	857,097	-	857,123
Options issued to Executive Management and Board of Directors	-	-	455,056	-	455,056
Warrants issued to service organizations for 2013 services	-	-	514,506	-	514,506
Net Loss	-	-	-	(9,719,064)	(9,719,064)
Balance, December 31, 2013	19,671,901	$ 1,967	$ 121,451,232	$ (115,935,369)	$ 5,517,830

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

LILIS ENERGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013 and 2012

	Year ended December 31,	
	2013	**2012**
Cash flows from operating activities:		
Net loss	$ (9,719,064)	$ (37,736,674)
Adjustments to reconcile net loss to net cash used in operating activities:		
Impairment provision, proved leases	-	26,658,707
Common stock issued for convertible note interest	1,167,997	894,092
Bad debt	-	77,957
Common stock for services and compensation	1,986,685	(973,432)
Changes in the fair value of commodity price derivatives	6,679	(855,744)
Amortization of deferred financing costs	680,157	1,596,739
Change in fair value of convertible notes conversion derivative	(720,000)	(320,000)
Depreciation, depletion, amortization and accretion of asset retirement obligation	2,388,871	4,549,305
Accretion of debt discount	2,408,522	2,316,428
Changes in operating assets and liabilities:		
Accounts receivable	467,254	(228,934)
Restricted cash	166,758	260,783
Other assets	(182,256)	636,078
Accounts payable and other accrued expenses	129,967	(264,708)
Net cash used in operating activities	(1,218,430)	(3,389,403)
Cash flows from investing activities:		
Acquisition of undeveloped acreage	(1,404,121)	(536,249)
Drilling capital expenditures	(398,752)	(4,533,954)
Sale of undeveloped acreage interests	640,000	2,918,414
Additions of office equipment	(27,829)	(2,928)
Loss (gain) from hedge settlements	(13,359)	780,135
Investment in operating bonds	(106)	(29,379)
Net cash used in investing activities	(1,204,167)	(1,403,961)
Cash flows from financing activities:		
Proceeds from debt	2,179,902	5,000,000
Repayment of debt	(561,975)	(1,944,323)
Net cash provided by financing activities	1,617,927	3,055,677
Change in cash and cash equivalents	(804,670)	(1,737,687)
Cash and cash equivalents at beginning of period	970,035	2,707,722
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 165,365	$ 970,035
Supplemental disclosure:		
Cash paid for interest	$ 2,096,769	$ 3,201,312
Cash paid for income taxes	$ -	$ -
Non-cash transactions:		
Sale of property for receivable	$ -	$ 1,443,852
Debt issuance cost	$ -	$ 400,000
Stock and warrants issued for deferred financing costs	$ -	$ 230,000
Stock and warrants issued for prepaid financial advisory fees	$ 674,506	$ 349,000
Property additions for asset retirement obligation	$ 101,510	$ 198,110
Stock issued for payment on long-term debt	$ 1,167,997	$ 894,091

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

NOTE 1 – ORGANIZATION

On September 21, 2009, Universal Holdings, Inc. ("Universal"), a Nevada corporation, completed the acquisition of Coronado Acquisitions, LLC ("Coronado"). Under the terms of the acquisition, Coronado was merged into Universal. On October 12, 2009, Universal changed its name to Recovery Energy, Inc. On December 1, 2013, Recovery Energy, Inc. changed its name to Lilis Energy, Inc. ("Lilis", "Lilis Energy", "we", "our", and the "Company"). The acquisition was accounted for as a reverse acquisition with Coronado being treated as the acquirer for accounting purposes. Accordingly, the financial statements of Coronado and Recovery Energy have been adopted as the historical financial statements of Lilis.

The Company is an independent oil and gas exploration and production company focused on the Denver-Julesburg Basin ("DJ Basin") where it holds 112,000 net acres. Lilis drills for, operates and produces oil and natural gas wells through the Company's land holdings located in Wyoming, Colorado, and Nebraska.

All references to production, sales volumes and reserves quantities are net to our interest unless otherwise indicated.

NOTE 2 – LIQUIDITY

As of December 31, 2013, the Company had $18.77 million outstanding under its term loans with Hexagon, LLC ("Hexagon") and $15.58 million outstanding under its 8% Senior Secured Convertible Debentures (the "Debentures"). Both the term loans and the Debentures were to mature on May 16, 2014.

Since December 31, 2013, the Company has consummated the following transactions: (i) on January 22, 2014, the Company completed a private placement of units consisting of one share of Common Stock and one three-year warrant to purchase one share of Common Stock for aggregate gross proceeds of $5,918,250, plus an additional $1,425,000 in proceeds committed by certain officers and directors of the Company, which we expect to be funded upon our receipt of the required shareholder approval; (ii) on January 31, 2014, the Company entered into a Debenture Conversion Agreement, under which $9.0 million in Debentures was immediately converted to Common Stock at a price of $2.00 per common share; (iii) on May 19, 2014, the Company received extensions from both Hexagon and the remaining Debenture holders of the maturity dates under the Company's term loans and Debentures, respectively, from May 16, 2014 to August 15, 2014; (iv) on May 30, 2014, the Company and Hexagon entered into an agreement providing for the settlement of all amounts outstanding under the term loans, in exchange for two cash payments of $5.0 million each to be made by the Company to Hexagon, as well as the issuance to Hexagon of a two-year $6.0 million unsecured 8% note, maturity May 30, 2016, and 943,208 shares of unregistered Common Stock; (v) on May 30, 2014 the Company consummated a private placement to accredited investors of 8% Convertible Preferred Stock and three-year warrants to purchase Common Stock equal to 50% of the number of shares issuable upon full conversion of the Preferred Stock for gross proceeds of $7.50 million; (vi) on June 6, 2014, the holders of the remaining Debentures agreed to further extend the maturity date under the Debentures from August 15, 2014 to January 15, 2015; and (vii) on June 6, 2014, TR Winston executed a commitment to purchase or effect the purchase by third parties of an additional $15 million in Preferred Stock, which transaction is to be consummated within ninety (90) days. The consummation of these transactions has been partially reflected in the Company's balance sheet via the classification of certain portions of the Hexagon term loans and Debentures as long-term debt. Absent these transactions, all such debt would have otherwise been classified as current liabilities. (See Note 14 -Subsequent Events.)

The closing of these transactions provided the Company with working capital for general corporate purposes, as well as a portion of the initial capital requirements to initiate further development activities on two of its Wattenberg prospects. However, the Company will require additional capital to satisfy its obligations to Hexagon under the settlement agreement, to fund its current drilling commitments and capital budget plans, to help fund its ongoing overhead, and to provide additional capital to generally improve its working capital position. We anticipate that such additional funding will be provided by a combination of capital raising activities, including the selling of additional debt and/or equity securities, the selling of certain assets and by the development of certain of the Company's undeveloped properties via arrangements with joint venture partners. If we are not successful in obtaining sufficient cash sources to fund the aforementioned capital requirements, we may be required to curtail our expenditures, restructure our operations, sell assets on terms which may not be deemed favorable and/or curtail other aspects of our operations, including deferring portions of capital budget. There is no assurance that any such funding will be available to the Company.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Basis of Presentation

The accompanying financial statements were prepared by Lilis in accordance with generally accepted accounting principles ("GAAP") in the United States. The financial statements reflect all normal recurring adjustments which are, in the opinion of management, necessary to provide a fair statement of the results of operations and financial position.

Reclassification

Certain amounts in the 2012 consolidated financial statements have been reclassified to conform to the December 31, 2013 consolidated financial statement presentation. Such reclassifications had no effect on net loss.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of oil and gas reserves, assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates on an ongoing basis and base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances. Although actual results may differ from these estimates under different assumptions or conditions, we believe that our estimates are reasonable.

Our most significant financial estimates are associated with our estimated proved oil and gas reserves, assessments of impairment imbedded in the carrying value of undeveloped acreage and proven properties, as well as valuation of common stock used in various issuances of common stock, options and warrants, and estimated derivative liabilities.

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and highly liquid debt securities which have original maturities of 90 days or less at the purchase date.

Restricted Cash

Restricted cash consists of severance and ad valorem tax proceeds which are payable to various tax authorities. As of December 31, 2013 and 2012, the restricted cash balance was $0.50 million and $0.67 million, respectively.

Accounts Receivable

The Company records actual and estimated oil and gas revenue receivable from third parties at its net revenue interest. The Company also reflects costs incurred on behalf of joint interest partners in accounts receivable. Management periodically reviews accounts receivable amounts for collectability and records its allowance for uncollectible receivables under the specific identification method. The Company recorded an allowance for uncollectible receivables of $50,000 as of December 31, 2013 and 2012. Allowance for doubtful accounts are based primarily on joint interest billings for expenses related to oil and natural gas wells. Receivables which derive from sales of certain oil and gas production are collateral for our Loan Agreements. (See Note 7-Fair Value of Financial Instruments.)

During the year ended December 31, 2013, the Company did not write off any accounts receivable. During the year ended December 31, 2012, the Company wrote off accounts receivable for $0.03 million as bad debt expense.

Concentration of Credit Risk

The Company's cash, cash equivalents and short-term investments are invested at major financial institutions primarily within the United States. At December 31, 2013 and 2012, the Company's cash and cash equivalents were maintained in accounts that are insured up to the limit determined by the federal governmental agency. The Company may at times have balances in excess of the federally insured limits.

The Company's receivables are comprised of oil and gas revenue receivables and joint interest billings receivable. The amounts are due from a limited number of entities. Therefore, the collectability is dependent upon the general economic conditions and financial health of a small number purchasers and joint interest owners. The receivables are not collateralized. However, to date the Company has had minimal bad debts. As of December 31, 2013, the Company recorded an allowance for doubtful accounts of $50,000.

Significant Customers

During the year ended December 31, 2013 and 2012, the Company had one customer, Shell Trading (US), which accounted for approximately 83 percent and 67 percent, respectively, of our revenues.

However, the Company does not believe that the loss of a single purchaser, including Shell Trading (US), would materially affect the Company's business because there are numerous other purchasers in the area in which the Company sells its production.

Reserves

All of the reserves data included herein are estimates. Estimates of our crude oil and natural gas reserves are prepared in accordance with guidelines established by the SEC, including rule revisions designed to modernize the oil and gas company reserves reporting requirements, which we implemented effective December 31, 2010. Reservoir engineering is a subjective process of estimating underground accumulations of crude oil and natural gas. There are numerous uncertainties inherent in estimating quantities of proved crude oil and natural gas reserves. Uncertainties include the projection of future production rates and the expected timing of development expenditures. The accuracy of any reserves estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. As a result, reserves estimates may be different from the quantities of crude oil and natural gas that are ultimately recovered. In addition, economic producibility of reserves is dependent on the oil and gas prices used in the reserves estimate. Our reserves estimates are based on 12-month average commodity prices, unless contractual arrangements otherwise designate the price to be used, in accordance with SEC rules. However, oil and gas prices are volatile and, as a result, our reserves estimates will change in the future.

Estimates of proved crude oil and natural gas reserves significantly affect our depreciation, depletion, and amortization "DD&A" expense. For example, if estimates of proved reserves decline, the DD&A rate will increase, resulting in a decrease in net income. A decline in estimates of proved reserves could also result in an impairment charge, which would reduce earnings.

Oil and Gas Producing Activities

The Company follows the full cost method of accounting for oil and gas operations whereby all costs related to the exploration, non-production related development and acquisition of oil and natural gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling, developing and completing productive wells and/or plugging and abandoning non-productive wells, and any other costs directly related to acquisition and exploration activities. Proceeds from property sales are generally applied as a credit against capitalized exploration and development costs, with no gain or loss recognized, unless such a sale would significantly alter the relationship between capitalized costs and the proved reserves attributable to these costs. A significant alteration would typically involve a sale of 25% or more of proved reserves.

Depletion of exploration and development costs and depreciation of wells and tangible production assets is computed using the units-of-production method based upon estimated proved oil and gas reserves. Costs included in the depletion base to be amortized include (a) all proved capitalized costs including capitalized asset retirement costs net of estimated salvage values, less accumulated depletion, (b) estimated future development cost to be incurred in developing proved reserves; and (c) estimated decommissioning and abandonment/restoration costs, net of estimated salvage values, that are not otherwise included in capitalized costs.

The costs of undeveloped acreage are withheld from the depletion base until it is determined whether or not proved reserves can be assigned to the properties. When proved reserves are assigned to such properties or one or more specific properties are deemed to be impaired, the cost of such properties or the amount of the impairment is added to full cost pool which is subject to depletion calculations.

Under the full cost method of accounting, capitalized oil and gas property costs less accumulated depletion and net of deferred income taxes may not exceed an amount equal to sum of i.) the present value, discounted at 10%, of estimated future net revenues from proved oil and gas reserves, plus ii.) the cost of unproved properties not subject to amortization (without regard to estimates of fair value), or estimated fair value, if lower, of unproved properties that are not subject to amortization. Should capitalized costs exceed this ceiling, an impairment expense is recognized.

The present value of estimated future net cash flows was computed by applying: a flat oil price to forecast revenues from estimated future production of proved oil and gas reserves as of period-end, less estimated future expenditures to be incurred in developing and producing the proved reserves (assuming the continuation of existing economic conditions), less any applicable future taxes.

The Company recognized impairment expense of $0 and $26.66 million for the years ended December 31, 2013 and 2012, respectively.

Effective as of December 31, 2013, the Company completed an assessment of impairment related to its inventory of undeveloped acreage, which resulted in a reduction of the carrying value in the amount of $9.58 million. This impairment was recognized by a transfer of the impairment value from undeveloped acreage to developed properties. In assessing impairment, the Company analyzed all of its undeveloped acreage with expiration dates during the years ended December 31, 2014 and 2015, and that are not otherwise renewable, and impaired such acreage in the amount of $6.38 million. In addition to impairment related to near and intermediate term expirations, the Company assessed carrying value of its remaining acreage, and concluded that an additional impairment of $3.20 million was necessary. (See Note 4 – Oil and Gas Properties & Oil and Gas Properties Acquisitions and Divestitures.)

Wells in Progress

Wells in progress connotes wells that are currently in the process of being drilled or completed or otherwise under evaluation as to their potential to produce oil and gas reserves in commercial quantities. Such wells continue to be classified as wells in progress and withheld from the depletion calculation and the ceiling test until such time as either proved reserves can be assigned, or the wells are otherwise abandoned. Upon either the assignment of proved reserves or abandonment, the costs for these wells are then transferred to the full cost pool and become subject to both depletion and the ceiling test calculations. (See Note 5 – Wells in Progress.)

During the year ended December 31, 2013, the Company evaluated the wells in progress activity and transferred $0.18 million to evaluated properties for projects that were either completed or are no longer being evaluated.

As of December 31, 2013, the Company has $1.15 million in wells in progress compared to $0.19 million in wells in progress as of December 31, 2012. (See Note 5 – Wells in Progress.)

Deferred Financing Costs

As of December 31, 2013 and December 31, 2012, the Company recorded unamortized deferred financing costs of approximately $0.03 million and $0.97 million, respectively, related to the closing of its loans and credit agreements. Deferred financing costs include origination (warrants issued and overriding royalty interests assigned to Hexagon), legal and engineering fees incurred in connection with the Company's credit facility, which are being amortized over the term of the credit facility. The Company recorded amortization expense of approximately $0.71 million and $1.60 million, respectively, in the years ended December 31, 2013 and December 31, 2012. (See Note 8-Loan Agreements.)

Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of property and equipment range from one to seven years. The Company recorded $0.03 million and $0.02 million of depreciation for the years ended December 31, 2013 and December 31, 2012, respectively.

Impairment of Long-lived Assets

The Company accounts for long-lived assets (other than oil and gas properties) at cost. Other long-lived assets include property and equipment, prepaid advisory fees, and identifiable intangible assets with finite useful lives (subject to amortization, depletion, and depreciation). The Company may impair these assets whenever events or changes in circumstances indicate that the carrying amount such assets may not be fully recoverable. Recoverability is measured by comparing the carrying amount of an asset to the expected undiscounted future net cash flows generated by the asset. If it is determined that the asset may not be recoverable, and if the carrying amount of an asset exceeds its estimated fair value, an impairment charge is recognized to the extent of the difference.

As of December 31, 2013, no impairment has been recorded for long lived assets. As of December 31, 2012, no impairment was recorded for long lived assets other than the impairment of capitalized oil and gas property costs during December 31, 2013 and 2012 as discussed in undeveloped acreage and wells in progress. (See Note 4 – Oil and Gas Properties & Oil and Gas Properties Acquisitions and Divestitures.)

Fair Value of Financial Instruments

As of December 31, 2013 and 2012, the carrying value of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, accrued expenses, interest payable and customer deposits approximates fair value due to the short-term nature of such items. The carrying value of the Company's secured debt is carried at cost as the related interest rate, approximates rates currently available to the Company. Certain other assets and liabilities are measured at fair value. (See Note 7-Fair Value of Financial Instruments.)

Commodity Derivative Instrument

The Company utilizes swaps to reduce the effect of price changes on a portion of our future oil production. On a monthly basis, a swap requires us to pay the counterparty if the settlement price exceeds the strike price and the same counterparty is required to pay us if the settlement price is less than the strike price. The objective of the Company's use of derivative financial instruments is to achieve more predictable cash flows in an environment of volatile oil and gas prices and to manage its exposure to commodity price risk. While the use of these derivative instruments limits the downside risk of adverse price movements, such use may also limit the Company's ability to benefit from favorable price movements. The Company may, from time to time, add incremental derivative contracts to hedge additional production, restructure existing derivative contracts or enter into new transactions to modify the terms of current contracts in order to realize the current value of the Company's existing positions. (See Note 6-Derivitvies.)

The use of derivatives involves the risk that the counterparties to such instruments will be unable to meet the financial terms of such contracts. The Company's derivative contracts have typically been arranged with one counterparty. The Company has netting arrangements with this counterparty that provide for the offset of payables against receivables from separate derivative arrangements with the counterparty in the event of contract termination. The derivative contracts may be terminated by a non-defaulting party in the event of default by one of the parties to the agreement. The Company periodically enters into various commodity derivative financial instruments intended to hedge against exposure to market fluctuations of oil prices. As of December 31, 2013, the Company maintained an active commodity swap for 100 barrels of oil per day through January 31, 2014 at a price of $99.25 per barrel. (See Note 6-Derivitvies.)

Revenue Recognition

We record revenues from the sales of crude oil, natural gas and natural gas liquids when the product is delivered at a fixed or determinable price, title has transferred and collectability is reasonably assured.

Asset Retirement Obligation

The Company incurs retirement obligations for certain assets at the time they are placed in service. The fair values of these obligations are recorded as liabilities on a discounted basis. The costs associated with these liabilities are capitalized as part of the related assets and depreciated. Over time, the liabilities are accreted for the change in their present value. (See Note 7-Fair Value of Financial Instruments.)

For purposes of depletion calculations, the Company also includes estimated dismantlement and abandonment costs, net of salvage values, associated with future development activities that have not yet been capitalized as asset retirement obligations.

Asset retirement obligations incurred are classified as Level 3 (unobservable inputs) fair value measurements. The asset retirement liability is allocated to operating expense using a systematic and rational method. As of December 31, 2013 and 2012, the Company recorded a related liability of $1.11 million and $0.91 million. (See Note 7-Fair Value of Financial Instruments.)

The information below reconciles the value of the asset retirement obligation for the periods presented (in thousands):

	For the years ended December 31,	
	2013	2012
Balance, beginning of period	$ 912	$ 613
Liabilities incurred	66	198
Accretion expense	91	101
Change in estimate	36	-
Balance, end of period	$ 1,105	$ 912

Share Based Compensation

The Company measures the fair value of share-based compensation expense awards made to employees and directors, including stock options, restricted stock and employee stock purchases related to employee stock purchase plans, on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense ratably over the requisite service periods. The measurement of share-based compensation expense is based on several criteria, including but not limited to the valuation model used and associated input factors, such as expected term of the award, stock price volatility, risk free interest rate, dividend rate and award cancellation rate. These inputs are subjective and are determined using management's judgment. If differences arise between the assumptions used in determining share-based compensation expense and the actual factors, which become known over time, Lilis may change the input factors used in determining future share-based compensation expense.

Lilis accounts for warrant grants to non-employees whereby the fair values of such warrants are determined using the option pricing model at the earlier of the date at which the non-employee's performance is complete or a performance commitment is reached. (See Note 12- Shareholders Equity.)

Warrant Modification Expense

The Company accounts for the modification of warrants as an exchange of the old award for a new award. The incremental value is measured as the excess, if any, of the fair value of the modified award over the fair value of the original award immediately before modification, and is either expensed as a period expense or amortized over the performance or vesting date. We estimate the incremental value of each warrant using the Black-Scholes option pricing model. The Black-Scholes model is highly complex and dependent on key estimates by management. The estimate with the greatest degree of subjective judgment is the estimated volatility of our stock price. (See Note 12-Shareholder Equity.)

Loss per Common Share

Earnings (losses) per share are computed based on the weighted average number of common shares outstanding during the period presented. Diluted earnings (losses) per share are computed using the weighted-average number of common shares outstanding plus the number of common shares that would be issued assuming exercise or conversion of all potentially dilutive common shares. Potentially dilutive securities, such as conversion derivatives and stock purchase warrants, are excluded from the calculation when their effect would be anti-dilutive. As of December 31, 2013, a total of 6,773,913 and 3,665,859, respectively, of shares underlying warrants and convertible debentures have been excluded from the diluted share calculations as they were anti-dilutive as a result of net losses incurred. Accordingly, basic shares equal diluted shares for all periods presented.

Income Taxes

Prior to December 31, 2011, the Company filed its tax returns on an April 30 fiscal year end. During the year ended December 31, 2012, the Company received approval by the Internal Revenue Service ("IRS") to move the Company's tax year end to December 31 from April.

The Company uses the asset liability method in accounting for income taxes. Deferred tax assets and liabilities are recognized for temporary differences between financial statement carrying amounts and the tax bases of assets and liabilities, and are measured using the tax rates expected to be in effect when the differences reverse. Deferred tax assets are also recognized for operating loss and tax credit carry forwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is used to reduce deferred tax assets when uncertainty exists regarding their realization.

We recognize tax benefits only for tax positions that are more likely than not to be sustained upon examination by tax authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely to be realized upon settlement. A liability for "unrecognized tax benefits" is recorded for any tax benefits claimed in our tax returns that do not meet these recognition and measurement standards. As of December 31, 2013 and 2012, the Company has determined that no liability is required to be recognized. (See Note-11 Income Taxes.)

Our policy is to recognize any interest and penalties related to unrecognized tax benefits in income tax expense. However, we did not accrue interest or penalties at December 31, 2013 and December 31, 2012, because the jurisdiction in which we have unrecognized tax benefits does not currently impose interest on underpayments of tax and we believe that we are below the minimum statutory threshold for imposition of penalties. We do not expect that the total amount of unrecognized tax benefits will significantly increase or decrease during the next 12 months. The earliest years remaining subject to examination are December 31, 2011, April 30, 2011 and April 30, 2010. (See Note-11 Income Taxes.)

Recently Issued Accounting Pronouncements

Various accounting standards updates are issued, most of which represented technical corrections to the accounting literature or were applicable to specific industries, are not expected to a have a material impact on the Company's financial position, results of operations or cash flows.

NOTE 4 – OIL AND GAS PROPERTIES & OIL AND GAS PROPERTIES ACQUISITIONS AND DIVESTITURES

In February 2012, we completed the sale of our Grover Prospect acreage, under which we agreed to sell all of our oil and gas leases in the Grover Field in Weld County, Colorado to Bill Barrett Corporation for approximately $4.54 million.

In April, 2012, we made the decision to abandon one of our unconventional Niobrara wells that was categorized as a well in progress as of December 31, 2011. In conjunction with that decision, all capitalized drilling, completion and allocable lease costs related to this well in the amount of $4.8 million were transferred to developed properties. This transfer of costs contributed to a $3.27 impairment charge of developed properties derived from the ceiling test completed as of March 31, 2012. In December 2012, the Company made a decision to abandon the one remaining unconventional Niobrara well. In conjunction with the decision, all capitalized drilling, completion and allocable lease costs related to both wells-in-progress in the amount of $10.06 million were transferred to developed properties. Furthermore, the company analyzed all of its undeveloped acreage with expiration dates during the year ended December 31, 2015 and transferred $5.94 million to developed properties. Also, the Company reduced the PV-10 of the proved undeveloped reserve acreage by utilizing the assumption that its proven undeveloped reserves would be developed on a promoted basis, which reduced the production amounts to 25% of the Company's 100% ownership. As a result, the ceiling test performed by the Company yielded an increased impairment. The transfer of both of the costs to the developed properties and a reduction of proved undeveloped reserve acreage resulted in an impairment of $23.39 million during December 2012, for a total impairment of $26.66 million for the year ended December 31, 2012.

During 2012, the Company purchased $0.20 million of undeveloped oil and gas acreage interest located in the DJ Basin.

On December 27, 2012, the Company leased undeveloped acreage for total proceeds of $1.50 million in the DJ Basin to a private company granting a four-year lease for the deep rights on approximately 6,300 net acres. The Company paid Hexagon $0.75 million of the proceeds which reduced the long-term debt principal amount.

In February 2013, the Company completed the sale of certain oil and gas properties for $0.64 million.

In June 2013, the Company purchased a 50% working interest in a section in Laramie County, Wyoming for $0.60 million with an additional $0.13 million as additions to the well equipment and intangible equipment. The purchase was classified as $0.30 million into undeveloped acreage and $0.43 million into oil and gas properties.

Effective as of December 31, 2013, the company impaired all of its undeveloped acreage with expiration dates prior to 2016 that are not otherwise extendable, and transferred $6.12 million of the cost of such acreage to developed properties. Also, the Company also completed its annual impairment analysis of undeveloped acreage and transferred an additional amount of $3.20 million in carrying cost from unevaluated leaseholds to evaluated leaseholds.

Depreciation, depletion and amortization ("DD&A") expenses related to the proved properties were approximately $2.39 million and $4.55 million for the years ended December 31, 2013 and December 31, 2012, respectively. During the year ended December 31, 2012, the company impaired the carrying costs of its developed oil and gas properties by $26.66 million, respectively, as a result of an excess of carrying costs above the applicable ceiling threshold based on the fair market value of the proved developed and proved undeveloped acreage. No such impairment expense has been recognized in the year ended December 31, 2013.

The following table sets forth a summary of oil and gas property costs (net of divestitures) not being amortized as of December 31, 2013 and 2012 (in thousands):

	As of December 31,	
	2013	2012
Undeveloped acreage		
Beginning Balance	$ 28,067	$ 45,697
Acquisitions	368	204
Transferred to evaluated properties	-	-
Leased deep rights of undeveloped acreage	-	(1,444)
Impairment and other reclassification to evaluated properties	(9,771)	(16,390)
Total undeveloped acreage	$ 18,664	$ 28,067
Wells in progress:		
Beginning Balance	$ 194	$ 6,426
Additions	1,125	3,824
Reclassification to evaluated properties	(173)	(10,056)
Total wells in progress	$ 1,146	$ 194
Total property not subject to DD&A	$ 19,810	$ 28,261

NOTE 5 – WELLS IN PROGRESS

The following table reflects the net changes in capitalized additions to wells in progress during 2013 and 2012 (in thousands):

	As of December 31,	
	2013	2012
Wells in progress:		
Beginning Balance	$ 194	$ 6,426
Additions	1,125	3,824
Reclassification to developed properties	(173)	(10,056)
Total wells in progress	$ 1,146	$ 194

During the year ended December 31, 2013, the Company evaluated the wells in progress activity and transferred $0.18 million to evaluated properties for projects that were neither completed or are no longer being evaluated.

During the fourth quarter of 2013, the Company funded the drilling of a horizontal well in North Wattenberg for a $1.07 million. Completion of the well is scheduled for second quarter 2014.

In 2012, we made the decision to abandon both of our unconventional Niobrara wells that were categorized as a well in progress as of December 31, 2011. In conjunction with that decision, all capitalized drilling, completion and allocable lease costs related to these wells in the amount of $10.06 million were transferred to developed properties.

NOTE 6 - DERIVATIVES

The Company periodically enters into various commodity derivative financial instruments intended to hedge against exposure to market fluctuations of oil prices. As of December 31, 2013, the Company maintained an active commodity swap for 100 barrels of oil per day through January 31, 2014 at a price of $99.25 per barrel.

The amount of gain (loss) recognized in income related to our derivative financial instruments was as follows (in thousands):

	For the Year Ended December 31,	
	2013	2012
Realized gain (loss) on oil price hedges	$ (17)	$ 780
Unrealized gain oil price hedges	$ 2	$ -

Realized gains and losses are recorded as individual swaps mature and settle. These gains and losses are recorded as income or expenses in the periods during which applicable contracts settle. Swaps which are unsettled as of a balance sheet date are carried at fair market value, either as an asset or liability. Unrealized gains and losses result from mark-to-market changes in the fair value of these derivatives between balance sheet dates. (See Note 7 - Fair Value of Financial Instruments.)

NOTE 7 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company measures fair value of its financial assets on a three-tier value hierarchy, which prioritizes the inputs, used in the valuation methodologies in measuring fair value:

- Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Other inputs that are directly or indirectly observable in the marketplace.
- Level 3 – Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company's cash equivalents, short-term investments, accounts receivable, accounts payable, accrued expenses, interest payable and customer deposits approximate fair value due to the short-term nature or maturity of the instruments. The Company's fixed rate 10% and 8% term loans and convertible debentures, respectively, are measured using Level 3 inputs.

Executive Compensation

In September, 2013, we announced the appointment of Abraham Mirman as our new president. In connection with Mr. Mirman's appointment, the Company entered an employment agreement with Mr. Mirman (the "Mirman Agreement"). The Mirman Agreement provides for an incentive bonus package that, depending upon the relative performance of the Company's common stock compared to the performance of stocks of certain peer group companies as measured from Mr. Mirman's initial date of employment through December 31, 2014, may result in a cash bonus payment to Mr. Mirman of up to 3.0 times his base salary. The incentive bonus is recorded as a liability and will be valued every quarter. The Company engaged a third party to complete a valuation of this conversion liability. As of December 31, 2013, the Company recorded a liability of $0.15 million. (See Note 13-Share Based and Other Compensation.)

Derivative Instruments

The Company determines its estimate of the fair value of derivative instruments using a market approach based on several factors, including quoted market prices in active markets, quotes from third parties, and the credit rating of its counterparty. The Company also performs an internal valuation to ensure the reasonableness of third-party quotes.

The types of derivative instruments utilized by the Company included commodity swaps. The oil derivative markets are highly active. Although the Company's economic hedges are valued using public indices, the instruments themselves are traded with third-party counterparties and are not openly traded on an exchange. As such, the Company has classified these instruments as Level 2.

In evaluating counterparty credit risk, the Company assessed the possibility of whether the counterparty to the derivative would default by failing to make any contractually required payments. The Company considered that the counterparty is of substantial credit quality and has the financial resources and willingness to meet its potential repayment obligations associated with the derivative transactions. (See Note 6-Derivitives.)

Asset Retirement Obligation

The fair value of the Company's asset retirement obligation liability is calculated at the point of inception by taking into account: 1) the cost of abandoning oil and gas wells, which is based on the Company's and/or Industry's historical experience for similar work, or estimates from independent third-parties; 2) the economic lives of its properties, which are based on estimates from reserve engineers; 3) the inflation rate; and 4) the credit adjusted risk-free rate, which takes into account the Company's credit risk and the time value of money. Given the unobservable nature of the inputs, the initial measurement of the asset retirement obligation liability is deemed to use Level 3 inputs.

Convertible Debentures Payable Conversion Feature

In February 2011, the Company issued in a private placement $8.40 million aggregate principal amount of three year 8% Senior Secured Convertible Debentures ("Debentures") with a group of accredited investors. During the year ended December 31, 2012, the Company issued an additional $5.00 million of Debentures, resulting in a total of $13.40 million of Debentures outstanding as of December 31, 2012. Through December 31, 2013, the Company issued an additional $2.20 million of supplemental convertible debentures As of December 31, 2013 the Company had a total debenture amount of $15.58 million. As of December 31, 2013, the Debentures are convertible at any time at the holders' option into shares of our common stock at $4.25 per share, subject to certain adjustments, including the requirement to reset the conversion price based upon any subsequent equity offering at a lower price per share amount. The Company engaged a third party to complete a valuation of this conversion liability. (See Note 8-Loan Agreements.)

The following table provides a summary of the fair values of assets and liabilities measured at fair value (in thousands):

December 31, 2013:

	Level 1	Level 2	Level 3	Total
Assets				
Commodity derivative instruments	$ -	$ 7	$ -	$ 7
Total assets, at fair value	$ -	$ 7	$ -	$ 7
Liability				
Executive employment agreement	$ -	$ -	$ (145)	$ (145)
Convertible debentures conversion derivative liability	$ -	$ -	$ (1,150)	$ (1,150)
Total liability, at fair value	$ -	$ -	$ (1,295)	$ (1,295)

December 31, 2012:

	Level 1	Level 2	Level 3	Total
Liability				
Commodity derivative instruments	$ -	$ -	$ -	$ -
Convertible debentures conversion derivative liability	-	-	(1,680)	(1,680)
Total liability at fair value	$ -	$ -	$ (1,680)	$ (1,680)

The following table provides a summary of changes in fair value of the Company's Level 3 financial assets and liabilities as of December 31, 2013 (in thousands):

Beginning balance, December 31, 2012	$ (1,680)
Executive employment agreement liability	(145)
Convertible debentures conversion derivative gain	730
Additions to derivative liability from Supplemental Debenture	(200)
Ending balance, December 31, 2013	$ (1,295)

The Company did not have any transfers of assets or liabilities between Level 1, Level 2 or Level 3 of the fair value measurement hierarchy during the year ending December 31, 2013 and 2012.

NOTE 8 - LOAN AGREEMENTS

Term Loans

The Company entered into three separate loan agreements with Hexagon in January, March and April 2010. All three loans originally bore annual interest at a rate of 15% (which has been reduced, as discussed below), each had an original maturity date of December 1, 2010 (which has been extended, as discussed below), and have similar terms, including customary representations and warranties and indemnification, and require the Company to repay the loans with the proceeds of the monthly net revenues from the production of the acquired properties. The loans contain cross collateralization and cross default provisions and are collateralized by mortgages against a portion of the Company's developed and undeveloped leasehold acreage.

In April 2013, Hexagon agreed to amend all three loan agreements to extended the maturity date to May 16, 2014, reduce the annualized interest rate to 10% from 15% beginning retroactively with March 2013, decrease our minimum monthly payment under the term loans to $0.23 and allow us to make interest-only payments for March, April, May, and June. In consideration for the extended maturity date, reduced interest rate, and reduced minimum loan payment, we provided Hexagon an additional security interest in 15,000 acres of our undeveloped acreage.

The Company is subject to certain non-financial covenants with respect to the Hexagon loan agreements. As of December 31, 2013, the Company was in compliance with all covenants under the facilities.

As of December 31, 2013, the total amount outstanding on the three loan agreements was $18.77 million.

On May 19, 2014, the Company received an extension from Hexagon of the maturity date under its term loans, from May 16, 2014 to August 15, 2014. On May 30, 2014, the Company entered into a Settlement Agreement (the "Settlement Agreement") with Hexagon, which provides for the settlement of all amounts outstanding under the Term Loans. In connection with the execution of the Settlement Agreement, the Company made an initial cash payment of $5.0 million. The Settlement Agreement requires the Company to make an additional cash payment of $5.0 million (the "Second Cash Payment") by June 30, 2014, and at that time issue to Hexagon (i) a two-year $6.0 million unsecured note (the "Replacement Note"), bearing interest at an annual rate of 8%, requiring principal and interest payments of $90,000 per month, and (ii) 943,208 shares of unregistered common stock (the "Shares"). The parties have also agreed that if the Second Cash Payment is not made by June 30, 2014, an additional $1.0 million in principal will be added to the Replacement Note, and if the Replacement Note is not retired by December 31, 2014, the Company will issue an additional 1.0 million shares of its common stock to Hexagon. Finally, Hexagon will not, until the earlier of June 30, 2014 or the date the Company achieves sustained average trading volume in excess of 100,000 shares per day for at least ten consecutive trading days, sell or otherwise transfer for value any shares of the Company's common stock or any securities convertible into the Company's common stock, and thereafter until December 31, 2014, Hexagon will not sell or otherwise transfer for value more than 10,000 shares per week of the Company's common stock or any securities convertible into the Company's common stock. Under the Settlement Agreement, Hexagon will release its security interest under the Term Loans once the Company has delivered the Second Cash Payment, the Replacement Note and the Shares. (See Note 14-Subsequent Events.)

Convertible Debentures Payable

In February 2011, the Company completed a private placement of $8.40 million aggregate principal amount of the Debentures, secured by mortgages on several of our properties. Initially, the Debentures were convertible at any time at the holders' option into shares of our common stock at $9.40 per share, subject to certain adjustments, including the requirement to reset the conversion price based upon any subsequent equity offering at a lower price per share amount. Interest at an annualized rate of 8% is payable quarterly on each May 15, August 15, November 15 and February 15 in cash or, at the Company's option, in shares of common stock, valued at 95% of the volume weighted average price of the common stock for the 10 trading days prior to an interest payment date. The Company can redeem some or all of the Debentures at any time. The redemption price is 115% of principal plus accrued interest. If the holders of the Debentures elect to convert the Debentures, following notice of redemption, the conversion price will include a make-whole premium equal to the interest accruable through the 18 month anniversary of the original issue date of the Debenture less the amount of any interest paid on the portion of the Debenture being redeemed prior to the optional redemption date, payable in common stock. TR Winston acted as placement agent for the private placement and received $0.04 million of Debentures equal to 5% of the gross proceeds from the sale. The Company is amortizing the $0.04 million over the life of the loan as deferred financing costs. The Company amortized $0.01 million of deferred financing costs into interest expense during the year ended December 31, 2013, and has $0.03 million of deferred financing cost to be amortized through May 2014.

In December 2011, the Company agreed to amend the Debentures to lower the conversion price to $4.25 from $9.40 per share. This amendment was an inducement consideration to the Debenture holders for their agreement to release a mortgage on certain properties so the properties could be sold. The sale of these properties was effective December 31, 2011, and a final closing occurred during first quarter of 2012.

On March 19, 2012, the Company entered into agreements with some of its existing Debenture holders to issue up to $5.0 million in additional debentures (the "Supplemental Debentures"). Under the terms of the Supplemental Debenture agreements, proceeds derived from the issuance of Supplemental Debentures were used principally for the development of certain of the Company's proved undeveloped properties and other undeveloped acreage currently targeted by the Company for exploration, as well as for other general corporate purposes. Any new producing properties developed from the proceeds of Supplemental Debentures are to be pledged as collateral under a mortgage to secure future payment of the Debentures and Supplemental Debentures. All terms of the Supplemental Debentures are substantively identical to the Debentures. The Agreements also provided for the payment of additional consideration to the purchasers of Supplemental Debentures in the form of a proportionately reduced 5% carried working interest in any properties developed with the proceeds of the Supplemental Debenture offering.

Through July 2012, we received $3.04 million of proceeds from the issuance of Supplemental Debentures, which were used for the drilling and development of six new wells, resulting in a total investment of $3.69 million. Four of these wells resulted in commercial production, and two wells were plugged and abandoned.

In August 2012, the Company and holders of the Supplemental Debentures agreed to renegotiate the terms of the Supplemental Debenture offering. These negotiations concluded with the issuance of an additional $1.96 million of Supplemental Debentures. The August 2012 modifications to the Supplemental Debenture agreements increased the carried working interest from 5% to 10% and also provided for a one-year, proportionately reduced net profits interest of 15% in the properties developed with the proceeds of the Supplemental Debenture offering, as well as the next four properties to be drilled and developed by the Company. In conjunction with commitments to additional Debentures in June 2013 (see below), the commitment to provide a 10% carried interest and a 15% one year net profits interest related to the development of four future properties was modified to a 15% carried interest in such properties. As a result, of the modified carried working interest to 15%, $0.16 million of debt discount was reversed.

On September 8, 2012, the Company issued 50,000 shares, valued at $0.23 million, to TR Winston for acting as a placement agent of the Supplemental Debentures. The Company is amortizing the $0.23 million over the life of the loan as deferred financing costs. The Company amortized $0.13 million and $0.05 million of deferred financing costs into interest expense during the year ended December 31, 2013 and 2012, and has $0.05 million of deferred financing costs to be amortized through May 2014.

In April 2013, the holders of the Debentures agreed to extend their maturity date to May 16, 2014. On May 19, 2014, the Company received an extension on the Debentures until August 15, 2014. The Debentures waived their right to declare an event of default in connection with the May 15, 2014 maturity date under the Debenture agreement. In consideration for the extended maturity date the Company provided an additional security interest in 15,000 acres of our undeveloped acreage, as additional collateral for the Debentures.

In April 2013, we received approval from our existing secured debt and convertible debenture holders to issue up to $5.00 million of additional convertible debentures with terms substantially identical to our existing convertible debentures. As of November 8, 2013 we have issued $2.20 million of such convertible debt, inclusive of $2.21 million that had been issued as of December 31, 2013. Two officers of the Company participated in the additional convertible debentures for a combined total of $0.43 million. Proceeds from the issuance of this convertible debt have been used toward the development of certain specific properties, and to a lesser extent, general corporate purposes. The recent commitments were subject to certain yield enhancements, including a 25% carried interest in certain properties scheduled to be developed with the proceeds. During the year ended December 31, 2013, the Company paid TR Winston $0.04 million as acting placement agent for the additional $2.20 million of supplemental debentures. The Company amortized $.01 million for the year ended December 31, 2013, and has $0.03 million of deferred financing costs to be amortized through May 2014.

We periodically engage a third party valuation firm to complete a valuation of the conversion feature associated with the Debentures, and with respect to December 31, 2013, the Supplemental Debentures. This valuation resulted in an estimated derivative liability as of December 31, 2013 and December 31, 2012 of $1.15 million and $1.68 million, respectively. The portion of the derivative liability that is associated with the October 2013 Supplemental Debentures, in the approximate amount of $0.50 million has been recorded as a debt discount, and is being amortized over the remaining life of the Supplemental Debentures. (See Note 7-Fair Value of Financial Instruments.)

During the year ended December 31, 2013 and 2012, the Company amortized $2.41 million and $2.36 million, respectively, of debt discounts.

On January 31, 2014, the Company entered into a Debenture Conversion Agreement (the "Conversion Agreement") between the Company and all of the holders of the Debentures. Under the terms of the Agreement, $9 million of the approximately $15.6 million in Debentures then outstanding immediately converted to common stock at a price of $2.00 per common share. The balance of the Debentures may be converted to common stock, subject to receipt of shareholder approval as required by NASDAQ continued listing requirements. As additional inducement for the conversions, the Conversion Agreement provides that the Company issue warrants to the converting Debenture holders to purchase one share of Common Stock, at an exercise price equal to $2.50 per share (the "Warrants"), for each share of Common Stock issued upon conversion of the Debentures. (See Note 14-Subsequent Events.)

On May 19, 2014, the holders of the Debentures agreed to extend the maturity date of the Debentures until August 15, 2014, and waived their right to declare an event of default in connection with the May 16, 2014 maturity date under the Debentures. On June 6, 2014, the holders of the remaining Debentures agreed to further extend the maturity date under the Debentures from August 15, 2014 to January 15, 2015. (See Note 14-Subsequent Events.)

As of December 31, 2013 and 2012, the convertible debt is recorded as follows (in thousands):

	As of December 31, 2013	As of December 31, 2012
Convertible debentures	$ 15,580	$ 13,400
Debt discount	(993)	(3,100)
Total convertible debentures, net	$ 14,587	$ 10,300

As a result of the Conversion Agreement, the Debentures are being carried on the balance sheet as of December 31, 2013 as long term liabilities. The convertible debentures have been extended to January 15, 2015 by all of the convertible debenture owners. (See Note 14-Subsequent Events.)

As a result of the Hexagon Settlement Agreement, the Term Notes are being carried on the balance sheet as of December 31, 2013 as follows (in thousands):

	As of December 31, 2013
Total Term Notes	$ 18,774
Short term notes payable	(10,663)
Long term notes payable	$ 8,111

Annual debt maturities as of December 31, 2013 (in thousands):

Year 1	$ 10,663
Year 2	23,691
Thereafter	-
Total	$ 34,354

Interest Expense

For the year ended December 31, 2013 and 2012, the Company incurred interest expense of approximately $6.41 million and $8.06 million, respectively, of which approximately $4.04 million and $4.85 million, respectively, were non-cash interest expense and amortization of the deferred financing costs, accretion of the convertible debentures payable discount, and convertible debentures interest paid in common stock.

NOTE 9 - COMMITMENTS and CONTINGENCIES

Environmental and Governmental Regulation

At December 31, 2013, there were no known environmental or regulatory matters which are reasonably expected to result in a material liability to the Company. Many aspects of the oil and gas industry are extensively regulated by federal, state, and local governments in all areas in which the Company has operations. Regulations govern such things as drilling permits, environmental protection and air emissions/pollution control, spacing of wells, the unitization and pooling of properties, reports concerning operations, land use, and various other matters including taxation. Oil and gas industry legislation and administrative regulations are periodically changed for a variety of political, economic, and other reasons. As of December 31, 2013 the Company had not been fined or cited for any violations of governmental regulations that would have a material adverse effect upon the financial condition of the Company.

Legal Proceedings

The Company may from time to time be involved in various legal actions arising in the normal course of business. In the opinion of management, the Company's liability, if any, in these pending actions would not have a material adverse effect on the financial position of the Company. The Company's general and administrative expenses would include amounts incurred to resolve claims made against the Company.

Parker v. Tracinda Corporation , Denver District Court, Case No. 2011CV561. In November 2012, the Company filed a motion to intervene in garnishment proceedings involving Roger Parker, the Company's former Chief Executive Officer and Chairman. The Defendant has served various writs of garnishment on the Company to enforce a judgment against Mr. Parker seeking, among other things, shares of unvested restricted stock. The Company has asserted rights to lawful set-offs and deductions in connection with certain tax consequences, which may be material to the Company. As a result of bankruptcy proceedings filed by Mr. Parker, the garnishment proceedings have been stayed. At this stage, we cannot express an opinion as to the probable outcome of this matter.

In re Roger A. Parker: Tracinda Corp. v. Recovery Energy, Inc. and Roger A. Parker , United States Bankruptcy Court for the District of Colorado, Case No. 13-10897-EEB. On June 10, 2013, Tracinda Corp. ("Tracinda") filed a complaint (Adversary No. 13-011301 EEB) against the Company and Roger Parker in connection with the personal bankruptcy proceedings of Roger Parker, alleging that the Company improperly failed to remit to Tracinda certain property in connection with a writs of garnishment issued by the Denver District Court (discussed above). The Company filed an answer to this complaint on July 10, 2013. A trial date has not been set.

There are no other material pending legal proceedings to which we or our properties are subject.

Operating Leases

The Company leases an office space under a one year operating lease in Denver, Colorado and Melville, New York. Rent expense for the years ended December 31, 2013 and December 31, 2012, was $0.09 million and $0.09 million, respectively. The Company will have minimum lease payments of $0.12 million for the year ending December 31, 2014.

NOTE 10 - RELATED PARTY TRANSACTIONS

During the year ended December 31, 2013 and 2012, we have engaged in the following transactions with related parties:

T.R. Winston & Company, LLC

TR Winston, as placement agent for the Debentures, received compensation in the form of 50,000 shares, valued at $0.23 million, on September 8, 2012. The Company is amortizing the $0.23 million over the life of the loan as deferred financing costs. The Company amortized $0.13 million of deferred financing costs into interest expense during the year ended December 31, 2013, and has $0.22 million of deferred financing costs to be amortized through May 2014.

TR Winston and G. Tyler Runnels, its majority owner, also participated as investors in the Debentures, and purchased an aggregate of $1.41 million in Debentures between February 2011 and June 2013.

On April 15, 2013, the Company entered into an amendment of the Debentures to extend their maturity dates from February 8, 2014 to May 16, 2014. In consideration for the extended maturity date, the Company provided the holders of the Debentures an additional security interest in 15,000 acres of its undeveloped acreage. (See Note 8-Loan Agreements.)

On April 16, 2013, the Company entered into an agreement with a family trust controlled by Mr. Runnels to issue up to an additional $5.0 million in additional Debentures to existing Debenture holders, of which $1.5 million of would be issued on or before July 16, 2013. Between June 2013 through October 2013, the Company issued a total of $2.2 million in additional Debentures to existing Debenture holders. In November 2013, the Company paid TR Winston a commission of $40,000 in connection with the sale of these Debentures. (See Note 8-Loan Agreements.)

On May 10, 2013 the Company entered into a one-year, non-exclusive investment banking agreement with TR Winston. Among other things, the agreement provided for (i) initial compensation to TR Winston in the amount of 100,000 common shares, and three-year warrants to purchase up to 900,000 shares of the Company's common stock at a strike price of $4.25 per share (the "Retainer Fee"), (ii) a cash fee equal to 5% of the gross proceeds of any equity financing involving solely the issuance of common stock, or 6% for all other equity issuances, (iii) a cash expense allowance equal to 1% of the gross proceeds of any equity financing, (iv) warrants to purchase common stock equal to either 4% of the shares of common stock issued in connection with an equity offering or 2% of the shares to be issued upon conversion of convertible equity in such offering, (v) 3% of the total gross proceeds of any non-revolving, non-convertible credit facility debt financing, (vi) 1% of the amount initially drawn at closing on any revolving credit line or facility, and (vii) 1% of the issuance price of any credit enhancement instrument, including on an insured or guaranteed basis. (See Note 12-Shareholders Equity.)

Under the investment banking agreement, in addition to the Retainer Fee, the Company paid TR Winston $40,000 in connection with the 2013 Debenture offerings, $576,570 in connection with the January 2014 Private Offering (paid in cash and restricted stock), and $225,000 (paid in 112,500 shares of restricted stock) in connection with the Debenture Conversion Agreement. TR Winston invested $0.17 million of these fees in the January Private Placement. The Company is obligated to pay TR Winston additional fees of $0.16 million upon shareholder approval of the participation of certain directors and officers in the January 2014 Private Placement and conversion of the remaining outstanding Debentures.

In September 2013, the Company appointed Abraham Mirman as its President. Prior to joining the Company, Mr. Mirman was employed by TR Winston as its Managing Director of Investment Banking and continues to devote a portion of his time to serving in that role. In connection with the appointment of Mr. Mirman, the Company and TR Winston amended the investment banking agreement to provide that, upon the receipt by the Company of gross cash proceeds or drawing availability of at least $30,000,000, measured on a cumulative basis and including certain restructuring transactions, subject to the Company's continued employment of Mr. Mirman, TR Winston would receive from the Company a lump sum payment of $1 million. Mr. Mirman's compensation arrangements with TR Winston provide that upon TR Winston's receipt from the Company of the lump sum payment, TR Winston would make a payment of $1 million to Mr. Mirman. Mr. Mirman also received, as part of his compensation arrangement with TR Winston, the 100,000 common shares of the Company that were issued to TR Winston in conjunction with the investment banking agreement.

Mr. Runnels, the majority owner of TR Winston, beneficially holds more than 5% of the Company's common stock, including the holdings of TR Winston and his personal holdings.

Roger Parker

Roger Parker, the Company's Chief Executive Officer until November 15, 2012, has interests in certain of the Company's wells for which he is receiving revenue and joint-interest billings. As of December 31, 2012, Mr. Parker had $0.01 million in receivables outstanding and continued to have additional receivables based on monthly production and well maintenance. Furthermore, upon his resignation on November 15, 2012, the Company entered into a separation agreement which provided that Mr. Parker receive a one-year salary severance and health benefits for the year, and also provided for the deferral of vesting of 1,350,000 shares. In return, the Company received a general release and certain non-compete terms from Mr. Parker, in exchange for no less than 10 hours per week of Mr. Parker's time as a consultant to the Company during the term of the separation agreement. As of December 31, 2013, the Company does not owe Mr. Parker any further amounts under the separation agreement.

At the time of his retirement, Mr. Parker had been granted 1,350,000 shares of unvested common stock. As a result of his separation from the Company, it was deemed improbable that these shares would vest to Mr. Parker in his capacity as an employee of the Company due to the termination of employment; however, it was deemed probable that these shares will vest under his separation agreement. As a result, the Company reversed all of the compensation expense, in the amount of $6.75 million, associated with stock grants to Mr. Parker during his tenure as an employee, and recorded a consulting expense (in the amount of $3.59 million) related to the shares of stock that are expected to vest during the severance period of the separation agreement. The net difference of these two amounts resulted in a reduction in 2012 general and administrative expenses of $3.16 million.

Hexagon

Hexagon, LLC ("Hexagon"), the Company's primary lender, also holds over 5% of the Company's common stock. On April 15, 2013, the Company and Hexagon agreed to amend the term loans to extend their maturity dates to May 16, 2014. Pursuant to the amendment, Hexagon agreed to (i) reduce the interest rate under the term loans from 15% to 10% beginning retroactively with March 2013, (ii) permit the Company to make interest-only payments for March, April, May, and June 2013, after which time the minimum secured term loan payment became $0.23 million, and (iii) forbear from exercising its rights under the term loan credit agreements for any breach that may have occurred prior to the amendment. In consideration for the extended maturity date, the reduced interest rate and minimum loan payment under the secured term loans, the Company provided Hexagon an additional security interest in 15,000 acres of its undeveloped acreage. (See Note 8-Loan Agreements.)

In addition, Hexagon and its affiliates have interests in certain of the Company's wells independent of Hexagon's interests under the term loans, for which Hexagon or its affiliates receive revenue and joint-interest billings.

Other Transactions Involving Directors and Officers

Certain of the Company's directors and officers participated or committed to participate, directly and indirectly, as investors in the 2013 Debenture offerings (for an aggregate investment of $653,970).

Conflict of Interest Policy

We have a corporate conflict of interest policy that prohibits conflicts of interests unless approved by the board of directors. Our board of directors has established a course of conduct whereby it considers in each case whether the proposed transaction is on terms as favorable or more to the Company than would be available from a non-related party. Our board also looks at whether the transaction is fair and reasonable to us, taking into account the totality of the relationships between the parties involved, including other transactions that may be particularly favorable or advantageous to us. Each of the related party transactions was presented to our board of directors for consideration and each of these transactions was unanimously approved by our board of directors after reviewing the criteria set forth in the preceding two sentences. Each of our purchases from Davis was individually negotiated, and none of the transactions was contingent upon or otherwise related to any other transaction.

NOTE 11 - INCOME TAXES

The tax effects of temporary differences that gave rise to the deferred tax liabilities and deferred tax assets as of December 31, 2013 and 2012 were:

	December 31,	
	2013	2012
Deferred tax assets:		
Oil and gas properties and equipment	$ 7,924,585	$ 8,496,988
Net operating loss carry-forward	17,373,276	14,910,936
Share based compensation	4,369,953	3,885,974
Abandonment obligation	404,394	238,864
Derivative instruments	2,445	173,826
Other	3,660	(48,909)
Total deferred tax asset	30,078,313	27,657,679
Valuation allowance	(30,078,313)	(27,657,679)
Net deferred tax asset	$ -	$ -

Reconciliation of the Company's effective tax rate to the expected federal tax rate is:

	For the Year Ended December 31,	
	2013	2012
Effective federal tax rate	35.00%	35.00%
Effect of permanent differences	-6.38%	-4.43%
State tax rate	1.60%	1.64%
Change in rate	-%	-%
Other	-5.31%	-%
Valuation allowance	-24.91%	-32.21%
Net	-%	-%

At December 31, 2013 and 2012, the Company had net operating loss carry-forwards for federal income tax purposes of approximately $47.47million and $40.70 million, respectively that may be offset against future taxable income. The Company has established a valuation allowance for the full amount of the deferred tax assets as management does not currently believe that it is more likely than not that these assets will be recovered in the foreseeable future. To the extent not utilized, the net operating loss carry-forwards as of December 31, 2013 will expire in from 2030 through 2033. Net operating loss carryovers may be subject to reduction or limitation by application of Internal Revenue Code Section 382 from the result of ownership changes.

NOTE 12 - SHAREHOLDERS' EQUITY

Common Stock

As December 31, 2013, the Company had 100,000,000 shares of common stock and 10,000,000 shares of preferred stock authorized, of which 19,671,901 shares of common stock were issued and outstanding. No preferred shares were issued or outstanding.

During the year ended December 31, 2013, the Company issued 1,277,499 shares of common stock, including 636,282 shares to pay interest on convertible debentures, 100,000 paid to the investment banker, and 596,215 shares of common stock as restricted stock grants to employees, board members, or consultants. (See Note 13-Share Based and Other Compensation.)

Investment Banking Agreement

During the year ended December 31, 2013, the Company was party to a one-year, non-exclusive investment banking agreement with TR Winston, pursuant to which the Company issued to TR Winston 100,000 common shares, and 900,000 common stock purchase warrants. All warrants have a term of three years and a strike price of $4.25 per share. The investment banking agreement also provided for additional commissions and compensation in the event that TR Winston arranged a successful equity or debt financing during the term of the agreement. The 900,000 warrants were valued at $0.26 million and the 100,000 common shares were valued at $0.16 million. Both equity instruments are classified as prepaid assets and amortized over the life of the agreement. During the year ended December 31, 2013, $0.25 million was included in general and administrative expense as amortization of the value of these grants. (See Note 10- Related Party Transactions.)

Convertible Debenture Interest

During the year ended December 31, 2013, the Company issued 636,282 shares for payment of yearly interest expense on the convertible debentures valued at $1.17 million.

Warrants

A summary of warrant activity for the nine months ended December 31, 2013 is presented below:

	Warrants	Weighted-Average Exercise Price
Outstanding at December 31, 2012	5,638,900	$ 7.04
Granted	1,216,263	4.25
Exercised, forfeited, or expired	(81,250)	(6.00)
Outstanding at December 31, 2013	6,773,913	$ 5.24

In January 2013, the Company entered into two separate consulting agreements, one with a financial advisory firm and one with a public relations company. Each agreement provided for the issuance by the Company of 200,000 warrants for a total of 400,000 warrants, with an exercise price of $4.25 and a total valuation of $0.26 million. The shares vested 25% on March 31, 2013 and will vest 25% for each quarter thereafter. The Company is valuing the warrants each quarter based on their vesting schedule, and including the amount associated with such vesting warrants as an expense in the period of vesting. During the year ended December 31, 2013, the Company recognized a total expense of $0.26 million for both of the consulting agreements.

The aggregate intrinsic value associated with outstanding warrants as of December 31, 2013 and 2012 was $0, as the strike price of all warrants exceeded the market price for common stock, based on the Company's closing common stock price of $2.32 and $1.99, respectively. The weighted average remaining contract life as of December 31, 2013 was 1.56 years, and 2.56 years as of December 31, 2012.

NOTE 13 - SHARE BASED AND OTHER COMPENSATION

Share-Based Compensation

In September 2012, the Company adopted the 2012 Equity Incentive Plan (the "Plan"). The Plan was amended by the stockholders on June 27, 2013 to increase the number of common shares available for grant under the EIP from 900,000 shares to 1,800,000 shares and again on November 13, 2013 to increase the number of common shares available for grant under the EIP from 1,800,000 shares to 6,800,000 shares and to increase the number of common shares eligible for grant under the EIP in a single year to a single participant from 1,000,000 shares to 3,000,000 shares. Each member of the board of directors and the management team has been periodically awarded restricted stock grants, and in the future will be awarded such grants under the terms of the Plan.

The costs of employee services received in exchange for an award of equity instruments are based on the grant-date fair value of the award, recognized over the period during which an employee is required to provide services in exchange for such award.

During the year ended December 31, 2013, the Company granted 596,215 shares of restricted common stock to employees, directors and consultants, including 30,002 during the three months ended December 31, 2013. The Company also granted 3,800,000 stock options to employees and board members.

The Company recognized a stock compensation expense of approximately $1.31 million and a credit of $1.75 million, respectively, for the year ended December 31, 2013 and 2012.

Stock Options

A summary of stock options activity for year ended December 31, 2013 is presented below:

	Stock Options
Outstanding at December 31, 2012	-
Granted	3,800,000
Exercised, forfeited, or expired	-
Outstanding at December 31, 2013	3,800,000

In June 2013, the Company entered into employment agreements with the CEO and the then President/CFO for non-cash compensation which consisted of each individual receiving 300,000 stock options of which 100,000 vested immediately and 200,000 were scheduled to vest over the following 2 years. The options had a five-year life and an exercise price of $1.60, volatility of 63%, and an option value of $0.87 per share. The 600,000 stock options were valued at $0.52 million on date of grant. During the year ended December 31, 2013, the Company recognized $0.27 million as non-cash compensation expense and $0.25 million is to be amortized over the remaining vesting period.

In connection with execution of these employment contracts, each executive also agreed to receive 93,750 shares of restricted common stock in lieu of a portion of their cash salaries, to vest on April 15, 2014.

In September, 2013, the Company entered an employment agreement with Abraham Mirman (the "Mirman Agreement"). As an inducement for joining the Company, Mr. Mirman was granted 100,000 shares of the Company's common stock, which vested immediately, was valued at $0.25 million, and was expensed as of the date of the grant. Mr. Mirman was also granted an option to purchase up to 600,000 shares of common stock of the Company, at a strike price of $2.45 per share, equal to the Company's closing share price on September 16, 2013. This option will become exercisable upon the date the Company receives gross cash proceeds and/or drawing availability under a line of credit of at least $30,000,000, measured on a cumulative basis and including certain restructuring transactions. As such, the Company anticipates that this option will become exercisable if our shareholders subsequently approve the conversion of the remaining Debentures.

Mr. Mirman was also granted options to purchase up to 2,000,000 shares of the Company's common stock, 666,667 of which become exercisable if the Company has a reported share price of $7.50 and average daily production of 2,500 barrels of oil equivalent per day for a continuous 90-day period, and 666,667 and 666,666 of which become exercisable upon the same daily production condition and reported share prices of $10.00 per share and $12.50 per share, respectively.

The Company received independent valuations of the i) option to purchase 600,000 shares of common stock; ii) the incentive bonus; and iii) the options to purchase 2,000,000 shares. The option to purchase 600,000 shares was valued at $0.61 million and is being amortized over the life of the Mirman Agreement, which expires on December 31, 2014. The incentive bonus was valued at $0.15 million, and is recorded as a liability. This liability will be revalued at each balance sheet date. The options to purchase 2,000,000 shares were valued at $0.05 million and are being amortized over the life of the Mirman Agreement.

In October 2013, the Company granted each of its independent directors 200,000 non-statutory options to purchase the Company's common stock at an exercise price of $2.05, equal to the closing price at October 24, 2013. The options vest one-third for the next three years on the anniversary grant date. The value of the 600,000 options at grant date was $0.64 million and will be amortized over the vesting period.

A summary of restricted stock grant activity for the year ended December 31, 2013 is presented below:

	Shares
Balance outstanding at December 31, 2012	1,730,710
Granted	596,215
Vested	(196,008)
Expired/ cancelled	(106,542)
Balance outstanding at December 31, 2013	2,024,375

Total unrecognized compensation cost related to unvested stock grants was approximately $0.30 million as of December 31, 2013. The cost at December 31, 2013 is expected to be recognized over a weighted-average remaining service period of 3 years.

Separation Agreement

In April 2014, the Company entered into a separation agreement with the W. Phillip Marcum, the Chief Executive Officer until April 16, 2014. The company provided Mr. Marcum with one year of severance compensation, to be paid through normal payroll practices. Furthermore, he received the immediate vesting of 200,000 options to purchase stock and the conversion of the remaining amount of the 2013 compensation into $0.15 million cash from 93,780 shares of stock. (See Note 14-Subsequent Events.)

Employment Agreement

In April 2014, we announced the appointment of Robert (Bob) A. Bell as our new Chief Operating Officer and President. In connection with Mr. Bell's appointment, the Company entered an employment agreement with Mr. Bell (the "Bell Agreement"), which has an initial term of three years, provides for an annual base salary of $240,000 subject to adjustment by the Company, as well as a signing bonus of $100,000 and 100,000 shares of common stock, subject to certain conditions set forth in the Bell Agreement. In addition, Mr. Bell will receive an equity incentive bonus consisting of a non-statutory stock option to purchase up to 1,500,000 shares of common stock and a cash incentive bonus of up to $1,000,000, both subject to Mr. Bell's continued employment. In addition, Mr. Bell's incentive bonuses are subject to the Company's achievement of certain production thresholds set forth in the Bell Agreement. (See Note 14-Subsequent Events.)

Other Compensation

We sponsor a 401(k) savings plan. All regular full-time employees are eligible to participate. We make contributions to match employee contributions up to 5% of compensation deferred into the plan. The Company made cash contributions of $0.03 million for the year ended December 31, 2013.

NOTE 14- SUBSEQUENT EVENTS

January 2014 Private Placement

On January 22, 2014, the Company entered into and closed a series of subscription agreements with accredited investors, pursuant to which the Company issued an aggregate of 2,959,125 units, with each unit consisting of (i) one share of the Company's common stock, par value $0.0001 (the "Common Stock") and (ii) one three-year warrant to purchase one share of Common Stock, at an exercise price equal to $2.50 per share (together, the "Units"), for a purchase price of $2.00 per Unit, for aggregate gross proceeds of $5,918,250 (the "January Private Placement"). The Company's officers and directors have agreed to purchase an additional $1,425,000 of Units subject to receipt of shareholder approval as required by NASDAQ's continued listing requirements. The warrants are not exercisable for six months following the closing of the January Private Placement. At any time following the closing of the Private Offering, the Company may force the exercise of the warrants provided the shares underlying the warrants are registered, the Common Stock has traded at or above $10.00 per share for a period of twenty (20) consecutive trading days with a minimum daily average volume of 100,000 shares, and the Company has given the Investors at least twenty (20) trading days' notice.

Debenture Conversion

On January 31, 2014, the Company entered into a Debenture Conversion Agreement (the "Conversion Agreement"), between the Company and all of the holders of the Debentures. Under the terms of the Conversion Agreement, $9 million of the approximately $15.6 million in Debentures then outstanding immediately converted to common stock at a price of $2.00 per common share. The balance of the Debentures may be converted to common stock, subject to receipt of shareholder approval as required by the NASDAQ continued listing requirements. As additional inducement for the conversions, the Company issued warrants to the converting Debenture holders to purchase one share of Common Stock, at an exercise price equal to $2.50 per share, for each share of Common Stock issued upon conversion of the Debentures. The shares underlying the warrants have not been registered under the Securities Act of 1933, as amended, or any state securities laws and may not be offered or sold in the United States absent registration or an applicable exemption from registration.

A shareholders' meeting to approve i) participation by officers and directors in the Private Offering, and ii) the conversion of the remaining outstanding Debentures is pending, and is anticipated to be held during the third quarter of 2014.

Employment Agreement

In April 2014, we announced the appointment of Robert A. (Bob) Bell as our new President and Chief Operating Officer. In connection with Mr. Bell's appointment, the Company entered an employment agreement with Mr. Bell (the "Bell Agreement"), which has an initial term of three years, provides for an annual base salary of $240,000 subject to adjustment by the Company, as well as a signing bonus of $100,000 and 100,000 shares of common stock of which 1/3 vest immediately and the balance over three years, subject to certain conditions set forth in the Bell Agreement. In addition, Mr. Bell will receive an equity incentive bonus consisting of a non-statutory stock option to purchase up to 1,500,000 shares of common stock and a cash incentive bonus of up to $1,000,000, both subject to Mr. Bell's continued employment. In addition, Mr. Bell's incentive bonuses are subject to the Company's achievement of certain pre-defined production thresholds set forth in the Bell Agreement.

Separation Agreement

In April 2014, the Company entered into a separation agreement (the "Marcum Agreement") with W. Phillip Marcum in connection with his resignation from his positions with the Company. The Marcum Agreement provides, among other things, that, consistent with his resignation for good reason under his Employment Agreement, the Company will pay him 12 months of severance through payroll continuation, in the gross amount of $220,000, less all applicable withholdings and taxes, that all stock options held by Mr. Marcum as of the time of his termination will immediately vest, and that Mr. Marcum will remain eligible to receive any performance bonus granted by the Company to its senior executives with respect to Company and/or executive performance in 2013. In addition, the Marcum Agreement provides that the Company will pay Mr. Marcum $150,000 in accrued base salary for his service in 2013, less all applicable withholdings and taxes, in exchange for Mr. Marcum's forfeiture of the 93,750 shares of unvested restricted common stock of the Company that was issued to Marcum in June 2013 in lieu of such base salary. Mr. Marcum may elect to apply amounts payable under the Marcum Agreement against his commitment to invest $125,000 in the Company's previously disclosed private offering, upon shareholder approval of the participation of the Company's officers and directors in that offering. The Marcum Agreement also contains certain mutual non-disparagement covenants, as well as certain mutual confidentiality, non-solicitation and non-compete covenants. In addition, Mr. Marcum and the Company each mutually released and discharged all known and unknown claims against the other and their respective representatives that they had or presently may have, including claims relating to Mr. Marcum's employment. The Marcum Agreement effectively terminated the previously disclosed Employment Agreement entered into between Mr. Marcum and the Company, dated as of June 25, 2013.

Hexagon Settlement

On May 19, 2014, the Company received an extension from Hexagon of the maturity date under our term loans, from May 16, 2014 to August 15, 2014. As of May 16, 2014, there was an aggregate of $18.77 million outstanding under the term loans, which are collateralized by mortgages against a portion of the Company's developed and undeveloped leasehold acreage.

In connection with the extension, Hexagon and the Company agreed in principal to the settlement of all amounts outstanding under the term loans, pursuant to which (1) the Company will make a cash payment of $5.0 million no later than May 30, 2014 (the "First Cash Payment"), (2) the Company will make a cash payment of $5.0 million no later than June 30, 2014 (the "Second Cash Payment" and together with the First Cash Payment, the "Cash Payments"), (3) the Company will issue to Hexagon a two-year $6 million unsecured note (the "Hexagon Replacement Note"), bearing interest at an annual rate of 8%, requiring principal and interest payments of $90,000 per month, maturity May 30, 2016, and (4) the Company will issue to Hexagon 943,208 shares of unregistered common stock. The parties have also agreed that if either of the Cash Payments is not made on time, an additional $1.0 million in principal will be added to the Hexagon Replacement Note, and if the Hexagon Replacement Note is not retired by December 31, 2014, the Company will issue an additional 1.0 million shares of its common stock to Hexagon. Finally, Hexagon will not, until the earlier of June 30, 2014 or the date the Company achieves sustained average trading volume in excess of 100,000 shares per day for at least ten consecutive trading days, sell or otherwise transfer for value any shares of the Company's common stock or any securities convertible into the Company's common stock, and that thereafter until December 31, 2014, Hexagon will not sell or otherwise transfer for value more than 10,000 shares per week of the Company's common stock or any securities convertible into the Company's common stock.

Debentures Extension

On May 19, 2014, holders of the remaining Debentures agreed to extend the maturity date under the Debentures from May 16, 2014 to August 15, 2014, and to waive their right to declare an event of default in connection with the May 16, 2014 maturity date under the Debentures. On June 6, 2014, the holders of the remaining Debentures agreed to further extend the maturity date under the Debentures from August 15, 2014 to January 15, 2015.

May Private Placement

On May 30, 2014 the Company entered into and consummated a private placement (the "May Private Placement") of its 8% Convertible Preferred Stock ("Preferred Stock") with accredited investors, pursuant to which the company sold $7.50 million of Preferred Stock. The Preferred Stock provides for a dividend of 8% per annum, payable quarterly in arrears, which can be paid in cash or in shares of Common Stock if certain conditions are met. Each investor in the Preferred Stock was also granted a three-year warrant to purchase common stock equal to 50% of the number of shares that would be issuable upon full conversion of the Preferred Stock at the initial conversion price. The Company has the right to convert the Preferred Stock to common stock if the common stock is traded at $7.50 for ten consecutive trading days and the underlying shares of common stock are registered for resale. TR Winston was the placement agent for the transaction and will be paid a fee equal to 8% of the proceeds plus an additional 1% of the proceeds plus $25,000 in expenses. The Company used $5.00 million of the proceeds of the private placement to make the first cash payment in connection with the Hexagon settlement (discussed above), and intends to use the remaining proceeds to fund its oil and gas development projects and for general administrative expenses. On June 6, 2014, TR Winston executed a commitment to purchase or effect the purchase by third parties of an additional $15 million in Preferred Stock, which transaction is to be consummated within ninety (90) days.

NOTE 15- SUPPLEMENTAL OIL AND GAS RESERVE INFORMATION (UNAUDITED)

The following table sets forth information for the years ended December 31, 2013 and 2012 with respect to changes in the Company's proved (i.e. proved developed and undeveloped) reserves:

	Crude Oil (Bbls)	Natural Gas (Mcf)
December 31, 2011	608,237	148,077
Purchase of reserves	39,327	-
Revisions of previous estimates	(310,919)	25,813
Extensions, discoveries	99,615	313,958
Sale of reserves	-	-
Production	(85,160)	(80,438)
December 31, 2012	351,100	407,410
Purchase of reserves	7,825	-
Revisions of previous estimates	512,023	2,238,788
Extensions, discoveries	36,325	-
Sale of reserves	(12,848)	(17,076)
Production	(51,706)	(64,845)
December 31, 2013	842,719	2,564,277
Proved Developed Reserves, included above:		
Balance, December 31, 2011	215,693	148,077
Balance, December 31, 2012	213,306	186,017
Balance, December 31, 2013	170,531	313,358
Proved Undeveloped Reserves, included above:		
Balance, December 31, 2011	392,545	-
Balance, December 31, 2012	137,555	221,314
Balance, December 31, 2013 (2)	672,188	2,250,920

As of December 31, 2013 and December 31, 2012, we had estimated proved reserves of 842,719 and 351,100 barrels of oil, respectively and 427,380 and 67,902 thousand cubic feet ("MCF") of natural gas converted to BOE, respectively. Our reserves are comprised of 66% and 84% crude oil and 34% and 16% natural gas on an energy equivalent basis, as of December 31, 2013 and December 31, 2012, respectively.

The following values for the December 31, 2013 and December 31, 2012 oil and gas reserves are based on the 12 month arithmetic average first of month price January through December 31; resulting in a natural gas price of $4.31 and $2.75 per MMBtu (NYMEX price), respectively, and crude oil price of $89.56 and $87.37 per barrel (West Texas Intermediate price), respectively. All prices are then further adjusted for transportation, quality and basis differentials.

The following summary sets forth the Company's future net cash flows relating to proved oil and gas reserves:

	For the Year Ended December 31, (in thousands)	
	2013	**2012**
Future oil and gas sales	$ 86,521	$ 32,612
Future production costs	(22,095)	(9,718)
Future development costs	(21,980)	(546)
Future income tax expense (1)	-	-
Future net cash flows	42,446	22,348
10% annual discount	(19,104)	(6,926)
Standardized measure of discounted future net cash flows (2)	$ 23,342	$ 15,422

The principal sources of change in the standardized measure of discounted future net cash flows are (in thousands):

	2013	**2012**
Balance at beginning of period	$ 15,422	$ 20,014
Sales of oil and gas, net	(3,172)	(4,656)
Net change in prices and production costs	(879)	(1,724)
Net change in future development costs (2)	(20,311)	7,766
Extensions and discoveries (2)	686	3,916
Acquisition of reserves	202	1,677
Sale of reserves	(643)	-
Revisions of previous quantity estimates (2)	30,968	(15,031)
Previously estimated development costs incurred	-	638
Net change in income taxes	-	-
Accretion of discount	1,864	2,001
Other	(795)	821
Balance at end of period	**$ 23,342**	**$ 15,422**

(1) Our calculations of the standardized measure of discounted future net cash flows include the effect of estimated future income tax expenses for all years reported. We expect that all of our Net Operating Loss' ("NOL") will be realized within future carry forward periods. All of the Company's operations, and resulting NOLs, are attributable to our oil and gas assets. There were no taxes in any year as the tax basis and NOLs exceeded the future net revenue.

(2) Total proven reserves as of December 31, 2013 are $23.34 million compared to reserves of $15.42 million for the year ended December 31, 2012, an increase of $7.92 million or 51%. This increase in standardized measure reflects an increase in proved undeveloped reserves to 1,047 MBOE in 2013 from 175 MBOE in 2012, an increase of 872 MBOE. This increase, in part, reflects the uncertainty in 2012 regarding whether the Company would have sufficient capital to support its current development plan. Proved undeveloped reserves in 2012 were estimated under the assumption that certain farm-outs and joint venture arrangements were required in order to finance development of such reserves. This assumption lowered both the reserve values and capital requirements. This assumption was removed in the preparation of the Company's 2013 reserve estimates due to the Company's improving financial health. Proved undeveloped reserves also increased as a result of a change in the development plan for one of the Company's major properties. The development plan was modified from a vertical to a horizontal program due principally to recent development activities in adjacent and nearby drilling units, resulting in significant increases in units attributable to revisions of previous estimates.

At December 31, 2013, we have no proved undeveloped reserves that are scheduled for development five years or more beyond the date the reserves were initially recorded.

Revisions of previous quantity estimate in 2013 reflect the incremental reserve value from the reinstatement of PUD's which were recorded in 2012 on a promoted basis. Additionally, the Company increased extension and discoveries by new discoveries by existing Proved Developed Production and improved recoveries in our Wattenberg prospect.

A variety of methodologies are used to determine our proved reserve estimates. The principal methodologies employed are reservoir simulation, decline curve analysis, volumetric, material balance, advance production type curve matching, petro-physics/log analysis and analogy. Some combination of these methods is used to determine reserve estimates in substantially all of our fields.

Exhibit 10.18

THIRD AMENDMENT TO CREDIT AGREEMENT
(First Credit Agreement)

This THIRD AMENDMENT TO CREDIT AGREEMENT (this "Amendment"), dated November 8, 2012 (the "Effective Date"), is between Recovery Energy, Inc., a Nevada corporation ("Borrower"), and Hexagon, LLC, a Colorado limited liability company, formerly known as Hexagon Investments, LLC ("Lender").

RECITALS

A. Borrower and Lender have entered into a Credit Agreement, dated as of January 29, 2010 (as modified by that certain Amendment to Promissory Note, dated December 29, 2010, that certain Second Amendment to Promissory Note, dated November 14, 2011, that certain Amendment to Credit Agreement dated March 15, 2012, and as further amended, modified, supplemented substituted or replaced, the "Credit Agreement"), providing for a term loan in the original principal amount of $4,500,000. Defined terms used herein and not defined herein shall have the meanings set forth in the Credit Agreement.

B. Borrower has asked Lender, and Lender has agreed to amend the terms and conditions of the Credit Agreement to extend the Maturity Date until December 31, 2013, subject to and as more fully set forth in this Amendment.

AGREEMENT

In consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Borrower and Lender agree as follows:

1. Amendment to Credit Agreement. Effective as of the Effective Date and upon the terms and subject to the conditions set forth in this Amendment:

(a) Section 1.1 of the Credit Agreement is hereby amended by deleting "September 30, 2013" in the definition of "Maturity Date" and replacing it with "December 31, 2013".

(b) Section 2.4 of the Credit Agreement is hereby amended by deleting "September 30, 2013" in the second line and replacing it with "December 31, 2013".

2 . Other Agreements. (a) Borrower and Lender agree that all of the Loan Documents are hereby amended to reflect the amendments set forth herein and that no further amendments to any Loan Documents are required to reflect the foregoing; and (b) all references in any document to "Credit Agreement" or any "Loan Document" shall refer to the Credit Agreement or any such Loan Document, as amended pursuant to this Amendment.

3. Representations and Warranties. Borrower hereby certifies to Lender that as of the date of this Amendment and as of the Effective Date (taking into consideration the transactions contemplated by this Amendment) all of Borrower's representations and warranties contained in the Credit Agreement and each of the Loan Documents are true, accurate and complete, and no Default or Event of Default has occurred under the Credit Agreement or any of the Loan Documents. Without limiting the generality of the foregoing, Borrower represents and warrants that (i) the execution and delivery of this Amendment has been authorized by all necessary action on the part of Borrower, (ii) the person executing this Amendment on behalf of Borrower is duly authorized to do so, and (iii) this Amendment constitutes the legal, valid, binding and enforceable obligation of Borrower.

4 . Additional Documents. Borrower shall execute and deliver, and shall cause to be executed and delivered, to Lender at any time and from time to time such documents and instruments, including without limitation additional amendments to the Credit Agreement and the Loan Documents, as Lender may reasonably request to confirm and carry out the transactions contemplated hereby or by any other Loan Documents executed in connection herewith.

5 . Continuation of the Credit Agreement and Loan Documents. Except as specified in this Amendment, the provisions of the Credit Agreement and the Loan Documents shall remain in full force and effect, and if there is a conflict between the terms of this Amendment and those of the Credit Agreement or the Loan Documents, the terms of this Amendment shall control. This Amendment is a Loan Document.

6 . Ratification and Reaffirmation of Obligations by Borrower. Borrower hereby (a) ratifies and confirms all of its Obligations under the Credit Agreement and each of the other Loan Documents, and acknowledges and agrees that such Obligations remain in full force and effect, and (b) ratifies, reaffirms and reapproves in favor of Lender the terms and provisions of the Credit Agreement and each of the other Loan Documents, including (without limitation), its pledges and other grants of Liens and security interests pursuant to the Loan Documents.

7. Release and Indemnification.

(a) Borrower hereby fully, finally, and forever releases and discharges Lender, and its successors, assigns, directors, officers, employees, agents and representatives, from any and all causes of action, claims, debts, demands and liabilities, of whatever kind or nature, in law or equity, of Borrower, whether now known or unknown to Borrower in respect of (i) the Obligations under the Credit Agreement and each of the other Loan Documents or (ii) the actions or omissions of Lender in any manner related to the Obligations under the Credit Agreement and each of the other Loan Documents; *provided* that this Section shall only apply to and be effective with respect to events or circumstances existing or occurring prior to and including the date of this Amendment.

(b) Without limiting Section 7.3 of the Credit Agreement, Borrower hereby agrees to indemnify, defend, and hold harmless Lender and its successors, assigns, directors, officers, employees, agents and representatives (each an "Indemnified Party" and collectively the "Indemnified Parties") from and against any and all accounts, covenants, agreements, obligations, claims, debts, liabilities, offsets, demands, costs, expenses, actions or causes of action of every nature, character and description, whether arising at law or equity or under statute, regulation or otherwise, and whether liquidated or unliquidated, contingent or noncontingent, known or unknown, suspected or unsuspected ("Claims"), arising from or made under any legal theory, which any of Indemnified Parties may incur as a direct or indirect consequence of or in relation to any acts or omissions of Borrower arising from or relating to any of: (i) the Credit Agreement; (ii) the Loan Documents; (iii) this Amendment; or (iv) any documents executed by Borrower in connection with this Amendment. Should any Indemnified Party incur any such Claims, or defense of or response to any Claims or demand related thereto, the amount thereof, including costs, expenses and attorneys' fees, shall be added to the amounts due under the Loan Documents, and shall be secured by any and all liens created under and pursuant to the Loan Documents. This indemnity shall survive until the Obligations have been indefeasibly paid in full and the termination, release or discharge of Borrower.

To the extent permissible under applicable law, this indemnity shall not limit any other rights of indemnification, subrogation or assignment, whether explicit, implied, legal or equitable, that any Indemnified Party may have.

8 . No Waiver. This Amendment does not constitute a waiver by Lender of Borrower's compliance with any covenants, or a waiver of any Defaults or Events of Default, under the Credit Agreement or any of the Loan Documents, and shall not entitle the Borrower to any amendments or waivers in the future.

9. Miscellaneous. Article VIII of the Credit Agreement is hereby incorporated by reference into this Amendment.

[Signature Pages Follow]

Borrower and Lender have executed this Third Amendment to Credit Agreement as of the date first above written.

HEXAGON, LLC
By: Hexagon, Inc., its Manager

By: /s/ Brian Fleischmann
Brian Fleischmann
Executive Vice President

RECOVERY ENERGY, INC.

By: /s/ A. Bradley Gabbard
A. Bradley Gabbard
Chief Financial Officer

Exhibit 10.19

THIRD AMENDMENT TO CREDIT AGREEMENT
(Second Credit Agreement)

This THIRD AMENDMENT TO CREDIT AGREEMENT (this "Amendment"), dated November 8, 2012 (the "Effective Date"), is between Recovery Energy, Inc., a Nevada corporation ("Borrower"), and Hexagon, LLC, a Colorado limited liability company, formerly known as Hexagon Investments, LLC ("Lender").

RECITALS

A. Borrower and Lender have entered into a Credit Agreement, dated as of March 25, 2010 (as modified by that certain Amendment to Promissory Note, dated December 29, 2010, that certain Second Amendment to Promissory Note, dated November 14, 2011, that certain Amendment to Credit Agreement dated March 15, 2012, and as further amended, modified, supplemented substituted or replaced, the "Credit Agreement"), providing for a term loan in the original principal amount of $6,000,000. Defined terms used herein and not defined herein shall have the meanings set forth in the Credit Agreement.

B. Borrower has asked Lender, and Lender has agreed to amend the terms and conditions of the Credit Agreement to extend the Maturity Date until December 31, 2013, subject to and as more fully set forth in this Amendment.

AGREEMENT

In consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Borrower and Lender agree as follows:

1. Amendment to Credit Agreement. Effective as of the Effective Date and upon the terms and subject to the conditions set forth in this Amendment:

(a) Section 1.1 of the Credit Agreement is hereby amended by deleting "September 30, 2013" in the definition of"Maturity Date" and replacing it with "December 31, 2013".

(b) Section 2.4 of the Credit Agreement is hereby amended by deleting "September 30, 2013" in the second line and replacing it with "December 31, 2013".

2 . Other Agreements. (a) Borrower and Lender agree that all of the Loan Documents are hereby amended to reflect the amendments set forth herein and that no further amendments to any Loan Documents are required to reflect the foregoing; and (b) all references in any document to "Credit Agreement" or any "Loan Document" shall refer to the Credit Agreement or any such Loan Document, as amended pursuant to this Amendment.

3. Representations and Warranties. Borrower hereby certifies to Lender that as of the date of this Amendment and as of the Effective Date (taking into consideration the transactions contemplated by this Amendment) all of Borrower's representations and warranties contained in the Credit Agreement and each of the Loan Documents are true, accurate and complete, and no Default or Event of Default has occurred under the Credit Agreement or any of the Loan Documents. Without limiting the generality of the foregoing, Borrower represents and warrants that (i) the execution and delivery of this Amendment has been authorized by all necessary action on the part of Borrower, (ii) the person executing this Amendment on behalf of Borrower is duly authorized to do so, and (iii) this Amendment constitutes the legal, valid, binding and enforceable obligation of Borrower.

4 . Additional Documents. Borrower shall execute and deliver, and shall cause to be executed and delivered, to Lender at any time and from time to time such documents and instruments, including without limitation additional amendments to the Credit Agreement and the Loan Documents, as Lender may reasonably request to confirm and carry out the transactions contemplated hereby or by any other Loan Documents executed in connection herewith.

5 . Continuation of the Credit Agreement and Loan Documents. Except as specified in this Amendment, the provisions of the Credit Agreement and the Loan Documents shall remain in full force and effect, and if there is a conflict between the terms of this Amendment and those of the Credit Agreement or the Loan Documents, the terms of this Amendment shall control. This Amendment is a Loan Document.

6 . Ratification and Reaffirmation of Obligations by Borrower. Borrower hereby (a) ratifies and confirms all of its Obligations under the Credit Agreement and each of the other Loan Documents, and acknowledges and agrees that such Obligations remain in full force and effect, and (b) ratifies, reaffirms and reapproves in favor of Lender the terms and provisions of the Credit Agreement and each of the other Loan Documents, including (without limitation), its pledges and other grants of Liens and security interests pursuant to the Loan Documents.

7. Release and Indemnification.

(a) Borrower hereby fully, finally, and forever releases and discharges Lender, and its successors, assigns, directors, officers, employees, agents and representatives, from any and all causes of action, claims, debts, demands and liabilities, of whatever kind or nature, in law or equity, of Borrower, whether now known or unknown to Borrower in respect of (i) the Obligations under the Credit Agreement and each of the other Loan Documents or (ii) the actions or omissions of Lender in any manner related to the Obligations under the Credit Agreement and each of the other Loan Documents; *provided* that this Section shall only apply to and be effective with respect to events or circumstances existing or occurring prior to and including the date of this Amendment.

(b) Without limiting Section 7.3 of the Credit Agreement, Borrower hereby agrees to indemnify, defend, and hold harmless Lender and its successors, assigns, directors, officers, employees, agents and representatives (each an "Indemnified Party" and collectively the "Indemnified Parties") from and against any and all accounts, covenants, agreements, obligations, claims, debts, liabilities, offsets, demands, costs, expenses, actions or causes of action of every nature, character and description, whether arising at law or equity or under statute, regulation or otherwise, and whether liquidated or unliquidated, contingent or noncontingent, known or unknown, suspected or unsuspected ("Claims"), arising from or made under any legal theory, which any of Indemnified Parties may incur as a direct or indirect consequence of or in relation to any acts or omissions of Borrower arising from or relating to any of: (i) the Credit Agreement; (ii) the Loan Documents; (iii) this Amendment; or (iv) any documents executed by Borrower in connection with this Amendment. Should any Indemnified Party incur any such Claims, or defense of or response to any Claims or demand related thereto, the amount thereof, including costs, expenses and attorneys' fees, shall be added to the amounts due under the Loan Documents, and shall be secured by any and all liens created under and pursuant to the Loan Documents. This indemnity shall survive until the Obligations have been indefeasibly paid in full and the termination, release or discharge of Borrower.

To the extent permissible under applicable law, this indemnity shall not limit any other rights of indemnification, subrogation or assignment, whether explicit, implied, legal or equitable, that any Indemnified Party may have.

8 . No Waiver. This Amendment does not constitute a waiver by Lender of Borrower's compliance with any covenants, or a waiver of any Defaults or Events of Default, under the Credit Agreement or any of the Loan Documents, and shall not entitle the Borrower to any amendments or waivers in the future.

9. Miscellaneous. Article VIII of the Credit Agreement is hereby incorporated by reference into this Amendment.

[Signature Pages Follow]

Borrower and Lender have executed this Third Amendment to Credit Agreement as of the date first above written.

HEXAGON, LLC
By: Hexagon, Inc., its Manager

By: /s/ Brian Fleischmann
Brian Fleischmann
Executive Vice President

RECOVERY ENERGY, INC.

By: /s/ A. Bradley Gabbard
A. Bradley Gabbard
Chief Financial Officer

Exhibit 10.20

THIRD AMENDMENT TO CREDIT AGREEMENT
(Third Credit Agreement)

This THIRD AMENDMENT TO CREDIT AGREEMENT (this "Amendment"), dated November 8, 2012 (the "Effective Date"), is between Recovery Energy, Inc., a Nevada corporation ("Borrower"), and Hexagon, LLC, a Colorado limited liability company, formerly known as Hexagon Investments, LLC ("Lender").

RECITALS

A. Borrower and Lender have entered into a Credit Agreement, dated as of April 14, 2010 (as modified by that certain Amendment to Promissory Note, dated December 29, 2010, that certain Second Amendment to Promissory Note, dated November 14, 2011, that certain Amendment to Credit Agreement dated March 15, 2012, and as further amended, modified, supplemented substituted or replaced, the "Credit Agreement"), providing for a term loan in the original principal amount of $15,000,000. Defined terms used herein and not defined herein shall have the meanings set forth in the Credit Agreement.

B. Borrower has asked Lender, and Lender has agreed to amend the terms and conditions of the Credit Agreement to extend the Maturity Date until December 31, 2013, subject to and as more fully set forth in this Amendment.

AGREEMENT

In consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Borrower and Lender agree as follows:

1. Amendment to Credit Agreement. Effective as of the Effective Date and upon the terms and subject to the conditions set forth in this Amendment:

(a) Section 1.1 of the Credit Agreement is hereby amended by deleting "September 30, 2013" in the definition of"Maturity Date" and replacing it with "December 31, 2013".

(b) Section 2.4 of the Credit Agreement is hereby amended by deleting "September 30, 2013" in the second line and replacing it with "December 31, 2013".

2 . Other Agreements. (a) Borrower and Lender agree that all of the Loan Documents are hereby amended to reflect the amendments set forth herein and that no further amendments to any Loan Documents are required to reflect the foregoing; and (b) all references in any document to "Credit Agreement" or any "Loan Document" shall refer to the Credit Agreement or any such Loan Document, as amended pursuant to this Amendment.

3. Representations and Warranties. Borrower hereby certifies to Lender that as of the date of this Amendment and as of the Effective Date (taking into consideration the transactions contemplated by this Amendment) all of Borrower's representations and warranties contained in the Credit Agreement and each of the Loan Documents are true, accurate and complete, and no Default or Event of Default has occurred under the Credit Agreement or any of the Loan Documents. Without limiting the generality of the foregoing, Borrower represents and warrants that (i) the execution and delivery of this Amendment has been authorized by all necessary action on the part of Borrower, (ii) the person executing this Amendment on behalf of Borrower is duly authorized to do so, and (iii) this Amendment constitutes the legal, valid, binding and enforceable obligation of Borrower.

4 . Additional Documents. Borrower shall execute and deliver, and shall cause to be executed and delivered, to Lender at any time and from time to time such documents and instruments, including without limitation additional amendments to the Credit Agreement and the Loan Documents, as Lender may reasonably request to confirm and carry out the transactions contemplated hereby or by any other Loan Documents executed in connection herewith.

5 . Continuation of the Credit Agreement and Loan Documents. Except as specified in this Amendment, the provisions of the Credit Agreement and the Loan Documents shall remain in full force and effect, and if there is a conflict between the terms of this Amendment and those of the Credit Agreement or the Loan Documents, the terms of this Amendment shall control. This Amendment is a Loan Document.

6 . Ratification and Reaffirmation of Obligations by Borrower. Borrower hereby (a) ratifies and confirms all of its Obligations under the Credit Agreement and each of the other Loan Documents, and acknowledges and agrees that such Obligations remain in full force and effect, and (b) ratifies, reaffirms and reapproves in favor of Lender the terms and provisions of the Credit Agreement and each of the other Loan Documents, including (without limitation), its pledges and other grants of Liens and security interests pursuant to the Loan Documents.

7. Release and Indemnification.

(a) Borrower hereby fully, finally, and forever releases and discharges Lender, and its successors, assigns, directors, officers, employees, agents and representatives, from any and all causes of action, claims, debts, demands and liabilities, of whatever kind or nature, in law or equity, of Borrower, whether now known or unknown to Borrower in respect of (i) the Obligations under the Credit Agreement and each of the other Loan Documents or (ii) the actions or omissions of Lender in any manner related to the Obligations under the Credit Agreement and each of the other Loan Documents; *provided* that this Section shall only apply to and be effective with respect to events or circumstances existing or occurring prior to and including the date of this Amendment.

(b) Without limiting Section 7.3 of the Credit Agreement, Borrower hereby agrees to indemnify, defend, and hold harmless Lender and its successors, assigns, directors, officers, employees, agents and representatives (each an "Indemnified Party" and collectively the "Indemnified Parties") from and against any and all accounts, covenants, agreements, obligations, claims, debts, liabilities, offsets, demands, costs, expenses, actions or causes of action of every nature, character and description, whether arising at law or equity or under statute, regulation or otherwise, and whether liquidated or unliquidated, contingent or noncontingent, known or unknown, suspected or unsuspected ("Claims"), arising from or made under any legal theory, which any of Indemnified Parties may incur as a direct or indirect consequence of or in relation to any acts or omissions of Borrower arising from or relating to any of: (i) the Credit Agreement; (ii) the Loan Documents; (iii) this Amendment; or (iv) any documents executed by Borrower in connection with this Amendment. Should any Indemnified Party incur any such Claims, or defense of or response to any Claims or demand related thereto, the amount thereof, including costs, expenses and attorneys' fees, shall be added to the amounts due under the Loan Documents, and shall be secured by any and all liens created under and pursuant to the Loan Documents. This indemnity shall survive until the Obligations have been indefeasibly paid in full and the termination, release or discharge of Borrower.

To the extent permissible under applicable law, this indemnity shall not limit any other rights of indemnification, subrogation or assignment, whether explicit, implied, legal or equitable, that any Indemnified Party may have.

8 . No Waiver. This Amendment does not constitute a waiver by Lender of Borrower's compliance with any covenants, or a waiver of any Defaults or Events of Default, under the Credit Agreement or any of the Loan Documents, and shall not entitle the Borrower to any amendments or waivers in the future.

9. Miscellaneous. Article VIII of the Credit Agreement is hereby incorporated by reference into this Amendment.

[Signature Pages Follow]

Borrower and Lender have executed this Third Amendment to Credit Agreement as of the date first above written.

HEXAGON, LLC
By: Hexagon, Inc., its Manager

By: /s/ Brian Fleischmann
Brian Fleischmann
Executive Vice President

RECOVERY ENERGY, INC.

By: /s/ A. Bradley Gabbard
A. Bradley Gabbard
Chief Financial Officer

Exhibit 10.24

WHEN RECORDED
AND/OR FILED RETURN TO:

Debe Thomas
Bryan Cave HRO
1700 Lincoln Street, Suite 4100
Denver, Colorado 80203

FIRST AMENDMENT

TO

**DEED OF TRUST,
MORTGAGE, SECURITY AGREEMENT,
ASSIGNMENT OF PRODUCTION AND PROCEEDS,
FINANCING STATEMENT AND FIXTURE FILING**

This First Amendment to Deed of Trust, Mortgage, Security Agreement, Assignment of Production and Proceeds, Financing Statement and Fixture Filing (this "Amendment"), dated to be effective as of March 1, 2013, is among **RECOVERY ENERGY, INC.,** a Nevada corporation ("Debtor"), with an address of 1900 Grant, Suite 720, Denver, Colorado 80203, and **HEXAGON, LLC**, a Colorado limited liability company, formerly known as Hexagon Investments, LLC ("Secured Party"), with an address of 730 17th Street, Suite 800, Denver, Colorado 80202.

Recitals

A. By Deed of Trust, Mortgage, Security Agreement, Assignment of Production and Proceeds, Financing Statement and Fixture Filing, dated as of January 29, 2010 (the "Original Deed of Trust"), Debtor granted to Secured Party liens on and security interests in certain property, interests and rights as more specifically described therein. Capitalized terms used herein without definition shall have the meaning ascribed thereto in the Original Deed of Trust.

B. The Original Deed of Trust was recorded in the real property records of Banner County, Nebraska on February 26, 2010 in Book Mtg. 70, page 396 and Kimball County, Nebraska on February 26, 2010 in Book 154 Mtg., page 43.

C. This First Amendment to Deed of Trust is executed to amend and supplement the Original Deed of Trust to add additional Collateral.

Amendment

In consideration of the mutual promises contained herein, the benefits to be derived by each party hereunder and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Amendments. The Original Deed of Trust is hereby amended as follows:

"Exhibit A to the Original Deed of Trust is hereby amended and supplemented by adding those Lands described on Exhibit A attached hereto, to the Lands described on Exhibit A to the Original Deed of Trust, and all references to the "Lands" in the Original Deed of Trust are amended accordingly, and all such Lands described on Exhibit A shall be included in the Collateral covered by the Original Deed of Trust."

2. Incorporation and References. This Amendment shall be considered as an amendment and supplement to the Original Deed of Trust. References in the Original Deed of Trust to "this Instrument" shall be deemed to be references to the Original Deed of Trust as amended by this Amendment. When used in this Amendment or in the Original Deed of Trust, each reference to a term defined in the Original Deed of Trust which is amended by this Amendment, shall be deemed to be the term as amended by this Amendment.

3. Confirmation. Debtor hereby adopts, ratifies, approves and confirms in every respect the Original Deed of Trust as amended by this Amendment, and hereby specifically reaffirms its obligations under the warranties, representations, covenants, agreements and indemnities and other provisions contained in the Original Deed of Trust as amended by this Amendment. To the extent necessary to confirm the foregoing, Debtor hereby irrevocably:

A. Real Property. Grants, bargains, sells, mortgages, assigns, transfers and conveys to Trustee with POWER OF SALE, for the benefit of Secured Party, that part of the Collateral that is real property (including any fixtures that are real property under applicable state law), subject to the assignment of severed and extracted Hydrocarbons and the proceeds thereof made under paragraph C below; TO HAVE AND TO HOLD all of the Collateral that is real property (including any fixtures that are real property under applicable state law), together with all of the rights, privileges, benefits, hereditaments and appurtenances in any way belonging, incidental or pertaining thereto, to Trustee and its successors and assigns, forever, IN TRUST, NEVERTHELESS, for the security and benefit of Secured Party and its successors and assigns, subject to all of the terms, conditions, covenants, agreements and trusts herein set forth;

B. Personal Property. Grants to Secured Party a security interest in that part of the Collateral that is not real property (including any fixtures that are personal property under applicable state law); and

C . Assignment of Production. Absolutely assigns to Secured Party all of the severed and extracted Hydrocarbons produced from or allocated or attributed to any of the Collateral or any other interest of Debtor (whether now owned or hereafter acquired by operation of law or otherwise) in, to and under or that covers, affects or otherwise relates to the Lands or to any of the estates, property rights or other interests described or referred to above, together with all of the proceeds thereof and all supporting obligations ancillary to or arising in any way in connection therewith.

The Original Deed of Trust as amended by this Amendment also constitutes a mortgage, and to the extent, if any, required to confirm the foregoing, Debtor hereby grants, bargains, sells, mortgages, assigns, transfers and conveys the Collateral to Secured Party.

4 . Miscellaneous. This Amendment shall bind Debtor and inure to the benefit of Secured Party and their respective successors and assignees. Except as specifically provided for in this Amendment (a) the Original Deed of Trust and the liens and security interests created thereby shall remain in full force and effect, (b) this Amendment does not modify or affect the terms, conditions or provisions of the Original Deed of Trust, and (c) nothing contained in this Amendment shall be deemed to be, or construed as, a waiver of any such terms, conditions or provisions, or as a waiver of any other term, condition or provision.

Executed on the dates set forth below, to be effective as of March 1, 2013.

[Signature Pages Follow]

DEBTORS:

RECOVERY ENERGY, INC., a Nevada corporation

By: _____
Name: A. Bradley Gabbard
Title: President and Chief Financial Officer
Date: May ____, 2013

ACKNOWLEDGMENT CERTIFICATES

STATE OF COLORADO)
) ss.
CITY AND COUNTY OF DENVER)

The foregoing instrument was acknowledged before me by A. Bradley Gabbard, as President and Chief Financial Officer of Recovery Energy, Inc., a Nevada corporation, this ____ day of May, 2013, on behalf of such corporation.

My commission expires: _____

_____
Notary Public
Name: _____

(NOTARIAL SEAL)

SECURED PARTY:

HEXAGON, LLC, a Colorado limited liability company
By: Hexagon, Inc., its Manager

By: _____
Name: Brian Fleischmann
Title: Executive Vice President
Date: May ____, 2013

ACKNOWLEDGMENT CERTIFICATE

STATE OF COLORADO)
) ss.
CITY AND COUNTY OF DENVER)

This instrument was acknowledged before me on May __, 2013, by Brian Fleischmann as Executive Vice President of Hexagon, Inc., as Manager of Hexagon, LLC, a Colorado limited liability company, on behalf of the limited liability company.

My commission expires: _____

_____
Notary Public
Name: _____

[NOTARIAL SEAL]

EXHIBIT "A"

LEASES and LANDS:

Lessor: Jacob Baluska and Leona Baluska
Lessee: Edward Mike Davis, L.L.C.
Dated: December 24, 2009
Recorded: Book OG 209, Page 435
County: Kimball, NE
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
Surface to the base of the Greenhorn formation
TOWNSHIP 15 NORTH, RANGE 58 WEST, 6th P.M.
Section 6: Lots 1, 2, 3, 4, 5, 6, 7, S/2NE, SENW, E/2SW, SE (All)
Section 7: Lots 1, 2, 3, 4, E/2, E/2W/2
TOWNSHIP 15 NORTH, RANGE 59 WEST, 6th P.M.
Section 12: All

Lessor: R. Jolene Satterthwaite
Lessee: Edward Mike Davis, L.L.C.
Dated: April 1, 2010
Recorded: Book OG 210, Page 95
(Corrected at Book OG 210, Page 293)
County: Kimball, NE
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
All depths
TOWNSHIP 16 NORTH, RANGE 58 WEST, 6th P.M.
Section 31: Lots 1,2,3,4, E/2, E/2W/2

Lessor: Charlene A. Miller
Lessee: Edward Mike Davis, L.L.C.
Dated: April 2, 2010
Recorded: Book OG 210, Page 116
(Corrected at Book OG 210, Page 295)
County: Kimball, NE
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
All depths
TOWNSHIP 16 NORTH, RANGE 58 WEST, 6th P.M.
Section 31: Lots 1,2,3,4, E/2, E/2W/2
TOWNSHIP 16 NORTH, RANGE 59 WEST, 6th P.M.
Section 24: N/2, SW

Lessor: Marvin Sannes as Heir of the Estate of Cheryl K. Sannes, deceased
Lessee: Edward Mike Davis, L.L.C.
Dated: April 2, 2010
Recorded: Book OG 210, Page 98
(Corrected at Book OG 210, Page 299)
County: Kimball, NE
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
All depths
TOWNSHIP 16 NORTH, RANGE 58 WEST, 6th P.M.
Section 31: Lots 1,2,3,4, E/2, E/2W/2
TOWNSHIP 16 NORTH, RANGE 59 WEST, 6th P.M.
Section 24: N/2, SW

Kimball

County, NE

Lessor: Elaine M. Scheele
Lessee: Edward Mike Davis, L.L.C.
Dated: April 21, 2010
Recorded: Book OG 210, Page 92
County: Kimball, NE
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
Surface to the base of the Greenhorn formation
TOWNSHIP 15 NORTH, RANGE 58 WEST, 6th P.M.
Section 18: Lots 1,2,3,4, E/2, E/2W/2

Lessor: Roger E. Hickman, individually and as Trustee of the Ellis Hickman Family Trust
Lessee: Edward Mike Davis, L.L.C.
Dated: April 26, 2010
Recorded: Book OG 210, Page 307
County: Kimball, NE
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
All depths
TOWNSHIP 15 NORTH, RANGE 58 WEST, 6th P.M.
Section 19: Lots 1,2,3,4, E/2W/2
TOWNSHIP 15 NORTH, RANGE 59 WEST, 6th P.M.
Section 24: All

Lessor: Janice and J.W. Snyder Corporation, a Nebraska Corporation
Lessee: Edward Mike Davis, L.L.C.
Dated: April 26, 2010
Recorded: Book OG 210, Page 233
County: Kimball, NE
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
All depths
TOWNSHIP 16 NORTH, RANGE 58 WEST, 6th P.M.
Section 3: Lots 1,2,3,4, S/2N/2, S/2
Section 9: SW

Lessor: Cougar Valley Farms, LLC, an Iowa Limited Liability Company
Lessee: Edward Mike Davis, L.L.C.
Dated: April 26, 2010
Recorded: Book OG 210, Page 220
County: Kimball, NE
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
All depths
TOWNSHIP 16 NORTH, RANGE 58 WEST, 6th P.M.
Section 8: W/2

Lessor: Charles Dunning and Shirley Dunning
Lessee: Edward Mike Davis, L.L.C.
Dated: May 1, 2010
Recorded: Book OG 210, Page 245
County: Kimball, NE
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
All depths
TOWNSHIP 15 NORTH, RANGE 58 WEST, 6th P.M.
Section 19: E/2
Section 20: All, less a tract of land lying in the N/2 containing 191.36 acres

Lessor: Barbara Eileen Gries
Lessee: Edward Mike Davis, L.L.C.
Dated: March 26, 2010
Recorded: Book OG 210, Page 226
County: Kimball, NE
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
All depths
TOWNSHIP 15 NORTH, RANGE 59 WEST, 6th P.M.
Section 26: Lots 1,2,3,4
Section 35: Lots 1,2,3,4

Lessor: James M. Larson and Jacquelyn D. Larson, individually and as Co-Trustees of the James M. Larson and Jacquelyn D. Larson Living Trust
Lessee: Edward Mike Davis, L.L.C.
Dated: March 5, 2010
Recorded: Book OG 210, Page 84
County: Kimball, NE
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
All depths
TOWNSHIP 15 NORTH, RANGE 58 WEST, 6th P.M.
Section 19: Lots 1,2,3,4, E/2, E/2W/2
Section 20: All
TOWNSHIP 15 NORTH, RANGE 59 WEST, 6th P.M.
Section 24: All
Section 26: Lots 1,2,3,4
Section 35: Lots 1,2,3,4

Kimball

County, NE

Lessor:	John W. Larson and Susan S. Larson
Lessee:	Edward Mike Davis, L.L.C.
Dated:	March 5, 2010
Recorded:	Book OG 210, Page 88
County:	Kimball, NE
Covering:	INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS: *All depths* TOWNSHIP 15 NORTH, RANGE 58 WEST, 6th P.M. Section 19: Lots 1,2,3,4, E/2, E/2W/2 Section 20: All TOWNSHIP 15 NORTH, RANGE 59 WEST, 6th P.M. Section 24: All Section 26: Lots 1,2,3,4 Section 35: Lots 1,2,3,4

Lessor:	Thomas W. Irwin, individually and as Trustee of The Thomas W. Irwin Family Trust, dated 6-20-1990
Lessee:	Edward Mike Davis, L.L.C.
Dated:	April 9, 2010
Recorded:	Book OG 210, Page 229
County:	Kimball, NE
Covering:	INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS: *All depths* TOWNSHIP 14 NORTH, RANGE 59 WEST, 6th P.M. Section 1: Lots 3,4, S/2NW Section 12: N/2N/2

Kimball

County, NE

EXHIBIT "A"

Lessor: Janice and J.W. Snyder Corporation, a Nebraska Corporation
Lessee: Edward Mike Davis, L.L.C.
Dated: April 26, 2010
Recorded: Book OG 133, Page 82
County: Banner, NE
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
All depths

TOWNSHIP 17 NORTH, RANGE 58 WEST, 6th P.M.
Section 26: SE

Lessor: Carl E. Sundin and Nancy C. Sundin
Lessee: Edward Mike Davis, L.L.C.
Dated: March 5, 2010
Recorded: Book 2165, Page 1345, Rec. #545362
County: Laramie, WY
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
Surface to the base of the Greenhorn formation and below 150' into Skull Creek formation to the Bottom

TOWNSHIP 15 NORTH, RANGE 60 WEST, 6th P.M.
Section 7: E/2
Section 8: NE, SW

Lessor: State of Nebraska, Board of Educational Lands and Funds
Lessee: Bear Oil and Gas, Inc.
Dated: June 11, 2010
Lease #:: 7558
County: Banner, NE
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
All depths

TOWNSHIP 16 NORTH, RANGE 59 WEST, 6th P.M.
Section 36: All

Lessor: Delight M. Adcock, as Attorney in Fact for Robert G. Adcock, Trustee of the Robert G. Adcock Revocable Trust dated 8/17/2000 and Delight M. Adcock, Trustee of the Delight M. Adcock Revocable Trust dated 8/17/2000
Lessee: Edward Mike Davis, L.L.C.
Dated: October 21, 2009
Recorded: Book OG 132, Page 247
County: Banner, NE
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
Surface to the base of the Greenhorn formation

TOWNSHIP 17 NORTH, RANGE 58 WEST, 6th P.M.
Section 26: N/2, SW
Section 35: All

Lessor: Sam Houston
Lessee: Edward Mike Davis, L.L.C.
Dated: October 10, 2009
Recorded: Book OG 132, Page 305
County: Banner, NE
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
Surface to the base of the Greenhorn formation
TOWNSHIP 17 NORTH, RANGE 58 WEST, 6th P.M.
Section 33: All

Lessor: Robert Charles Jeep and Martha Jeep
Lessee: Edward Mike Davis, L.L.C.
Dated: October 10, 2009
Recorded: Book OG 132, Page 308
County: Banner, NE
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
Surface to the base of the Greenhorn formation
TOWNSHIP 17 NORTH, RANGE 58 WEST, 6th P.M.
Section 33: All

Lessor: Ronald Scott Jessen and Brenda Jessen
Lessee: Edward Mike Davis, L.L.C.
Dated: October 23, 2009
Recorded: Book OG 132, Page 219
County: Banner, NE
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
Surface to the base of the Greenhorn formation
TOWNSHIP 17 NORTH, RANGE 58 WEST, 6th P.M.
Section 33: All

Lessor: F. Bert Linn and Donna L. Linn, as Trustees of the F. Bert Linn Trust,dated July 1, 1991
Lessee: Edward Mike Davis, L.L.C.
Dated: October 17, 2009
Recorded: Book OG 132, Page 214
County: Banner, NE
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
Surface to the base of the Greenhorn formation
TOWNSHIP 17 NORTH, RANGE 58 WEST, 6th P.M.
Section 34: NW, S/2

Banner County, NE

Lessor: Jane R. Temple, a/k/a Jane R. Linn
Lessee: Edward Mike Davis, L.L.C.
Dated: October 10, 2009
Recorded: Book OG 132, Page 311
County: Banner, NE
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
Surface to the base of the Greenhorn formation
TOWNSHIP 17 NORTH, RANGE 58 WEST, 6th P.M.
Section 34: S/2

Lessor: LeRoy A. Person, Individually and as Trustee of the Leroy A. Person Living Trust
Lessee: Edward Mike Davis, L.L.C.
Dated: September 15, 2009
Recorded: Book OG 132, Page 200
County: Banner, NE
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
Surface to the base of the Greenhorn formation
TOWNSHIP 18 NORTH, RANGE 58 WEST, 6th P.M.
Section 17: S/2

Lessor: Edith J. Rundell
Lessee: Edward Mike Davis, L.L.C.
Dated: February 20, 2010
Recorded: Book OG 132, Page 388
County: Banner, NE
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
Surface to the base of the Greenhorn formation
TOWNSHIP 18 NORTH, RANGE 58 WEST, 6th P.M.
Section 17: NW
Section 18: NE

Banner County, NE

Exhibit 10.25

MORTGAGE, SECURITY AGREEMENT,
ASSIGNMENT OF PRODUCTION AND PROCEEDS,
FINANCING STATEMENT AND FIXTURE FILING

FROM

RECOVERY ENERGY, INC. (Taxpayer I.D. No. 74-3231613), AS DEBTOR

TO

HEXAGON, LLC, AS SECURED PARTY

Dated as of March 1, 2013

THIS INSTRUMENT CONTAINS AFTER-ACQUIRED PROPERTY PROVISIONS.

THIS INSTRUMENT SECURES PAYMENT OF FUTURE ADVANCES.

EXHIBIT "A" CONTAINS A LEGAL DESCRIPTION OF THE REAL ESTATE CONCERNED. DEBTOR HAS AN INTEREST OF RECORD IN THE REAL ESTATE. SOME OF THE PERSONAL PROPERTY CONSTITUTING A PORTION OF THE COLLATERAL IS OR IS TO BECOME FIXTURES RELATED TO THE REAL ESTATE.

THIS INSTRUMENT IS TO BE RECORDED IN THE REAL ESTATE RECORDS OF THE COUNTY RECORDER IN EACH COUNTY WHERE THE REAL ESTATE IS LOCATED.

THIS INSTRUMENT COVERS FIXTURES AND AS-EXTRACTED COLLATERAL.

A POWER OF SALE HAS BEEN GRANTED IN THIS INSTRUMENT. A POWER OF SALE MAY ALLOW SECURED PARTY TO TAKE THE COLLATERAL AND SELL IT WITHOUT GOING TO COURT IN A FORECLOSURE ACTION.

THIS INSTRUMENT WAS PREPARED BY
AND WHEN RECORDED AND/OR FILED
RETURN TO:

Deborah J. Thomas
Bryan Cave HRO
1700 Lincoln, Suite 4100
Denver, Colorado 80203

MORTGAGE, SECURITY AGREEMENT,

ASSIGNMENT OF PRODUCTION AND PROCEEDS,

FINANCING STATEMENT

AND FIXTURE FILING

This Mortgage, Security Agreement, Assignment of Production and Proceeds, Financing Statement and Fixture Filing (this "Instrument"), dated as of March 1, 2013, is from **RECOVERY ENERGY, INC.**, a Nevada corporation ("Debtor"), with Organizational I.D. No. 74-3231613 and with an address of 1900 Grant Street, Suite 720, Denver, Colorado 80203, to **HEXAGON, LLC,** a Colorado limited liability company ("Secured Party"), with an address of 730 17th Street, Suite 800, Denver, Colorado 80202.

COLLATERAL

All of the property described in paragraphs 1-8 below is herein collectively called the "Collateral":

1. The entire estates or the undivided interests therein as described in Exhibit "A" in and to all of the mineral estates, surface estates, leasehold estates and other estates described in Exhibit "A" and in and to the mineral interests, royalty interests, working interests, operating rights interest, record title interests, overriding royalty interests, production payment interests, net profit interests and other interests described in Exhibit "A" and in and to the leases, licenses, subleases, sublicenses, easements, rights-of-way, farmouts, farmins, minerals agreements, unit agreements, cooperative development agreements, communitization agreements, unit operating agreements, pooling agreements, joint operating agreements and other documents and instruments described in Exhibit "A" and any other estates, property interests and rights described in Exhibit "A", covering or relating to all or any part of the land described either in Exhibit "A" or in the leases, licenses, subleases, sublicenses, easements, rights-of-way, agreements and other documents and instruments described in Exhibit "A" (the "Land"; the term "Land" as used herein includes the land specifically described in Exhibit "A" and all land described in or covered by the leases, licenses, subleases, sublicenses, easements, rights-of-way, agreements and other documents and instruments described in Exhibit "A" whether or not such land is specifically described in Exhibit "A"), together with any and all other right, title and interest of Debtor of whatever kind or character (whether now owned or hereafter acquired by operation of law or otherwise) (which right, title and interest of Debtor shall, for all purposes of this Instrument, be deemed to include any and all right, title and interest now owned or hereafter acquired by Debtor in any amendment, modification, supplement, restatement, extension, renewal or replacement of any of the leases, licenses, subleases, sublicenses, easements, rights-of-way, agreements and other documents and instruments described in Exhibit "A") in, to and under or that covers, affects or otherwise relates to the Land or the leases, licenses, subleases, sublicenses, easements, rights of way, agreements and other documents and instruments described in Exhibit "A" or to any of the estates, property, interests or rights described or referred to above or herein, including the following:

a. All of Debtor's right, title and interest of whatever kind or character (whether now owned or hereafter acquired by operation of law or otherwise) in, to and under or that covers, affects or otherwise relates to the Land or the leases, licenses, subleases, sublicenses, easements, rights-of-way, agreements and other documents and instruments described in Exhibit "A" or to any of the estates, property, interests or rights described or referred to above or herein, even though Debtor's interest therein may be incorrectly described in, omitted from or not described in Exhibit "A";

b. All of Debtor's right, title and interest (whether now owned or hereafter acquired by operation of law or otherwise) in, to and under all presently existing and hereafter created oil, gas or mineral unitization, cooperative development, pooling, spacing or communitization agreements, declarations or orders, and in and to the lands and properties covered and the units created thereby (including units formed under orders, rules, regulations or other official acts of any federal, state, tribal, local or other authority having jurisdiction and so called "working interest units" created under operating and similar agreements or otherwise), that cover, affect or otherwise relate to the Land or the leases, licenses, subleases, sublicenses, easements, rights-of-way, agreements and other documents and instruments described in Exhibit "A" or to any of the estates, property, interests or rights described or referred to above or herein;

c. All of Debtor's right, title and interest (whether now owned or hereafter acquired by operation of law or otherwise) in, to and under all presently existing and hereafter created operating agreements, equipment leases, production sales, purchase, exchange or processing agreements, transportation or gathering agreements, farmout or farmin agreements, disposal agreements, area of mutual interest agreements and other contracts or agreements that cover, affect or otherwise relate to the Land or the leases, licenses, subleases, sublicenses, easements, rights-of-way, agreements and other documents and instruments described in Exhibit "A" or to any of the estates, property, interests or rights described or referred to above or herein or the operations thereon, or the production, treatment, storage, gathering, transportation, handling, processing, manufacturing, sale or marketing of Hydrocarbons (as hereinafter defined) produced therefrom or allocated or attributed thereto, including those contracts and agreements listed in Exhibit "A" as the same may be amended or supplemented from time to time; and

d. All of Debtor's right, title and interest of whatever kind or character (whether now owned or hereafter acquired by operation of law or otherwise) in, to and under all presently existing or hereafter created easements, servitudes, rights-of-way, surface leases, licenses, permits and other surface rights used, or held for use, in connection with the Land or any of the estates, property, interests or rights described or referred to above or herein, or the operations thereon, or the production, treatment, storage, gathering, transportation, handling, processing, manufacturing, sale or marketing of Hydrocarbons produced therefrom or allocated or attributed thereto, including the easements and rights-of-way described in Exhibit "A" hereto as same may be amended or supplemented from time to time;

2. All of the oil, gas, drip gasoline, natural gasoline, natural gas liquids, condensate, distillate, casinghead gas and other solid, liquid or gaseous hydrocarbons and other associated or related substances of whatever kind or character and in whatever form or phase, including gases produced from coal-bearing formations and strata such as so-called "coal-bed gas" and "coal-bed methane" (collectively, "Hydrocarbons") in, on, under or allocated or attributed to any of the estates, property, interests or rights described or referred to above or herein or any other interest of Debtor (whether now owned or hereafter acquired by operation of law or otherwise) in, to and under or that covers, affects or otherwise relates to the Land or to any of the estates, property, interests or rights described or referred to above or herein;

3. All wells, platforms, derricks, casing, tubing, tanks, tank batteries, treaters, separators, rods, pumps, pumping units, flow lines, water lines, transportation lines, gathering lines, gas lines, machinery, pipelines, power lines and other goods and equipment, and all of the personal property and fixtures, as defined under applicable state law, now or hereafter located in, on, under, affixed, allocated or attributed to or obtained or used in connection with any of the estates, property, interests or rights described or referred to above or herein or any other interest of Debtor (whether now owned or hereafter acquired by operation of law or otherwise) in, to and under or that covers, affects or otherwise relates to the Land or to any of the estates, property, interests or rights described or referred to above or herein, or that are used or purchased for the production, treatment, storage, gathering, transportation, handling, processing, manufacturing, sale or marketing of Hydrocarbons;

4. All of the accounts, contract rights and general intangibles now or hereafter arising in connection with the production, treatment, storage, gathering, transportation, handling, processing, manufacturing, sale or marketing of Hydrocarbons produced from or allocated or attributed to any of the estates, property, interests or rights described or referred to above or herein or any other interest of Debtor (whether now owned or hereafter acquired by operation of law or otherwise) in, to or under or that covers, affects or otherwise relates to the Land or to any of the estates, property, interests or rights described or referred to above or herein and all other accounts, contract rights and general intangibles now or hereafter arising in connection with the estates, property, interests or rights described or referred to above or herein;

5. All of the severed and extracted Hydrocarbons, including "as-extracted collateral" (as defined in the applicable version of the Uniform Commercial Code in effect in each jurisdiction in which any of the Land is located) produced from or allocated or attributed to any of the estates, property, interests or rights described or referred to above or herein or any other interest of Debtor (whether now owned or hereafter acquired by operation of law or otherwise) in, to and under or that covers, affects or otherwise relates to the Land or to any of the estates, property, interests or rights described or referred to above or herein;

6. All renewals, extensions and restatements of, modifications, changes, amendments and supplements to, and substitutions for the estates, property, interests and rights described or referred to in paragraphs 1 through 5 above, and all additions and accessions thereto;

7. All of the rights, privileges, benefits, hereditaments and appurtenances in any way belonging, incidental or appertaining to the estates, property, interests and rights described or referred to in paragraphs 1 through 6 above; and

8. All of the proceeds and products of the estates, property, interests and rights described or referred to in paragraphs 1 through 7 above, including, condemnation awards and the proceeds of any and all insurance policies (including title insurance policies as well as other types of insurance policies) covering all or any part of said estates, property, interests or rights and, to the extent they may constitute proceeds, instruments, accounts, securities, general intangibles, contract rights and inventory.

GRANTING CLAUSES

In consideration of ten dollars and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by Debtor, and the matters hereinafter set forth, Debtor hereby:

A. Real Property. Grants, bargains, sells, mortgages, assigns, transfers and conveys to Secured Party with POWER OF SALE, that part of the Collateral that is real property (including any fixtures that are real property under applicable state law) subject to the assignment of severed and extracted Hydrocarbons and the proceeds thereof made under paragraph C below; TO HAVE AND TO HOLD all of the Collateral that is real property (including any fixtures that are real property under applicable state law), together with all of the rights, privileges, benefits, hereditaments and appurtenances in any way belonging, incidental or pertaining thereto, for the security and benefit of Secured Party and its successors and assigns, subject to all of the terms, conditions, covenants and, agreements herein set forth;

B. Personal Property. Grants to Secured Party a security interest in that part of the Collateral that is personal property (including any fixtures that are personal property under applicable state law); and

C. Assignment of Production. Absolutely assigns to Secured Party all of the severed and extracted Hydrocarbons produced from or allocated or attributed to any of the Collateral or any other interest of Debtor (whether now owned or hereafter acquired by operation of law or otherwise) in, to and under or that covers, affects or otherwise relates to the Land or to any of the estates, property rights or other interests described or referred to above, together with all of the proceeds thereof.

ARTICLE I

Obligations

Section 1.1 Obligations Secured. This Instrument is executed, acknowledged and delivered by Debtor to secure and enforce the following indebtedness, liabilities and obligations (the "Obligations"):

A. Note. All indebtedness (including principal, interest, fees and penalties), liabilities and obligations under or pursuant to that certain Promissory Note, dated January 29, 2010, in the principal amount of $4,500,000, made by Debtor, and payable to the order of Secured Party on or before May 16, 2014, together with interest for all periods prior to March 1, 2013 at the rate of 15% per annum, and for all periods commencing March 1, 2013 until maturity or default at the rate of 10% per annum (the "Standard Interest Rate"), and after maturity or default at the rate of 20% per annum (the "Default Rate"), and any renewals, extensions or restatements thereof, modifications, changes, amendments or supplements thereto and substitutions therefor (collectively, the "Note"):

B. Credit Agreement. All indebtedness, liabilities and obligations of Debtor of whatever kind or character, now existing or hereafter created or arising under or pursuant to that certain Credit Agreement (the "Credit Agreement"), dated January 29, 2010, as amended and as may be amended from time to time, between Debtor and Secured Party;

C. This Instrument. All indebtedness, liabilities and obligations of Debtor to Secured Party of whatever kind or character, now existing or hereafter created or arising under or pursuant to this Instrument, including those arising under or pursuant to the representations, warranties, covenants and indemnities contained herein and any and all amounts advanced to protect the liens and security interests herein granted and all reasonable attorneys' fees, court costs, and expenses of whatever kind or character now existing or hereafter created or arising, incident thereto or to the collection of the indebtedness, liabilities and obligations hereby secured and enforcement of the liens and security interests herein granted and created;

D. Other Obligations. All other indebtedness, liabilities and obligations of Debtor to Secured Party of whatever kind or character now existing or hereafter created or arising, whether fixed, absolute or contingent, direct or indirect, primary or secondary, joint, several or joint and several, due or to become due, and however evidenced whether by note, open account, overdraft, endorsement, security agreement, guarantee or otherwise, it being contemplated that Debtor may hereafter become indebted to Secured Party in such further sum or sums; and

E. Renewals, Extensions and Amendments. All indebtedness, liabilities and obligations of whatever kind or character, now existing or hereafter created or arising under or pursuant to all renewals, extensions and restatements of, modifications, changes, amendments and supplements to and substitutions for, all or any part of the foregoing.

Section 1.2 Future Advances. Debtor and Secured Party agree and acknowledge that Secured Party may elect to make additional advances under the terms of the Note, the Credit Agreement or otherwise, and that any such future advances shall be subject to, and secured by, this Instrument. Should the Obligations decrease or increase pursuant to the terms of the Note, the Credit Agreement or otherwise, at any time or from time to time, this Instrument shall retain its priority position of record until (a) the termination of the Credit Agreement, (b) the full, final and complete payment of all the Obligations, and (c) the full release and termination of the liens and security interests created by this Instrument. The aggregate unpaid principal amount of the Obligations outstanding at any particular time (after having given effect to all advances and all repayments made prior to such time) which is secured by this Instrument shall not aggregate in excess of $9,000,000. Such amount does not in any way imply that Secured Party is obligated to make any future advances to Debtor at any time unless specifically so provided in the Credit Agreement.

ARTICLE II

Warranties, Representations, Covenants and Indemnities

Section 2.1 Representations and Warranties. Debtor warrants and represents as follows:

A. Power and Authority. Debtor has the power and authority to mortgage, pledge and hypothecate the Collateral as provided herein.

B. Title. Unless otherwise indicated in Exhibit "A", to the best of Debtor's knowledge the oil and gas leases and licenses described in Exhibit "A" cover all of the oil, gas and other Hydrocarbons in and under the Land. Debtor has good and defensible title to the Collateral; and Debtor has good and defensible title to the undivided interests in the leases, licenses, sublicenses, sublicensing, easements, rights-of-way, agreements and other documents and instruments as described in Exhibit "A" free and clear of all royalties and other burdens, charges, liens, security interests, encumbrances, agreements, contracts, assignments and other matters, except (1) landowner's royalties and the overriding royalties and the agreements and contracts specifically described in Exhibit "A", (2) the liens and security interests evidenced by this Instrument, (3) statutory liens for taxes which are not yet delinquent, (4) liens under operating agreements, pooling orders and unitization agreements, and mechanics' and materialmen's liens, with respect to obligations which are not yet due, and (5) other interests in favor of Secured Party. To the best of Debtor's knowledge the leases, licenses, subleases, sublicenses, easements, rights-of-way, agreements and other documents and instruments described in Exhibit "A" are valid and subsisting and are in full force and effect. To the best of Debtor's knowledge, all rents and royalties due and payable under the leases, licenses, subleases, sublicenses, easements, rights-of-way, agreements and other documents and instruments described in Exhibit "A" have been paid. All wells located on the Land have been drilled, operated and produced in conformity with all applicable laws and rules, regulations and orders of all regulatory authorities having jurisdiction, and are subject to no penalties on account of past production. To the best of Debtor's knowledge none of such wells are deviated from the vertical more than the maximum permitted by applicable laws, rules, regulations and orders. To the best of Debtor's knowledge such wells are in fact bottomed under and are producing from, and the well bores are wholly within, the lands described in Exhibit "A". Debtor warrants and will forever defend the title to the Collateral, subject to the aforesaid, against the claims of all persons claiming or to claim the same or any part thereof by, through or under the Debtor but not otherwise.

C. Working and Net Revenue Interests.

(1) With respect to each of the oil and gas leases and wells described in Exhibit "A", Debtor's share of development and operating costs with respect to the portion of the Land covered thereby as described in Exhibit "A", without regard to pooling and unitization, is not greater than the "Working Interest" or "WI" specified in Exhibit "A"; and Debtor's share of the gross production of all oil, gas and other Hydrocarbons produced, saved and marketed from said Land, without regard to pooling and unitization, is no less than the "Net Revenue Interest" or "NRI" specified in Exhibit "A".

(2) With respect to each of the overriding royalty interests described in Exhibit "A", Debtor's share of the gross production of oil, gas and other Hydrocarbons produced, saved and marketed from the portion of the Land subject thereto as described in Exhibit "A", is no less than the percentage specified in Exhibit "A".

(3) With respect to each of the mineral interests described in Exhibit "A", Debtor's share of the oil, gas and other Hydrocarbons in and under and that may be produced, saved and marketed from the portion of the Land subject thereto as described in Exhibit "A" is no less than the stated percentage specified in Exhibit "A".

(4) With respect to each of the royalty interests described in Exhibit "A", Debtor's share of the gross production of oil, gas and other Hydrocarbons produced, saved and marketed from the portion of the Land subject thereto as described in Exhibit "A" is no less than the percentage specified in Exhibit "A".

(5) With respect to each of the units and pools described in Exhibit "A", Debtor's share of development and operating costs with respect to the portion of the Land covered thereby as described in Exhibit "A" or in the agreements creating such units and pools recorded as described in Exhibit "A" and the wells on said Land, is no greater than the "Working Interest" or "WI" specified in Exhibit "A"; and Debtor's share of the gross production of oil, gas and other Hydrocarbons produced, saved and marketed from said Land and said wells is no less than the "Net Revenue Interest" or "NRI" specified in Exhibit "A".

All such shares of development and operating costs and of gross production are not and will not be subject to change (other than changes that arise pursuant to nonconsent provisions of operating agreements described in Exhibit "A" in connection with operations hereafter proposed) except, and only to the extent that such changes are reflected in Exhibit "A".

D . Operations of Oil and Gas Properties. The Collateral (and all properties spaced, communitized, unitized or otherwise aggregated therewith) will be maintained, operated and developed in a good and workmanlike manner and in conformity in all material respects with all applicable laws, rules, regulations and orders of all federal, state, tribal and local governmental bodies, authorities and agencies and in conformity in all material respects with the provisions of all leases, subleases or other contracts and agreements comprising a part of the Collateral. To the best of Debtor's knowledge none of the Collateral is subject to having allowable production reduced below the full and regular allowable (including the maximum permissible tolerance) because of an overproduction (whether or not the same was permissible at the time) prior to the date hereof.

E. Sale of Production.

(1) All proceeds from the sale of Debtor's interests in Hydrocarbons from the Collateral are currently being paid in full to Debtor by the purchaser or remitter thereof on a timely basis and at prices and terms comparable to market prices and terms generally available at the time such prices and terms were negotiated for oil and gas production from producing areas situated near the Collateral, and none of such proceeds are currently being held in suspense by such purchaser or any other party.

(2) Neither Debtor, nor to the best of Debtor's knowledge its predecessors in title, have entered into or are subject to any agreement or arrangement (including "take or pay" or similar arrangements) nor to the best of Debtor's knowledge is the Collateral subject to any such agreement or arrangement, to deliver Hydrocarbons produced or to be produced from the Collateral at some future time without then or thereafter receiving full payment therefor.

(3) To the best of Debtor's knowledge none of the Collateral is or will become subject to any contractual or other arrangement whereby payment for production from such Collateral is to be deferred for a substantial period after the month in which such production is delivered (that is, in the case of oil, not in excess of 60 days, and in the case of gas, not in excess of 90 days).

(4) Except for existing production sales contracts, processing agreements or transportation agreements, none of the Collateral is or will become subject to any contractual or other arrangement for the sale of crude oil that cannot be canceled on 180 days' or less notice; and none of the Collateral is or will become subject to a gas sales contract that contains terms that are not customary in the industry.

(5) To the best of Debtor's knowledge none of the Collateral is subject at the present time to any regulatory refund obligation and, no facts exist that might cause the same to be imposed.

(6) None of the Collateral is subject to a gas balancing arrangement under which an imbalance exists with respect to which imbalance Debtor or the Collateral is in an overproduced status and is required to (i) permit one or more third parties to take a portion of the production attributable to such Collateral without payment (or without full payment) therefor or (ii) make payment in cash, in order to correct such imbalance.

F . Condition of Personal Property. The inventory, equipment, fixtures and other tangible personal property and fixtures forming a part of the Collateral are in good repair and condition. All of such Collateral is located on the Land.

G . Contracts and Agreements. Except for contracts and agreements that do not have a material effect on the use, ownership, value or operation of the Collateral, to the best of Debtor's knowledge Exhibit "A" sets forth all operating agreements, equipment leases, production sales, purchase, exchange or processing agreements, transportation or gathering agreements, farmout or farmin agreements, disposal agreements, area of mutual interest agreements and other contracts and agreements that cover, effect or otherwise relate to the Land or the leases, licenses, subleases, sublicenses, easements, rights-of-way, agreements and other documents and instruments described in Exhibit "A" that relate to operations thereon, or the production, treatment, storage, gathering, transportation, handling, processing, manufacturing, sale or marketing of hydrocarbons produced therefrom or allocated or attributed thereto.

H . Consents and Preferential Rights to Purchase. Except as specifically set forth in Exhibit "A", to the best of Debtor's knowledge there are no preferential rights to purchase all or any portion of the Collateral and there are no rights of third parties to consent to the transfer of all or any portion of the Collateral.

I . Taxes. To the best of Debtor's knowledge all ad valorem, property, production, severance, excise and similar taxes and assessments based on or measured by the ownership of property or the production of Hydrocarbons or the receipt of proceeds therefrom relating to the Collateral that have become due and payable have been properly and timely paid.

J . Federal State and Tribal Interests Leases. Debtor is duly qualified to own, hold and operate leases, easements, rights-of-way, mineral agreements and other agreements covering, affecting or otherwise relating to federal, state and tribal lands (including leases, easements and rights-of-way issued by the Bureau of Land Management; leases, easements and rights-of-way issued by the Bureau of Indian Affairs; and leases, easements, rights-of-way, mineral agreements and other agreements with tribal governments or agencies or allottees).

K . Environmental Matters. To the best of Debtor's knowledge the Collateral is being, operated in compliance with all applicable Environmental Laws (as hereinafter defined); and no conditions exist on or with respect to the Collateral or, on any property adjoining the Collateral that would subject Debtor, Secured Party or the owner of any adjoining property to any damages (including actual, consequential, exemplary and punitive damages), penalties, injunctive relief or cleanup costs under any Environmental Laws (as hereinafter defined), or that require or are likely to require cleanup, removal, remedial action or other response by Debtor, Secured Party or the owner of any adjoining property pursuant to any Environmental Laws. Debtor is not a party to any litigation or administrative proceeding, nor, to the best of Debtor's knowledge, is any litigation, administrative proceeding or investigation threatened against Debtor or the Collateral, that asserts or alleges that Debtor or its predecessors in title to the Collateral violated or are violating Environmental Laws or that Debtor or such predecessors are required to clean up, remove or take remedial or other responsive action due to the use, storage, treatment, disposal, discharge, leaking or release of any Hazardous Substances or Solid Waste (as such terms are hereinafter defined). Neither Debtor nor to the best of Debtor's knowledge such predecessors or any part of the Collateral is subject to any judgment, decree, order or citation related to or arising out of Environmental Laws and Debtor has not been named or listed as a potentially responsible party by any governmental or other entity in a matter arising under or relating to any Environmental Laws. This representation shall continue to be true and correct following disclosure to the applicable governmental authorities of all relevant facts, conditions, and circumstances, if any, pertaining to the Collateral or to Debtor.

(2) Debtor undertook, at the time of acquisition of the Collateral, all appropriate inquiry into the previous ownership and uses of the Collateral consistent with good commercial and industry practice. To the best of Debtor's knowledge no Hazardous Substances or Solid Waste have been disposed of or otherwise released on, to or from the Collateral, except in full compliance with all Environmental Laws. The use which Debtor makes and intends to make of the Collateral will not result in the use or storage of any Hazardous Substances or Solid Waste on, in or in connection with the Collateral, or disposal from the Collateral, except in full compliance with all Environmental Laws, or result in any requirement that Debtor apply for or obtain a permit under RCRA (as hereinafter defined) or other Environmental Law for the treatment, storage or disposal of Hazardous Substances or Solid Waste. To the best of Debtor's knowledge there are no regulated underground storage tanks located on or in the Collateral.

(3) As used herein, the term "Environmental Laws" shall mean any and all present and future laws (whether common or statutory), compacts, treaties, conventions or rules, regulations, codes, plans, requirements, criteria, standards, orders, decrees, judgments, injunctions, notices or demand letters issued, promulgated or entered thereunder by any federal, tribal, state or local governmental entity relating to public or employee health and safety, pollution or protection of the environment, including the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended by the Superfund Amendment and Reauthorization Act of 1986 ("CERCLA"), the Resource Conservation and Recovery Act of 1976, as amended by the Used Oil Recycling Act of 1980, the Solid Waste Disposal Act Amendments of 1980, and the Hazardous and Solid Waste Amendments of 1984, ("RCRA"), the Federal Safe Drinking Water Act, the Federal Water Pollution Control Act, the Oil Pollution Act of 1990, the Emergency Planning and Community Right-to-Know Act of 1986, the Clean Air Act and any and all other federal, state, tribal and local laws, rules, regulations and orders relating to reclamation of land, wetlands and waterways or relating to use, storage, emissions, discharge, cleanup, release or threatened release of pollutants, contaminants, chemicals or industrial, toxic or Hazardous Substances or Solid Waste on or into the workplace or the environment (including ambient air, oceans, waterways, wetlands, surface water, ground water (tributary and nontributary), land surface or subsurface strata) or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transportation or handling of pollutants, contaminants, chemicals or industrial, toxic, hazardous or similar substances, as all of the foregoing may be amended, supplemented and reauthorized from time to time.

(4) As used herein, the term "Hazardous Substances" shall mean any and all (a) "hazardous substances," as defined by CERCLA; (b) "hazardous wastes," as defined by RCRA; (c) any pollutant, contaminate or hazardous, dangerous or toxic chemicals, materials or substances within the meaning of any Environmental Law; (d) any radioactive material, including any source, special nuclear or by-product material as defined at 42 U.S.C. § 2011 et seq., as amended; and (e) asbestos in any form or condition. As used herein, the term "release" shall have the meaning specified in CERCLA, and the terms "Solid Waste," "disposal" or "disposed" shall have the meaning specified in RCRA. In the event CERCLA, RCRA or any other applicable Environmental Law is amended so as to broaden the meaning of any terms defined thereby, such broader meaning shall apply subsequent to the effective date of such amendment; and to the extent that the laws of any state in which the Collateral are located establish a meaning for "hazardous substance," "release," "solid waste," "hazardous wastes," or "disposal" that is broader than that specified in either CERCLA or RCRA, such broader meaning shall apply.

L. Non-Foreign Person Status. Debtor is not a "foreign person" within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"), Sections 1445 and 7701; that is, Debtor is not a nonresident alien, foreign corporation, foreign partnership, foreign trust or foreign estate as those terms are defined in the Code and any regulations promulgated thereunder.

M. Structure. Debtor's name, identity, entity structure, organizational identification number and state of organization are correctly reflected in the preamble to this Instrument.

Section 2.2 Covenants. Debtor covenants and agrees as follows:

A. Obligations. Debtor shall pay when due and perform the Obligations in accordance with the terms thereof and hereof.

B. Recording and Filing. Debtor shall (1) promptly and at Debtor's own expense, file in such offices, at such times and as often as may be necessary, this Instrument and every other instrument in addition or supplemental hereto, including applicable financing statements, as may be necessary to create, perfect, maintain and preserve the first priority of the liens and security interests intended to be created hereby and the rights and remedies of Secured Party hereunder; (2) promptly furnish to Secured Party evidence satisfactory to Secured Party of all such filings; and (3) otherwise do all things necessary or expedient to be done effectively to create, perfect, maintain and preserve the priority of the liens and security interests intended to be created hereby as a first lien on real property and fixtures and a first priority security interest in personal property and fixtures.

C. Modifications and Dispositions. Without the prior written consent of Secured Party, Debtor shall not (1) amend, modify or otherwise revise any lease, license or other agreement described in Exhibit "A"; (2) release, surrender, abandon or forfeit the Collateral or any part thereof; (3) sell, convey, assign, lease, sublease, alienate, mortgage or grant security interests in or otherwise dispose of or encumber the Collateral or any part thereof, except to the extent explicitly permitted by the Credit Agreement and except sales of severed Hydrocarbons in the ordinary course of Debtor's business and for fair consideration, and except for the liens and security interests created by this Instrument and liens for taxes, assessments and governmental charges not delinquent; or (4) consent to, permit or authorize any such act by another party with respect to the Land, the Collateral or any part thereof.

D . Maintenance of Collateral. Debtor shall, at Debtor's own expense, (1) keep in full force and effect all of the leases, licenses and other agreements described in Exhibit "A" and all rights-of-way, easements and privileges necessary or appropriate for the proper operation of such leases, licenses and agreements, by the proper payment of all rentals, royalties and other sums due thereunder and the proper performance of all obligations and other acts required thereunder; (2) cause the Collateral to be properly maintained, developed and continuously operated for the production of Hydrocarbons and protected against drainage and damage in a good and workmanlike manner as a prudent operator would in accordance with good oil field practice and applicable federal, state, tribal and local laws, rules, regulations and orders; (3) pay or cause to be paid when due all expenses incurred in connection with such maintenance, development, operation and protection of the Collateral; (4) keep all goods, including equipment, inventory and fixtures included in the Collateral in good and effective repair, working order and operating condition and make all repairs, renewals, replacements, substitutions, additions and improvements thereto and thereof as are necessary and proper; (5) permit Secured Party, and its respective agents, employees, contractors, designees and consultants, to enter upon the Collateral for the purpose of investigating and inspecting the condition and operation of the Collateral, and do all things necessary or proper to enable Secured Party to exercise this right whenever Secured Party so desires; and (6) do all other things necessary to keep unimpaired Secured Party's interests in the Collateral.

E . Notification of Breach. Debtor shall promptly, and in no event later than 3 days after becoming aware, notify Secured Party (1) if any representation or warranty of Debtor contained in this Agreement is discovered to be or becomes untrue, or (2) Debtor fails to perform or comply with any covenant or agreement contained in this Agreement or it is reasonably anticipated that Debtor will be unable to perform or comply with any covenant or agreement contained in this Agreement. Debtor shall cause all the representations and warranties of Debtor contained in this Agreement to be true and correct in all material respects from time to time and all times.

F . Defense of Title. If the title or interest of Debtor or Secured Party to the Collateral or any part thereof, or the lien or encumbrance created by this Instrument, or the rights or powers of Secured Party hereunder, shall be attacked, either directly or indirectly, or if any legal proceedings are commenced against Debtor or the Collateral, Debtor shall promptly give written notice thereof to Secured Party and, to the extent the same arises by, through or under Debtor, at Debtor's own expense shall take all reasonable steps diligently to defend against any such attack or proceedings, employing attorneys acceptable to Secured Party. Secured Party and may take such independent action in connection therewith as it may in its discretion deem advisable, and all costs and expenses, including attorneys' fees and legal expenses, incurred by or on behalf of Secured Party in connection therewith, to the extent the same arises by, through or under Debtor, shall be a demand obligation owing by Debtor to Secured Party and shall bear interest at the Default Rate until paid, and shall constitute a part of the Obligations and be indebtedness secured and evidenced by this Instrument.

G . Environmental Matters. (1) Debtor shall comply with all Environmental Laws and shall maintain and obtain all permits, licenses and approvals required under Environmental Laws. Debtor shall not cause or permit the Collateral or Debtor to be in violation of, or do anything or permit anything to be done that will subject the Collateral, Debtor or Secured Party to any remedial obligations under any applicable Environmental Laws, assuming disclosure to the applicable governmental authorities of all relevant facts, conditions and circumstances, if any, pertaining to the Collateral or otherwise. Debtor shall promptly notify Secured Party in writing of any existing, pending or threatened investigation or inquiry by any governmental authority in connection with any applicable Environmental Laws. Debtor shall take all steps necessary to determine that no Hazardous Substances or Solid Waste have been used or stored on, in or in connection with the Collateral, or disposed of or otherwise released on, to or from the Collateral, except in full compliance with all Environmental Laws. Debtor shall not cause or permit the use or storage of Hazardous Substances or Solid Waste on, in or in connection with the Collateral or disposal of Hazardous Substances or Solid Waste from the Collateral, except in full compliance with all Environmental Laws, or make any use of the Collateral that results in any requirement that Debtor apply for or obtain a permit under RCRA or other Environmental Law for the treatment, storage or disposal of Hazardous Substances or Solid Waste. Debtor covenants and agrees to keep or cause the Collateral to be kept free of any Hazardous Substances or Solid Waste except in full compliance with all Environmental Laws, and, promptly upon the discovery that the presence of any such substance on the Collateral is not in full compliance, to remove the same (or if removal is prohibited by law, to take whatever action is required by law) at its sole expense. Upon Secured Party's reasonable request based upon the condition of or operations on the Collateral, at any time and from time to time, Debtor shall provide at Debtor's sole expense inspections, tests and audits of the Collateral from an engineering or consulting firm approved by Secured Party indicating the presence or absence of Hazardous Substances or Solid Waste on, in or under the Collateral that are not in compliance with applicable Environmental Laws. If Debtor fails to provide same after 20 days' notice, Secured Party may order same, and Debtor grants to Secured Party and its respective employees, agents, contractors, designees and consultants access to the Collateral and a license (which is coupled with an interest and irrevocable) to perform inspections, tests and audits. The cost of such inspections, tests and audits shall be a demand obligation owing by Debtor to Secured Party and shall bear interest at the Default Rate until paid, and shall constitute a part of the Obligations and be indebtedness secured and evidenced by this Instrument. Nothing contained herein shall relieve Debtor from conducting its own inspections, tests and audits or taking any other steps necessary to comply with all Environmental Laws, nor shall anything contained herein be construed to imply or impose any duty on Secured Party concerning Debtor's compliance or noncompliance therewith. Secured Party's rights under this paragraph are for the sole purpose of protecting Secured Party's security for the repayment of the Obligations and shall not under any circumstances be construed as granting the right to participate or constitute participation in the management of the Collateral or the business conducted thereon.

H. Change in Debtor. Debtor shall not cause or permit any change to be made in its name, identity, corporate structure or state of organization, unless Debtor shall have notified Secured Party of such change at least thirty days prior to the effective date of such change, and shall have first taken all action required by Secured Party for the purpose of further perfecting or protecting the security interest in favor of Secured Party in the Collateral. In any notice furnished pursuant to this Subsection 2.2H., Debtor shall expressly state that the notice is required by this Instrument and contains facts that may require additional filings of financing statements or other notices for the purposes of continuing perfection of Secured Party's security interest in the Collateral.

I. Further Assurances. Debtor shall execute, acknowledge and deliver, or cause to be executed, acknowledged or delivered, to Secured Party such other and further instruments and do such other acts as in the reasonable opinion of Secured Party may be necessary or desirable to effect the intent of this Instrument, promptly upon request of Secured Party and at Debtor's expense.

Section 2.3 Costs, Expenses and Indemnities. Debtor agrees to pay and indemnify Secured Party as follows:

A. Costs and Expenses. Debtor shall indemnify Secured Party from and reimburse and pay Secured Party for all fees, costs and expenses (including attorneys' fees, court costs and legal expenses and consultant's and expert's fees and expenses), incurred or expended by Secured Party in connection with (1) the breach by Debtor of any representation or warranty contained in this Instrument, the Credit Agreement, the Note or any other documents and instruments evidencing, securing or otherwise relating to the Obligations; (2) the failure by Debtor to perform any agreement, covenant, condition, indemnity or obligation contained in this Instrument, the Credit Agreement, the Note or any other documents and instruments evidencing, securing or otherwise relating to the Obligations; (3) Secured Party's exercise of any of its rights and remedies under this Instrument, the Credit Agreement, the Note and the other documents and instruments evidencing, securing or otherwise relating to the Obligations; or (4) the protection of the Collateral and the liens thereon and security interests therein. All such fees, costs and expenses shall be a demand obligation owing by Debtor to Secured Party and shall bear interest at the Default Rate until paid, and shall constitute a part of the Obligations and be indebtedness secured and evidenced by this Instrument. The liabilities of Debtor as set forth in this Section 2.3A shall survive the termination of this Instrument.

B . Indemnity. Debtor shall indemnify and hold harmless Secured Party and persons or entities owned or controlled by or affiliated with Secured Party and their respective directors, officers, shareholders, partners, employees, consultants and agents (herein individually, an "Indemnified Party," and collectively, "Indemnified Parties") from and against, and reimburse and pay Indemnified Parties with respect to, any and all claims, demands, liabilities, losses, damages (including actual, consequential, exemplary and punitive damages), causes of action, judgments, penalties, fees, costs and expenses (including attorneys' fees, court costs and legal expenses and consultant's and expert's fees and expenses), of any and every kind or character, known or unknown, fixed or contingent, that may be imposed upon, asserted against or incurred or paid by or on behalf of any Indemnified Party on account of, in connection with, or arising out of (1) any bodily injury or death or property damage occurring in or upon or in the vicinity of the Collateral through any cause whatsoever, (2) any act performed or omitted to be performed hereunder or the breach of or failure to perform any warranty, representation, indemnity, covenant, agreement or condition contained in this Instrument, the Credit Agreement, the Note or any other documents and instruments evidencing, securing or relating to the Obligations, (3) any transaction, act, omission, event or circumstance arising out of or in any way connected with the Collateral or with this Instrument, the Credit Agreement, the Note or any other documents and instruments evidencing, securing or relating to the Obligations, and (4) the violation of or failure to comply with any statute, law, rule, regulation or order, including Environmental Laws and statutes, laws, rules, regulations and orders relating to Hazardous Substances or Solid Waste. Without limiting the generality of the foregoing, it is the intention of Debtor and Debtor agrees that the foregoing indemnities shall apply to each Indemnified Party with respect to claims, demands, liabilities, losses, damages (including actual, consequential, exemplary and punitive damages), causes of action, judgments, penalties, fees, costs and expenses (including attorneys' fees, court costs and legal expenses and consultant's and expert's fees and expenses) of any and every kind or character, known or unknown, fixed or contingent, that in whole or in part are caused by or arise out of the negligence of such Indemnified Party; however, such indemnities shall not apply to any Indemnified Party to the extent the subject of the indemnification is caused by or arises out of the gross negligence or willful misconduct of such Indemnified Party. The foregoing indemnities shall not terminate upon the release, foreclosure or other termination of this Instrument, but shall survive the foreclosure of the liens and security interests created by this Instrument or conveyance in lieu of foreclosure and the repayment and performance of the Obligations and the discharge and release of the liens and security interest created by this Instrument and the other instruments and documents evidencing, securing or relating to the Obligations. Any amount to be paid hereunder by Debtor to Secured Party or for which Debtor has indemnified an Indemnified Party shall be a demand obligation owing by Debtor to Secured Party and shall bear interest at the Default Rate until paid, and shall constitute a part of the Obligations and be indebtedness secured and evidenced by this Instrument. The rights, powers and remedies herein conferred are cumulative, and not exclusive, of any and all other rights, powers and remedies existing at law or in equity (including rights, powers and remedies under Environmental Laws) or provided for in any other documents or instruments evidencing, securing or relating to the Obligations and nothing in this paragraph or elsewhere in this Instrument or in any other documents or instruments evidencing, securing or relating to the Obligations shall limit or impair any rights, powers or remedies of Secured Party under any Environmental Laws, including any rights of contribution or indemnification available thereunder. The liabilities of Debtor as set forth in this Section 2.3B shall survive the termination of this Instrument.

Section 2.4 Performance by Secured Party. Debtor agrees that, if Debtor fails to perform any act which Debtor is required to perform hereunder, Secured Party may, but shall not be obligated to, perform or cause to be performed such act, and any expense so incurred by Secured Party in connection therewith shall be a demand obligation owing by Debtor to Secured Party and shall bear interest at the Default Rate until paid, and shall constitute a part of the Obligations and be indebtedness secured and evidenced by this Instrument, and Secured Party shall be subrogated to all of the rights of the party receiving such payment. Debtor hereby irrevocably appoints Secured Party as Debtor's attorney-in-fact and proxy, with full authority in the place and stead of Debtor and in the name of Debtor or otherwise, from time to time to take any action and to execute any instrument which Secured Party may deem necessary or advisable to accomplish the purposes of this Agreement. Such appointment is coupled with an interest and shall be irrevocable from the date hereof and so long as any part of the Obligations is outstanding.

ARTICLE III

Collection of Proceeds of Production

Section 3.1 Assignment of Proceeds. Pursuant to paragraph C of the granting clause of this Instrument, Secured Party is absolutely assigned and entitled to receive all of the severed and extracted Hydrocarbons produced from or allocated or attributed to all of the Collateral, together with all of the proceeds thereof and payments in lieu thereof such as "take or pay" or similar payments. Debtor acknowledges and agrees that said assignment is intended to be an absolute and unconditional assignment and not merely a pledge of or creation of a security interest in said Hydrocarbons and proceeds or an assignment as additional security upon demand and in the event of default. Debtor shall execute, acknowledge and deliver or cause to be executed, acknowledged and delivered, transfer orders or letters-in-lieu thereof directing all pipeline companies or other purchasers of Hydrocarbons to make payments directly to Secured Party. All parties producing, purchasing, receiving or having in their possession any such Hydrocarbons or proceeds are hereby authorized and directed by Debtor to treat and regard Secured Party as the party entitled in Debtor's place and stead to receive such Hydrocarbons and proceeds; and said parties shall be fully protected in so treating and regarding Secured Party and shall be under no obligation to see to the application by Secured Party of any such proceeds received by it. For its convenience, Secured Party may, with respect to any or all such Hydrocarbons or proceeds, permit Debtor to receive such Hydrocarbons or proceeds until such time as Secured Party shall have made written demand therefor. Such election by Secured Party shall not in any way waive the right of Secured Party to demand and receive such Hydrocarbons and proceeds thereafter allocated or attributed to the Collateral and shall not in any way diminish the absolute and unconditional right of Secured Party to receive all of such Hydrocarbons and proceeds and cash proceeds not theretofore expended or distributed by Debtor. Any such Hydrocarbons or proceeds received by Debtor shall, when received, constitute trust funds in Debtor's hands and shall be held by Debtor for the benefit of Secured Party. Debtor hereby agrees that upon the first to occur of either (A) written demand of Secured Party, or (B) the occurrence of any event which constitutes an Event of Default (as hereinafter defined) or which upon the giving (or receiving) of notice or lapse of time, or both, would constitute such an Event of Default, all cash, proceeds, instruments and other property, of whatever kind or character, received by Debtor on account of the Collateral, whether received by Debtor in the exercise of its collection rights hereunder or otherwise, shall, in accordance with instructions then given by Secured Party, be remitted to Secured Party or deposited to an account designated by Secured Party, in the form received (properly assigned or endorsed to the order of Secured Party or for collection and in accordance with Secured Party's instructions) not later than the first banking business day following the day of receipt, to be applied as provided in Section 3.2 hereof and, until so applied, may be held by Secured Party in a separate account on which Debtor may not draw. Debtor agrees not to commingle any such property, following the receipt of any such demand from Secured Party or the occurrence of an Event of Default, with any of its other funds or property and agrees to hold the same upon an express trust for Secured Party until remitted to Secured Party.

Section 3.2 Application of Proceeds. Secured Party shall apply all of the proceeds received pursuant to Section 3.1 hereof in satisfaction of the Obligations as provided below, unless otherwise agreed to by Secured Party and Debtor. All such proceeds received and to be applied by Secured Party up to the close of business on the last day of each calendar month shall be applied by Secured Party on or before the fifth business day of the next succeeding calendar month as follows (with any balance remaining after such application to be paid to Debtor):

A. First, to the payment to Secured Party of all outstanding or unreimbursed fees, costs and expenses incurred by Secured Party pursuant hereto, and any part of the Obligations not evidenced by written instrument, including all charges and penalties, including interest thereon, due Secured Party;

B. Second, to the payment of all interest accrued on the Obligations; and

C. Third, to the payment or prepayment of the principal of the Obligations in any order the Secured Party may elect from time to time.

If any date of application specified above shall be a Saturday, Sunday or legal holiday, the proceeds to be applied by Secured Party pursuant to this Section 3.2 shall be applied on the business day next succeeding such date which is not a Saturday, Sunday or legal holiday, and the amount to be applied as described above shall be the amount accrued up to such date. If the proceeds received by Secured Party pursuant to Section 3.1 during any month are not sufficient to make the minimum payments of principal of and interest on the Obligations required by the terms of the Credit Agreement or the Note, then Debtor on or before the due date shall make payment to Secured Party of an amount sufficient when added to such proceeds received to make the minimum required payments of principal and interest of the Obligations.

Section 3.3 Inclusion in Sale. Upon any sale of any of the Collateral pursuant to ARTICLE V hereof and expiration of any mandatory redemption periods, the Hydrocarbons thereafter produced from or attributed to the part of the Collateral so sold, and the proceeds thereof, shall be included in such sale and shall pass to the purchaser free and clear of the provisions of this ARTICLE III.

Section 3.4 No Liability in Secured Party. Secured Party is hereby absolved from all liability for failure to enforce collection of any such proceeds and from all other responsibility in connection therewith, except the responsibility to account to Debtor for proceeds actually received.

Section 3.5 Indemnity. Debtor shall indemnify Secured Party against all claims, actions, liabilities, judgments, costs, attorneys' fees or other charges of every kind or nature ("Claims") made against or incurred by Secured Party as a consequence of the assertion, either before or after the payment in full of the Obligations, that Secured Party received Hydrocarbons or proceeds pursuant to this ARTICLE III which were claimed by third persons. Secured Party shall have the right to employ attorneys and to defend against any Claims, and unless furnished with reasonable indemnity, Secured Party shall have the right to pay or compromise and adjust all Claims. Debtor shall indemnify and pay to Secured Party all such amounts as may be paid with respect thereto or as may be successfully adjudicated against Secured Party, and such amounts shall be a demand obligation owing by Debtor to Secured Party and shall bear interest at the Default Rate until paid, and shall constitute a part of the Obligations and be indebtedness secured and evidenced by this Instrument. The liabilities of Debtor as set forth in this Section 3.5 shall survive the termination of this Instrument.

Section 3.6 Rights of Secured Party. Secured Party shall have the immediate and continuing right to demand, collect, receive and receipt for all production, proceeds and payments assigned hereunder, and Secured Party is hereby appointed agent and attorney-in-fact of Debtor (which appointment is coupled with an interest and is irrevocable) for the purpose of executing any release, receipt, division order, transfer order, relinquishment or other instrument that Secured Party deems necessary in order for Secured Party to collect and receive such production, proceeds and payments. In addition, Debtor agrees that, upon the request of Secured Party, it will promptly execute and deliver to Secured Party such transfer orders, payment orders, division orders and other instruments as Secured Party may deem necessary, convenient or appropriate in connection with the payment and delivery directly to Secured Party of all proceeds, production, and payments assigned hereunder. Debtor hereby authorizes and directs that, upon the request of Secured Party, all pipeline companies, purchasers, transporters and other parties now or hereafter purchasing oil, gas or other mineral production produced from or allocated or attributed to the Collateral or any other interest of Debtor (whether now owned or hereafter acquired by operation of law or otherwise), in, to or relating to the Land or to any of the estates, property, rights or other interests included in the Collateral, or any part thereof, or now or hereafter having in their possession or control any production from or allocated to the Collateral or any other interest of Debtor (whether now owned or hereafter acquired by operation of law or otherwise), in, to or relating to the Land or to any of the estates, property, rights or other interests included in the Collateral, or any part thereof, or the proceeds therefrom, or now or hereafter otherwise owing monies to Debtor under contracts and agreements herein assigned, shall, until Secured Party directs otherwise, pay and deliver such proceeds, production or amounts directly to Secured Party at Secured Party's address set forth in the introduction to this Instrument, or in such other manner as Secured Party may direct such parties in writing, and this authorization shall continue until the assignment of production and proceeds contained herein is released and reassigned. Debtor agrees that all division orders, transfer orders, receipts and other instruments that Secured Party may from time to time execute and deliver for the purpose of collecting and receipting for such proceeds, production or payments may be relied upon in all respects, and that the same shall be binding upon Debtor and its successors and assigns. No payor making payments to Secured Party at its request under the assignment of production and proceeds contained herein shall have any responsibility to see to the application of any of such funds, and any party paying or delivering proceeds, production or amounts to Secured Party under such assignments shall be released thereby from any and all liability to Debtor to the full extent and amount of all payments, production or proceeds so delivered. Debtor agrees to indemnify and hold harmless any and all parties making payments to Secured Party, at the request of the Secured Party under the assignment of production and proceeds contained herein, against any and all liabilities, actions, claims, judgments, costs, charges and attorneys' fees and legal expenses resulting from the delivery of such payments to Secured Party. The indemnity agreement contained in the previous sentence is made for the direct benefit of and shall be enforceable by all such persons and shall survive the termination of this Instrument. Should Secured Party bring suit against any third party for collection of any amounts or sums included within the assignment of production and proceeds contained herein (and Secured Party shall have the right to bring any such suit), it may sue either in its own name or in the name of Debtor, or both.

Section 3.7 Change of Connection. Should any purchaser taking the production from the Collateral or any other interest of Debtor (whether now owned or hereafter acquired by operation of law or otherwise), in, to or relating to the Land or to any of the estates, property, rights or other interests included in the Collateral, or any part thereof, fail to make any payment promptly to Secured Party, in accordance with the assignment of production and proceeds herein made, then Secured Party, to the fullest extent permissible under applicable law, shall have the right to demand a change of connection and to designate another purchaser with whom a new connection may be made, without any liability on the part of Secured Party in making such selection; and failure of Debtor to consent to and promptly effect such change of connection shall constitute an Event of Default under ARTICLE V below.

Section 3.8 No Delegation or Assumption. Nothing in this Instrument shall be deemed or construed to create a delegation to or assumption by Secured Party, of the duties and obligations of Debtor under any agreement or contract relating to the Collateral or any portion thereof, and all of the parties to any such contract shall continue to look to Debtor for performance of all covenants and other obligations and the satisfaction of all representations, warranties, covenants, indemnities and other agreements of Debtor thereunder, notwithstanding the assignment of production and proceeds contained herein or the exercise by Secured Party, prior to foreclosure, of any of its rights hereunder or under applicable law.

Section 3.9 Cumulative. The assignment of production and proceeds contained herein shall not be construed to limit in any way the other rights and remedies of Secured Party hereunder, including its right to accelerate the indebtedness evidenced by the Obligations upon an Event of Default and the other rights and remedies herein conferred, conferred in the other documents and instruments evidencing, securing or relating to the Obligations, or conferred by operation of law. Monies received under the assignment of production and proceeds contained herein shall not be deemed to have been applied in payment of the Obligations unless and until such monies actually are applied thereto by Secured Party.

ARTICLE IV

Termination and Release

Section 4.1 Release Upon Termination. If all of the Obligations shall be paid in full and otherwise satisfied pursuant to the terms and conditions of this Instrument and the other documents and instruments evidencing, securing or relating to the Obligations, and if Secured Party has no further obligation to advance any amounts to Debtor, then all of the Collateral shall revert to Debtor, the liens and security interests created by this Instrument shall terminate and Secured Party shall, promptly after the request of Debtor or as otherwise required by applicable law, execute, acknowledge and deliver to Debtor a release or reconveyance of this Instrument and such other instruments as may be necessary to evidence the termination of the liens and security interests created by this Instrument.

Section 4.2 Partial Release. No partial release or reconveyance from the liens and security interests created by this Instrument of any part of the Collateral by Secured Party shall in any way alter, vary or diminish the force or effect of this Instrument or impair, release or subordinate the liens and security interests created by this Instrument on the remainder of the Collateral. Except as specifically provided in any such partial release or reconveyance (A) this Instrument and liens and security interests created hereby shall remain in full force and effect, (B) such partial release or reconveyance will not modify or affect the terms, conditions or provisions of this Instrument, and (C) nothing contained in any such partial release or reconveyance shall be deemed to be, or construed as, a waiver of any such terms, conditions or provisions or as a waiver of any other term, condition or provision.

Section 4.3 Execution. All releases and reconveyances executed in connection with this Instrument shall be without warranty of any kind, express, implied or statutory.

Section 4.4 Costs, Expenses and Effect. Debtor shall pay all legal fees and other fees, costs and expenses incurred by Secured Party for preparing and reviewing instruments of termination and release or reconveyance and the execution and delivery thereof and Secured Party may require payment of the same prior to delivery of such instruments. The release and reconveyance of this Instrument and the termination of the liens and security interests created by this Instrument, shall not terminate or otherwise affect Secured Party's right or ability to exercise any right, power or remedy relating to any claim for breach of warranty or representation, for failure to perform any covenant or other agreement, under any indemnity or for fraud, deceit or other misrepresentation or omission.

ARTICLE V

Default

Section 5.1 Events of Default. The occurrence of any of the following events shall constitute an event of default ("Event of Default") and upon the occurrence thereof the liens and security interests created hereby shall be subject to foreclosure in any manner provided for herein or provided for by applicable law:

A. Failure of Debtor to pay any fee or other amount due Secured Party under this Instrument within 10 days after the date that any such payment is due;

B. Failure of Debtor to perform or observe any covenant, agreement, indemnity, condition or provision in this Instrument and such failure shall continue for 30 days after the earlier to occur of (1) Debtor becoming aware of such failure, and (2) written notice of such failure has been given to Debtor;

C. Any of Debtor's representations or warranties made in this Instrument or any statement or certificate at any time given in writing pursuant hereto or in connection herewith shall be false or misleading in any material respect as of the date made or deemed made; or

D. An "Event of Default" as defined in the Credit Agreement shall occur.

Section 5.2 Treatment of Fixtures. If an Event of Default shall have occurred and be continuing, if deemed appropriate by Secured Party or if required by applicable law, Secured Party may elect to treat the fixtures included in the Collateral either as real property or as personal property, or both, and proceed to exercise such rights as apply to the type of property selected.

Section 5.3 Acceleration and Foreclosure. If an Event of Default shall have occurred and be continuing, in addition to any other rights, powers and remedies herein conferred or conferred by operation of law, (a) Secured Party shall have all of the rights, powers and remedies of a creditor, secured party and mortgagee, (b) Secured Party may, without notice, demand or declaration of default, which are hereby waived by Debtor to the extent such waiver is not prohibited by applicable law, declare all indebtedness secured hereby due and payable, and (c) whether or not Secured Party exercises such option, it may, at its option and in its sole discretion, without any prior notice to or demand upon Debtor, proceed by one or more actions in equity or at law for the seizure and sale of the Collateral or any portion thereof, for the foreclosure or sale of the Collateral or any portion thereof by judicial foreclosure by appropriate proceedings in any court of competent jurisdiction, by the power of sale granted herein, or in any other manner then permitted by law, for the specific performance of any covenant or agreement of Debtor herein contained or in aid of the execution of any right, power or remedy herein granted, or for the enforcement of any other appropriate equitable or legal remedy and to recover judgment against Debtor. In furtherance, and not in limitation, thereof:

A . Mortgage. This Instrument shall constitute a mortgage under applicable law, and if an Event of Default shall have occurred and be continuing, may be foreclosed as to any of the Collateral by judicial action or in any manner then permitted by applicable law.

B. Election. In the event a sale of the Collateral under the power of sale shall be commenced by Secured Party, Secured Party may at any time before the sale of the Collateral, elect to abandon the sale, and Secured Party may then institute a suit for the collection of the Obligations and for the foreclosure of this Instrument by judicial action. It is agreed that if Secured Party should institute a suit for the foreclosure of this Instrument by judicial action, Secured Party may at any time before the entry of a final judgment, dismiss such suit, and then sell, or cause to be sold, the Collateral under the power of sale herein granted in accordance with the provisions of this Instrument.

C. Additional Actions. This Instrument shall also constitute and may be enforced from time to time as an assignment, chattel mortgage, contract, mortgage, financing statement and security agreement, and from time to time as any one or more thereof as appropriate under applicable law. Secured Party shall be entitled to all of the rights, remedies and benefits of a secured party, mortgagee and a beneficiary granted under applicable law; and, to the fullest extent of such law, shall be entitled to enforce such rights, remedies and benefits. Debtor intends and hereby grants to Secured Party all rights, powers and remedies accorded a secured party, mortgagee and a beneficiary under applicable law whether or not such rights, powers and remedies are expressly granted or reserved herein.

D. Notice, Place and Manner of Sale. Any sale of the Collateral under this ARTICLE V shall take place at such place or places and otherwise in such manner and upon such notice as may be required by law; or, in the absence of any such requirement, as Secured Party may deem appropriate. Debtor expressly agrees that, except as may be required by applicable law, Secured Party may offer the Collateral as a whole or in such parcels or lots as Secured Party elects, regardless of the manner in which the Collateral may be described.

E. Postponement of Sale. Any sale of the Collateral conducted under this ARTICLE V may be postponed from time to time as provided by applicable law; or, in the absence of any such provisions, Secured Party may postpone the sale of the Collateral or any part thereof by public announcement at the time and place of such sale, and from time to time thereafter may further postpone such sale by public announcement made at the time of sale fixed by the preceding postponement. Sale of a part of the Collateral will not exhaust the power of sale, and sales may be made from time to time until all Collateral is sold or the Obligations are paid in full.

F. Secured Party's Right to Purchase. Secured Party shall have the right to bid or to become the purchaser at any sale made pursuant to the provisions of this ARTICLE V, and shall have the right to credit upon the amount of the bid made therefor the amount payable to it out of the net proceeds of such sale.

G. Conveyance to Purchaser. Any deed, bill of sale or other conveyance executed by or on behalf of Secured Party, the sheriff or other official or party responsible for conducting the sale shall be prima facie evidence of the compliance with all statutory requirements for the sale and execution of such deed, bill of sale or other conveyance and will conclusively establish the truth and accuracy of the recitals and other matters stated therein, including nonpayment or nonperformance of the Obligations, violation of the terms and covenants contained herein, and the advertisement and conduct of such sale in the manner provided herein or as provided by applicable law. Debtor, to the extent not prohibited by applicable law, does hereby ratify and confirm all legal acts that Secured Party may do in carrying out the provisions of this Instrument. Any sale of the Collateral or any portion thereof pursuant to the provisions of this ARTICLE V will operate to divest all right, title, interest, claim and demand of Debtor in and to the property sold and will be a perpetual bar against Debtor and shall, subject to applicable law, vest title in the purchaser free and clear of all liens, security interests and encumbrances, including liens, security interests and encumbrances junior or subordinate to the liens, security interests and encumbrances created by this Instrument. Upon any sale of the Collateral or any portion thereof pursuant to the provisions of this ARTICLE V, the receipt by Secured Party, the sheriff or other official or party responsible for conducting the sale, shall be sufficient discharge to the purchaser or purchasers at any sale for the purchase money, and such purchaser or purchasers and the heirs, devisees, personal representatives, successors and assigns thereof shall not, after paying such purchase money and receiving such receipt of Secured Party, the sheriff or such other official or party, be obliged to see to the application thereof or be in anywise answerable for any loss, misapplication or nonapplication thereof. Any purchaser at a sale will, subject to mandatory redemption periods, if any, receive immediate possession of the Collateral purchased, and Debtor agrees that if Debtor retains possession of the Collateral or any part thereof subsequent to such sale, Debtor will be considered a tenant at sufferance of the purchaser, and will, if Debtor remains in possession after demand to remove, be guilty of forcible detainer, and will be subject to eviction and removal, forcible or otherwise, with or without process of law and all damages to Debtor by reason thereof are hereby expressly waived by Debtor.

H. Federal Transfers. Upon a sale conducted pursuant to this ARTICLE V of all or any portion of the Collateral consisting of interests (the "Federal Interests") in leases, easements, rights-of-way, agreements or other documents and instruments covering, affecting or otherwise relating to federal lands (including leases, easements and rights-of-way issued by the Bureau of Land Management); Debtor agrees to take all action and execute all instruments necessary or advisable to transfer the Federal Interests to the purchaser at such sale, including to execute, acknowledge and deliver assignments of the Federal Interests on officially approved forms in sufficient counterparts to satisfy applicable statutory and regulatory requirements, to seek and request approval thereof and to take all other action necessary or advisable in connection therewith. By separate instruments, Debtor has irrevocably appointed, and by this Instrument hereby irrevocably appoints, Secured Party as Debtor's attorney-in-fact and proxy, with full power and authority in the place and steed of Debtor, in the name of Debtor or otherwise, to take any such action and to execute any such instruments on behalf of Debtor that Secured Party may deem necessary or advisable to so transfer the Federal Interests, including the power and authority to execute, acknowledge and deliver such assignments, to seek and request approval thereof and to take all other action deemed necessary or advisable by Secured Party in connection therewith; and Debtor hereby adopts, ratifies and confirms all such actions and instruments. By separate instruments Debtor has also irrevocably appointed Secured Party as Debtor's attorney-in-fact and proxy, with full power and authority in the place and steed of Debtor, in the name of Debtor or otherwise, to take any such action and to execute any such instruments on behalf of Debtor that Secured Party may deem necessary or advisable to so transfer the Federal Interests, including the power and authority to execute, acknowledge and deliver such assignments, to seek and request approval thereof and to take all other action deemed necessary or advisable by Secured Party in connection therewith; and by such separate instruments Debtor has adopted, ratified and confirmed all such actions and instruments. Such powers of attorney and proxies are coupled with an interest, shall survive the dissolution, termination, reorganization or other incapacity of Debtor and shall be irrevocable. No action taken by Secured Party shall constitute acknowledgment of, or assumption of liabilities relating to, the Federal Interests, and neither Debtor nor any other party may claim that Secured Party is bound, directly or indirectly, by any such action.

Section 5.4 Personal Property. If an Event of Default shall have occurred and be continuing, in addition to all other rights, powers and remedies herein conferred or conferred by operation of law, Secured Party shall have all of the rights and remedies of an assignee and secured party granted by applicable law, including the applicable Uniform Commercial Code as then in effect, and shall, to the extent permitted by applicable law, have the right and power, but not the obligation, to take possession of the personal property included in the Collateral and any proceeds thereof wherever located, and for that purpose Secured Party may enter upon any premises on which any or all of such personal property is located and take possession of and operate such personal property or remove the same therefrom. Secured Party may require Debtor to assemble such personal property and make it available to Secured Party at a place to be designated by Secured Party that is reasonably convenient to both parties. The following presumptions shall exist and shall be deemed conclusive with regard to the exercise by Secured Party of any of its remedies with respect to personal property:

A. If notice is required by applicable law, Debtor agrees that five days' prior written notice of the time and place of any public sale or of the time after which any private sale or any other intended disposition thereof is to be made shall be deemed reasonable notice to Debtor. No such notice is necessary if such property is perishable, threatens to decline speedily in value or is of a type customarily sold on a recognized market.

B. If Secured Party in good faith believes that the Securities Act of 1933 or any other state or federal law prohibits or restricts the customary manner of sale or distribution of any of such property, Secured Party may sell such property privately or in any other manner deemed advisable by Secured Party at such price or prices as Secured Party determines in its sole discretion. Debtor recognizes that such prohibition or restriction may cause such property to have less value than it otherwise would have and that, consequently, such sale or disposition by Secured Party may result in a lower sales price than if the sale were otherwise held.

Section 5.5 Possession. If an Event of Default shall have occurred and be continuing, in addition to all other rights, powers and remedies herein conferred or conferred by operation of law, Secured Party shall, to the extent not prohibited by applicable law, have the right and power, but not the obligation, to enter upon and take immediate possession of the Collateral or any portion thereof, to exclude Debtor therefrom, to hold, use, operate, manage, enjoy and control such Collateral, to make all such repairs, replacements, alterations, additions and improvements to the same as Secured Party may deem proper or expedient, to sell all of the severed and extracted Hydrocarbons included in the same subject to the provisions of ARTICLE III hereof, to demand, collect and retain all other earnings, rents, issues, profits, proceeds and other sums due or to become due with respect to such Collateral accounting for and applying to the payment of the Obligations only the net earnings arising therefrom after charging against the receipts therefrom all fees, costs, expenses, charges, damages and losses incurred by reason thereof plus interest thereon at the Default Rate without any liability to Debtor in connection therewith. Such possession shall at once be delivered to Secured Party upon request, and on refusal or failure to so deliver possession, the delivery of such possession may be enforced by Secured Party by any appropriate civil suit, proceeding or other action.

Section 5.6 Appointment of Receiver. If an Event of Default shall have occurred and be continuing, in addition to all other rights, powers and remedies herein conferred or conferred by operation of law, Secured Party shall be entitled to the appointment of a receiver of the Collateral without the necessity of the posting of a bond or notice; and shall, to the extent not prohibited by applicable law, be entitled to such receiver as a matter of right, without regard to the solvency or insolvency of Debtor, the value or adequacy of the Collateral or the Collateral being in danger of being materially injured or reduced in value as security by removal, destruction, deterioration, accumulation of prior liens or otherwise; and such receiver may be appointed by any court of competent jurisdiction upon ex parte application, and without notice, notice being expressly waived by Debtor to the extent such waiver is not prohibited by applicable law. Debtor does hereby consent to the appointment of such receiver or receivers, waives any and all defenses to such appointment, and agrees not to oppose any application therefor by Secured Party, and agrees that such appointment shall in no manner impair, prejudice or otherwise affect the rights of Secured Party under this ARTICLE V. Nothing herein is to be construed to deprive Secured Party of any other right, remedy or privilege it may now or hereafter have under law to have a receiver appointed. Any money advanced by Secured Party in connection with any such receivership shall be a demand obligation owing by Debtor to Secured Party and shall bear interest, from the date of making such advancement until paid, at the Default Rate. Any such receiver shall have all powers conferred by the court appointing such receiver, which powers shall, to the extent not prohibited by applicable law include, the right to enter upon and take immediate possession of the Collateral or any part thereof, to exclude Debtor therefrom, to hold, use, operate, manage and control such Collateral, to make all such repairs, replacements, alterations, additions and improvements to the same as such receiver or Secured Party may deem proper or expedient, to lease, sell or otherwise transfer the Collateral or any portion thereof as such receiver or Secured Party may deem proper or expedient, to sell all of the Hydrocarbons included in the same subject to the provisions of ARTICLE III hereof, to demand and collect all of the other earnings, rents, issues, profits, proceeds and other sums due or to become due with respect to such Collateral, accounting for only the net earnings arising therefrom after charging against the receipts therefrom all fees, costs, expenses, charges, damages and losses incurred by reason thereof plus interest thereon at the Default Rate without any liability to Debtor in connection therewith which net earnings shall be turned over by such receiver to Secured Party to be applied by Secured Party to the payment of the Obligations in the order set forth in Section 5.10.

Section 5.7 Waiver by Debtor. To the extent not prohibited by applicable law, Debtor agrees that Debtor shall not at any time have, invoke, utilize or assert any right under any laws pertaining to the marshaling of assets or liens, the sale of property in the inverse order of alienation, the exemption of homesteads, the administration of estates of decedents, appraisement, moratorium, valuation, stay, extension or redemption now or hereafter in force, and Debtor hereby waives the benefit of all such laws to the fullest extent not prohibited by applicable law.

Section 5.8 Remedies Cumulative. All rights, powers and remedies herein conferred are cumulative, and not exclusive, of (a) any and all other rights and remedies herein conferred, (b) any and all rights, powers and remedies existing at law or in equity, and (c) any and all other rights, powers and remedies provided for in any other documents or instruments evidencing, securing or relating to the Obligations, and Secured Party shall, in addition to the rights, powers and remedies herein conferred, be entitled to avail itself of all such other rights, powers and remedies as may now or hereafter exist at law or in equity for the collection of and enforcement of the Obligations and the enforcement of the warranties, representations, covenants, indemnities and other agreements contained in this Instrument and the other documents and instruments evidencing, securing or relating to the Obligations and the foreclosure of the liens and security interests created by this Instrument. Each and every such right, power and remedy may be exercised from time to time and as often and in such order as may be deemed expedient by Secured Party and the exercise of any such right, power or remedy shall not be deemed a waiver of the right to exercise, at the same time or thereafter, any other right, power or remedy. No delay or omission by Secured Party, the sheriff or other official or person in the exercise of any right, power or remedy will impair any such right, power or remedy or operate as a waiver thereof or of any other right, power or remedy then or thereafter existing.

Section 5.9 Costs and Expenses. All fees, costs and expenses (including reasonable attorneys' fees and legal expenses, court costs, filing fees, and mortgage, transfer, stamp and other excise taxes, inspection fees, appraisers' fees, outlays for documentary and expert evidence, stenographers' charges, publication, notice and advertising costs, postage, photocopies, telephone charges and costs of procuring all abstracts of title, title searches and examinations, title opinions, title insurance policies and similar title data and assurances as Secured Party may deem appropriate either to prosecute such suit or to evidence to bidders at the sales that may be had pursuant to such proceeding the condition of the title to or the value of the Collateral, sheriff's fees and expenses, receiver's fees and expenses, and fees and expenses of agents of Secured Party, costs and expenses of defending, protecting and maintaining the Collateral and Secured Party's interest therein including repair and maintenance costs and expenses and costs and expenses of protecting and securing the Collateral including insurance costs and all other fees, costs and expenses provided for or authorized by applicable law), incurred by or on behalf of Secured Party in protecting and enforcing its rights hereunder or incident to the enforcement of this Instrument and the liens and security interests created hereby, shall be a demand obligation owing by Debtor to Secured Party and shall bear interest at the Default Rate until paid, and shall constitute a part of the Obligations and be indebtedness secured and evidenced by this Instrument.

Section 5.10 Application of Proceeds. The proceeds of any sale of the Collateral or any part thereof made pursuant to this ARTICLE V shall be applied as may be required by applicable law, or, in the absence of any such requirements, as follows:

A. First, to the payment of all fees, costs and expenses referred to in Section 6.1(k) of the Credit Agreement and incident to the enforcement of this Instrument and the liens and security interests created hereby, including the fees, costs and expenses described in Section 5.9 hereof;

B. Second, to the payment of accrued interest remaining unpaid on the Note;

C. Third, to the payment or prepayment of principal remaining unpaid on the Note in such order as Secured Party may elect;

D. Fourth, to the payment or prepayment of the Obligations other than the Obligations evidenced by the Note in such order as Secured Party may elect; and

E. Fifth, the remainder, if any, shall be paid to Debtor or such other person or persons as may be legally entitled thereto.

Section 5.11 Waiver of Statute of Limitations. Debtor hereby waives the right to assert any statute of limitations as a defense to the Obligations (including the indebtedness, liabilities and obligations under and pursuant to this Instrument, the Note, the Credit Agreement and any other instrument evidencing, securing or otherwise relating to the Obligations), to the fullest extent not prohibited by applicable law.

Section 5.12 Limitation on Rights and Waivers. All rights, powers and remedies herein conferred shall be exercisable by Secured Party only to the extent not prohibited by applicable law; and all waivers and relinquishments of rights and similar matters shall only be effective to the extent such waivers or relinquishments are not prohibited by applicable law.

ARTICLE VI

Miscellaneous Provisions

Section 6.1 Waiver. Any and all covenants of Debtor in this Instrument may from time to time, be waived by Secured Party by an instrument in writing signed by Secured Party to such extent and in such manner as Secured Party may desire, but no such waiver will ever affect or impair Secured Party's rights hereunder, except to the extent specifically stated in such written instrument. All changes to, amendments and modifications of this Instrument must be in writing and signed by Secured Party.

Section 6.2 Severability. If any provision of this Instrument or of any of the instruments and documents evidencing, securing or relating to the Obligations is invalid or unenforceable in any jurisdiction, such provision shall be fully severable from this Instrument and the other provisions hereof and of said instruments and documents shall remain in full force and effect in such jurisdiction and the remaining provisions hereof shall be liberally construed in favor of Secured Party in order to carry out the provisions and intent hereof. The invalidity of any provision of this Instrument in any jurisdiction shall not affect the validity or enforceability of any such provision in any other jurisdiction.

Section 6.3 Subrogation. This Instrument is made with full substitution and subrogation of Secured Party in and to all covenants and warranties by others heretofore given or made with respect to the Collateral or any part thereof.

Section 6.4 Financing Statement. This Instrument shall be deemed to be and may be enforced from time to time as an assignment, contract, deed of trust, mortgage, financing statement, real estate mortgage or security agreement, and from time to time as any one or more thereof is appropriate under applicable state law. Debtor hereby authorizes Secured Party to file one or more financing or continuation statements, and amendments thereto, relative to all or any part of the Collateral without the signature of Debtor at any time after the execution of this Instrument, and hereby ratifies any thereof filed prior to the execution of this Instrument.

Section 6.5 Rate of Interest. Except as otherwise provided in the Credit Agreement, all interest required hereunder and under the Obligations shall be calculated on the basis of a year of 360 days.

Section 6.6 Recording. All recording references in the Exhibits hereto are to the official real property records of the county in which the affected Land is located and in which records such documents are or in the past have been customarily recorded, whether deed records, oil and gas records, oil and gas lease records or other records. The references in this Instrument and in the Exhibits hereto to liens, encumbrances and other burdens are for the purposes of defining the nature and extent of Debtor's warranties and shall not be deemed to ratify, recognize or create any rights in third parties.

Section 6.7 Execution in Counterparts. This Instrument may be executed in one or more original counterparts. To facilitate filing and recording, there may be omitted from any counterpart the parts of Exhibit "A" containing specific descriptions of the Collateral that relate to land located in counties other than the county in which the particular counterpart is to be filed or recorded. Each counterpart shall be deemed to be an original for all purposes, and all counterparts shall together constitute but one and the same instrument.

Section 6.8 Notices. All notices given hereunder shall be in writing, shall be given by certified mail, return receipt requested, overnight courier service, telecopy, facsimile or copy delivered by hand, and, (A) if mailed, shall be deemed received three business days after having been deposited in a receptacle for United States mail, postage prepaid; (B) if delivered by overnight air courier service, shall be deemed received one business day after having been deposited with such overnight air courier service, postage prepaid; and (C) if delivered by telecopy or hand delivery, shall be deemed received on the day the notice is sent if the sender thereof exercises reasonable efforts to confirm receipt thereof, in each case addressed as follows:

To Debtor:

Recovery Energy, Inc.
1900 Grant Street, Suite 720
Denver, Colorado 80203
Attn: A. Bradley Gabbard, President and Chief Financial Officer
Facsimile No. (888) 887-4449

To Secured Party:

Hexagon, LLC
730 17th Street, Suite 800
Denver, Colorado 80202
Attn: Brian Fleischmann
Facsimile No. (303) 571-1221

Any party may, by written notice so delivered to the others, change the address or facsimile number to which delivery shall thereafter be made.

Section 6.9 Binding Effect. This Instrument shall bind and inure to the benefit of the respective successors and assigns of Debtor and Secured Party. Notwithstanding any other provision of this Instrument, if any right, interest or estate in property granted by this Instrument or pursuant hereto does not vest upon the date hereof, such right, interest or estate shall vest, if at all, within 21 years less 1 day after the death of the last surviving descendant of Joseph P. Kennedy, father of John F. Kennedy, former President of the United States of America, who is living on the date of the execution of this Instrument by Debtor or the effective date hereof, whichever is earlier.

Section 6.10 References. All references in this Instrument to Exhibits, Articles, Sections, Subsections, paragraphs, subparagraphs and other subdivisions refer to the Exhibits, Articles, Sections, Subsections, paragraphs, subparagraphs and other subdivisions of this Instrument unless expressly provided otherwise. Titles and headings appearing at the beginning of any subdivision are for convenience only and do not constitute any part of any such subdivision and shall be disregarded in construing the language contained in this Instrument. The words "this Instrument," "herein," "hereof," "hereby," "hereunder" and words of similar import refer to this Instrument as a whole and not to any particular subdivision unless expressly so limited. The phrases "this Section," "this Subsection" "this paragraph," "this subparagraph" and similar phrases refer only to the Sections, Subsections, paragraphs or subparagraphs hereof in which the phrase occurs. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Credit Agreement. The word "or" is not exclusive, and the word "including" (and its derivatives) shall mean "including, without limitation." All references to days are to calendar days unless otherwise specifically stated. Pronouns in masculine, feminine and neuter gender shall be construed to include any other gender. Words in the singular form shall be construed to include the plural and words in the plural form shall be construed to include the singular, unless the context otherwise requires.

Section 6.11 Filing. Some of the above described goods are or are to become fixtures on the Land described in Exhibit "A". This Instrument is to be filed for record in, among other places, the real estate records of each county identified in Exhibit "A". Debtor is the owner of an interest of record in the real estate concerned.

Section 6.12 WAIVER OF JURY TRIAL, PUNITIVE DAMAGES, ETC. DEBTOR HEREBY: (A) KNOWINGLY, VOLUNTARILY, INTENTIONALLY, AND IRREVOCABLY WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY WITH RESPECT TO ANY LITIGATION BASED HEREON, OR DIRECTLY OR INDIRECTLY AT ANY TIME ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS INSTRUMENT, THE NOTE, THE CREDIT AGREEMENT OR ANY OTHER DOCUMENTS AND INSTRUMENTS EVIDENCING, SECURING OR RELATING TO THE OBLIGATIONS OR ANY TRANSACTION PROVIDED FOR THEREIN OR ASSOCIATED THEREWITH, BEFORE OR AFTER MATURITY; (B) IRREVOCABLY WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY SUCH LITIGATION ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES, OR DAMAGES OTHER THAN, OR IN ADDITION TO, ACTUAL DAMAGES; (C) CERTIFIES THAT NO PARTY HERETO NOR ANY REPRESENTATIVE OR AGENT OR COUNSEL FOR ANY PARTY HERETO HAS REPRESENTED, EXPRESSLY OR OTHERWISE, OR IMPLIED THAT SUCH PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVERS, AND (D) ACKNOWLEDGES THAT IT HAS BEEN INDUCED TO ENTER INTO THIS INSTRUMENT, THE NOTE, THE CREDIT AGREEMENT AND ANY OTHER DOCUMENTS AND INSTRUMENTS EVIDENCING, SECURING OR RELATING TO THE OBLIGATIONS AND THE TRANSACTIONS PROVIDED FOR HEREIN AND THEREIN, AMONG OTHER THINGS, THE WAIVERS AND CERTIFICATIONS CONTAINED IN THIS SECTION.

Section 6.13 USURY SAVINGS. IT IS THE INTENTION OF THE PARTIES HERETO TO COMPLY WITH ALL APPLICABLE USURY LAWS; ACCORDINGLY, IT IS AGREED THAT NOTWITHSTANDING ANY PROVISIONS TO THE CONTRARY IN THIS INSTRUMENT, THE NOTE, THE CREDIT AGREEMENT OR ANY OTHER DOCUMENTS OR INSTRUMENTS EVIDENCING, SECURING OR OTHERWISE RELATING TO THE OBLIGATIONS, IN NO EVENT SHALL SUCH DOCUMENTS OR INSTRUMENTS REQUIRE THE PAYMENT OR PERMIT THE COLLECTION OF INTEREST (WHICH TERM, FOR PURPOSES HEREOF, SHALL INCLUDE ANY AMOUNT WHICH, UNDER APPLICABLE LAW, IS DEEMED TO BE INTEREST, WHETHER OR NOT SUCH AMOUNT IS CHARACTERIZED BY THE PARTIES AS INTEREST) IN EXCESS OF THE MAXIMUM AMOUNT PERMITTED BY SUCH LAWS. IF ANY EXCESS INTEREST IS UNINTENTIONALLY CONTRACTED FOR, CHARGED OR RECEIVED UNDER THE NOTE OR UNDER THE TERMS OF THIS INSTRUMENT, THE CREDIT AGREEMENT OR ANY OTHER DOCUMENTS OR INSTRUMENTS EVIDENCING, SECURING OR RELATING TO THE OBLIGATIONS, OR IN THE EVENT THE MATURITY OF THE INDEBTEDNESS EVIDENCED BY THE NOTE IS ACCELERATED IN WHOLE OR IN PART, OR IN THE EVENT THAT ALL OR PART OF THE PRINCIPAL OR INTEREST OF THE NOTE SHALL BE PREPAID, SO THAT THE AMOUNT OF INTEREST CONTRACTED FOR, CHARGED OR RECEIVED UNDER THE AMOUNT OF INTEREST CONTRACTED FOR, CHARGED OR RECEIVED UNDER THE NOTE OR UNDER THIS INSTRUMENT, THE CREDIT AGREEMENT OR ANY OTHER DOCUMENTS OR INSTRUMENTS EVIDENCING, SECURING OR RELATING TO THE OBLIGATIONS, ON THE AMOUNT OF PRINCIPAL ACTUALLY OUTSTANDING FROM TIME TO TIME UNDER THE NOTE SHALL EXCEED THE MAXIMUM AMOUNT OF INTEREST PERMITTED BY THE APPLICABLE USURY LAWS, THEN IN ANY SUCH EVENT (A) THE PROVISIONS OF THIS SECTION SHALL GOVERN AND CONTROL, (B) NEITHER DEBTOR NOR ANY OTHER PERSON OR ENTITY NOW OR HEREAFTER LIABLE FOR THE PAYMENT THEREOF, SHALL BE OBLIGATED TO PAY THE AMOUNT OF SUCH INTEREST TO THE EXTENT THAT IT IS IN EXCESS OF THE MAXIMUM AMOUNT OF INTEREST PERMITTED BY SUCH APPLICABLE USURY LAWS, (C) ANY SUCH EXCESS WHICH MAY HAVE BEEN COLLECTED SHALL BE EITHER APPLIED AS A CREDIT AGAINST THE THEN UNPAID PRINCIPAL AMOUNT THEREOF OR REFUNDED TO DEBTOR AT SECURED PARTY'S OPTION, AND (D) THE EFFECTIVE RATE OF INTEREST SHALL BE AUTOMATICALLY REDUCED TO THE MAXIMUM LAWFUL RATE OF INTEREST ALLOWED UNDER THE APPLICABLE USURY LAWS AS NOW OR HEREAFTER CONSTRUED BY THE COURTS HAVING JURISDICTION THEREOF. IT IS FURTHER AGREED THAT WITHOUT LIMITATION OF THE FOREGOING, ALL CALCULATIONS OF THE RATE OF INTEREST CONTRACTED FOR, CHARGED OR RECEIVED UNDER THE NOTE OR UNDER THIS INSTRUMENT, THE CREDIT AGREEMENT OR ANY OTHER DOCUMENTS OR INSTRUMENTS EVIDENCING, SECURING OR RELATING TO THE OBLIGATIONS WHICH ARE MADE FOR THE PURPOSE OF DETERMINING WHETHER SUCH RATE EXCEEDS THE MAXIMUM LAWFUL RATE OF INTEREST, SHALL BE MADE, TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAWS, BY AMORTIZING, PRORATING, ALLOCATING AND SPREADING IN EQUAL PARTS DURING THE PERIOD OF THE FULL STATED TERM OF THE OBLIGATIONS EVIDENCED THEREBY, ALL INTEREST AT ANY TIME CONTRACTED FOR, CHARGED OR RECEIVED FROM DEBTOR OR OTHERWISE BY SECURED PARTY IN CONNECTION WITH THE OBLIGATIONS.

Section 6.14 GOVERNING LAW. THIS INSTRUMENT AND ALL MATTERS ARISING UNDER OR GROWING OUT HEREOF SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF WYOMING, WITHOUT REGARD TO ITS PRINCIPLES OF CONFLICTS OF LAWS, AND THE LAWS OF THE UNITED STATES OF AMERICA.

[Signature Pages Follow]

Executed as of the date first above written.

DEBTOR:

RECOVERY ENERGY, INC., a
Nevada corporation

By: _____
Name: A. Bradley Gabbard
Title: President and Chief Financial Officer

Tax I.D. No. 74-3231613

ACKNOWLEDGEMENT CERTIFICATE

STATE OF COLORADO)
) ss.
CITY AND COUNTY OF DENVER)

The foregoing instrument was acknowledged before me this _____ day of May, 2013, by A. Bradley Gabbard, President and Chief Financial Officer of RECOVERY ENERGY, INC., a Nevada corporation.

Witness my hand and official seal.

_____
Notary Public
Name: _____

My commission expires: _____

(NOTARIAL SEAL)

PREAMBLE TO

EXHIBIT "A"

Attached to and made a part of that certain
Mortgage,
Security Agreement, Assignment of Production and Proceeds,
Financing Statement and Fixture Filing,
dated as of March 1, 2013 (the "Mortgage"),
from Recovery Energy, Inc., as Debtor,
and to and for the benefit of Hexagon, LLC,
as Secured Party

The Mortgage covers all right, title and interest of Debtor (whether now owned or hereafter acquired by operation of law or otherwise) in and to the leases, licenses, subleases, sublicenses, easements, rights-of-way, agreements and other documents, and instruments described in this Exhibit "A" and in and to the land specifically described in this Exhibit "A" and the land described in or covered by the leases, licenses, subleases, sublicenses, easements, rights-of-way, agreements and other documents and instruments described in this Exhibit "A" whether or not such land is specifically described in this Exhibit "A".

EXHIBIT "A"
Description of the Land and Collateral
Laramie County, Wyoming

Lessor: Eleanor Elaine Jessop, Individually and as Trustee of the Elaine Jessop Revocable Trust, dated January 5, 1994, and Howard Wayne Jessop, Individually and as Trustee of the Howard Wayne Jessop Revocable Trust, dated January 5, 1994
Lessee: Edward Mike Davis, L.L.C.
Dated: March 10, 2010
Recorded: Book 2158, Page 1335, Rec. #542305
County: Laramie, WY
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
All depths

TOWNSHIP 16 NORTH, RANGE 60 WEST, 6th P.M.
Section 20: W/2, less and except a tract containing approximately 15 acres, moreor less in Book 2042, at Page 804 and corrected in Book 2055, at Page 169

INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
Surface to the base of the Greenhorn formation
TOWNSHIP 16 NORTH, RANGE 60 WEST, 6th P.M.
Section 28: SW

Lessor: Palmco, a Wyoming Corporation, and CW Palm Farms, a Wyoming Corporation and Charles Wayne Palm, a.k.a. C. Wayne Palms, a.k.a Wayne Palm and Pat N. Palm, a.k.a. Patsy N. Palm as Trustees of the Wayne Palm Trust, dated 7-22-74 and the Palm Family Trust and Individually
Lessee: Edward Mike Davis, L.L.C.
Dated: March 15, 2010
Recorded: Book 2158, Page 1331, Rec. #542384
County: Laramie, WY
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
All depths

TOWNSHIP 14 NORTH, RANGE 60 WEST, 6th P.M.
Section 20: NW
TOWNSHIP 14 NORTH, RANGE 61 WEST, 6th P.M.
Section 10: S/2
Section 15: All

TOWNSHIP 16 NORTH, RANGE 61 WEST, 6th P.M.
Section 14: NE
Section 22: NE
INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
Surface to 150' into Skull Creek formation
TOWNSHIP 14 NORTH, RANGE 62 WEST, 6th P.M.
Section 6: Lots 6, 7, E/2SW

Lessor: J. Steven Randol
Lessee: Edward Mike Davis, L.L.C.
Dated: March 17, 2010
Recorded: Book 2158, Page 1360, Rec. #542313
County: Laramie, WY
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
All depths

TOWNSHIP 15 NORTH, RANGE 60 WEST, 6th P.M.

Section 15: All
Section 17: S/2
Section 20: N/2
Section 21: All

Lessor: Many Wells Ranch, LLC
Lessee: Edward Mike Davis, L.L.C.
Dated: March 19, 2010
Recorded: Book 2158, Page 1321, Rec. #542301
(Corrected at Book 2173, Page 159, Rec. #548449)
County: Laramie, WY
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
All depths

TOWNSHIP 15 NORTH, RANGE 60 WEST, 6th P.M.

Section 20: S/2
Section 29: N/2NE, a 1.38 acre tract in the N/2NW

Lessor: Barbara Eileen Gries
Lessee: Edward Mike Davis, L.L.C.
Dated: March 26, 2010
Recorded: Book 2181, Page 1515, Rec. #552252
County: Laramie, WY
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
All depths

TOWNSHIP 15 NORTH, RANGE 60 WEST, 6th P.M.

Section 26: Lots 1,2,3,4, W/2W/2
Section 27: All
Section 34: E/2
Section 35: Lots 1,2,3,4, W/2W/2

Lessor: James M. Larson and Jacquelyn D. Larson, individually and as Co-Trustees of the James M. Larson and Jacquelyn D. Larson Living Trust
Lessee: Edward Mike Davis, L.L.C.
Dated: March 5, 2010
Recorded: Book 2158, Page 1308, Rec. #542296
County: Laramie, WY
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
All depths

TOWNSHIP 15 NORTH, RANGE 60 WEST, 6th P.M.

Section 22: All
Section 23: Lots 1,2,3,4, W/2W/2
Section 26: Lots 1,2,3,4, W/2W/2
Section 27: All
Section 34: E/2
Section 35: Lots 1,2,3,4, W/2W/2

Lessor: John W. Larson and Susan S. Larson
Lessee: Edward Mike Davis, L.L.C.
Dated: March 5, 2010
Recorded: Book 2158, Page 1311, Rec. #542297
County: Laramie, WY
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
All depths

TOWNSHIP 15 NORTH, RANGE 60 WEST, 6th P.M.

Section 22: All
Section 23: Lots 1,2,3,4, W/2W/2
Section 26: Lots 1,2,3,4, W/2W/2
Section 27: All
Section 34: E/2
Section 35: Lots 1,2,3,4, W/2W/2

Lessor: Boyd E. Russell, individually and as Trustee of the Boyd E. Russell Revocable Trust
Lessee: Edward Mike Davis, L.L.C.
Dated: March 17, 2010
Recorded: Book 2158, Page 1363, Rec. #542314
County: Laramie, WY
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
All depths

TOWNSHIP 15 NORTH, RANGE 60 WEST, 6th P.M.

Section 15: All
Section 17: S/2
Section 20: N/2
Section 21: All

Lessor: Gaye M. Russell, a.k.a. Gaye Russell, Gail L. Russell, Gary J. Russell
Lessee: Edward Mike Davis, L.L.C.
Dated: March 17, 2010
Recorded: Book 2158, Page 1366, Rec. #542315
County: Laramie, WY
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
All depths

TOWNSHIP 15 NORTH, RANGE 60 WEST, 6th P.M.
Section 15: All
Section 17: S/2
Section 20: N/2
Section 21: All

Lessor: Thomas W. Irwin, individually and as Trustee of The Thomas W. Irwin Family Trust, dated 6-20-1990
Lessee: Edward Mike Davis, L.L.C.
Dated: April 9, 2010
Recorded: Book 2161, Page 436, Rec. #543413
County: Laramie, WY
Covering: INSOFAR AND ONLY INSOFAR AS THE LEASE COVERS:
All depths

TOWNSHIP 14 NORTH, RANGE 61 WEST, 6th P.M.
Section 18: Lots 1,2, E/2NW
TOWNSHIP 15 NORTH, RANGE 60 WEST, 6th P.M.
Section 6: Lots 3,4,5,6,7, SENW, E/2SW
TOWNSHIP 15 NORTH, RANGE 61 WEST, 6th P.M
Section 4: Lots 1,2, S/2NE, SE
Section 10: W/2, SE
Section 11: All
Section 14: NW
Section 24: SW
TOWNSHIP 16 NORTH, RANGE 61 WEST, 6th P.M
Section 30: Lots 1,2,3,4, E/2W/2
Section 34: NW
TOWNSHIP 16 NORTH, RANGE 62 WEST, 6th P.M
Section 24: S/2

Exhibit 10.28

MANAGEMENT CONSULTING AGREEMENT

This Management Consulting Agreement (this "Agreement") is made and entered into this 17th day of January, 2014 (the "Effective Date"), between Lilis Energy, Inc., a Nevada corporation (the "Company"), and Market Development Consulting Group, Inc. d/b/a MDC Group, a Wisconsin corporation ("Consultant"). Together, the Company and Consultant are sometimes referred to herein as the "Parties".

WITNESSETH

WHEREAS, the Company and Consultant previously entered into a Management Consulting Agreement, dated June 14, 2010 as may have been amended or modified by the Parties at any time or from time to time, whether orally or in writing (the "Original Agreement");

WHEREAS, the Parties to this Agreement desire to terminate the Original Agreement and to resolve all compensation matters related to the Original Agreement, except as set forth below;

WHEREAS, Consultant provides investor relations and other management consulting services; and

WHEREAS, the Company wishes to retain Consultant to provide such services to the Company on the terms and conditions set forth herein.

AGREEMENT

NOW, THEREFORE, the Parties hereto, in consideration of the mutual promises herein contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, agree as follows:

1. Termination. As of the Effective Date, the Company and Consultant agree that the Original Agreement and all of the rights and obligations of the Company and Consultant arising thereunder are hereby fully and finally terminated for all purposes. From and after the date hereof, neither the Company nor Consultant shall have any rights or obligations under the Original Agreement. However, the Company shall continue to be obligated under the Original Agreement to indemnify and defend Consultant against any claim, action or proceeding brought by any party against Consultant asserting such third party has been injured as a result of any misstatements or omissions in the Company Information.

2. Termination of the Compensation Related to the Original Agreement. As of the Effective Date, the Company and Consultant agree that the financial obligations of the Company have been satisfied in full and that any and all further compensation under the Original Agreement is terminated, however the Company's obligations with respect to the existing Warrant agreements set forth on Exhibit A hereto shall continue unaffected by this agreement.

a. Information to be furnished by Company. Upon Consultant's written request, the Company shall furnish Consultant with current public information about the Company, including without limitation the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the Company's most recently completed fiscal year, its most recent Annual Report to Shareholders, its most recent Proxy Statement and any other periodic or current reports filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 (the "Exchange Act") since the dates of those documents, and shall also provide any other public information reasonably requested in writing by Consultant ("Company Information"). The Company Information shall not include Confidential Information.

b. The Company shall be responsible to assure the Company Information accurately and fairly presents, all material respects, the financial condition and results of operations of the Company as of the dates indicated thereon. Consultant shall have no liability for any misstatement or omission in the Company Information, and the Company shall be obligated to indemnify and defend Consultant against any claim, action or proceeding brought by any party against Consultant asserting such third party has been injured as a result of any such misstatement or omission in the Company Information.

3. Confidential Information.

a . Confidential Information Defined. It is contemplated that the Company may disclose to Consultant information about or relating to the Company such as business, financial, technical, legal, marketing, or other proprietary or confidential information, including without limitation, contracts, documents, strategic, business and financial plans, policies or procedures, analysis, records, data, employee information, or other material, both oral and written, which the Company deems, and Consultant should consider, confidential (collectively, "Confidential Information"). All material and information disclosed by the Company to Consultant will be presumed to be Confidential Information and will be so regarded by Consultant. The term "Confidential Information" shall also include all of Consultant's work product, working papers and results derived from the foregoing.

b. Confidentiality Agreement. Consultant agrees that Consultant will hold the Confidential Information in strict confidence and will only use the Confidential Information in connection with providing services to the Company under this Agreement. Consultant further agrees that Consultant will not make any disclosure of the Confidential Information to anyone without the express written consent of the Company. Consultant will take all reasonable steps to ensure the confidentiality of all Confidential Information. Consultant agrees not to copy any Confidential Information and not to use any Confidential Information for Consultant's benefit or for the benefit of any third party.

c. Exceptions. Notwithstanding the other provisions of this Agreement, nothing received by Consultant will be considered to be Confidential Information of the Company if: (i) it has been published or its otherwise readily available to the public other than by a breach of this Agreement; (ii) it has been rightfully received by Consultant from a third party other than the Company without confidentiality limitations; or (iii) it is required to be disclosed by order of court or other governmental authority.

d. Survival of Obligations. This Section 3 will survive any termination of this Agreement.

4 . Management Consulting Services. Consultant shall assist the Company's management in developing and executing its (i) corporate identity, (ii) image development and packaging, (iii) communications with financial analysts, market makers and stock brokers, (iv) generation of new investor interest and maintaining loyal shareholders, (v) institutional relations and investment banking introductions, and (vi) strategy on corporate finance, capital markets, investor relations and corporate communications. As part of its services, Consultant shall specifically provide all resources necessary to a) draft, prepare and review all press releases to be issued by the Company, b) maintain the editorial content of the Company's website and provide periodic updates to such content, and c) assist in the development and maintenance of the Company's periodic presentations to investors. Consultant shall be obligated to convey the Company Information in a manner consistent with and in form and substance as publicly made available or otherwise approved by the Company. Consultant shall also agree that, during the term of this Agreement, Consultant shall limit the number of clients to which it provides these or similar services to the Company and two additional companies.

5 . Term and Termination . This Agreement shall become effective as of the Effective Date, and shall remain in effect until December 31, 2014. Notwithstanding the foregoing, this Agreement may be terminated for any reason by the Company in writing without any advance written notice. Upon any such expiration, termination or non-renewal of this Agreement, the Parties shall have no further duty or obligations hereunder; provided that Consultant shall remain obligated to keep confidential and return the Confidential Information pursuant to Section 3 of this Agreement and the Company shall remain obligated to make any payments of monthly retainer fees and reimbursable expenses pursuant to Sections 6(a) and 7 that remain unpaid as of and for the period prior to the effective date of expiration or non-renewal, and the Company shall continue to be obligated to indemnify and defend Consultant as contemplated in Sections 1 and 2.

6. Compensation for Services.

a. As partial consideration for services provided during the term of this Agreement, the Company shall pay to Consultant a monthly fee of US $5,000.00 commencing January 1, 2014. Thereafter, this monthly consulting fee shall be due and payable by the Company in advance on the first business day of each calendar month throughout the term of the Agreement. Consultant shall provide a monthly invoice to the Company for this fee and for any reimbursable expenses as provide in Section 7 below. Any payment made more than ten business days after the invoice date will be subject to an interest charge at the rate of 8% per year from the invoice date until the date paid or, if less, the maximum legal rate permissible under applicable law.

b. Common Stock Warrants.

i. Concurrent with the execution of this Agreement, the Company shall grant to Consultant a common stock warrant entitling Consultant to purchase up to 100,000 shares of common stock of the Company at an exercise price of $4.25 per share until the five-year anniversary of the Effective Date in the form attached hereto as Exhibit B (the "Five Year Warrant").

ii. Concurrent with the execution of this Agreement, the Company shall grant to Consultant a common stock warrant entitling Consultant to purchase up to 250,000 shares of common stock of the Company at an exercise price of $2.33 per share until the five-year anniversary of the Effective Date in the form attached hereto as Exhibit C (the "Anniversary Warrant" and together with the Five Year Warrant, the "Warrants").

iii. Concurrent with the execution of this Agreement, the Company shall issue to Consultant 90,000 shares of restricted common stock of the Company with one-twelfth vesting immediately and eleven-twelfths vesting equally in eleven monthly installments on the first day of each month beginning on February 1st, 2014; provided that no shares of restricted common stock shall vest subsequent to this Agreement being terminated as provided for in Section 5.

c. The Company shall have reserved from shares of its common stock held in treasury or from authorized and unissued shares of its common stock, or from a combination of the two, a sufficient number of shares of common stock to support the exercise of the Warrants in full, and prior to delivery of the Warrants, the Company shall have taken all steps necessary to assure that such shares, upon issuance in connection with the exercise of the relevant Warrant, will constitute duly authorized, fully-paid, non-assessable, validly issued and outstanding shares of common stock of the Company. The Warrants shall survive the expiration or termination of this Agreement.

7 . Reimbursement for Expenses. The Company shall reimburse Consultant for reasonable out-of-pocket expenses incurred by Consultant in connection with performing services pursuant to this Agreement, including without limitation travel, meals, lodging, mobile telephone, and long distance telephone. Notwithstanding the forgoing, any individual expense in excess of $2,000 must be pre-approved by the Company in writing or such expense may be disallowed. The Company agrees to make reimbursement payments for out-of-pocket expenses promptly upon receipt of Consultant's invoice in accordance with the Company's standard business practices.

8 . Independent Contractor Status. Consultant agrees to perform the services provided for hereunder solely as an independent contractor. The Parties agree that nothing in this Agreement shall be construed as creating a joint venture, partnership, franchise, agency, employer/employee, or similar relationship between the Parties, or as authorizing either Party to act as the agent of the other. Consultant understands that it must obtain and keep current, at its own expense, all permits, certificates, and licenses necessary for Consultant to undertake its obligations hereunder. Consultant is and will remain an independent contractor in its relationship to the Company. The Company shall not be responsible for withholding taxes with respect to Consultant's compensation hereunder. Consultant shall have no claim against the Company hereunder or otherwise for vacation pay, sick leave, retirement benefits, social security, worker's compensation, health or disability benefits, unemployment insurance benefits, or employee benefits of any kind, including related to or in connection with David E. Castaneda. Nothing in this Agreement shall create any obligation between either Party and a third party, including between the Company and David E. Castaneda.

9. Discharge and Release of Claims. As of the Effective Date, Consultant on behalf of itself and each of its affiliates, successors, assigns, agents, partners, stockholders, directors and employees, knowingly and voluntarily does hereby release, acquit and forever discharge the Company and its agents, representatives, officers, directors, affiliates and employees, attorneys, representatives and all other persons, natural or corporate, in privity with the Company, from any and all claims, suits, demands, actions or causes of action of any kind or nature whatsoever, whether at common law, by contract, statute or otherwise, and whether the underlying facts are known or unknown, that Consultant now has or claims, or might have or claim, pertaining to or arising out of the Original Agreement or any other similar agreements that may exist between the Company and Consultant, except as specifically contemplated hereby (the "Released Claims").

10. Unknown Facts. The Released Claims include claims of every nature and kind, known or unknown, suspected or unsuspected. Consultant hereby acknowledges that it may hereafter discover facts different from, or in addition to, those which it now knows or believes to be true with respect to the Original Agreement, and Consultant agrees that this Agreement and the releases contained herein shall be and remain effective in all respects, notwithstanding such different or additional facts or the discovery thereof.

11. Authority. Each person executing this Agreement is duly authorized, on behalf of the Party for whom he is executing this Agreement, to do so.

12. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective heirs, devisees, personal and legal representatives, executors, successors and assigns.

13. Governing Law. This Agreement shall be construed and interpreted, and the rights and obligations of the Parties shall be determined and enforced, in accordance with the laws of the State of Colorado.

14. Counterparts. This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party, it being understood that both Parties need not sign the same counterpart. in the event that any signature is delivered by facsimile transmission or by e-mail delivery of a ".pdf" format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or ".pdf" signature page were an original thereof.

15. Severability and Invalid Provisions. If any provision of this Agreement is held illegal, invalid, or unenforceable, such holding shall not affect any other provisions hereof. In the event any provision is held illegal, invalid, or unenforceable, such provision shall be limited so as to give effect to the intent of the Parties to the fullest extent permitted by applicable law.

16. Interpretation. The determination of the terms of, and the drafting of, this Agreement has been by mutual agreement after negotiation, with consideration by and participation of the Parties. Accordingly, the Parties agree that rules relating to the interpretation of contracts against the drafter of any particular clause shall not apply in the case of this Agreement.

17. Complete Agreement. This Agreement represents the full and complete agreement between the Parties with respect to the subject matter hereof and supersedes any and all prior agreements, whether oral or written, between the Parties, all of which are hereby null and void, including without limitation, the Engagement Agreement.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be duly executed on the date first above written.

LILIS ENERGY, INC.

By: /s/ Abraham Mirman
Name: Abraham Mirman
Title: President

MARKET DEVELOPMENT CONSULTING GROUP, INC.

By: /s/ David E. Castaneda
Name: David E. Castaneda
Title: President

EXHIBIT A

EXISTING WARRANTS

EXHIBIT B

FIVE YEAR WARRANT

Please see attached.

EXHIBIT C

ANNIVERSARY WARRANT

Please see attached.

Exhibit 10.35

AMENDMENT TO 8% SENIOR SECURED CONVERTIBLE DEBENTURE AND WAIVER UNDER SECURITIES PURCHASE AGREEMENT

This Amendment and Waiver (this "**Amendment**"), made as of July 23, 2012, by and between Recovery Energy, Inc., a Nevada corporation (the "**Company**"), and each holder identified on the signature page hereto (the "**Holders**"), modifies that certain Securities Purchase Agreement, dated as of March 19, 2012, between the Company and the Holders (the "**Purchase Agreement**") and those certain 8% Senior Secured Convertible Debentures due February 8, 2014 of the Company issued pursuant to the Purchase Agreement (the "**Debentures**"). Terms not otherwise defined herein shall have the meanings ascribed to such terms in the Purchase Agreement. For the avoidance of doubt, the term "Debenture" shall not refer to any debentures issued by the Company prior to March 19, 2012.

Recitals

WHEREAS, the Company now wishes to amend the Debentures in order to improve compliance with the listing rules promulgated by the NASDAQ Stock Market;

WHEREAS, the Company also wishes to modify the current requirement regarding delivery of a legal opinion under the Purchase Agreement;

WHEREAS, the Holders have agreed to waive certain provisions contained in the Purchase Agreement;

WHEREAS, pursuant to Section 7(a) of the Debentures, the Company is prohibited from entering into, creating, incurring, assuming or suffering to exist any lien, charge, pledge, security interest, encumbrance, right of first refusal, preemptive right or other restriction on the property securing the Debentures unless the holders of at least 67% in principal amount of the then outstanding Debentures shall have otherwise given prior written consent; and

WHEREAS, pursuant to Section 5.5 of the Purchase Agreement, waiver or amendment of any provision in the Purchase Agreement requires a written instrument signed by the Company and Holders holding at least 51% in interest of the Debentures then outstanding or, in the case of a waiver, by the party against whom enforcement of any such waived provision is sought.

NOW THEREFORE, in consideration of the premises and mutual covenants and obligations herein set forth and for other good and valuable consideration, the receipt, sufficiency and adequacy of which is hereby acknowledged, accepted and agreed to, the parties hereto, intending to be legally bound, hereby agree as follows:

Agreement

1. Amendment of Debentures. The Debentures are hereby amended to include the following language at the end of Section 4(c)(i) of the Debentures:

> ; provided that in no event shall the Company issue to any Holder any Conversion Shares to the extent the total number of such shares, after giving effect to such issuance after conversion and when added to the number of shares of Common Stock previously issued upon conversion of any other debentures issued pursuant to the Purchase Agreement or as payment of interest upon the Debentures, would exceed 19.9% of either (a) the total number of shares of Common Stock outstanding on March 19, 2012 or (b) the total voting power of the Company's securities outstanding on March 19, 2012 that are entitled to vote on a matter being voted on by holders of the Common Stock, unless and until the Company has obtained stockholder approval permitting such issuance in accordance with applicable rules promulgated by the applicable Trading Market.

2. Waiver of Certain Representations, Warranties and Covenants. Each Holder hereby waives its right to receive the legal opinion of Company Counsel (as defined in the Purchase Agreement) required pursuant to Section 2.2(a)(iii) of the Purchase Agreement, and agrees that the Company will provide, in lieu of such legal opinion, a legal opinion of Company Counsel in a form to be agreed by the parties to the Purchase Agreement, no later than fifteen (15) days after the final closing pursuant to Section 2.3 of the Purchase Agreement, as the same may be amended from time to time.

4. Authority. Each Holder hereby represents and warrants that it is a party to the Purchase Agreement and is the true and lawful owner of one or more Debentures and has full power and authority to enter into this Amendment on the terms set forth herein.

5. Further Assurances. Holders shall from time to time execute such additional instruments and documents, take such additional actions, and give such further assurances as are or may be reasonable or necessary to implement this Amendment.

6. Binding Effect. The terms of this Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns.

7. Reaffirmation of Debenture Terms. All terms of the Purchase Agreement and Debentures shall, except as amended hereby, remain in full force and effect, and are hereby ratified and confirmed.

8. Governing Law. This Amendment shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard for principles of conflict of laws thereof.

9. Counterparts. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[*Signature page follows*]

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment effective as of the date first set forth above.

COMPANY

Recovery Energy, Inc.

By: /s/ Roger A. Parker
Name: Roger A. Parker
Title: President and Chief Executive Officer

HOLDERS

Colony Partners, a California general partnership

/s/ Bryan Ezralow
Name: Bryan Ezralow as Trustee of the Bryan Ezralow 1994 Trust
Title: Managing General Partner

Jonathan & Nancy Glaser Family Trust
DTD 12/16/1998 Jonathan M. Glaser and
Nancy E. Glaser TTEES

/s/ Jonathan Glaser
Name: Jonathan Glaser
Title: Trustee

G. Tyler Runnels and Jasmine N. Runnels
TTEES The Runnels Family Trust DTD 1-11-2000

/s/ G. Tyler Runnels
Name: G. Tyler Runnels
Title: Trustee

Wallington Investment Holdings, Ltd.

/s/ Michael Khoury
Name: Michael Khoury
Title: Director

Exhibit 10.39

Recovery Energy, Inc.
1900 Grant Street, Suite #720
Denver, CO 80203

April 16, 2013

G. Tyler Runnels and Jasmine N. Runnels
TTEES The Runnels Family Trust
DTD 1-11-2000T.R. Winston & Company,
c/o T.R. Winston & Company
1999 Avenue of the Stars #2550
Los Angeles, CA 90067

Re: Additional Investment in 8% Senior Secured Debentures

Reference is made to that certain Securities Purchase Agreement, dated as of February 2, 2011, as amended on July 23, 2012 and August 7, 2012, between the Recovery Energy, Inc. (the "Company") and the holders set forth therein (the "Original Holders") and that certain Securities Purchase Agreement, dated as of March 19, 2012, as amended on July 23, 2012 and August 7, 2012, between the Company and the holders set forth therein (the "Supplemental Holders" and, together with the Original Holders, the "Holders"), pursuant to which the Company issued to the Holders certain 8% Senior Secured Convertible Debentures (as subsequently amended, the "Debentures").

This letter agreement sets forth the agreement between the Company and G. Tyler Runnels and Jasmine N. Runnels TTEES The Runnels Family Trust DTD 1-11-2000 (the "Trust") regarding investment by the Trust and the other Holders in additional Debentures. The Company and the Trust accordingly agree as follows:

1. The Company agrees, subject to final approval by its board of directors, to issue up to $5 million aggregate principal amount of Debentures to the Holders pursuant to substantially the same terms and conditions governing the previously issued Debentures.

2. The Trust agrees to purchase an additional $1.5 million aggregate principal amount of Debentures pursuant to substantially the same terms and conditions governing the previously issued Debentures within ninety (90) days of the date hereof, in being understood that the proceeds of such Debentures may be used by the Company to fund its working capital and for other general corporate purchases.

This letter agreement shall be construed in accordance with and governed by the laws of the State of Colorado, excluding its conflict of laws rules. This letter agreement may be executed in any number of counterparts each of which shall be considered an original. If the foregoing accurately sets forth our agreement, please so indicate by executing this letter in the space provided below.

Very truly yours

RECOVERY ENERGY, INC.

By: /s/ A. Bradley Gabbard
A. Bradley Gabbard
Its: President and Chief Financial Officer

ACCEPTED AND AGREED

this 16th day of April, 2013

G. Tyler Runnels and Jasmine N. Runnels TTEES
The Runnels Family Trust DTD 1-11-2000

G. Tyler Runnels
Name: G. Tyler Runnels
Title: Trustee

Exhibit 10.44

LETTER OF INTENT

February 4, 2014

Trevor Folk
Shoreline Energy Corp.
500, 500 4th Avenue SW
Calgary, AB T2P 2V6

Dear Trevor:

This letter outlines the proposal by Lilis Energy, Inc. ("Lilis") to combine with Shoreline Energy Corp. ("Shoreline" and together with Lilis, the "Parties", and each individually, a "Party"), in an acquisition transaction by way of a take-over bid, plan of arrangement or other means (the "Transaction") on the terms and conditions contained herein. This letter replaces and supersedes the Non-Binding Letter of Intent entered into between the Parties as of January 16, 2014.

1. **Transaction.** Lilis proposes to acquire Shoreline with Lilis being the surviving corporation. Based on the information received to date, each of the shareholders of Shoreline would exchange or convey all common shares of Shoreline (the "Shoreline Shares") outstanding immediately prior to the Transaction. The consideration for the purchase or exchange of all Shoreline Shares outstanding at the Closing time (the "Purchase Price") shall be 6,666,666 shares of common stock of Lilis (the "Lilis Shares") at a deemed price of $3.00 per Lilis Share.

All outstanding options to acquire Shoreline Shares issued and outstanding pursuant to Shoreline's stock option plan shall be either (i) exercised prior to the Closing time; (ii) converted to options to acquire a like number of Lilis Shares; or (iii) cancelled for nominal consideration, as determined by Shoreline and/or the holder(s) of the Shoreline options.

All outstanding warrants to acquire Shoreline Shares shall be converted to warrants to acquire a like number of Lilis Shares in accordance with their terms and pursuant to the Transaction.

2. **Due Diligence Investigation; Cooperation.** Each of the Parties will continue its due diligence investigation of the legal, business, environmental and financial conditions of the other Party. Each of the Parties will extend its full cooperation to the other Party and its lawyers, accountants and other representatives in connection with such due diligence investigation. Upon execution of this letter, each Party shall make available all financial and legal information requested by or on behalf of the other Party, its financing sources, and their representatives, including independent accountants and counsel, in connection with its due diligence review of such Party, including at all reasonable times and upon reasonable notice, access to such Party's books, records, facilities, properties, employees, accountants and attorneys. Each of the Parties will extend its full cooperation to the other Party and its lawyers, accountants and other representatives in connection with the preparation of necessary pro forma financial statements, proxy and information statements for the Parties' shareholder meetings, and otherwise as required to satisfy the conditions set forth in Section 3 of this letter.

3 . **Conditions to Closing.** The obligations of either Party to consummate the Transaction will be subject to the satisfaction of the following conditions, among others:

(a) Each Party shall have completed its due diligence investigation of the other Party in scope, detail and substance, and of results, satisfactory to such Party in its sole discretion;

(b) Each Party shall have obtained customary fairness opinions;

(c) The Parties shall have negotiated and executed a mutually acceptable definitive agreement governing the Transaction, including appropriate covenants, conditions, representations and warranties (the "Definitive Agreement");

(d) Shoreline shall have secured a new credit facility to replace its (i) $3 million loan with Acceleration Resources LLC secured by Wattenberg ORRI properties, (ii) $5 million loan with Century secured by Wattenberg WI properties, and (iii) $10 million loan / royalty obligation with Devon Canada secured by gas property in northern Alberta (the "Devon Loan"), each in a manner, form and substance satisfactory to Lilis, provided that the amount allocated to the Devon Loan shall be no greater than $5 million;

(e) Shoreline shall have secured a new conventional credit facility, assumable by Lilis in connection with the Transaction, the proceeds of which are to be used to repay outstanding debt owing to Alberta Treasury Branches, and for working capital purposes following the Transaction, all in a form and substance satisfactory to Lilis;

(f) Shoreline shall have reached a settlement of the pending lawsuit regarding title to certain of Shoreline's Wattenberg WI properties without any material adverse change to the financial position of Shoreline, the number of outstanding Shoreline Shares, or Shoreline's interests in its assets (taken as a whole);

(g) Shoreline shall have satisfied any liability to its executives, directors or other employees with respect to obligations of Shoreline pursuant to all employment or consulting services agreements, director compensation programs, termination, severance, change of control, bonus and retention plans or policies for severance, termination, change of control, vacation pay, bonus or retention payments, and any payments related to any incentive plan, arising out of or in connection with the Transaction. The Parties understand and agree that in connection with the foregoing, Shoreline shall make aggregate payments of up to $1 million to satisfy accrued director fees, accrued and unpaid wages and accrued and unpaid consulting fees, and that such payment shall not be subtracted from the Purchase Price;

(h) Lilis and Shoreline shall work together to agree on the senior executives and employees of Shoreline who will continue to be employed with Lilis after the Transaction and the terms and conditions of any such employment.

(i) Shoreline shall have received approval of the holders of the outstanding Shoreline debentures (the "Shoreline Debentures") to convert the Shoreline Debentures into preferred shares of Lilis having a substantially equivalent coupon and conversion rate, which preferred shares shall not be redeemable by the holders, shall be redeemable by Lilis at any time after issuance and will be subject to mandatory conversion if the trading price of Lilis common stock is more than 120% of the conversion price for more than 10 days;

(j) An interim order of the Court of Queen's Bench of Alberta (the "Court") concerning the Transaction (the "Interim Order") shall have been granted in form and substance satisfactory to Lilis and Shoreline, and such order shall not have been set aside or modified in a manner unacceptable to Lilis or Shoreline, on appeal or otherwise;

(k) The shareholders of Shoreline shall have passed a resolution approving the Transaction in accordance with the Interim Order;

(l) The shareholders of Lilis shall have passed a resolution approving the Transaction;

(m) A final order the order of the Court approving the Transaction shall have been granted in form and substance satisfactory to Lilis and Shoreline, acting reasonably, and such order shall not have been set aside or modified in a manner unacceptable to Lilis or Shoreline, on appeal or otherwise;

(n) The Articles of Arrangement to be sent to the Alberta Registrar of Corporations in accordance with the Transaction shall be in form and substance satisfactory to Lilis and Shoreline;

(o) Any approval of the Transaction required under the Competition Act, R.S.C. 1985, c. C-34, as amended shall have been obtained;

(p) All necessary written notifications with respect to the Transaction shall have been provided to the minister of the Canadian federal government responsible for the Investment Canada Act;

(q) No act, action, suit, proceeding, objection or opposition shall have been threatened or taken before or by any governmental authority or by any elected or appointed public official or private person, whether or not having the force of law, and no law, regulation, policy, judgment, decision, order, ruling or directive (whether or not having the force of law) shall have been proposed, enacted, promulgated, amended or applied, which has had or, if the Transaction were consummated, would result in a material adverse effect on Shoreline or Lilis, or would materially impede the ability of the parties to complete the Transaction;

(r) The Transaction shall have been consummated on or before April 30, 2014 (the "Outside Date");

(s) Between the date hereof and the consummation of the Transaction, there shall not have occurred any material adverse change with respect to either Shoreline or Lilis;

(t) Lilis and Shoreline shall have obtained all consents, waivers, permissions and approvals necessary to complete the Transaction by or from NASDAQ with respect to the additional listing of the Lilis common stock to be issued pursuant to the Transaction, it being understood that Lilis will become a "reporting issuer" in Canada unless exempt under applicable laws and that it will not list its shares on the TSX;

(u) Both Shoreline and Lilis shall have furnished the other with certified copies of the resolutions duly passed by its board of directors and shareholders approving the Transaction;

(v) Shoreline shareholders holding not more than 5% of the Shoreline Shares then outstanding shall have validly exercised, and not withdrawn, dissent rights, and Shoreline shall have provided to Lilis a certificate of a senior officer certifying such;

(w) Executed resignations and releases (mutual releases in the case of directors and officers) in a form satisfactory to Lilis, shall have been received by Lilis from all directors or officers;

(x) Shoreline shall have not more than 8,939,067 Shoreline Shares outstanding; and Shoreline confirms that, as at the date hereof, there are 8,939,067 Shoreline Shares outstanding;

(y) Lilis shall have not more than 33,000,000 common shares outstanding immediately after closing of the Transaction assuming full conversion of the outstanding debentures of Lilis (the "Lilis Debentures") and completion of all steps contemplated in this agreement;

(z) Lilis shall have secured a new credit facility of not less than $15 million. Lilis shall pay no more than $15 million of this facility or such other amount and on such other terms as are reasonably agreed by the Parties to pay out and extinguish in full the existing $19 million facility with Hexagon;

(aa) Lilis's total debt (including any working capital deficiency, and convertible debt instruments) shall not exceed $20 million;

(bb) The outstanding Lilis Debentures shall be converted in their entirety to Lilis Shares;

(cc) Lilis shall have not less than $10 million cash or available credit at time of closing;

(dd) The parties shall have agreed upon an acceptable approach to resolution of the "sandwich structure" tax issues related to the Transaction; and

(ee) All third party, shareholder and governmental consents and approvals necessary for the consummation of the Transaction shall have been received;

it being understood that as used in this Section 3, the term "satisfactory to Lilis" shall mean in the sole discretion of the board of directors of Lilis, acting reasonably.

Certain conditions set forth above assume the Transaction is structured as a Plan of Arrangement; in the event the Transaction is structured as a take-over bid or otherwise, such conditions shall be modified accordingly.

4. **No-Shop Agreement**.

(a) Each of the Parties acknowledges that the other Party will devote substantial time and incur out-of-pocket expenses (including attorneys', accountants' and consultants' fees and expenses) in connection with the Transaction (collectively, " Acquisition Expenses"). To induce Lilis to incur Acquisition Expenses, Shoreline agrees that from and after the signing date of the Definitive Agreement until the earlier of: (i) the closing of the Transaction pursuant to the Definitive Agreement, (ii) the date upon which Lilis notifies Shoreline in writing that does not wish to proceed with the Transaction, or (iii) February 28, 2014 (the "Exclusivity Period"), Shoreline shall not, nor shall Shoreline permit any of its officers, directors, agents or affiliates to: (A) enter into any written or oral agreement or understanding with any person or entity regarding Another Transaction (as defined below); (B) solicit, encourage, enter into or continue any negotiations or discussions with any person or entity regarding the possibility of Another Transaction, or solicit, entertain or review any offers or proposals regarding Another Transaction; or (C) except as otherwise required by law, court order or similar compulsion, provide any nonpublic financial or other confidential or proprietary information regarding Shoreline (including this letter and any other materials containing Lilis's proposal and any other financial information, projections or proposals regarding Shoreline) to any person or entity whom Shoreline knows, or has reason to believe, would have any interest in participating in Another Transaction. Lilis will promptly notify Shoreline of its decision to no longer pursue the Transaction pursuant to clause (ii) above. In the event Shoreline shall receive any offer or proposal, directly or indirectly, relating to Another Transaction, or any request for disclosure or access to information, it shall promptly inform Lilis as to any such offer or proposal and will cooperate with Lilis by furnishing copies of any such offer or proposal and any information relating thereto it may reasonably request. As used herein, the term "Another Transaction" means the sale (whether by sale of stock, merger, consolidation or other disposition) of all or any part of the business of Shoreline or any material portion of the assets of Shoreline or issued or unissued capital stock of Shoreline.

(b) Shoreline hereby represents to Lilis that Shoreline is not bound to negotiate Another Transaction with any other person or entity, and that Shoreline's execution of this letter does not violate any agreement to which Shoreline is bound or to which any of the assets of the Shoreline are subject.

5 . **Expenses.** Each of the Parties will bear its own expenses and costs of the transactions contemplated hereby, including, but not limited to, the fees of attorneys and financial advisors, provided that the fees and expenses of Shoreline shall reduce the Purchase Price on a dollar-for-dollar basis.

6 . **Confidentiality.** Except for the use of such information and documents in connection with the proposed transactions or as otherwise required by law or regulations, each Party, for itself and its lawyers, accountants and other representatives, agrees to keep confidential any information obtained by it from the other Party in connection with its investigations or otherwise in connection with these transactions and, if such transactions are not consummated, to return to the other Party any documents and copies.

7. **No Third Party Beneficiaries.** This letter shall be binding upon and inure to the benefit of the Parties hereto. Nothing in this letter, express or implied, is intended to or shall confer upon any other person or entity any right, benefit or remedy of any nature whatsoever under or by reason of this letter.

8 . **Entire Agreement**. This letter and the confidentiality agreement dated June 20, 2013 between Lilis and Shoreline entered into in connection with the transaction contemplated herein constitute the entire agreement between the Parties pertaining to the subject matter hereof and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, between the Parties with respect to the subject matter hereof. Neither party shall have any liability or obligation in respect of the prior Letter of Intent, dated January 16, 2014.

9 . **Governing Law.** This letter of intent, and the Definitive Agreement, shall be governed by and construed in accordance with the internal laws of the State of Colorado without giving effect to any choice or conflict of law provision or rule (whether of the State of Colorado or any other jurisdiction) that would cause the application of Laws of any jurisdiction other than those of the State of Colorado. Each Party consents to the exclusive jurisdiction and proper venue of the state and federal courts located in Denver, Colorado for any claim, dispute or controversy hereunder in any such suit, action or proceeding and irrevocably waives, to the fullest extent, any argument that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum. Process in any such suit, action or proceeding may be served on any Party anywhere in the world, whether within or without the jurisdiction of any such court. Each of the Parties, knowingly, voluntarily and intentionally waives any right to trial by jury in any action or other legal proceeding brought by the other Party arising out of or relating to this letter of intent or the transactions contemplated hereby or any other document relating or pertaining to this letter of intent or the transactions contemplated hereby. Notwithstanding the foregoing, any Plan of Arrangement entered into between the Parties shall be governed, including as to validity, interpretation and effect, by the laws of the Province of Alberta and the federal laws of Canada applicable therein.

10. **Counterparts.** This letter may be signed in two or more counterparts, any one of which need not contain the signature of more than one Party, but all such counterparts taken together will constitute one and the same agreement.

11. **Binding Effect; Termination.** This letter is intended to create a binding obligation of both Parties to proceed with the transactions contemplated hereby, subject to the terms and conditions set forth herein. Lilis shall have the right to terminate this letter without any further obligation unless obtains Shoreline delivers to it forbearance or similar agreements from each of its lenders identified in Sections 3(d) and 3(e) above on or prior to February 6, 2014, and each of Lilis and Shoreline shall have the right to terminate this letter without any further obligation if it determines, in its reasonable discretion, that satisfaction of the closing conditions is impracticable. This letter will automatically terminate on the Outside Date, or otherwise by mutual written agreement. Section 4 shall cease to be effective at the end of the Exclusivity Period. Sections 5 through 11 shall continue to be binding on the Parties notwithstanding any abandonment of the Transaction or expiration of the Exclusivity Period.

If you agree to the foregoing, please return a signed copy of this letter to the undersigned no later than 5:00 p.m. MST on February 4, 2014, after which time this letter will expire if not so accepted.

Lilis Energy, Inc.

By: /s/ Abraham Mirman
Abraham Mirman, President

Agreed and accepted this 4th day of February, 2014:

Shoreline Energy Corp.

By: Trevor Folk
Trevor Folk, Chief Executive Officer

Exhibit 10.55

Independent Director Appointment Agreement

This Independent Director Appointment Agreement ("Agreement"), is effective as of March 1, 2014 (the "Effective Date"), by and between Lilis Energy, Inc. a Nevada corporation (the "Company") and Robert A. Bell ("Director").

WHEREAS, the Company wishes to retain Director's services as an independent director of the Company (pursuant to the standards of independence established by the Company's Corporate Governance Guidelines on Director Independence) (an "Independent Director") under the terms set forth herein; and

WHEREAS, the Director wishes to perform the services of an Independent Director of the Company.

NOW, THEREFORE, in consideration of the premises and the mutual covenants set forth below, the parties agree as follows:

1. **Appointment**: The Company has appointed Director as a director on the board of directors (the "Board") of the Company, and Director has accepted such position, on the terms and conditions set forth below. Director's authority shall be consistent with that normally associated with and appropriate for such a position.

2. **Start Date**: Director's appointment to the Board was on February 13, 2014 (the "Appointment Date").

3. **Compensation and Expenses**:

(a) Stock Compensation:

(i) Initial Grant. On March 1, 2014, the Company issued to Director 50,000 shares (the "Initial Grant") of the Company's common stock, par value $0.0001 (the "Common Stock"), which Common Stock shall vest, subject to acceleration as provided below, in the following increments on the specified dates, so long as Director is a director on such date:

(A) 16,666 shares shall vest on February 13, 2015;

(B) 16,667 shares shall vest on February 13, 2016; and

(C) 16,667 shares shall vest on February 13, 2017.

(ii) Annual Grants. On each annual anniversary of the Appointment Date, so long as Director is a director on such date, the Company shall issue to Director a number of shares of Common Stock equal to $40,000 divided by the most recent per share closing price of the Common Stock on the national securities exchange on which the Common Stock is traded prior to the date of each annual grant, or if the Company is not listed on a national exchange, the fair market value of the Common Stock as determined by the Board in good faith on such date, which Common Stock shall be fully vested upon issuance.

(iii) Acceleration of Vesting. Notwithstanding any provision to the contrary, the Initial Grant and any other grants of Common Stock to Director not then vested shall vest upon the earlier to occur of a Change in Control (as defined below) of the Company (provided Director is a director immediately prior to the Change in Control).

For purposes of this Agreement, "Change in Control" shall mean the occurrence, subsequent to the Effective Date, of any of the following: (A) by a transaction or series of transactions, any "person" or "group" (within the meaning of Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 30% of the combined voting power of the Company's then outstanding securities (provided such person or group was not a beneficial owner of more than 30% of the combined voting power of the Company's then outstanding securities as of the Effective Date); (B) as a result of any merger, consolidation, combination or sale or issuance of securities of the Company, or as a result of or in connection with a contested election of directors, the persons who were directors of the Company as of the Effective Date cease to constitute a majority of the Board; (C) by a transaction or series of transactions, the authority of the Board over any activities of the Company becomes subject to the consent, agreement or cooperation of a third party other than shareholders of the Company.

(b) Cash Compensation: On a quarterly basis beginning at the end of the first full quarter following the Appointment Date, the Company shall pay to Director $10,000 in cash compensation as director's fees.

4. Scope of Responsibilities. As an Independent Director, subject to the terms of the immediately following paragraph, Director shall be responsible for contributing to the development and implementation of the Company's strategic plan, locating and reviewing prospective acquisition targets, overseeing the development plan of acquired properties, and providing input on the Company's development plan. Director shall provide those services required of a director under the Company's articles of incorporation and bylaws, as both may be amended from time to time, and under the Nevada Revised Statutes, the federal securities laws and other state and federal laws and regulations, as applicable; provided, however, in the event of a conflict or inconsistency between this Agreement and any governing document of the Company, the governing document of the Company shall control. In performing such activities, Director will devote only such time as he in his sole discretion deems necessary and appropriate.

Director for his own account and in collaboration with others is engaged in and will continue to be engaged in oil and gas exploration, development and production outside of the Company's business. The Company expressly acknowledges and agrees that if Director becomes aware of a business opportunity, he shall have no affirmative duty to present or make such opportunity available to the Company. Furthermore, in the event Director pursues an opportunity for his own account or in collaboration with others, the Company shall not be entitled to any interest in or profits from such property or otherwise claim any right or damages resulting from Director's pursuit of such opportunity.

The relationship between the parties shall be that of independent contracting parties. The Board and the Company expressly acknowledge and agree that neither shall have the right to direct Director with respect to the means or manner in which he fulfills his obligations and responsibilities under this Agreement. The Board and the Company are solely interested in the results obtained by Director in connection with his performance of services required hereunder. Except as specifically provided in this Agreement, the Company hereby waives any conflict or potential conflict resulting from Director's activities conducted apart from the business of the Company.

5 . **Representations and Warranties**. The Company represents and warrants to Director that this Agreement has been duly authorized, executed and delivered by the Company and, upon execution by Director, constitutes a legal, valid and binding agreement of the Company, enforceable against the Company in accordance with its terms.

6 . **Indemnity**. The Company agrees that if Director is made a party to or is threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that Director is or was a trustee, director or officer of the Company or any predecessor or successor to the Company or any of their affiliates or is or was serving at the request of the Company, any predecessor or successor to the Company or any of their affiliates as a trustee, director, officer, member, employee or agent of another corporation or a partnership, joint venture, limited liability company, trust or other enterprise, including, without limitation, service with respect to employee benefit plans, whether or not the basis of such Proceeding alleges action in an official capacity as a trustee, director, officer, member, employee or agent while serving as a trustee, director, officer, member, employee or agent, Director shall be indemnified and held harmless by the Company to the fullest extent authorized by Nevada law, as the same exists or may hereafter be amended, against all Costs (as defined below) incurred or suffered by Director in connection therewith, and such indemnification shall be deemed to have commenced as of the Appointment Date and shall continue as to Director even if he has ceased to be an officer, director, trustee or agent, or is no longer employed by the Company and shall inure to the benefit of his heirs, executors and administrators. The foregoing indemnity is contractual and will survive any adverse amendment to or repeal of the bylaws or any other governing document of the Company.

(a) Costs. For purposes of this Section 6, the term "Costs" shall include, without limitation unless deemed for cause, damages, losses, judgments, liabilities, fines, penalties, excise taxes, settlements, and costs, attorneys' fees, accountants' fees, and disbursements and costs of attachment or similar bonds, investigations, and any expenses of establishing a right to indemnification under this Agreement.

(b) Enforcement. If a claim or request under this Section 6 is not paid by the Company or on its behalf, within thirty (30) days after a written claim or request has been received by the Company, Director may at any time thereafter bring suit against the Company to recover the unpaid amount of the claim or request and if successful in whole or in part, Director be entitled to be paid also the expenses of prosecuting such suit. All obligations for indemnification hereunder shall be subject to, and paid in accordance with, applicable Nevada law.

(c) Payment of Costs. Costs incurred by Director in connection with any Proceeding shall be paid by the Company within thirty (30) days' notice of Director's request for such payment, provided that Director has delivered to the Company written notification of (i) his agreement to reimburse the Company for Costs with respect to which Director is not eligible for payment or reimbursement, and (ii) a statement of his good faith belief that he has satisfied the standard of conduct necessary for indemnification under this Section 6.

(d) Insurance. The Company will maintain a Director's and Officer's Insurance Policy naming Director as a covered party in amount deemed mutually sufficient to the Company and Director.

7 . Survival of Certain Provisions. The representations, warranties and covenants and indemnity provisions contained in Sections 5 and 6 of this Agreement and the Company's obligation to pay or issue to Director, or to cause Director to vest in, any compensation or compensatory awards earned pursuant hereto shall remain operative and in full force and effect regardless of any completion or termination of this Agreement and shall be binding upon, and shall inure to the benefit of any successors, assigns, heirs and personal representatives of the Company, the indemnified parties and any such person.

8. Notices. Notice given pursuant to any of the provisions of this Agreement shall be in writing and shall be mailed or delivered (a) if to the Company, at its offices at 1900 Grant Street, Suite 720, Denver Colorado 80203, attention Chief Executive Officer, with a copy to Ronald R. Levine, II, Esq., at his office at Davis Graham and Stubbs, LLP, 1550 17th Street, Suite 500, Denver, CO 80202.

9 . Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

10 . Third Party Beneficiaries. This Agreement has been and is made solely for the benefit of the Parties hereto, and their respective successors and assigns, and no other person shall acquire or have any right under or by virtue of this Agreement.

11 . Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction but this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

12 . Legal Fees. If any arbitration or litigation shall rise between the Company and Director regarding any provision of this Agreement, the Company shall reimburse Director for all legal fees and expenses incurred by him in connection with such contest or dispute unless an unlawful act has preceded, but only if Director substantially prevails in such action. Such reimbursement shall be made as soon as practicable following the resolution of such contest or dispute (whether or not appealed) to the extent the Company receives reasonable written evidence of such fees and expenses.

13 . Reimbursement of Expenses. Director shall be reimbursed by the Company for all ordinary and necessary expenses incurred by Director in the performance of his duties or otherwise in furtherance of the business of the Company, as well as any expenses specified in this Agreement, in accordance with the policies of the Company in effect from time to time. No reimbursement will be made later than the close of the calendar year following the calendar year in which the expense was incurred. Expenses eligible for payment or reimbursement in any one taxable year shall not affect the amount of expenses eligible for payment or reimbursement in any other taxable year, and the right to expense payment or reimbursement shall not be subject to liquidation or exchange for any other benefit.

14. Modification; Entire Agreement. No provisions of this Agreement may be amended, modified, or waived unless such amendment or modification is agreed to in writing signed by Director and by a duly authorized officer of the Company, and such waiver is set forth in writing and signed by the party to be charged. No waiver by either party hereto at any time of any breach by the other party hereto of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement. The respective rights and obligations of the parties hereunder of this Agreement shall survive the termination of this Agreement to the extent necessary for the intended preservation of such rights and obligations. Except or otherwise provided in Section 8 herein, the validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Colorado without regard to its conflicts of law principles.

15. **Choice of Law, Jurisdiction and Venue**. This Agreement shall be governed by, construed, and enforced in accordance with the laws of the State of Colorado, without regard to Colorado's choice of law rules. Any and all actions, suits, or judicial proceedings upon any claim arising from or relating to this Agreement, subject to Section 8 herein, shall be instituted and maintained in the State of Colorado. If it is judicially determined that either party may file an action, suit or judicial proceeding in federal court, such action, suit or judicial proceeding shall be in the Federal District Court for the District of Colorado.

The parties' authorized representatives have executed this Agreement as of the date above.

Robert A. Bell

Lilis Energy, Inc.

By: _____

W. Phillip Marcum,
Chief Executive Officer

Independent Director Appointment Agreement

This Independent Director Appointment Agreement ("Agreement"), is effective as of March 1, 2014 (the "Effective Date"), by and between Lilis Energy, Inc. a Nevada corporation (the "Company") and Nuno Brandolini ("Director").

WHEREAS, the Company wishes to retain Director's services as an independent director of the Company (pursuant to the standards of independence established by the Company's Corporate Governance Guidelines on Director Independence) (an "Independent Director") under the terms set forth herein; and

WHEREAS, the Director wishes to perform the services of an Independent Director of the Company.

NOW, THEREFORE, in consideration of the premises and the mutual covenants set forth below, the parties agree as follows:

16. **Appointment**: The Company has appointed Director as a director on the board of directors (the "Board") of the Company, and Director has accepted such position, on the terms and conditions set forth below. Director's authority shall be consistent with that normally associated with and appropriate for such a position.

17. **Start Date**: Director's appointment to the Board was on February 13, 2014 (the "Appointment Date").

18. **Compensation and Expenses**:

(a) Stock Compensation:

(i) Initial Grant. On March 1, 2014, the Company issued to Director 50,000 shares (the "Initial Grant") of the Company's common stock, par value $0.0001 (the "Common Stock"), which Common Stock shall vest, subject to acceleration as provided below, in the following increments on the specified dates, so long as Director is a director on such date:

(A) 16,666 shares shall vest on February 13, 2015;

(B) 16,667 shares shall vest on February 13, 2016; and

(C) 16,667 shares shall vest on February 13, 2017.

(ii) Annual Grants. On each annual anniversary of the Appointment Date, so long as Director is a director on such date, the Company shall issue to Director a number of shares of Common Stock equal to $40,000 divided by the most recent per share closing price of the Common Stock on the national securities exchange on which the Common Stock is traded prior to the date of each annual grant, or if the Company is not listed on a national exchange, the fair market value of the Common Stock as determined by the Board in good faith on such date, which Common Stock shall be fully vested upon issuance.

(iii) Acceleration of Vesting. Notwithstanding any provision to the contrary, the Initial Grant and any other grants of Common Stock to Director not then vested shall vest upon the earlier to occur of a Change in Control (as defined below) of the Company (provided Director is a director immediately prior to the Change in Control).

For purposes of this Agreement, "Change in Control" shall mean the occurrence, subsequent to the Effective Date, of any of the following: (A) by a transaction or series of transactions, any "person" or "group" (within the meaning of Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 30% of the combined voting power of the Company's then outstanding securities (provided such person or group was not a beneficial owner of more than 30% of the combined voting power of the Company's then outstanding securities as of the Effective Date); (B) as a result of any merger, consolidation, combination or sale or issuance of securities of the Company, or as a result of or in connection with a contested election of directors, the persons who were directors of the Company as of the Effective Date cease to constitute a majority of the Board; (C) by a transaction or series of transactions, the authority of the Board over any activities of the Company becomes subject to the consent, agreement or cooperation of a third party other than shareholders of the Company.

(b) Cash Compensation: On a quarterly basis beginning at the end of the first full quarter following the Appointment Date, the Company shall pay to Director $10,000 in cash compensation as director's fees.

19. Scope of Responsibilities. As an Independent Director, subject to the terms of the immediately following paragraph, Director shall be responsible for contributing to the development and implementation of the Company's strategic plan, locating and reviewing prospective acquisition targets, overseeing the development plan of acquired properties, and providing input on the Company's development plan. Director shall provide those services required of a director under the Company's articles of incorporation and bylaws, as both may be amended from time to time, and under the Nevada Revised Statutes, the federal securities laws and other state and federal laws and regulations, as applicable; provided, however, in the event of a conflict or inconsistency between this Agreement and any governing document of the Company, the governing document of the Company shall control. In performing such activities, Director will devote only such time as he in his sole discretion deems necessary and appropriate.

Director for his own account and in collaboration with others is engaged in and will continue to be engaged in oil and gas exploration, development and production outside of the Company's business. The Company expressly acknowledges and agrees that if Director becomes aware of a business opportunity, he shall have no affirmative duty to present or make such opportunity available to the Company. Furthermore, in the event Director pursues an opportunity for his own account or in collaboration with others, the Company shall not be entitled to any interest in or profits from such property or otherwise claim any right or damages resulting from Director's pursuit of such opportunity.

The relationship between the parties shall be that of independent contracting parties. The Board and the Company expressly acknowledge and agree that neither shall have the right to direct Director with respect to the means or manner in which he fulfills his obligations and responsibilities under this Agreement. The Board and the Company are solely interested in the results obtained by Director in connection with his performance of services required hereunder. Except as specifically provided in this Agreement, the Company hereby waives any conflict or potential conflict resulting from Director's activities conducted apart from the business of the Company.

20. **Representations and Warranties**. The Company represents and warrants to Director that this Agreement has been duly authorized, executed and delivered by the Company and, upon execution by Director, constitutes a legal, valid and binding agreement of the Company, enforceable against the Company in accordance with its terms.

21. **Indemnity**. The Company agrees that if Director is made a party to or is threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that Director is or was a trustee, director or officer of the Company or any predecessor or successor to the Company or any of their affiliates or is or was serving at the request of the Company, any predecessor or successor to the Company or any of their affiliates as a trustee, director, officer, member, employee or agent of another corporation or a partnership, joint venture, limited liability company, trust or other enterprise, including, without limitation, service with respect to employee benefit plans, whether or not the basis of such Proceeding alleges action in an official capacity as a trustee, director, officer, member, employee or agent while serving as a trustee, director, officer, member, employee or agent, Director shall be indemnified and held harmless by the Company to the fullest extent authorized by Nevada law, as the same exists or may hereafter be amended, against all Costs (as defined below) incurred or suffered by Director in connection therewith, and such indemnification shall be deemed to have commenced as of the Appointment Date and shall continue as to Director even if he has ceased to be an officer, director, trustee or agent, or is no longer employed by the Company and shall inure to the benefit of his heirs, executors and administrators. The foregoing indemnity is contractual and will survive any adverse amendment to or repeal of the bylaws or any other governing document of the Company.

(a) Costs. For purposes of this Section 6, the term "Costs" shall include, without limitation unless deemed for cause, damages, losses, judgments, liabilities, fines, penalties, excise taxes, settlements, and costs, attorneys' fees, accountants' fees, and disbursements and costs of attachment or similar bonds, investigations, and any expenses of establishing a right to indemnification under this Agreement.

(b) Enforcement. If a claim or request under this Section 6 is not paid by the Company or on its behalf, within thirty (30) days after a written claim or request has been received by the Company, Director may at any time thereafter bring suit against the Company to recover the unpaid amount of the claim or request and if successful in whole or in part, Director be entitled to be paid also the expenses of prosecuting such suit. All obligations for indemnification hereunder shall be subject to, and paid in accordance with, applicable Nevada law.

(c) Payment of Costs. Costs incurred by Director in connection with any Proceeding shall be paid by the Company within thirty (30) days' notice of Director's request for such payment, provided that Director has delivered to the Company written notification of (i) his agreement to reimburse the Company for Costs with respect to which Director is not eligible for payment or reimbursement, and (ii) a statement of his good faith belief that he has satisfied the standard of conduct necessary for indemnification under this Section 6.

(d) Insurance. The Company will maintain a Director's and Officer's Insurance Policy naming Director as a covered party in amount deemed mutually sufficient to the Company and Director.

22. Survival of Certain Provisions. The representations, warranties and covenants and indemnity provisions contained in Sections 5 and 6 of this Agreement and the Company's obligation to pay or issue to Director, or to cause Director to vest in, any compensation or compensatory awards earned pursuant hereto shall remain operative and in full force and effect regardless of any completion or termination of this Agreement and shall be binding upon, and shall inure to the benefit of any successors, assigns, heirs and personal representatives of the Company, the indemnified parties and any such person.

23. Notices. Notice given pursuant to any of the provisions of this Agreement shall be in writing and shall be mailed or delivered (a) if to the Company, at its offices at 1900 Grant Street, Suite 720, Denver Colorado 80203, attention Chief Executive Officer, with a copy to Ronald R. Levine, II, Esq., at his office at Davis Graham and Stubbs, LLP, 1550 17th Street, Suite 500, Denver, CO 80202.

24. Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

25. Third Party Beneficiaries. This Agreement has been and is made solely for the benefit of the Parties hereto, and their respective successors and assigns, and no other person shall acquire or have any right under or by virtue of this Agreement.

26. Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction but this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

27. Legal Fees. If any arbitration or litigation shall rise between the Company and Director regarding any provision of this Agreement, the Company shall reimburse Director for all legal fees and expenses incurred by him in connection with such contest or dispute unless an unlawful act has preceded, but only if Director substantially prevails in such action. Such reimbursement shall be made as soon as practicable following the resolution of such contest or dispute (whether or not appealed) to the extent the Company receives reasonable written evidence of such fees and expenses.

28. Reimbursement of Expenses. Director shall be reimbursed by the Company for all ordinary and necessary expenses incurred by Director in the performance of his duties or otherwise in furtherance of the business of the Company, as well as any expenses specified in this Agreement, in accordance with the policies of the Company in effect from time to time. No reimbursement will be made later than the close of the calendar year following the calendar year in which the expense was incurred. Expenses eligible for payment or reimbursement in any one taxable year shall not affect the amount of expenses eligible for payment or reimbursement in any other taxable year, and the right to expense payment or reimbursement shall not be subject to liquidation or exchange for any other benefit.

29. Modification; Entire Agreement. No provisions of this Agreement may be amended, modified, or waived unless such amendment or modification is agreed to in writing signed by Director and by a duly authorized officer of the Company, and such waiver is set forth in writing and signed by the party to be charged. No waiver by either party hereto at any time of any breach by the other party hereto of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement. The respective rights and obligations of the parties hereunder of this Agreement shall survive the termination of this Agreement to the extent necessary for the intended preservation of such rights and obligations. Except or otherwise provided in Section 8 herein, the validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Colorado without regard to its conflicts of law principles.

30. **Choice of Law, Jurisdiction and Venue**. This Agreement shall be governed by, construed, and enforced in accordance with the laws of the State of Colorado, without regard to Colorado's choice of law rules. Any and all actions, suits, or judicial proceedings upon any claim arising from or relating to this Agreement, subject to Section 8 herein, shall be instituted and maintained in the State of Colorado. If it is judicially determined that either party may file an action, suit or judicial proceeding in federal court, such action, suit or judicial proceeding shall be in the Federal District Court for the District of Colorado.

The parties' authorized representatives have executed this Agreement as of the date above.

Nuno Brandolini

Lilis Energy, Inc.

By: _____

W. Phillip Marcum,
Chief Executive Officer

Exhibit 10.56

INVESTMENT BANKING AGREEMENT

THIS **AGREEMENT** (the **"Agreement")** is entered into as of this day of May, 2013 (the **"Effective Date")** by and between **RECOVERY ENERGY, INC.,** a Nevada corporation, with its principal address at 1900 Grant Street, Suite 720, Denver, CO 80202 (hereafter the **"Client")** and **T.R. WINSTON & COMPANY, LLC.,** a Delaware limited liability company, with its principal address at 376 Main Street, P.O. Box 74, Bedminster, NJ 07921 (the **"Banker").**

W I T N E S S E T H:

WHEREAS, the Client desires to retain the Banker and the Banker desires to be retained by the Client pursuant to the terms and conditions hereinafter set forth; and

NOW, THEREFORE, in consideration of the foregoing and the mutual promises and covenants herein contained, it is hereby agreed as follows:

SECTION 1. RETENTION.

1.1 **Appointment.** The Client hereby initially, subject to Section 1.1.2 below, retains the Banker as the Client's non-exclusive investment banker to perform the services set forth in Section 1.3 below (referred to herein as the **"Services")** throughout the Term, as defined in Section 7 below. The Banker hereby accepts such retention and shall provide the Services to the Client throughout the Term in accordance with the terms and conditions of this Agreement.

1.1.2 **Conversion of Agreement to Exclusivity.** Upon the occurrence of each of the following: (i) a minimum of $25,000,000 in gross proceeds to Client has been raised in equity from parties introduced by Banker to Client during the term of the Agreement, (ii) the Hexagon debt has been paid off or refinanced in full with the proceeds of equity or debt financing and other than through sales of properties pledged to Hexagon and (iii) greater than 80% of the Company's Senior Secured Convertible Notes have been converted to Common Stock, then, the role and services of the Bank under this Agreement shall become exclusive throughout the remainder of the Term.

1.2 **Reporting.** Throughout the Term, the Banker shall report directly to the President or to any other senior officer designated in writing by the President of the Client. lfrequired, the parties shall mutually agree upon the selection of a managing underwriter for a public offering.

1.3 **Services.** The Banker shall render such advice and services to the Client concerning equity and/or debt financings, strategic planning, and business development activities, as are customary, including, without limitation, the following:

(a) review of the business, operations, and historical and projected financial and operating performance of the Client (based upon management's forecast of financial performance) to enable the Banker to advise the Client;

(b) assist the Client to formulate an effective strategy to meet the Client 's working capital and capital resource needs;

(c) introduce Client to potential lenders, investors, or others interested in participating in a capital-raising transaction with the Client (whether such investment is in the form of debt and/or equity financing or some combination thereof) (each referred to as a **"Banker Source").** Banker Sources shall be those persons or entities listed in **Exhibit A** to this Agreement, which shall be updated on a monthly basis and at the end of the Term, by mutual agreement of the Parties.

(d) assist in presenting proposed transactions to the Client's Board of Directors or any other advisory or supervisory board, committee, or individual at the request of Client;

1.4 **Client Disclosures.** The Client, by its President, hereby undertakes to honestly and accurately complete, sign, and return to the Banker the disclosure form attached hereto in **Exhibit D** not later than fourteen (14) days following the Effective Date of this Agreement.

SECTION 2. COMPENSATION. The Client hereby undertakes to provide (i) the Retainer Payments (as set forth in Section 2.5 and 2.6 below); and (ii) the other and further compensation described in this Section 2 to the Banker for each (a) Equity Financing (as defined in Section 2.1 below); and Transaction (as defined in Section 2.3 below) (collectively referred to as a "**Fee Transaction**") that closes with any Banker Source during the Term of this Agreement; and (b) Fee Transaction that closes during the 18 month period following the expiration or termination of the Term, this Agreement, unless terminated for "Cause" (the "**Tail Period**") with Banker Sources.

2.1 **Equity Financing.** Upon the closing or series of closings of an equity financing transaction whereby the Client issues common or preferred stock or, options, warrants, or any other securities convertible into equity securities of Client (the **"Equity Financing"),** the Client shall compensate the Banker at such closing of such Equity Financing as follows:

(i) Banking Fees. Banking fees in cash in an amount equal to seven percent (7%) of the total gross cash proceeds received by the Client **("Gross Cash Proceeds")** in the Equity Financing involving solely the issuance of common stock (5% for all other equity issuances);

(ii) Expense Allowance. A non-accountable expense allowance in cash equal to one percent (1%) of the Gross Cash Proceeds, subject to offset as contemplated by Section 5.1 (the **"Expense Allowance"); and**

(iii) Warrant Fee. Warrants to purchase that number of shares of the Client's common stock (the **"Common Stock")** equal to four percent (4%) ofthe shares of the Common Stock issued at closing, or 2% of any shares to be issued thereafter upon conversion of any convertible securities and/or exercise of any derivative securities (including, without limitation, warrants or options) issued in the Equity Financing on a post-financing, as-converted basis at an exercise price per share equal to the per share price paid or payable on conversion by the Banker Source or at the same valuation as Banker Source and exercisable, in whole or in part, during the five (5) year period commencing on the issuance date of such warrants (the **"Warrant Fee").** The Warrant Fee shall be issued in the form of warrant set forth in **Exhibit C** of this Agreement.

2.3 **Other Transactions.** Upon the closing of any of the following transactions (each a **"Transaction"),** the Client shall compensate the Banker at such closing with the following banking fees based upon the total face value of the Transaction as follows:

(i) Senior Financing. Banking fees in an amount equal to three percent (3%) of total gross cash proceeds received by the Client in any non-revolving, non-convertible credit facility debt financing (a **"Senior Financing");**

(ii) Revolving Credit Line. One percent (1%) of the amount initially drawn at closing on any revolving credit line or facility;

(iii) Credit Enhancement Instrument. one percent (1%) of the issuance price of any credit enhancement instrument, including on an insured or guaranteed basis;

2.4 **Excepted Transactions.** For purposes of clarification, unless Client specifically requests (in writing) assistance of Banker in a transaction, this Agreement is not intended to cover (i) routine purchases and sales of interests in oil and gas properties or other standard joint ventures with industry partners, farm in/farm out or similar transactions, whether directly or through an entity or joint venture with industry partners; (ii) transactions involving either (a) the sale of properties serving as collateral for any of the Company's obligations to Hexagon or (b) any transactions involving an amount of less than $1 million; (iii) equity issuable or potentially issuable under outstanding options, warrants or convertible securities or under equity incentive plans of the Company; (iv) any loans or debt or equity issuances arising under or contemplated by existing agreements or arrangements; (v) any modifications, amendments or extensions of currently outstanding debt or equity financing arrangements, (vi) any loans or debt financing arrangements between the Company and any of its directors or officers or (vii) whether in one or a series of transactions, the sale or other transfer, directly or indirectly, of all or a significant portion of the assets or securities of the Client or any other extraordinary corporate transaction involving the Client, or the acquisition of another business, whether by way of a merger or consolidation, reorganization, recapitalization or restructuring, tender or exchange offer, negotiated purchase, leveraged buyout, minority investment, partnership, joint venture, collaborative venture or otherwise. If such assistance is so specifically requested, any fees payable shall be negotiated in good faith.

2.5 **Retainer Payment(s)** In consideration of the provision of the Services which the Banker shall immediately provide to the Client hereunder, the Client shall pay to the Banker an initial retainer of one hundred thousand (100,000) unregistered shares of the Company's common stock, issuable promptly upon the execution of this Agreement (the **"Retainer").**

2.6 **Initial Warrant.** The Client shall issue to the Banker:

(a) a three (3) year warrant to purchase two hundred fifty thousand (250,000) shares of the Client's common stock at an exercise price equal to $4.25 per share upon the execution of this Agreement. The form of such warrant (and the warrant referred to below) is attached as **Exhibit C;** and

(b) an additional three (3) year warrant to purchase six hundred fifty thousand (650,000) shares of the Client's common stock at an exercise price equal to $4.25 per share issuable upon approval at the Company's 2013 annual meeting of sufficient additional shares under the Client's 2012 Stock Compensation Plan to meet the warrant requirements of this Agreement.

(c) the warrants issued in paragraph 2.6 (b), to the extent not then exercised, shall be terminated and no longer exercisable upon a termination by the Company for "Cause".

SECTION 3. TERMS OF PAYMENT OF COMPENSATION. The compensation due to the Banker shall be subject to the terms and conditions set forth in this Section 3.

3.1 **No Offsets.** All fees due hereunder shall have no offsets, are non-refundable, non- cancelable and shall be free and clear of any and all encumbrances.

3.2 **Fees Due at Closing.** All cash fees due hereunder payable upon the closing of a Fee Transaction shall be paid to the Banker immediately upon closing of such Fee Transaction by wire transfer of immediately available funds from the proceeds ofthe Fee Transaction, either directly or from the formal or informal escrow arrangement established for the Fee Transaction by the agent holding such funds (collectively, the **"Closing Agent"),** pursuant to the written wire transfer instructions of the Banker to the Closing Agent.

3.3 **Irrevocable Disbursement Instructions.** The Client shall authorize and direct the Closing Agent to distribute directly or from escrow any and all fees due the Banker hereunder (or the Client and the Banker, if required to do so, shall establish an escrow account in accordance with FINRA rules). The Client covenants, undertakes, and agrees that such fees and the manner of payment and delivery as herein provided shall be included in the documentation of any Fee Transaction. The Banker is hereby authorized to notify the Closing Agent, on behalf of the Client and as its agent, to make all payments required hereunder directly to the Banker. In order to effectuate the foregoing provisions, at the Banker's request, ehher simultaneously herewith or anytime hereafter, the Client shall execute and deliver (i) a Power of Attorney that gives the Banker the right to ensure payment to Banker of any and all fees due hereunder and (ii) the Irrevocable Disbursement Instructions in the form attached hereto as **Exhibit B** that require the Closing Agent to pay any and all fees due the Banker hereunder prior to effectuating any disbursement to the Client.

3.4 **Transmission of Securities.** AU unrestricted securities due to the Banker hereunder shall be made via DTC or the DWAC system if eligible for such system, or by certificates issued by the transfer agent for the Client or the Client, as applicable, and shall be delivered to the Banker by the Closing Agent immediately upon closing of any Fee Transaction.

3.5 **Duly Issued and Fully Paid Securities.** All fees payable hereunder in the form of Client securities to the Banker hereunder shall be duly issued, fully-paid (exclusive of warrants or options) and non-assessable and subject to applicable restrictions under the securities laws.

SECTION 4. ADDITIONAL COVENANTS AND UNDERTAKINGS BY CLIENT

4.1 **Registration Rights for Securities.** The Client hereby grants to the Banker "customary piggyback registration rights" and shall register all of the Registrable Securities (as defined in Section 4.2 below) on any "selling stockholder" registration statement it files with the Securities and Exchange Commission relating to its securities (excluding registration statements on Form S-8) and in compliance with any and all federal and state securities laws, in the name(s) of and to the account(s) designated by the Banker. The Client agrees to pay all costs associated with registering the Registrable Securities for resale. In order to effectuate the foregoing provisions, at the Banker's request, the Client shall prepare and negotiate in good faith with the Banker a Registration Rights Agreement reflecting the foregoing provisions.

4.2 **Registrable Securities.** For the purposes of this Agreement, "Registrable Securities" shall mean (i) all shares of Common Stock of the Client paid or payable to the Banker under this Agreement, (ii) all shares of Common Stock into which convertible securities issued or issuable to the Banker under this Agreement are convertible and (iii) all shares of common stock into which derivative securities (including, without limitation, warrants and options) issued or issuable to the Banker are exercisable.

SECTION 5. EXPENSES.

5.1 **Reimbursement of Out-of-Pocket Expenses.** Subject to Section 5.2 below, the Client shall reimburse the Banker for any actual, documented out-pf-pocket expenses reasonably incurred by the Banker in connection with the provision of the Se vices (the **"Reimbursable Expenses").** The total amount of Reimbursable Expenses under this section shall be deducted from the Expense Allowance defined in Section 2.1(ii) above. 1

5.2 **Advance Approval of Certain Expenses.** Any individual expense in excess of $1,500 shall require the prior written approval of the Client. All reimbursable expenses shall be evidenced by written documentation prior to reimbursement. Reimbursement by the client to the Banker will be made within thirty (30) days of the Client's receipt of said documentation.

SECTION 6. TERM AND TERMINATION.

6.1 This Agreement shall be valid for a period of one (1) year from the Effective Date (the **"Initial Term"),** unless otherwise terminated in accordance with the terms of this Agreement, which Initial Term may be terminated by either party upon 30 days prior written notice to the other, without cause, with cause, as contemplated below, or extended beyond the Initial Term by mutual agreement in writing (the **"Term").**

6.2 **Termination for Cause.** This Agreement may be terminated by either party for Cause on one (1) day written notice. "Cause" shall mean (1) violation of a federal or state law or regulation by either party; (2) commencement of an investigation by FINRA, the SEC, the Department of Justice, or any other governmental agency or instrumentality against either party or any subsidiary, employee, consultant, or affiliate of either party; or (3) reasonable suspicion or evidence or fraud, insider trading, material misrepresentations, or other criminal conduct or activities by any employee, consultant, or agent of either party; provided that, for purposes of this provision, any matter involving a former officer or director of Client shall not constitute Cause w1der this Agreement.

SECTION 7. CONFIDENTIAL INFORMATION.

7.1 **Confidential Information.** The Banker agrees that during and after the Term, it will keep in strictest confidence, and will not disclose or make accessible to any other person without the written consent of the Client, the Client's reserve and other geologic information and data operating information and data, services and technology, both current and W1der development, prospect lists trade secrets and other confidential and/or proprietary business inf01mation of the Client or any of its clients and third parties including, without limitation, Proprietary Information (as defined in Section 9) (all of the foregoing is referred to herein as the **"Confidential Information"). The Banker agrees (a) not to use any such Confidential Information for itself or others, except in connection with the performance of its duties hereunder; and (b) not to take any such material or reproductions thereof from the Client's facilities at any time during the Term except, in each case, as required in connection with the Banker's duties hereunder.

7.2 **Excepted Information.** Notwithstanding the foregoing, the parties agree that the Banker is free to use (a) information in the public domain not as a result of a breach of this Agreement, (b) information lawfully received from a third party who had the right to disclose such information without ru1y obligation of confidentiality and (c) the Banker's own independent skill, knowledge, know-how and experience to whatever extent and in whatever way he wishes, in each case consistent with his obligations as the Banker and that, at all times, the Banker is free to conduct any research relating to the Client's business.

SECTION 8. OWNERSHIP OF PROPRIETARY INFORMATION.

8.1 **Owned by Client.** The Banker agrees that all information that has been created , discovered or developed by the Client, its subsidiaries, affiliates, licensors, licensees, successors or assigns (collectively, the **"Affiliates")** (including, without limitation, information relating to the development of the Client's business created, discovered, developed by the Client or any of its affiliates during the Term, and information relating to the Client's customers, suppliers, Bankers, and licensees) and/or in which property rights have been assigned or otherwise conveyed to the Client or the Affiliates, shall be the sole property of the Client or the Affiliates, as applicable, and the Client or the Affiliates, as the case may be, shall be the sole owner of all patents, copyrights and other rights in connection therewith, including without limitation the right to make application for statutory protection.

8.2 **Proprietary Information Defined.** All the aforementioned information is hereinafter called **"Proprietary Information."** By way of illustration, but not limitation, Proprietary Information includes trade secrets, processes, discoveries, structures, inventions, designs, ideas, works of authorship, copyrightable works, trademarks, copyrights, formulas, improvements, inventions, reserve and geologic information, production information, land files and product concepts, techniques, marketing plans, merger and acquisition targets, strategies, forecasts, blueprints, sketches, records, notes, devices, drawings, customer lists, patent applications, continuation applications, continuation-in-part applications information about the Client's Affiliates, its employees and/or Bankers (including, without limitation, the compensation, job responsibility and job performance of such employees and/or Bankers).

8.3 **Banker Information.** All original content, proprietary information, trademarks, copyrights, patents or other intellectual property created by the Banker that does not incorporate or reference the Client's Proprietary Information, shall be the sole and exclusive property of the Banker.

SECTION 9. INDEMNIFICATION. The Client represents that all materials provided or to be provided to the Banker or any third part y regarding the Client's financial affairs or operations shall be, when provided and taken as a whole, truthful and accurate in all material respects and in compliance in all material respects with any and all applicable federal and state securities laws.

9.1 **Indemnification by Client.** The Client agrees to indemnify and hold harmless the Banker and its Bankers, professionals, lawyers, consultants and affiliates, their respective directors, officers, shareholders, partners, members, managers, agents and employees and each other person, if any, controlling the Banker or any of its affiliates to the full extent lawful, from and against all losses, claims, damages, liabilities and expenses incurred by them (including reasonable attorneys' fees and disbursements) that result from actions taken or omitted to be taken (including any untrue statements made or any statement omitted to be made) by the Client, its agents or employees which relate to the scope of this Agreement and the performance of the services by the Banker contemplated hereunder.

9.2 **Indemnification by Banker.** The Banker will indemnify and hold harmless the Client and its directors, officers, agents, lawyers, affiliates and employees of the Client from and against all losses, claims damages, liabilities and expenses that result from bad faith, gross negligence or unauthorized representations of the Banker.

9.3 **Restrictions on Settlement.** No party shall pay, settle or acknowledge liability under any such claim without consent of the party liable for indemnification, and shall permit the Client or the Banker, as applicable, a reasonable opportunity to cure any underlying problem or to mitigate actual or potential damages. The scope of this indemnification between the Banker and the Client shall be limited to, and pertain only to certain transactions contemplated or entered into pursuant to this Agreement.

9.4 **Defense of Actions.** The Client or the Banker, as applicable, shall have the opportunity to defend any claim for which it may be liable hereunder, provided it notifies the party claiming the right to indemnification in writing within fifteen (15) days of notice of the claim.

9.5 **Limitation of Liability.** Banker's liability is hereby expressly limited to cash amounts actually received from the Client pursuant to this Agreement. Each person or entity seeking indemnification hereunder shall promptly notify the Client, or the Banker, as applicable, of any loss, claim, damage or expense for which the Client or the Banker, as applicable, may become liable pursuant to this Section 10.

9.6 **Limit on Consequential Damages.** The parties acknowledge and agree that neither party shall be liable to consequential, incidental, or other indirect damages, except as may be expressly provided for in this Agreement.

SECTION 10. NOTICES. Any notice or other communication under this Agreement shall be in writing and shall be deemed to have been duly given: (a) upon facsimile transmission (with written transmission confirmation report) at the number designated below; (b) when delivered personally against receipt therefore; (c) one day after being sent by Federal Express or similar overnight delivery; or (d) five (5) business days after being mailed registered or certified mail, postage prepaid. The addresses for such communications shall be as set forth below or to such other address as a party shall give by notice hereunder to the other party to this Agreement.

If to the Client:	Recovery Energy Inc. 1900 Grant Street, Suite 720 Denver, CO 80202 Telephone:303-951-7933 Telecopy : Mobile: 303-619-2747 Attn: A. Bradley Gabbard bgabbard@recoveryenergyco.com
With a Copy (which shall not constitute notice):	Davis Graham & Stubbs LLP 1550 17th Street, Suite 500 Denver, CO 80202 Telephone:303-892-9400 Telecopy: 303-892-7400 Attn: Ronald R. Levine, II Ron.levine@dgslaw.com
If to the Banker:	T.R. Winston & Company, LLC 1999 A venue of the Stars, Suite 2550 Los Angeles, CA 90067 Telephone:310-424-1999 Telecopy: 310-424-1990 Attention: Avi Mirman (avi.mirman@trwinston.com) Karen Ting (karen@trwinston.com)

SECTION 11. STATUS OF BANKER. The Banker shall be deemed to be an independent contractor and, except as expressly agreed in writing or as specifically authorized in this Agreement, shall have no authority to act for on behalf of or represent the Client. Client acknowledges and expressly understands that Banker is not and shall not be deemed a fiduciary of the Client and it is expressly understood and acknowledged that no fiduciary relationship between Banker and Company exists nor shall be created by this Agreement, nor by performance of the Services by Banker. This Agreement does not create a partnership or joint venture. Banker represents and warrants to Client that it holds a11 necessary legal , regulatory and SRO qualifications and registrations to undertake its obligations hereunder.

SECTION 12. OTHER ACTIVITIES OF BANKER The Client recognizes that the Banker now renders and may continue to render financial consulting and other investment banking services to other companies that may or may not conduct business and activities similar to those of the Client. Nothing in this Agreement shall prevent or prohibit the Banker from working with any other person or entity (a **"Third Party")** at any time, regardless of whether any such D1ird Party is in the same or similar industry as the Client. The Banker shall not be required to devote its full time and attention to the performance of its duties under this Agreement, but shall devote only so much of its time and attention as it deems reasonable or necessary in order to provide the Services hereunder.

SECTION 13. MISCELLANEOUS

13.1 **Successors and Assigns.** This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. This Agreement and any of the rights, interests or obligations hereunder may not be assigned by either party without the prior written consent of the opposing party, which consent shall not be unreasonably withheld .

13.2 **Severability of Provisions.** If any provision of this Agreement shall be declared by a court of competent jurisdiction to be invalid, illegal or incapable of being enforced in whole or in part, the remaining conditions and provisions or portions thereof shall nevertheless remain in full force and effect and enforceable to the extent they are valid, legal and enforceable, and no provision shall be deemed dependent upon any other covenant or provision unless so expressed herein.

13.3 **Entire Agreement; Modification.** This Agreement and the exhibits hereto contain the entire agreement of the parties relating to the subject matter hereof and the parties hereto and thereto have made no agreements, representations or warranties relating to the subject matter of this Agreement which are not set forth herein. No amendment or modification of this Agreement shall be valid unless made in writing and signed by each of the parties hereto.

13.4 **Non-Waiver.** The failure of any party to insist upon the strict performance of any of the terms, conditions and provisions of this Agreement shall not be construed as a waiver or relinquishment of future compliance therewith; and the said te1ms, conditions and provisions shall remain in full force and effect. No waiver of any term or condition of this Agreement on the part of any party shall be effective for any purpose whatsoever unless such waiver is in writing and signed by such party.

13.5 **Remedies for Breach.** The Banker and Client mutually agree that breach of this Agreement by the Banker or the Client may cause irreparable damage to the other party and/or their affiliates, and that monetary damages alone would not be adequate and, in the event of such breach or threat of breach, the damaged party shall have, in addition to any and all remedies at law and without the posting of a bond or other security, the right to an injunction, specific performance or other equitable relief necessary to prevent or redress the violation of either party's obligations under such Sections. The parties hereby agree to waive any claim or defense that an adequate remedy at law is available. The prevailing party in any action shall be entitled to attorneys fees and court costs.

13.6 **Governing Law .** The parties hereto acknowledge that the transactions contemplated by this Agreement bear a reasonable relation to the state of New York. This Agreement shall be governed by, and construed and interpreted in accordance with, the internal laws of the state of New York without regard to such state's principles of conflicts of laws.

13.7 **Choice of Forum.** The parties irrevocably and unconditionally agree that the exclusive place of jurisdiction for any action, suit or proceeding **("Actions")** relating to this Agreement shall be in the state or federal cou11s situated in the county of Denver, and State of Colorado. Each party irrevocably and unconditionally waives any objection to the venue of any Action brought in such courts or to the convenience of the forum.

13.8 **Headings.** The headings of the Sections are inserted for convenience of reference only and shall not affect any interpretation of this Agreement.

13.9 **Counterparts.** This Agreement may be executed in counterpart signatures, each of which shall be deemed an original, but all of which, when taken together, shall constitute one and the same instrument, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature page were an original thereof.

13.10 **Survival.** Sections 2-5, 7-10, and 13 shall survive any termination of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first written above.

RECOVERY ENERGY, INC.

By: /s/ A. Bradley Gabbard
Name: A. Bradley Gabbard
Title: President

T.R. WINSTON & COMPANY, LLC

By: /s/ Avi Mirman
Name: Avi Mirman
Title: Managing Director

Exhibit 10.57

[Recovery Letterhead]

September 19, 2013

T.R. Winston & Company, LLC
1999 Avenue of the Stars, Suite 2550
Log Angeles, CA 90067

Attention: G. Tyler Runnels
Karen Ting

Re: Investment Banking Agreement, dated May 10, 2013 (the "Agreement")

Dear Sir or Madam:

As we have discussed, this letter agreement constitutes an amendment to Section 2 of the Agreement to add a new Section 2.7, "Additional Compensation," as follows:

2.7 Additional Compensation. Within ten (10) days following the Client's receipt of gross cash proceeds from financing in any manner, whether via equity financing, issuance of debt, line of credit, credit facility or any other method that generates gross proceeds or drawing availability for Client of at least $30,000,000 (measured on a cumulative basis from September 17, 2013 and including proceeds from any existing, senior, secured non-convertible debt facility that is restructured), Client shall pay Banker the sum of $1,000,000, an amount that is in addition to any other amounts that may be payable to Banker pursuant to this Agreement in connection with such equity financing, issuance of debt, line of credit, credit facility or other method. The foregoing is subject to Abraham Mirman's continued employment by Client as of such date. Notwithstanding anything to the contrary contained in this Agreement, (i) any payments made by Company to Banker pursuant to this Section 2.7 will be made in accordance with Section 3 as if such payment was being made in connection with a Fee Transaction and (ii) such payment obligation will survive the termination or expiration of this Agreement.

Other than as modified by this letter agreement, the remaining terms and conditions of the Agreement shall continue in full force and effect.

If the foregoing meets your agreement, please execute a copy of this letter agreement in the space indicated below and return one original to the undersigned.

Recovery Energy, Inc.

By: /s/ A. Bradley Gabbard
Name: A. Bradley Gabbard
Title: COO/CFO

Agreed and Accepted:

T.R. Winston & Company, LLC

By: /s/ G. Tyler Runnels
Name: G. Tyler Runnels
Title: Chairman & CEO

Exhibit 10.58

RECOVERY ENERGY, INC.
2012 EQUITY INCENTIVE PLAN
STOCK OPTION AWARD AGREEMENT

This Stock Option Award Agreement (the "Agreement"), is made as of the 25 th day of June 2013, by and between Recovery Energy, Inc., a Nevada corporation (the "Company"), and A. Bradley Gabbard (the "Participant").

WHEREAS, the Company desires to encourage and enable the Participant to acquire a proprietary interest in the Company through ownership of shares of the Company's Common Stock, par value $0.0001 per share (the "Shares"), pursuant to the terms and conditions of the Company's 2012 Equity Incentive Plan (the "Plan") and this Agreement. Such ownership will provide the Participant with additional incentive to promote the success of the Company; and

WHEREAS, the Company and the Participant are parties to that certain Employment Agreement dated June 25, 2013 (the "Employment Agreement").

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth and for other good and valuable consideration, the parties agree as follows:

1. Definitions. For purposes of this Agreement, all capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Plan.

2. Grant of Option. The Company hereby grants to the Participant options (the "Options") to purchase 300,000 Shares at the exercise price (the "Exercise Price") of $1.56 per Share, subject to the terms and conditions of this Agreement and the Plan.

3. Expiration Date. The Options granted hereby shall expire upon the earlier of (a) five (5) years from the date the Options vest and become exercisable pursuant to Section 4 or (b) June 25, 2023 (such date being the "Expiration Date"). Except as may be otherwise set forth herein, the Options may not be exercised after the Expiration Date.

4. Vesting. The Options shall vest and be exercisable by the Participant in accordance with the following schedule:

Date	Number of Options Vested
June 25, 2013	100,000 Options
June 25, 2014	100,000 Options
June 25, 2015	100,000 Options

5. Separation from Service.

(a) If the Participant's employment is terminated by the Company for Cause (as defined in the Employment Agreement), then all Options shall immediately terminate and no longer be exercisable.

(b) If the Participant terminates his employment without Good Reason (as defined in the Employment Agreement), then all Options shall terminate and no longer be exercisable on the date that is 90 days after the date of termination of the Participant's Continuous Service (as defined in the Plan), but not later than the Expiration Date. No Options shall vest following the date of termination of the Participant's Continuous Service (as defined in the Plan).

(c) If, before the Expiration Date, the Participant's employment is terminated by the Company other than for Cause (as defined in the Employment Agreement), by the Participant for Good Reason (as defined in the Employment Agreement), upon a Change of Control (as defined in the Employment Agreement) of the Company or upon the death or Disability (as defined in the Employment Agreement) of the Participant, then, all unexercisable Options shall become exercisable and remain exercisable until the Expiration Date. All vested Options not exercised within the period described in the preceding sentence shall terminate.

(d) Notwithstanding anything herein to the contrary, in the event of Participant's Disability (as defined in the Employment Agreement), the Participant may exercise the Options at any time within one (1) year after the Termination Date (as defined in the Employment Agreement) but not later than the Expiration Date.

(e) Notwithstanding anything herein to the contrary, in the event of Participant's death or if a Participant should die within a period of 90 days after termination of the Participant's Continuous Service for reason other than Cause (as defined in the Employment Agreement), the personal representatives of the Participant's estate or the person or persons who shall have acquired the Options from the Participant by bequest or inheritance may exercise the Options at any time within one (1) year after the date of death, but not later than the Expiration Date.

6. Sale, Merger or Dissolution. In the event of a Change in Control, the Company shall give the Participant notice thereof and the Options, whether or not currently vested and exercisable, shall become immediately vested and exercisable immediately prior to the effective date of such event, and the Board shall have the power and discretion to provide alternatives regarding the terms and conditions for the exercise of, or modification of, the Options in accordance with the Plan.

7. Non-Assignability. The Option granted hereby and any right arising thereunder may not be transferred, assigned, pledged or hypothecated (whether by operation of law or otherwise), except by will or the applicable laws of descent and distribution, and the Options and any rights arising thereunder shall not be subject to execution, attachment or similar process. The Options shall be exercisable during the lifetime of the Participant only by the Participant. Any attempted assignment, transfer, pledge, hypothecation or other disposition of an Option not specifically permitted herein or in the Plan shall be null and void and without effect.

8. Mode of Exercise.

(a) The Options may be exercised by delivery of an irrevocable notice of exercise in by the Participant to the Company, stating the number of shares being purchased.

(b) The right to receive the Shares of the Company's Common Stock upon exercise of the Options shall be conditioned upon the delivery by the Participant of payment for shares and withholding taxes incurred by reason of the exercise and certain representations, if requested by the Administrator. Acceptable forms of consideration for exercising the Options may include:

(1) cash, check or wire transfer (denominated in U.S. Dollars);

(2) subject to the Company's discretion to refuse for any reason and at any time to accept such consideration and subject to any conditions or limitations established by the Administrator, other shares of the Company's Common Stock held by the Participant which have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Options to be exercised;

(3) delivery of a notice that the Participant has placed a market sell order with a broker with respect to the Shares then issuable upon exercise of the Options, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the aggregate payments required; provided, that payment of such proceeds is then made to the Company upon settlement of such sale;

(4) subject to the Company's discretion to refuse for any reason and at any time to accept such consideration and subject to any conditions or limitations established by the Administrator, cashless "net exercise" arrangement pursuant to which the Company will reduce the number of shares issued upon exercise by the largest whole number of shares having an aggregate Fair Market Value that does not exceed the aggregate exercise price, together with required withholding amounts (if any), provided that the Company shall accept a cash or other payment from the Participant to the extent of any remaining balance not satisfied by such reduction in the number of whole shares to be issued;

(5) such other consideration and method of payment for the issuance of Shares of Common Stock to the extent permitted by Applicable Laws and acceptable to the Administrator; and

(6) any combination of the foregoing methods of payment.

9. Recapitalization. The number of Shares covered by the Options and the Exercise Price shall be proportionately adjusted for any increase or decrease in the number or type of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company. The conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive.

10. Plan Controlling. This Agreement is intended to conform in all respects with the requirements of the Plan. Inconsistencies between the requirements of this Agreement and the Plan shall be resolved according to the terms of the Plan. The Participant acknowledges receipt of a copy of the Plan.

11. Rights Prior to Exercise of Option. The Participant shall not have any rights as a shareholder with respect to any Shares subject to the Option prior to the date on which he is recorded as the holder of such Shares on the records of the Company.

12. Withholding Taxes. The Company shall have the right to require the Participant or his beneficiaries or legal representatives to remit to the Company, in cash, an amount sufficient to satisfy any federal, state and local withholding tax requirements, including upon the grant, vesting or exercise of this Option. Whenever payments under the Plan or this Agreement are to be made to any Participant in cash, such payments shall be net of any amounts sufficient to satisfy all applicable taxes, including without limitation, all applicable federal, state and local withholding tax requirements to be withheld or submitted by the Company concerning such payments. The Board may, in its sole discretion, allow the Participant to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option that number of Shares having a Fair Market Value equal to the minimum amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined.

13. Section 409A. The Options granted hereunder are intended to comply with or be exempt from the requirements of Code Section 409A, and the Agreement shall be interpreted accordingly. In no event, however, shall the Company be liable to the Participant for any tax, penalties or interest that may be due in respect of any the Options as a result of the application of Code Section 409A.

14. Governing Law. This Agreement and all rights arising hereunder shall be governed by, and construed and interpreted in accordance with, the laws of the State of Colorado.

NEITHER THE PLAN NOR THIS AGREEMENT SHALL BE CONSTRUED AS GIVING THE PARTICIPANT THE RIGHT TO BE RETAINED IN THE EMPLOY OR SERVICE OF THE COMPANY OR ANY AFFILIATE THEREOF, NOR SHALL THEY INTERFERE IN ANY WAY WITH THE RIGHT OF THE COMPANY OR ANY AFFILIATE THEREOF, AS APPLICABLE, TO TERMINATE THE PARTICIPANT'S EMPLOYMENT OR SERVICE AT ANY TIME WITH OR WITHOUT CAUSE.

* * * * *

Executed as of the day and year first above written.

RECOVERY ENERGY, INC.

By: /s/ W. Phillip Marcum
Name: W. Phillip Marcum
Title: Chief Executive Officer

PARTICIPANT

By: /s/ A. Bradley Gabbard
A. Bradley Gabbard

Exhibit 10.59

RECOVERY ENERGY, INC.

2012 EQUITY INCENTIVE PLAN

STOCK OPTION AWARD AGREEMENT

This Stock Option Award Agreement (the "Agreement"), is made as of the 25 th day of June 2013, by and between Recovery Energy, Inc., a Nevada corporation (the "Company"), and W. Phillip Marcum (the "Participant").

WHEREAS, the Company desires to encourage and enable the Participant to acquire a proprietary interest in the Company through ownership of shares of the Company's Common Stock, par value $0.0001 per share (the "Shares"), pursuant to the terms and conditions of the Company's 2012 Equity Incentive Plan (the "Plan") and this Agreement. Such ownership will provide the Participant with additional incentive to promote the success of the Company; and

WHEREAS, the Company and the Participant are parties to that certain Employment Agreement dated June 25, 2013 (the "Employment Agreement").

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth and for other good and valuable consideration, the parties agree as follows:

1. Definitions. For purposes of this Agreement, all capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Plan.

2. Grant of Option. The Company hereby grants to the Participant options (the "Options") to purchase 300,000 Shares at the exercise price (the "Exercise Price") of $1.56 per Share, subject to the terms and conditions of this Agreement and the Plan.

3. Expiration Date. The Options granted hereby shall expire upon the earlier of (a) five (5) years from the date the Options vest and become exercisable pursuant to Section 4 or (b) June 25, 2023 (such date being the "Expiration Date"). Except as may be otherwise set forth herein, the Options may not be exercised after the Expiration Date.

4. Vesting. The Options shall vest and be exercisable by the Participant in accordance with the following schedule:

Date	Number of Options Vested
June 25, 2013	100,000 Options
June 25, 2014	100,000 Options
June 25, 2015	100,000 Options

5. Separation from Service.

(a) If the Participant's employment is terminated by the Company for Cause (as defined in the Employment Agreement), then all Options shall immediately terminate and no longer be exercisable.

(b) If the Participant terminates his employment without Good Reason (as defined in the Employment Agreement), then all Options shall terminate and no longer be exercisable on the date that is 90 days after the date of termination of the Participant's Continuous Service (as defined in the Plan), but not later than the Expiration Date. No Options shall vest following the date of termination of the Participant's Continuous Service (as defined in the Plan).

(c) If, before the Expiration Date, the Participant's employment is terminated by the Company other than for Cause (as defined in the Employment Agreement), by the Participant for Good Reason (as defined in the Employment Agreement), upon a Change of Control (as defined in the Employment Agreement) of the Company or upon the death or Disability (as defined in the Employment Agreement) of the Participant, then, all unexercisable Options shall become exercisable and remain exercisable until the Expiration Date. All vested Options not exercised within the period described in the preceding sentence shall terminate.

(d) Notwithstanding anything herein to the contrary, in the event of Participant's Disability (as defined in the Employment Agreement), the Participant may exercise the Options at any time within one (1) year after the Termination Date (as defined in the Employment Agreement) but not later than the Expiration Date.

(e) Notwithstanding anything herein to the contrary, in the event of Participant's death or if a Participant should die within a period of 90 days after termination of the Participant's Continuous Service for reason other than Cause (as defined in the Employment Agreement), the personal representatives of the Participant's estate or the person or persons who shall have acquired the Options from the Participant by bequest or inheritance may exercise the Options at any time within one (1) year after the date of death, but not later than the Expiration Date.

6. Sale, Merger or Dissolution. In the event of a Change in Control, the Company shall give the Participant notice thereof and the Options, whether or not currently vested and exercisable, shall become immediately vested and exercisable immediately prior to the effective date of such event, and the Board shall have the power and discretion to provide alternatives regarding the terms and conditions for the exercise of, or modification of, the Options in accordance with the Plan.

7. Non-Assignability. The Option granted hereby and any right arising thereunder may not be transferred, assigned, pledged or hypothecated (whether by operation of law or otherwise), except by will or the applicable laws of descent and distribution, and the Options and any rights arising thereunder shall not be subject to execution, attachment or similar process. The Options shall be exercisable during the lifetime of the Participant only by the Participant. Any attempted assignment, transfer, pledge, hypothecation or other disposition of an Option not specifically permitted herein or in the Plan shall be null and void and without effect.

8. Mode of Exercise.

(a) The Options may be exercised by delivery of an irrevocable notice of exercise in by the Participant to the Company, stating the number of shares being purchased.

(b) The right to receive the Shares of the Company's Common Stock upon exercise of the Options shall be conditioned upon the delivery by the Participant of payment for shares and withholding taxes incurred by reason of the exercise and certain representations, if requested by the Administrator. Acceptable forms of consideration for exercising the Options may include:

(1) cash, check or wire transfer (denominated in U.S. Dollars);

(2) subject to the Company's discretion to refuse for any reason and at any time to accept such consideration and subject to any conditions or limitations established by the Administrator, other shares of the Company's Common Stock held by the Participant which have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Options to be exercised;

(3) delivery of a notice that the Participant has placed a market sell order with a broker with respect to the Shares then issuable upon exercise of the Options, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the aggregate payments required; provided, that payment of such proceeds is then made to the Company upon settlement of such sale;

(4) subject to the Company's discretion to refuse for any reason and at any time to accept such consideration and subject to any conditions or limitations established by the Administrator, cashless "net exercise" arrangement pursuant to which the Company will reduce the number of shares issued upon exercise by the largest whole number of shares having an aggregate Fair Market Value that does not exceed the aggregate exercise price, together with required withholding amounts (if any), provided that the Company shall accept a cash or other payment from the Participant to the extent of any remaining balance not satisfied by such reduction in the number of whole shares to be issued;

(5) such other consideration and method of payment for the issuance of Shares of Common Stock to the extent permitted by Applicable Laws and acceptable to the Administrator; and

(6) any combination of the foregoing methods of payment.

9. Recapitalization. The number of Shares covered by the Options and the Exercise Price shall be proportionately adjusted for any increase or decrease in the number or type of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company. The conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive.

10. Plan Controlling. This Agreement is intended to conform in all respects with the requirements of the Plan. Inconsistencies between the requirements of this Agreement and the Plan shall be resolved according to the terms of the Plan. The Participant acknowledges receipt of a copy of the Plan.

11. Rights Prior to Exercise of Option. The Participant shall not have any rights as a shareholder with respect to any Shares subject to the Option prior to the date on which he is recorded as the holder of such Shares on the records of the Company.

12. Withholding Taxes. The Company shall have the right to require the Participant or his beneficiaries or legal representatives to remit to the Company, in cash, an amount sufficient to satisfy any federal, state and local withholding tax requirements, including upon the grant, vesting or exercise of this Option. Whenever payments under the Plan or this Agreement are to be made to any Participant in cash, such payments shall be net of any amounts sufficient to satisfy all applicable taxes, including without limitation, all applicable federal, state and local withholding tax requirements to be withheld or submitted by the Company concerning such payments. The Board may, in its sole discretion, allow the Participant to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option that number of Shares having a Fair Market Value equal to the minimum amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined.

13. Section 409A. The Options granted hereunder are intended to comply with or be exempt from the requirements of Code Section 409A, and the Agreement shall be interpreted accordingly. In no event, however, shall the Company be liable to the Participant for any tax, penalties or interest that may be due in respect of any the Options as a result of the application of Code Section 409A.

14. Governing Law. This Agreement and all rights arising hereunder shall be governed by, and construed and interpreted in accordance with, the laws of the State of Colorado.

NEITHER THE PLAN NOR THIS AGREEMENT SHALL BE CONSTRUED AS GIVING THE PARTICIPANT THE RIGHT TO BE RETAINED IN THE EMPLOY OR SERVICE OF THE COMPANY OR ANY AFFILIATE THEREOF, NOR SHALL THEY INTERFERE IN ANY WAY WITH THE RIGHT OF THE COMPANY OR ANY AFFILIATE THEREOF, AS APPLICABLE, TO TERMINATE THE PARTICIPANT'S EMPLOYMENT OR SERVICE AT ANY TIME WITH OR WITHOUT CAUSE.

* * * * *

Executed as of the day and year first above written.

RECOVERY ENERGY, INC.

By: _____
Name: A. Bradley Gabbard
Title: Chief Financial Officer

PARTICIPANT

By: _____
W. Phillip Marcum

Exhibit 10.60

RECOVERY ENERGY, INC.
2012 EQUITY INCENTIVE PLAN

STOCK OPTION AWARD AGREEMENT

This Stock Option Award Agreement (the "Agreement"), is made as of the 16 th day of September 2013, by and between Recovery Energy, Inc., a Nevada corporation (the "Company"), and Abraham Mirman (the "Participant").

WHEREAS, the Company desires to encourage and enable the Participant to acquire a proprietary interest in the Company through ownership of shares of the Company's Common Stock, par value $0.0001 per share (the "Shares"), pursuant to the terms and conditions of the Company's 2012 Equity Incentive Plan (the "Plan") and this Agreement. Such ownership will provide the Participant with additional incentive to promote the success of the Company; and

WHEREAS, the Company and the Participant are parties to that certain Employment Agreement dated September 16, 2013 (the "Employment Agreement").

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth and for other good and valuable consideration, the parties agree as follows:

1. Definitions. For purposes of this Agreement, all capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Plan.

2. Grant of Option. The Company hereby grants to the Participant options (the "Options") to purchase 600,000 Shares at the exercise price (the "Exercise Price") of $2.45 per Share, subject to the terms and conditions of this Agreement and the Plan.

3. Expiration Date. The Options granted hereby shall expire upon the earlier of (a) five (5) years from the date the Options vest and become exercisable pursuant to Section 4 or (b) September 16, 2023 (such date being the "Expiration Date"). Except as may be otherwise set forth herein, the Options may not be exercised after the Expiration Date.

4. Vesting. The Options shall vest and be exercisable by the Participant upon the Company's receipt of gross cash proceeds from financing in any manner, whether via equity financing, issuance of debt, line of credit, credit facility or any other method that generates gross proceeds or drawing availability of at least $30,000,000 (measured on a cumulative basis from September 16, 2013 and including proceeds from any existing senior, secured, non-convertible debt that is restructured) (the "Condition").

5. Separation from Service.

(a) If the Participant's employment is terminated by the Company for Cause (as defined in the Employment Agreement), then all Options shall terminate.

(b) If the Participant terminates his employment without Good Reason (as defined in the Employment Agreement), then all Options shall terminate on the date that is 90 days after the date of termination of the Participant's Continuous Service, but not later than the Expiration Date.

(c) If, prior to the date the Condition is achieved, the Participant's employment is terminated by the Company other than for Cause (as defined in the Employment Agreement), death or Disability (as defined in the Employment Agreement) or if the Participant terminates his employment for Good Reason (as defined in the Employment Agreement), then, all Options shall terminate on the date that is 90 days after the date of termination of the Participant's Continuous Service, but not later than the Expiration Date.

(d) If, following the date the Condition is achieved, but before the Expiration Date, the Participant's employment is terminated by the Company other than for Cause (as defined in the Employment Agreement), death or Disability (as defined in the Employment Agreement) or if the Participant terminates his employment for Good Reason (as defined in the Employment Agreement), then, all unexercisable Options shall become exercisable and remain exercisable until the sooner of (1) the Expiration Date or (2) two years following the Date of Termination (as defined in the Employment Agreement). All vested Options not exercised within the period described in the preceding sentence shall terminate.

(e) In the event of Participant's Disability (as defined in the Employment Agreement), the Participant may exercise the Options at any time within one (1) year after the Date of Termination (as defined in the Employment Agreement) but not later than the Expiration Date.

(f) In the event of Participant's death or if a Participant should die within a period of 90 days after termination of the Participant's Continuous Service for reason other than Cause (as defined in the Employment Agreement), the personal representatives of the Participant's estate or the person or persons who shall have acquired the Options from the Participant by bequest or inheritance may exercise the Options at any time within one (1) year after the date of death, but not later than the Expiration Date.

6. Sale, Merger or Dissolution. In the event of a Change in Control, the Company shall give the Participant notice thereof and the Options, whether or not currently vested and exercisable, shall become immediately vested and exercisable immediately prior to the effective date of such event, and the Board shall have the power and discretion to provide alternatives regarding the terms and conditions for the exercise of, or modification of, the Options in accordance with the Plan.

7. Non-Assignability. The Option granted hereby and any right arising thereunder may not be transferred, assigned, pledged or hypothecated (whether by operation of law or otherwise), except by will or the applicable laws of descent and distribution, and the Options and any rights arising thereunder shall not be subject to execution, attachment or similar process. The Options shall be exercisable during the lifetime of the Participant only by the Participant. Any attempted assignment, transfer, pledge, hypothecation or other disposition of an Option not specifically permitted herein or in the Plan shall be null and void and without effect.

8. Mode of Exercise.

(a) The Options may be exercised by delivery of an irrevocable notice of exercise in by the Participant to the Company, stating the number of shares being purchased.

(b) The right to receive the Shares of the Company's Common Stock upon exercise of the Options shall be conditioned upon the delivery by the Participant of payment for shares and withholding taxes incurred by reason of the exercise and certain representations, if requested by the Administrator. Acceptable forms of consideration for exercising the Options may include:

(1) cash, check or wire transfer (denominated in U.S. Dollars);

(2) subject to the Company's discretion to refuse for any reason and at any time to accept such consideration and subject to any conditions or limitations established by the Administrator, other shares of the Company's Common Stock held by the Participant which have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Options to be exercised;

(3) delivery of a notice that the Participant has placed a market sell order with a broker with respect to the Shares then issuable upon exercise of the Options, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the aggregate payments required; provided, that payment of such proceeds is then made to the Company upon settlement of such sale;

(4) subject to the Company's discretion to refuse for any reason and at any time to accept such consideration and subject to any conditions or limitations established by the Administrator, cashless "net exercise" arrangement pursuant to which the Company will reduce the number of shares issued upon exercise by the largest whole number of shares having an aggregate Fair Market Value that does not exceed the aggregate exercise price, together with required withholding amounts (if any), provided that the Company shall accept a cash or other payment from the Participant to the extent of any remaining balance not satisfied by such reduction in the number of whole shares to be issued;

(5) such other consideration and method of payment for the issuance of Shares of Common Stock to the extent permitted by Applicable Laws and acceptable to the Administrator; and

(6) any combination of the foregoing methods of payment.

9. Recapitalization. The number of Shares covered by the Options and the Exercise Price shall be proportionately adjusted for any increase or decrease in the number or type of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company. The conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive.

10. Plan Controlling. This Agreement is intended to conform in all respects with the requirements of the Plan. Inconsistencies between the requirements of this Agreement and the Plan shall be resolved according to the terms of the Plan. The Participant acknowledges receipt of a copy of the Plan.

11. Rights Prior to Exercise of Option. The Participant shall not have any rights as a shareholder with respect to any Shares subject to the Option prior to the date on which he is recorded as the holder of such Shares on the records of the Company.

12. Withholding Taxes. The Company shall have the right to require the Participant or his beneficiaries or legal representatives to remit to the Company an amount sufficient to satisfy any federal, state and local withholding tax requirements, including upon the grant, vesting or exercise of this Option. Whenever payments under the Plan or this Agreement are to be made to any Participant in cash, such payments shall be net of any amounts sufficient to satisfy all applicable taxes, including without limitation, all applicable federal, state and local withholding tax requirements to be withheld or submitted by the Company concerning such payments. The Board may, in its sole discretion, allow the Participant to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option that number of Shares having a Fair Market Value equal to the minimum amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined.

13. Section 409A. The Options granted hereunder are intended to comply with or be exempt from the requirements of Code Section 409A, and the Agreement shall be interpreted accordingly. In no event, however, shall the Company be liable to the Participant for any tax, penalties or interest that may be due in respect of any the Options as a result of the application of Code Section 409A, except to the extent that such tax, penalty or interest results from a breach of this Agreement by the Company.

14. Governing Law. This Agreement and all rights arising hereunder shall be governed by, and construed and interpreted in accordance with, the laws of the State of Colorado.

15. Venue; Dispute Resolutions. This Agreement shall be subject to the venue and dispute resolution provisions set forth in Sections 8.2(b) and 8.3 of the Employment Agreement.

NEITHER THE PLAN NOR THIS AGREEMENT SHALL BE CONSTRUED AS GIVING THE PARTICIPANT THE RIGHT TO BE RETAINED IN THE EMPLOY OR SERVICE OF THE COMPANY OR ANY AFFILIATE THEREOF, NOR SHALL THEY INTERFERE IN ANY WAY WITH THE RIGHT OF THE COMPANY OR ANY AFFILIATE THEREOF, AS APPLICABLE, TO TERMINATE THE PARTICIPANT'S EMPLOYMENT OR SERVICE AT ANY TIME WITH OR WITHOUT CAUSE.

* * * * *

Executed as of the day and year first above written.

RECOVERY ENERGY, INC.

By: _____
Name:
Title:

PARTICIPANT

By: _____

Exhibit 10.61

RECOVERY ENERGY, INC.
2012 EQUITY INCENTIVE PLAN

STOCK OPTION AWARD AGREEMENT

This Stock Option Award Agreement (the "Agreement"), is made as of the 16 th day of September 2013, by and between Recovery Energy, Inc., a Nevada corporation (the "Company"), and Abraham Mirman (the "Participant").

WHEREAS, the Company desires to encourage and enable the Participant to acquire a proprietary interest in the Company through ownership of shares of the Company's Common Stock, par value $0.0001 per share (the "Shares"), pursuant to the terms and conditions of the Company's 2012 Equity Incentive Plan (the "Plan") and this Agreement. Such ownership will provide the Participant with additional incentive to promote the success of the Company; and

WHEREAS, the Company and the Participant are parties to that certain Employment Agreement dated September 16, 2013 (the "Employment Agreement").

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth and for other good and valuable consideration, the parties agree as follows:

1. Definitions. For purposes of this Agreement, all capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Plan.

2. Grant of Option. The Company hereby grants to the Participant options (the "Options") to purchase 2,000,000 Shares at the exercise price (the "Exercise Price") of $2.45 per Share, subject to the terms and conditions of this Agreement and the Plan.

3. Expiration Date. The Options granted hereby shall expire upon the earlier of (a) five (5) years from the date the Options vest and become exercisable pursuant to Section 4 or (b) September 16, 2023 (such date being the "Expiration Date"). Except as may be otherwise set forth herein, the Options may not be exercised after the Expiration Date.

4. Vesting. The Options shall vest and be exercisable by the Participant as follows:

(a) Participant's option to purchase 666,667 shares of Common Stock shall become exercisable on the earliest date during the Service Period (as defined in the Employment Agreement) following which the following conditions have been satisfied (I) the Company Reported Share Price (as defined in the Employment Agreement) (as adjusted for stock splits, stock dividends, recapitalizations and the like) shall exceed $7.50 per share for at least 20 Trading Days (as defined in the Employment Agreement) during the Service Period (as defined in the Employment Agreement) and (II) the average daily production of hydrocarbons of the Company shall equal or exceed 2,500 barrels of oil equivalent per day (as determined in accordance with the Securities and Exchange Commission ("SEC") guideline under which six (6) Mcf of natural gas equals one (1) Bbl of oil) during any three calendar month period;

(b) Participant's option to purchase an additional 666,667 shares of Common Stock shall become exercisable on the earliest date during the Service Period (as defined in the Employment Agreement) following which the following conditions have been satisfied (I) the Company Reported Share Price (as defined in the Employment Agreement) (as adjusted for stock splits, stock dividends, recapitalizations and the like) shall exceed $10.50 per share for at least 20 Trading Days (as defined in the Employment Agreement) during the Service Period (as defined in the Employment Agreement) and (II) the average daily production of hydrocarbons of the Company shall equal or exceed 2,500 barrels of oil equivalent per day (as determined in accordance with the SEC guideline under which six (6) Mcf of natural gas equals one (1) Bbl of oil) during any three calendar month period; and

(c) Participant's option to purchase an additional 666,666 shares of Common Stock shall become exercisable on the earliest date during the Service Period (as defined in the Employment Agreement) following which the following conditions have been satisfied (I) the Company Reported Share Price (as defined in the Employment Agreement) (as adjusted for stock splits, stock dividends, recapitalizations and the like) shall exceed $12.50 per share for at least 20 Trading Days (as defined in the Employment Agreement) during the Service Period (as defined in the Employment Agreement) and (II) the average daily production of hydrocarbons of the Company shall equal or exceed 2,500 barrels of oil equivalent per day (as determined in accordance with the SEC guideline under which six (6) Mcf of natural gas equals one (1) Bbl of oil) during any three calendar month period.

5. Separation from Service.

(a) If the Participant's employment is terminated by the Company for Cause (as defined in the Employment Agreement), then all Options shall terminate.

(b) If the Participant terminates his employment without Good Reason (as defined in the Employment Agreement), then all Options shall terminate on the date that is 90 days after the date of termination of the Participant's Continuous Service, but not later than the Expiration Date.

(c) If, prior to the date the Condition (as defined in the Employment Agreement) is achieved, the Participant's employment is terminated by the Company other than for Cause (as defined in the Employment Agreement), death or Disability (as defined in the Employment Agreement) or if the Participant terminates his employment for Good Reason (as defined in the Employment Agreement), then, all Options shall terminate on the date that is 90 days after the date of termination of the Participant's Continuous Service, but not later than the Expiration Date.

(d) If, following the date the Condition (as defined in the Employment Agreement) is achieved, but before the Expiration Date, the Participant's employment is terminated by the Company other than for Cause (as defined in the Employment Agreement), death or Disability (as defined in the Employment Agreement) or if the Participant terminates his employment for Good Reason (as defined in the Employment Agreement), then, all unexercisable Options shall become exercisable and remain exercisable until the sooner of (1) the Expiration Date or (2) two years following the Date of Termination (as defined in the Employment Agreement). All vested Options not exercised within the period described in the preceding sentence shall terminate.

(e) In the event of Participant's Disability (as defined in the Employment Agreement), the Participant may exercise the Options at any time within one (1) year after the Date of Termination (as defined in the Employment Agreement) but not later than the Expiration Date.

(f) In the event of Participant's death or if a Participant should die within a period of 90 days after termination of the Participant's Continuous Service for reason other than Cause (as defined in the Employment Agreement), the personal representatives of the Participant's estate or the person or persons who shall have acquired the Options from the Participant by bequest or inheritance may exercise the Options at any time within one (1) year after the date of death, but not later than the Expiration Date.

6. Sale, Merger or Dissolution. In the event of a Change in Control, the Company shall give the Participant notice thereof and the Options, whether or not currently vested and exercisable, shall become immediately vested and exercisable immediately prior to the effective date of such event, and the Board shall have the power and discretion to provide alternatives regarding the terms and conditions for the exercise of, or modification of, the Options in accordance with the Plan.

7. Non-Assignability. The Option granted hereby and any right arising thereunder may not be transferred, assigned, pledged or hypothecated (whether by operation of law or otherwise), except by will or the applicable laws of descent and distribution, and the Options and any rights arising thereunder shall not be subject to execution, attachment or similar process. The Options shall be exercisable during the lifetime of the Participant only by the Participant. Any attempted assignment, transfer, pledge, hypothecation or other disposition of an Option not specifically permitted herein or in the Plan shall be null and void and without effect.

8. Mode of Exercise.

(a) The Options may be exercised by delivery of an irrevocable notice of exercise in by the Participant to the Company, stating the number of shares being purchased.

(b) The right to receive the Shares of the Company's Common Stock upon exercise of the Options shall be conditioned upon the delivery by the Participant of payment for shares and withholding taxes incurred by reason of the exercise and certain representations, if requested by the Administrator. Acceptable forms of consideration for exercising the Options may include:

(1) cash, check or wire transfer (denominated in U.S. Dollars);

(2) subject to the Company's discretion to refuse for any reason and at any time to accept such consideration and subject to any conditions or limitations established by the Administrator, other shares of the Company's Common Stock held by the Participant which have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Options to be exercised;

(3) delivery of a notice that the Participant has placed a market sell order with a broker with respect to the Shares then issuable upon exercise of the Options, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the aggregate payments required; provided, that payment of such proceeds is then made to the Company upon settlement of such sale;

(4) subject to the Company's discretion to refuse for any reason and at any time to accept such consideration and subject to any conditions or limitations established by the Administrator, cashless "net exercise" arrangement pursuant to which the Company will reduce the number of shares issued upon exercise by the largest whole number of shares having an aggregate Fair Market Value that does not exceed the aggregate exercise price, together with required withholding amounts (if any), provided that the Company shall accept a cash or other payment from the Participant to the extent of any remaining balance not satisfied by such reduction in the number of whole shares to be issued;

(5) such other consideration and method of payment for the issuance of Shares of Common Stock to the extent permitted by Applicable Laws and acceptable to the Administrator; and

(6) any combination of the foregoing methods of payment.

9. Recapitalization. The number of Shares covered by the Options and the Exercise Price shall be proportionately adjusted for any increase or decrease in the number or type of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company. The conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive.

10. Plan Controlling. This Agreement is intended to conform in all respects with the requirements of the Plan. Inconsistencies between the requirements of this Agreement and the Plan shall be resolved according to the terms of the Plan. The Participant acknowledges receipt of a copy of the Plan.

11. Rights Prior to Exercise of Option. The Participant shall not have any rights as a shareholder with respect to any Shares subject to the Option prior to the date on which he is recorded as the holder of such Shares on the records of the Company.

12. Withholding Taxes. The Company shall have the right to require the Participant or his beneficiaries or legal representatives to remit to the Company an amount sufficient to satisfy any federal, state and local withholding tax requirements, including upon the grant, vesting or exercise of this Option. Whenever payments under the Plan or this Agreement are to be made to any Participant in cash, such payments shall be net of any amounts sufficient to satisfy all applicable taxes, including without limitation, all applicable federal, state and local withholding tax requirements to be withheld or submitted by the Company concerning such payments. The Board may, in its sole discretion, allow the Participant to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option that number of Shares having a Fair Market Value equal to the minimum amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined.

13. Section 409A. The Options granted hereunder are intended to comply with or be exempt from the requirements of Code Section 409A, and the Agreement shall be interpreted accordingly. In no event, however, shall the Company be liable to the Participant for any tax, penalties or interest that may be due in respect of any the Options as a result of the application of Code Section 409A, except to the extent that such tax, penalty or interest results from a breach of this Agreement by the Company.

14. Governing Law. This Agreement and all rights arising hereunder shall be governed by, and construed and interpreted in accordance with, the laws of the State of Colorado.

15. Venue; Dispute Resolutions. This Agreement shall be subject to the venue and dispute resolution provisions set forth in Sections 8.2(b) and 8.3 of the Employment Agreement.

NEITHER THE PLAN NOR THIS AGREEMENT SHALL BE CONSTRUED AS GIVING THE PARTICIPANT THE RIGHT TO BE RETAINED IN THE EMPLOY OR SERVICE OF THE COMPANY OR ANY AFFILIATE THEREOF, NOR SHALL THEY INTERFERE IN ANY WAY WITH THE RIGHT OF THE COMPANY OR ANY AFFILIATE THEREOF, AS APPLICABLE, TO TERMINATE THE PARTICIPANT'S EMPLOYMENT OR SERVICE AT ANY TIME WITH OR WITHOUT CAUSE.

* * * * *

Executed as of the day and year first above written.

RECOVERY ENERGY, INC.

By: _____
Name:
Title:

PARTICIPANT

By: _____

Exhibit 10.62

RECOVERY ENERGY, INC.
2012 EQUITY INCENTIVE PLAN

STOCK OPTION AWARD AGREEMENT

This Stock Option Award Agreement (the "Agreement"), is made as of the 24 th day of October 2013, by and between Recovery Energy, Inc., a Nevada corporation (the "Company"), and D. Kirk Edwards (the "Participant").

WHEREAS, the Company desires to encourage and enable the Participant to acquire a proprietary interest in the Company through ownership of shares of the Company's Common Stock, par value $0.0001 per share (the "Shares"), pursuant to the terms and conditions of the Company's 2012 Equity Incentive Plan (the "Plan") and this Agreement. Such ownership will provide the Participant with additional incentive to promote the success of the Company.

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth and for other good and valuable consideration, the parties agree as follows:

1. Definitions. For purposes of this Agreement, all capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Plan.

2. Grant of Option. The Company hereby grants to the Participant options (the "Options") to purchase 200,000 Shares at the exercise price (the "Exercise Price") of $2.05 per Share, subject to the terms and conditions of this Agreement and the Plan.

3. Expiration Date. The Options granted hereby shall expire upon the earlier of (a) five (5) years from the date the Options vest and become exercisable pursuant to Section 4 or (b) October 24, 2023 (such date being the "Expiration Date"). Except as may be otherwise set forth herein, the Options may not be exercised after the Expiration Date.

4. Vesting. The Options shall vest and be exercisable by the Participant in accordance with the following schedule:

Date	Number of Options Vested
October 24, 2014	66,667 Options
October 24, 2015	66,667 Options
October 24, 2016	66,666 Options

5. Separation from Service.

(a) If the Participant's service is terminated by the Company for Cause (as defined in the Plan), then all Options shall immediately terminate and no longer be exercisable.

(b) If the Participant terminates his service, then all Options shall terminate and no longer be exercisable on the date that is 90 days after the date of termination of the Participant's Continuous Service (as defined in the Plan), but not later than the Expiration Date. No Options shall vest following the date of termination of the Participant's Continuous Service (as defined in the Plan).

(c) If, before the Expiration Date, the Participant's service is terminated by the Company other than for Cause (as defined in the Plan), upon a Change in Control (as defined in the Plan) of the Company or upon the death or Disability (as defined in the Plan) of the Participant, then, all unexercisable Options shall become exercisable and remain exercisable until the Expiration Date. All vested Options not exercised within the period described in the preceding sentence shall terminate.

(d) Notwithstanding anything herein to the contrary, in the event of Participant's Disability (as defined in the Plan), the Participant may exercise the Options at any time within one (1) year after the Date of Termination (as defined in the Plan) but not later than the Expiration Date.

(e) Notwithstanding anything herein to the contrary, in the event of Participant's death or if a Participant should die within a period of 90 days after termination of the Participant's Continuous Service for reason other than Cause (as defined in the Plan), the personal representatives of the Participant's estate or the person or persons who shall have acquired the Options from the Participant by bequest or inheritance may exercise the Options at any time within one (1) year after the date of death, but not later than the Expiration Date.

6. Sale, Merger or Dissolution. In the event of a Change in Control, the Company shall give the Participant notice thereof and the Options, whether or not currently vested and exercisable, shall become immediately vested and exercisable immediately prior to the effective date of such event, and the Board shall have the power and discretion to provide alternatives regarding the terms and conditions for the exercise of, or modification of, the Options in accordance with the Plan.

7. Non-Assignability. The Option granted hereby and any right arising thereunder may not be transferred, assigned, pledged or hypothecated (whether by operation of law or otherwise), except by will or the applicable laws of descent and distribution, and the Options and any rights arising thereunder shall not be subject to execution, attachment or similar process. The Options shall be exercisable during the lifetime of the Participant only by the Participant. Any attempted assignment, transfer, pledge, hypothecation or other disposition of an Option not specifically permitted herein or in the Plan shall be null and void and without effect.

8. Mode of Exercise.

(a) The Options may be exercised by delivery of an irrevocable notice of exercise in by the Participant to the Company, stating the number of shares being purchased.

(b) The right to receive the Shares of the Company's Common Stock upon exercise of the Options shall be conditioned upon the delivery by the Participant of payment for shares and withholding taxes incurred by reason of the exercise and certain representations, if requested by the Administrator. Acceptable forms of consideration for exercising the Options may include:

(1) cash, check or wire transfer (denominated in U.S. Dollars);

(2) subject to the Company's discretion to refuse for any reason and at any time to accept such consideration and subject to any conditions or limitations established by the Administrator, other shares of the Company's Common Stock held by the Participant which have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Options to be exercised;

(3) delivery of a notice that the Participant has placed a market sell order with a broker with respect to the Shares then issuable upon exercise of the Options, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the aggregate payments required; provided, that payment of such proceeds is then made to the Company upon settlement of such sale;

(4) subject to the Company's discretion to refuse for any reason and at any time to accept such consideration and subject to any conditions or limitations established by the Administrator, cashless "net exercise" arrangement pursuant to which the Company will reduce the number of shares issued upon exercise by the largest whole number of shares having an aggregate Fair Market Value that does not exceed the aggregate exercise price, together with required withholding amounts (if any), provided that the Company shall accept a cash or other payment from the Participant to the extent of any remaining balance not satisfied by such reduction in the number of whole shares to be issued;

(5) such other consideration and method of payment for the issuance of Shares of Common Stock to the extent permitted by Applicable Laws and acceptable to the Administrator; and

(6) any combination of the foregoing methods of payment.

9. Recapitalization. The number of Shares covered by the Options and the Exercise Price shall be proportionately adjusted for any increase or decrease in the number or type of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company. The conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive.

10. Plan Controlling. This Agreement is intended to conform in all respects with the requirements of the Plan. Inconsistencies between the requirements of this Agreement and the Plan shall be resolved according to the terms of the Plan. The Participant acknowledges receipt of a copy of the Plan.

11. Rights Prior to Exercise of Option. The Participant shall not have any rights as a shareholder with respect to any Shares subject to the Option prior to the date on which he is recorded as the holder of such Shares on the records of the Company.

12. Withholding Taxes. The Company shall have the right to require the Participant or his beneficiaries or legal representatives to remit to the Company, in cash, an amount sufficient to satisfy any federal, state and local withholding tax requirements, including upon the grant, vesting or exercise of this Option. Whenever payments under the Plan or this Agreement are to be made to any Participant in cash, such payments shall be net of any amounts sufficient to satisfy all applicable taxes, including without limitation, all applicable federal, state and local withholding tax requirements to be withheld or submitted by the Company concerning such payments. The Board may, in its sole discretion, allow the Participant to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option that number of Shares having a Fair Market Value equal to the minimum amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined.

13. Section 409A. The Options granted hereunder are intended to comply with or be exempt from the requirements of Code Section 409A, and the Agreement shall be interpreted accordingly. In no event, however, shall the Company be liable to the Participant for any tax, penalties or interest that may be due in respect of any the Options as a result of the application of Code Section 409A.

14. Governing Law. This Agreement and all rights arising hereunder shall be governed by, and construed and interpreted in accordance with, the laws of the State of Colorado.

NEITHER THE PLAN NOR THIS AGREEMENT SHALL BE CONSTRUED AS GIVING THE PARTICIPANT THE RIGHT TO BE RETAINED IN THE EMPLOY OR SERVICE OF THE COMPANY OR ANY AFFILIATE THEREOF, NOR SHALL THEY INTERFERE IN ANY WAY WITH THE RIGHT OF THE COMPANY OR ANY AFFILIATE THEREOF, AS APPLICABLE, TO TERMINATE THE PARTICIPANT'S EMPLOYMENT OR SERVICE AT ANY TIME WITH OR WITHOUT CAUSE.

* * * * *

Executed as of the day and year first above written.

RECOVERY ENERGY, INC.

By: /s/ A. Bradley Gabbard
Name: A. Bradley Gabbard
Title: Chief Operating Officer and Chief Financial Officer

PARTICIPANT

By: /s/ D. Kirk Edwards
D. Kirk Edwards

Exhibit 10.63

RECOVERY ENERGY, INC.
2012 EQUITY INCENTIVE PLAN

STOCK OPTION AWARD AGREEMENT

This Stock Option Award Agreement (the "Agreement"), is made as of the 24 th day of October 2013, by and between Recovery Energy, Inc., a Nevada corporation (the "Company"), and Bruce White (the "Participant").

WHEREAS, the Company desires to encourage and enable the Participant to acquire a proprietary interest in the Company through ownership of shares of the Company's Common Stock, par value $0.0001 per share (the "Shares"), pursuant to the terms and conditions of the Company's 2012 Equity Incentive Plan (the "Plan") and this Agreement. Such ownership will provide the Participant with additional incentive to promote the success of the Company.

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth and for other good and valuable consideration, the parties agree as follows:

1. Definitions. For purposes of this Agreement, all capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Plan.

2. Grant of Option. The Company hereby grants to the Participant options (the "Options") to purchase 200,000 Shares at the exercise price (the "Exercise Price") of $2.05 per Share, subject to the terms and conditions of this Agreement and the Plan.

3. Expiration Date. The Options granted hereby shall expire upon the earlier of (a) five (5) years from the date the Options vest and become exercisable pursuant to Section 4 or (b) October 24, 2023 (such date being the "Expiration Date"). Except as may be otherwise set forth herein, the Options may not be exercised after the Expiration Date.

4. Vesting. The Options shall vest and be exercisable by the Participant in accordance with the following schedule:

Date	Number of Options Vested
October 24, 2014	66,667 Options
October 24, 2015	66,667 Options
October 24, 2016	66,666 Options

5. Separation from Service.

(a) If the Participant's service is terminated by the Company for Cause (as defined in the Plan), then all Options shall immediately terminate and no longer be exercisable.

(b) If the Participant terminates his service, then all Options shall terminate and no longer be exercisable on the date that is 90 days after the date of termination of the Participant's Continuous Service (as defined in the Plan), but not later than the Expiration Date. No Options shall vest following the date of termination of the Participant's Continuous Service (as defined in the Plan).

(c) If, before the Expiration Date, the Participant's service is terminated by the Company other than for Cause (as defined in the Plan), upon a Change in Control (as defined in the Plan) of the Company or upon the death or Disability (as defined in the Plan) of the Participant, then, all unexercisable Options shall become exercisable and remain exercisable until the Expiration Date. All vested Options not exercised within the period described in the preceding sentence shall terminate.

(d) Notwithstanding anything herein to the contrary, in the event of Participant's Disability (as defined in the Plan), the Participant may exercise the Options at any time within one (1) year after the Date of Termination (as defined in the Plan) but not later than the Expiration Date.

(e) Notwithstanding anything herein to the contrary, in the event of Participant's death or if a Participant should die within a period of 90 days after termination of the Participant's Continuous Service for reason other than Cause (as defined in the Plan), the personal representatives of the Participant's estate or the person or persons who shall have acquired the Options from the Participant by bequest or inheritance may exercise the Options at any time within one (1) year after the date of death, but not later than the Expiration Date.

6. Sale, Merger or Dissolution. In the event of a Change in Control, the Company shall give the Participant notice thereof and the Options, whether or not currently vested and exercisable, shall become immediately vested and exercisable immediately prior to the effective date of such event, and the Board shall have the power and discretion to provide alternatives regarding the terms and conditions for the exercise of, or modification of, the Options in accordance with the Plan.

7. Non-Assignability. The Option granted hereby and any right arising thereunder may not be transferred, assigned, pledged or hypothecated (whether by operation of law or otherwise), except by will or the applicable laws of descent and distribution, and the Options and any rights arising thereunder shall not be subject to execution, attachment or similar process. The Options shall be exercisable during the lifetime of the Participant only by the Participant. Any attempted assignment, transfer, pledge, hypothecation or other disposition of an Option not specifically permitted herein or in the Plan shall be null and void and without effect.

8. Mode of Exercise.

(a) The Options may be exercised by delivery of an irrevocable notice of exercise in by the Participant to the Company, stating the number of shares being purchased.

(b) The right to receive the Shares of the Company's Common Stock upon exercise of the Options shall be conditioned upon the delivery by the Participant of payment for shares and withholding taxes incurred by reason of the exercise and certain representations, if requested by the Administrator. Acceptable forms of consideration for exercising the Options may include:

(1) cash, check or wire transfer (denominated in U.S. Dollars);

(2) subject to the Company's discretion to refuse for any reason and at any time to accept such consideration and subject to any conditions or limitations established by the Administrator, other shares of the Company's Common Stock held by the Participant which have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Options to be exercised;

(3) delivery of a notice that the Participant has placed a market sell order with a broker with respect to the Shares then issuable upon exercise of the Options, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the aggregate payments required; provided, that payment of such proceeds is then made to the Company upon settlement of such sale;

(4) subject to the Company's discretion to refuse for any reason and at any time to accept such consideration and subject to any conditions or limitations established by the Administrator, cashless "net exercise" arrangement pursuant to which the Company will reduce the number of shares issued upon exercise by the largest whole number of shares having an aggregate Fair Market Value that does not exceed the aggregate exercise price, together with required withholding amounts (if any), provided that the Company shall accept a cash or other payment from the Participant to the extent of any remaining balance not satisfied by such reduction in the number of whole shares to be issued;

(5) such other consideration and method of payment for the issuance of Shares of Common Stock to the extent permitted by Applicable Laws and acceptable to the Administrator; and

(6) any combination of the foregoing methods of payment.

9. Recapitalization. The number of Shares covered by the Options and the Exercise Price shall be proportionately adjusted for any increase or decrease in the number or type of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company. The conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive.

10. Plan Controlling. This Agreement is intended to conform in all respects with the requirements of the Plan. Inconsistencies between the requirements of this Agreement and the Plan shall be resolved according to the terms of the Plan. The Participant acknowledges receipt of a copy of the Plan.

11. Rights Prior to Exercise of Option. The Participant shall not have any rights as a shareholder with respect to any Shares subject to the Option prior to the date on which he is recorded as the holder of such Shares on the records of the Company.

12. Withholding Taxes. The Company shall have the right to require the Participant or his beneficiaries or legal representatives to remit to the Company, in cash, an amount sufficient to satisfy any federal, state and local withholding tax requirements, including upon the grant, vesting or exercise of this Option. Whenever payments under the Plan or this Agreement are to be made to any Participant in cash, such payments shall be net of any amounts sufficient to satisfy all applicable taxes, including without limitation, all applicable federal, state and local withholding tax requirements to be withheld or submitted by the Company concerning such payments. The Board may, in its sole discretion, allow the Participant to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option that number of Shares having a Fair Market Value equal to the minimum amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined.

13. Section 409A. The Options granted hereunder are intended to comply with or be exempt from the requirements of Code Section 409A, and the Agreement shall be interpreted accordingly. In no event, however, shall the Company be liable to the Participant for any tax, penalties or interest that may be due in respect of any the Options as a result of the application of Code Section 409A.

14. Governing Law. This Agreement and all rights arising hereunder shall be governed by, and construed and interpreted in accordance with, the laws of the State of Colorado.

NEITHER THE PLAN NOR THIS AGREEMENT SHALL BE CONSTRUED AS GIVING THE PARTICIPANT THE RIGHT TO BE RETAINED IN THE EMPLOY OR SERVICE OF THE COMPANY OR ANY AFFILIATE THEREOF, NOR SHALL THEY INTERFERE IN ANY WAY WITH THE RIGHT OF THE COMPANY OR ANY AFFILIATE THEREOF, AS APPLICABLE, TO TERMINATE THE PARTICIPANT'S EMPLOYMENT OR SERVICE AT ANY TIME WITH OR WITHOUT CAUSE.

* * * * *

Executed as of the day and year first above written.

RECOVERY ENERGY, INC.

By: /s/ A. Bradley Gabbard
Name: A. Bradley Gabbard
Title: Chief Operating Officer and Chief Financial Officer

PARTICIPANT

By: /s/ Bruce White
Bruce White

Exhibit 10.64

RECOVERY ENERGY, INC.
2012 EQUITY INCENTIVE PLAN

STOCK OPTION AWARD AGREEMENT

This Stock Option Award Agreement (the "Agreement"), is made as of the 24 th day of October 2013, by and between Recovery Energy, Inc., a Nevada corporation (the "Company"), and Timothy Poster (the "Participant").

WHEREAS, the Company desires to encourage and enable the Participant to acquire a proprietary interest in the Company through ownership of shares of the Company's Common Stock, par value $0.0001 per share (the "Shares"), pursuant to the terms and conditions of the Company's 2012 Equity Incentive Plan (the "Plan") and this Agreement. Such ownership will provide the Participant with additional incentive to promote the success of the Company.

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth and for other good and valuable consideration, the parties agree as follows:

1. Definitions. For purposes of this Agreement, all capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Plan.

2. Grant of Option. The Company hereby grants to the Participant options (the "Options") to purchase 200,000 Shares at the exercise price (the "Exercise Price") of $2.05 per Share, subject to the terms and conditions of this Agreement and the Plan.

3. Expiration Date. The Options granted hereby shall expire upon the earlier of (a) five (5) years from the date the Options vest and become exercisable pursuant to Section 4 or (b) October 24, 2023 (such date being the "Expiration Date"). Except as may be otherwise set forth herein, the Options may not be exercised after the Expiration Date.

4. Vesting. The Options shall vest and be exercisable by the Participant in accordance with the following schedule:

Date	Number of Options Vested
October 24, 2014	66,667 Options
October 24, 2015	66,667 Options
October 24, 2016	66,666 Options

5. Separation from Service.

(a) If the Participant's service is terminated by the Company for Cause (as defined in the Plan), then all Options shall immediately terminate and no longer be exercisable.

(b) If the Participant terminates his service, then all Options shall terminate and no longer be exercisable on the date that is 90 days after the date of termination of the Participant's Continuous Service (as defined in the Plan), but not later than the Expiration Date. No Options shall vest following the date of termination of the Participant's Continuous Service (as defined in the Plan).

(c) If, before the Expiration Date, the Participant's service is terminated by the Company other than for Cause (as defined in the Plan), upon a Change in Control (as defined in the Plan) of the Company or upon the death or Disability (as defined in the Plan) of the Participant, then, all unexercisable Options shall become exercisable and remain exercisable until the Expiration Date. All vested Options not exercised within the period described in the preceding sentence shall terminate.

(d) Notwithstanding anything herein to the contrary, in the event of Participant's Disability (as defined in the Plan), the Participant may exercise the Options at any time within one (1) year after the Date of Termination (as defined in the Plan) but not later than the Expiration Date.

(e) Notwithstanding anything herein to the contrary, in the event of Participant's death or if a Participant should die within a period of 90 days after termination of the Participant's Continuous Service for reason other than Cause (as defined in the Plan), the personal representatives of the Participant's estate or the person or persons who shall have acquired the Options from the Participant by bequest or inheritance may exercise the Options at any time within one (1) year after the date of death, but not later than the Expiration Date.

6. Sale, Merger or Dissolution. In the event of a Change in Control, the Company shall give the Participant notice thereof and the Options, whether or not currently vested and exercisable, shall become immediately vested and exercisable immediately prior to the effective date of such event, and the Board shall have the power and discretion to provide alternatives regarding the terms and conditions for the exercise of, or modification of, the Options in accordance with the Plan.

7. Non-Assignability. The Option granted hereby and any right arising thereunder may not be transferred, assigned, pledged or hypothecated (whether by operation of law or otherwise), except by will or the applicable laws of descent and distribution, and the Options and any rights arising thereunder shall not be subject to execution, attachment or similar process. The Options shall be exercisable during the lifetime of the Participant only by the Participant. Any attempted assignment, transfer, pledge, hypothecation or other disposition of an Option not specifically permitted herein or in the Plan shall be null and void and without effect.

8. Mode of Exercise.

(a) The Options may be exercised by delivery of an irrevocable notice of exercise in by the Participant to the Company, stating the number of shares being purchased.

(b) The right to receive the Shares of the Company's Common Stock upon exercise of the Options shall be conditioned upon the delivery by the Participant of payment for shares and withholding taxes incurred by reason of the exercise and certain representations, if requested by the Administrator. Acceptable forms of consideration for exercising the Options may include:

(1) cash, check or wire transfer (denominated in U.S. Dollars);

(2) subject to the Company's discretion to refuse for any reason and at any time to accept such consideration and subject to any conditions or limitations established by the Administrator, other shares of the Company's Common Stock held by the Participant which have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Options to be exercised;

(3) delivery of a notice that the Participant has placed a market sell order with a broker with respect to the Shares then issuable upon exercise of the Options, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the aggregate payments required; provided, that payment of such proceeds is then made to the Company upon settlement of such sale;

(4) subject to the Company's discretion to refuse for any reason and at any time to accept such consideration and subject to any conditions or limitations established by the Administrator, cashless "net exercise" arrangement pursuant to which the Company will reduce the number of shares issued upon exercise by the largest whole number of shares having an aggregate Fair Market Value that does not exceed the aggregate exercise price, together with required withholding amounts (if any), provided that the Company shall accept a cash or other payment from the Participant to the extent of any remaining balance not satisfied by such reduction in the number of whole shares to be issued;

(5) such other consideration and method of payment for the issuance of Shares of Common Stock to the extent permitted by Applicable Laws and acceptable to the Administrator; and

(6) any combination of the foregoing methods of payment.

9. Recapitalization. The number of Shares covered by the Options and the Exercise Price shall be proportionately adjusted for any increase or decrease in the number or type of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company. The conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive.

10. Plan Controlling. This Agreement is intended to conform in all respects with the requirements of the Plan. Inconsistencies between the requirements of this Agreement and the Plan shall be resolved according to the terms of the Plan. The Participant acknowledges receipt of a copy of the Plan.

11. Rights Prior to Exercise of Option. The Participant shall not have any rights as a shareholder with respect to any Shares subject to the Option prior to the date on which he is recorded as the holder of such Shares on the records of the Company.

12. Withholding Taxes. The Company shall have the right to require the Participant or his beneficiaries or legal representatives to remit to the Company, in cash, an amount sufficient to satisfy any federal, state and local withholding tax requirements, including upon the grant, vesting or exercise of this Option. Whenever payments under the Plan or this Agreement are to be made to any Participant in cash, such payments shall be net of any amounts sufficient to satisfy all applicable taxes, including without limitation, all applicable federal, state and local withholding tax requirements to be withheld or submitted by the Company concerning such payments. The Board may, in its sole discretion, allow the Participant to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option that number of Shares having a Fair Market Value equal to the minimum amount required to be withheld. The Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined.

13. Section 409A. The Options granted hereunder are intended to comply with or be exempt from the requirements of Code Section 409A, and the Agreement shall be interpreted accordingly. In no event, however, shall the Company be liable to the Participant for any tax, penalties or interest that may be due in respect of any the Options as a result of the application of Code Section 409A.

14. Governing Law. This Agreement and all rights arising hereunder shall be governed by, and construed and interpreted in accordance with, the laws of the State of Colorado.

NEITHER THE PLAN NOR THIS AGREEMENT SHALL BE CONSTRUED AS GIVING THE PARTICIPANT THE RIGHT TO BE RETAINED IN THE EMPLOY OR SERVICE OF THE COMPANY OR ANY AFFILIATE THEREOF, NOR SHALL THEY INTERFERE IN ANY WAY WITH THE RIGHT OF THE COMPANY OR ANY AFFILIATE THEREOF, AS APPLICABLE, TO TERMINATE THE PARTICIPANT'S EMPLOYMENT OR SERVICE AT ANY TIME WITH OR WITHOUT CAUSE.

* * * * *

Executed as of the day and year first above written.

RECOVERY ENERGY, INC.

By: /s/ A. Bradley Gabbard
Name: A. Bradley Gabbard
Title: Chief Operating Officer and Chief Financial Officer

PARTICIPANT

By: /s/ Timothy Poster
Timothy Poster

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement on Form S-1 (333-186108) and the Registration Statement on Form S-8 (Registration No. 333-185122) of Lilis Energy, Inc. of our report dated June 11, 2014, relating to our audit of the consolidated financial statements included in the Annual Report on Form 10-K of Lilis Energy, Inc. for the year ended December 31, 2013.

Hein & Associates LLP

Denver, Colorado
June 11, 2014

Exhibit 23.2

June 11, 2014

Lilis Energy, Inc.
1900 Grant Street, Suite 720
Denver, CO 80203

Attention: A. Bradley Gabbard

Dear Mr. Gabbard:

Ralph E. Davis Associates, Inc. here by consents to the reference to our firm in the form and context in which they appear in the Annual Report on Form 10-K of Lilis Energy, Inc. for the year ended December 31, 2013 (the "Annual Report"). We hereby further consent to the inclusion in the Annual Report of estimates of oil and gas reserves contained in our report dated February 27, 2014, and to the inclusion of our report as an exhibit to the Annual Report and in all current and future registration statements of the Company that incorporate by reference such Annual Report.

Sincerely,

RALPH E. DAVIS ASSOCIATES, INC.

/s/ Allen C. Barron
Allen C Barron, P.E.
President

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Abraham Mirman, certify that:

1. I have reviewed this Form 10-K of Lilis Energy, Inc.;

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 involved management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: */s/ Abraham Mirman*
Abraham Mirman
Chief Executive Officer

June 11, 2014

Exhibit 31.2

CERTIFICATION OF ACTING CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Eric Ulwelling, certify that:

1. I have reviewed this Form 10-K of Lilis Energy, Inc.;

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 involved management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: */s/ Eric Ulwelling*
Eric Ulwelling
Acting Chief Financial Officer

June 11, 2014

Exhibit 32.1

OFFICER'S CERTIFICATION
PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C 1350)

The undersigned, Abraham Mirman, the Chief Executive Officer of Lilis Energy, Inc., (the "Corporation"), in connection with the Corporation's Yearly Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), does hereby represent, warrant and certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended, that, to the best of his knowledge:

1. The Report is in full compliance with the reporting requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Corporation.

By: /s/ Abraham Mirman
Abraham Mirman
Chief Executive Officer

June 11, 2014

Exhibit 32.2

OFFICER'S CERTIFICATION
PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C 1350)

The undersigned, Eric Ulwelling, the Acting Chief Financial Officer of Lilis Energy, Inc., (the "Corporation"), in connection with the Corporation's Yearly Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), does hereby represent, warrant and certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended, that, to the best of his knowledge:

1. The Report is in full compliance with the reporting requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Corporation.

By: /s/ Eric Ulwelling
Eric Ulwelling
Acting Chief Financial Officer

June 11, 2014

Exhibit 99.1

February 27, 2014

Lilis Energy, Inc.
1900 Grant Street, Suite 720
Denver, Colorado 80203

Attn: Mr. A. Brad Gabbard
COO & CFO

Re: Estimated Reserves and Future Net Revenue,
Lilis Energy, Inc.
As of December 31, 2013

Gentlemen:

At the request of Lilis Energy, Inc. ("Lilis"), the firm of Ralph E. Davis Associates, Inc . ("Davis") of Houston, Texas has prepared an estimate of the oil and natural gas reserves and future net revenue associated with specific leaseholds in which Lilis owns certain interests. The purpose of this report is to present a summary of the Proved Developed Producing and Undeveloped reserves, future production and income attributable to the subject interests as of the effective date of this report, December 31, 2013.

Davis has reviewed 100% of Lilis's proved developed and undeveloped properties located in the Denver Julesberg Basin of the United States. It is our opinion that these properties represent all of Lilis's assets that may be classified as proved as per the Securities and Exchange Commission directives as detailed later in this report.

The reserves associated with this review have been classified in accordance with the definitions of the Securities and Exchange Commission as found in Part 210—Form and Content of and Requirements for Financial Statements, Securities Act of 1933 , Securities Exchange Act of 1934, Public Utility Holding Company Act of 1935, Investment Company Act of 1940, Investment Advisers Act of 1940, and Energy Policy and Conservation Act of 1975, under Rules of General Application § 210.4-10 Financial accounting and reporting for oil and gas producing activities pursuant to the Federal securities laws and the Energy Policy and Conservation Act of 1975. A summation of these definitions is included as a portion of this letter.

We have also estimated the future net revenue and discounted present value associated with these reserves as of December 31 , 2013 utilizing a scenario of non-escalated product prices as well as non-escalated costs of operations, i.e., prices and costs were not escalated above current values as detailed later in this report. The present value is presented for your information and should not be construed as an estimate of the fair market value.

The results of our study related to our estimate of the Total Proved Reserves attributable to Lilis and remaining to be produced as of December 31, 2013 are as follows:

Non Escalated Pricing Scenario
Estimated Reserves and Future Net Income
Net to Lilis Energy, Inc.
As of December 31, 2013

	1P PROVED RESERVES		
	Producing	**Undeveloped**	**Total**
Net Reserves			
Oil/Condensate-MBbls	170.3	672.2	842.5
Gas-MMCF	313.4	2,250.9	2,564.3
NGL-MBbls	-	-	-
Income Data (M$)			
Future Gross Revenue	$ 16,742.6	$ 69,757.7	86,500.3
Total Taxes	$ 1,573.4	$ 5,524.4	7,097.8
Operating Costs	$ 4,841.9	$ 10,136.0	14,977.9
Capital Costs	$ -	$ 21,980.0	21,980.0
Future Net Income (FNI)	$ 10,325.4	$ 32,117.2	42,442.6
FNI @ 10%	**$ 7,671.9**	**$ 15,666.3**	**23,338.3**

Liquid volumes are expressed in thousands of barrels (MBbls) of stock tank oil. Gas volumes are expressed in millions of standard cubic feet (MMSCF) at the official temperature and pressure bases of the areas wherein the gas reserves are located.

The economic cash flow presentation of the above volumes and revenues are presented for the individual reserve classifications, as well as appropriate summaries, as Exhibit No. I.

DISCUSSION

The scope of this study was to prepare an estimate of the proved reserves attributable to Lilis's ownership position in the subject properties. Reserve estimates were prepared by Davis using acceptable evaluation principles for each source and were based in large part on the basic information supplied by Lilis.

The quantities presented herein are estimated reserves of oil and natural gas volumes that geologic and engineering data demonstrate can be recovered from known reservoirs under current economic conditions with reasonable certainty. Proved undeveloped locations are scheduled to be drilled such that the investment cost will be fully recovered prior to recovery of the estimated reserve volume.

This evaluation has been prepared in accordance with the "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information" as proclaimed by the Society of Petroleum Engineers, the SPE Standards.

The estimated future net revenue and discounted present value associated with the reserves as of December 31, 2013 were prepared utilizing a pricing scenario that is detailed later in this report. Costs of operations were provided by Lilis or the operator of the properties on a well by well basis. These costs were reviewed by Davis and are considered to be reasonable. Capital costs were also provided by Lilis, including drilling, completion and well stimulation costs anticipated as necessary to recover estimated reserve volumes from new and existing wells. These costs were compared to actual costs of recently drilled wells, taking into account depth of future wells to be drilled. The capital costs included in this report are also considered to be reasonable.

DATA SOURCE

Basic well and field data used in the preparation of this report were furnished by Lilis or were obtained from commercial sources or from Davis' own database of information. Records as they pertain to factual matters such as acreage controlled the number and depths of wells, reservoir pressure and production history, the existence of contractual obligations to others and similar matters were accepted as presented.

Additionally, the analyses of these properties utilized not only the basic data on the subject wells but also data on analogous properties as provided. Well logs, ownership interest, revenues received from the sale of products and operating costs were furnished by Lilis Energy. No physical inspection of the properties was made nor any well tests conducted at this time.

OWNERSHIP

Ownership interests in the subject properties have been furnished by Lilis Energy and accepted by Davis without independent verification.

RESERVE ESTIMATES

The estimate of reserves included in this report is based primarily upon production history or analogy with wells in the area producing from the same or similar formations. In addition to individual well production history, geological and well test information, when available, were utilized in the evaluation. Individual well production histories were evaluated utilizing decline curve analysis on the individual properties and forecast until a calculated economic limit.

Exhibit No. 1 is a summary presentation of the economic cash flow analyses for the various reserve categories. Exhibit's II through IV are various one-line summary presentations of the reserve categories and individual properties. Exhibit V is a presentation of the individual proved developed producing properties with production curves. Exhibit VI is a presentation by reserve category of the undrilled locations classified as proved undeveloped at this time.

Estimates of reserves to be recovered from undrilled locations are based upon not only the ultimate reserve of existing Lilis wells, but also completions by other operators in the area of interest. Studies of analogous completions have resulted in the development of an average completion than can be anticipated for a specific area, as well as a production profile that recovers the estimated ultimate reserve. This methodology has been utilized in this evaluation.

Proved undeveloped reserves estimated for the Lang properties in which Lilis has a significant working interest position have increased substantially over those volumes similarly booked one year previous, Prior to 2013 development of the Codell and Niobrara formations was scheduled to be accomplished by a series of vertical wellbores on relatively tight spacing but with limited areal drainage. During 2013 and reflected in the current December 31, 2013 reserve report, development of the Lang acrerage is scheduled to be accomplished by a series of horizontal wells drilled with a planned 5,000 foot lateral extension in each of the targeted formations.

Horizontal well development of the Lang acreage will require separate wellbores for the Codell and Niobrara formations. Each well will also require Lilis to pool it's acreage with offset owners in order to effect multiple wellbores, each with a 5,000 foot lateral extension, all to be drilled from a single surface pad site. The result will be fewer wellbore with significantly increased recoverable reserves per wellbore in comparison to the previous year's estimate of proved reserves.

Additional development potential was based upon geological interpretations; seismic indications of individual structures and well log analysis of know indicators of production. Well spacing was based upon historical activity in the same reservoirs in nearby fields. In all cases, proved undeveloped locations were limited to a direct offset to a proved developed producing well or unit or successful well test in the same reservoir.

The accuracy of reserve estimates is dependent upon the quality of available data and upon the independent geological and engineering interpretation of that data. It should be noted that all reserve estimates involve an assessment of the uncertainty relating the likelihood that the actual remaining quantities recovered will be greater or less than the estimated quantities determined as of the date the estimate is made.

The uncertainty depends primarily on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of these data. These reserves have been determined using methods and procedures widely accepted within the industry and are believed to be appropriate for the purposes of this report. In our opinion, we used all methods and procedures necessary under the circumstances to prepare this report.

PRODUCING RATES

For the purpose of this report, estimated reserves are scheduled for Lilis primarily on the basis of actual producing rates or appropriate well test information. They were prepared giving consideration to engineering and geological data such as reservoir pressure, anticipated producing mechanisms, the number and types of completions, as well as past performance of analogous reservoirs.

These and other future rates may be subject to regulation by various agencies, changes in market demand or other factors; consequently, reserves recovered and the actual rates of Lilis may vary from the estimates included herein. Scheduled dates of future well completions may vary from that provided by Lilis Energy due to changes in market demand or the availability of materials and/or capital; however, the timing of the wells and their estimated rates of production are reasonable and consistent with established performance to date.

PRICING PROVISIONS AND DIFFERENTIALS

Prices utilized in the evaluation results presented in the letter portion of this report and summarized in the various tables included in this evaluation were furnished by Lilis. Prices received for products sold, adjustments due to the BTU content of the gas, shrinkage for transportation, measuring or the removal of liquids, the liquid yield from gas processed, etc., were accepted as presented.

The unit price used throughout this report for crude oil, condensate and natural gas is based upon the appropriate price in effect the first trading of each month during the previous twelve calendar months through December 2013, and averaged for the time period.

Crude Oil and Condensate - The unit price used throughout this report for crude oil and condensate is based upon the average of prices for the previous twelve months as indicated above. An average crude oil price for West Texas Intermediate crude of $97.20 per barrel was held constant throughout the producing life of the properties. A pricing differential from this posted price was determined for the individual producing properties to account for location and grade of crude based upon historical sales information and was utilized in this evaluation. This pricing differential was similarly held constant. Prices for liquid reserves scheduled for initial production at some future date were estimated using current prices on the same properties.

Natural Gas - The unit price used throughout this report for natural gas is based upon the average of prices for previous twelve months as indicated above. An average gas price of $3.66 per MMBTU represented the Henry Hub BTU adjusted natural gas price and was held constant throughout the producing life of the properties. Prices for gas reserves scheduled for initial production at some future date were estimated using this same price differential

FUTURE NET INCOME

Future net income is based upon gross income from future production, less direct operating expenses and taxes (production, severance, ad valorem or other). Estimated future capital for development and work-over costs was also deducted from gross income at the time it will be expended. No allowance was made for depletion, depreciation, income taxes or administrative expense.

Direct lease operating expense includes direct cost of operations of each lease or an estimated value for future operations based upon analogous properties. Lease operating expense and/or capital costs for drilling and/or major work over expense were not escalated throughout the remaining producing life of the properties. Neither the cost to abandon properties nor the salvage value of equipment was considered in this report.

Future net income has been discounted for present worth at values ranging from 0 to 100 percent using continuous discounting. In this report the future net income is discounted at a primary rate of ten (10.0) percent.

GENERAL

Lilis Energy, Inc. has provided access to all of its accounts, records, geological and engineering data, reports and other information as required for this evaluation. The ownership interests, product classifications relating to prices and other factual data were accepted as furnished without verification.

No consideration was given in this report to either gas contract disputes including take or pay demands or gas sales imbalances.

No consideration was given in this report to potential environmental liabilities which may exist, nor were any costs included for potential liability to restore and clean up damages, if any, caused by past operating practices.

Neither Ralph E. Davis Associates, Inc. nor any of its employees have any interest in Lilis Energy Company, Inc. or any other related company or the properties reported on herein. The employment and compensation to make this study are not contingent on our estimate of reserves. The technical persons responsible for preparing the estimates presented herein meet the requirements regarding qualifications, independence, objectivity and confidentiality set forth in the SPE standards.

This report has been prepared for public disclosure by Lilis Energy Company, Inc. in filings made with the SEC in accordance with the disclosure requirements set forth in the SEC regulations.

The data and work papers used in the preparation of this report are available for examination by authorized parties in our offices. Please feel free to contact us if we can be of further service.

We appreciate the opportunity to be of service to you in the matter of this report and will be glad to address any questions or inquiries you may have.

Very truly yours,

RALPH E. DAVIS ASSOCIATES, INC.

\s\ Allen C. Barron, P.E.

Allen C. Barron, P. E.
President

Texas Registered Engineering Firm F-1529

Securities and Exchange Commission
Definitions of Reserves

The following information is taken from the United States Securities and Exchange Commission:

PART 210—FORM AND CONTENT OF AND REQUIREMENTS FOR FINANCIAL STATEMENTS, SECURITIES ACT OF 1933, SECURITIES EXCHANGE ACT OF 1934, PUBLIC UTILITY HOLDING COMPANY ACT OF 1935, INVESTMENT COMPANY ACT OF 1940, INVESTMENT ADVISERS ACT OF 1940, AND ENERGY POLICY AND CONSERVATION ACT OF 1975

Rules of General Application
§ 210.4-10 Financial accounting and reporting for oil and gas producing activities pursuant to the Federal securities laws and the Energy Policy and Conservation Act of 1975.

Reserves
Reserves are estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering oil and gas or related substances to market, and all permits and financing required to implement the project.

Reserves should not be assigned to adjacent reservoirs isolated by major, potentially sealing, faults until those reservoirs are penetrated and evaluated as economically producible. Reserves should not be assigned to areas that are clearly separated from a known accumulation by a non-productive reservoir (*i.e.*, absence of reservoir, structurally low reservoir, or negative test results). Such areas may contain prospective resources (*i.e.*, potentially recoverable resources from undiscovered accumulations).

Proved Oil and Gas Reserves
Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible—from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations—prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

(i) The area of the reservoir considered as proved includes:
(A) The area identified by drilling and limited by fluid contacts, if any, and
(B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

(ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.

(iii) Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.

(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when:
(A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and
(B) The project has been approved for development by all necessary parties and entities, including governmental entities.

(v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

Reasonable certainty. If deterministic methods are used, reasonable certainty means a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. A high degree of confidence exists if the quantity is much more likely to be achieved than not, and, as changes due to increased availability of geoscience (geological, geophysical, and geochemical), engineering, and economic data are made to estimated ultimate recovery (EUR) with time, reasonably certain EUR is much more likely to increase or remain constant than to decrease.

Reliable technology. Reliable technology is a grouping of one or more technologies (including computational methods) that has been field tested and has been demonstrated to provide reasonably certain results with consistency and repeatability in the formation being evaluated or in an analogous formation.

Probable Reserves
Probable reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered.

(i) When deterministic methods are used, it is as likely as not that actual remaining quantities recovered will exceed the sum of estimated proved plus probable reserves. When probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the proved plus probable reserves estimates.

(ii) Probable reserves may be assigned to areas of a reservoir adjacent to proved reserves where data control or interpretations of available data are less certain, even if the interpreted reservoir continuity of structure or productivity does not meet the reasonable certainty criterion. Probable reserves may be assigned to areas that are structurally higher than the proved area if these areas are in communication with the proved reservoir.

(iii) Probable reserves estimates also include potential incremental quantities associated with a greater percentage recovery of the hydrocarbons in place than assumed for proved reserves.

Possible Reserves
Possible reserves are those additional reserves that are less certain to be recovered than probable reserves.

(i) When deterministic methods are used, the total quantities ultimately recovered from a project have a low probability of exceeding proved plus probable plus possible reserves. When probabilistic methods are used, there should be at least a 10% probability that the total quantities ultimately recovered will equal or exceed the proved plus probable plus possible reserves estimates.

(ii) Possible reserves may be assigned to areas of a reservoir adjacent to probable reserves where data control and interpretations of available data are progressively less certain. Frequently, this will be in areas where geoscience and engineering data are unable to define clearly the area and vertical limits of commercial production from the reservoir by a defined project.

(iii) Possible reserves also include incremental quantities associated with a greater percentage recovery of the hydrocarbons in place than the recovery quantities assumed for probable reserves.

(iv) The proved plus probable and proved plus probable plus possible reserves estimates must be based on reasonable alternative technical and commercial interpretations within the reservoir or subject project that are clearly documented, including comparisons to results in successful similar projects.

(v) Possible reserves may be assigned where geoscience and engineering data identify directly adjacent portions of a reservoir within the same accumulation that may be separated from proved areas by faults with displacement less than formation thickness or other geological discontinuities and that have not been penetrated by a wellbore, and the registrant believes that such adjacent portions are in communication with the known (proved) reservoir. Possible reserves may be assigned to areas that are structurally higher or lower than the proved area if these areas are in communication with the proved reservoir.

(vi) Pursuant to paragraph (a)(22)(iii) of this section, where direct observation has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves should be assigned in the structurally higher portions of the reservoir above the HKO only if the higher contact can be established with reasonable certainty through reliable technology. Portions of the reservoir that do not meet this reasonable certainty criterion may be assigned as probable and possible oil or gas based on reservoir fluid properties and pressure gradient interpretations.

Developed Oil and Gas Reserves
Developed oil and gas reserves are reserves of any category that can be expected to be recovered:

(i) Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and

(ii) Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Undeveloped Oil and Gas Reserves
Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

(i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.

(ii) Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time.

(iii) Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, as defined in paragraph (a)(2) of this section, or by other evidence using reliable technology establishing reasonable certainty.

Additional Definitions:

Deterministic Estimate
The method of estimating reserves or resources is called deterministic when a single value for each parameter (from the geoscience, engineering, or economic data) in the reserves calculation is used in the reserves estimation procedure.

Probabilistic Estimate
The method of estimation of reserves or resources is called probabilistic when the full range of values that could reasonably occur for each unknown parameter (from the geoscience and engineering data) is used to generate a full range of possible outcomes and their associated probabilities of occurrence.

Reasonable Certainty
If deterministic methods are used, reasonable certainty means a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. A high degree of confidence exists if the quantity is much more likely to be achieved than not, and, as changes due to increased availability of geoscience (geological, geophysical, and geochemical), engineering, and economic data are made to estimated ultimate recovery (EUR) with time, reasonably certain EUR is much more likely to increase or remain constant than to decrease.

LILIS ENERGY INC
TOTAL PROVED PRODUCING
AS OF 12/31/2013
SEC NON-ESCALATED EVALUATION

DATE : 02/25/2014
TIME : 13:09:44
DBS : DEMO
SETTINGS : RED_JAN14
SCENARIO : RED_JAN14

RESERVES AND ECONOMICS

AS OF DATE: 01/2014

--END-- MO-YEAR -------	GROSS OIL PRODUCTION ---MBBLS---	GROSS GAS PRODUCTION ----MMCF---	NET OIL PRODUCTION ---MBBLS---	NET GAS PRODUCTION ----MMCF---	NET OIL PRICE ---$/BBL---	NET GAS PRICE ---$/MCF---	NET OIL SALES -----M$----	NET GAS SALES -----M$----	TOTAL NET SALES -----M$----
12-2014	90.056	563.658	39.837	57.542	89.581	5.094	3568.665	293.133	3861.798
12-2015	62.989	415.955	28.849	41.460	89.575	5.070	2584.177	210.200	2794.377
12-2016	46.436	330.840	21.554	31.143	89.585	5.014	1930.938	156.156	2087.093
12-2017	36.873	275.041	17.144	24.118	89.584	4.942	1535.789	119.182	1654.971
12-2018	30.400	235.722	13.799	19.191	89.575	4.860	1236.035	93.274	1329.308
12-2019	24.170	206.655	10.105	15.665	89.567	4.776	905.065	74.821	979.885
12-2020	17.904	184.388	6.445	13.099	89.558	4.694	577.184	61.493	638.677
12-2021	15.664	166.842	5.420	11.201	89.548	4.619	485.350	51.735	537.084
12-2022	13.855	152.685	4.596	9.775	89.538	4.551	411.525	44.486	456.011
12-2023	12.348	138.698	3.916	7.563	89.529	4.307	350.550	32.574	383.125
12-2024	10.462	129.367	2.894	6.963	89.514	4.283	259.022	29.826	288.847
12-2025	9.531	121.280	2.514	6.532	89.505	4.283	224.986	27.976	252.962
12-2026	8.788	113.893	2.234	6.133	89.498	4.282	199.940	26.261	226.202
12-2027	8.133	107.042	1.996	5.760	89.491	4.281	178.604	24.659	203.263
12-2028	7.546	100.607	1.791	5.409	89.485	4.281	160.307	23.155	183.463
12-2029	6.909	94.303	1.572	4.976	89.477	4.266	140.658	21.226	161.884
12-2030	5.894	87.895	1.111	4.373	89.446	4.216	99.333	18.438	117.772
12-2031	5.359	82.621	0.893	4.111	89.422	4.216	79.874	17.332	97.206
12-2032	5.023	77.664	0.827	3.864	89.416	4.216	73.944	16.292	90.236
12-2033	4.711	73.004	0.768	3.632	89.409	4.216	68.623	15.315	83.938
S TOT	423.053	3658.158	168.263	282.510	89.565	4.805	15070.569	1357.534	16428.104
AFTER	30.902	595.941	2.034	30.847	90.698	4.215	184.476	130.023	314.500
TOTAL	453.955	4254.099	170.297	313.358	89.579	4.747	15255.045	1487.557	16742.602

--END-- MO-YEAR -------	AD VALOREM TAX -----M$----	PRODUCTION TAX -----M$----	DIRECT OPER EXPENSE -----M$----	INTEREST PAID -----M$----	CAPITAL REPAYMENT -----M$----	EQUITY INVESTMENT -----M$----	FUTURE NET CASHFLOW -----M$----	CUMULATIVE CASHFLOW -----M$----	CUM. DISC. CASHFLOW -----M$----
12-2014	172.152	199.829	764.508	0.000	0.000	0.000	2725.309	2725.309	2599.481
12-2015	116.562	143.779	636.461	0.000	0.000	0.000	1897.575	4622.884	4245.023
12-2016	81.448	106.241	520.315	0.000	0.000	0.000	1379.089	6001.973	5332.148
12-2017	62.806	84.029	493.879	0.000	0.000	0.000	1014.258	7016.230	6059.008
12-2018	50.304	67.296	466.546	0.000	0.000	0.000	745.164	7761.394	6544.463
12-2019	41.016	48.993	340.222	0.000	0.000	0.000	549.654	8311.048	6869.997
12-2020	33.983	30.954	152.590	0.000	0.000	0.000	421.150	8732.198	7096.748
12-2021	28.573	25.740	152.590	0.000	0.000	0.000	330.182	9062.380	7258.359
12-2022	24.352	21.560	152.590	0.000	0.000	0.000	257.510	9319.890	7372.942
12-2023	20.262	18.183	144.683	0.000	0.000	0.000	199.997	9519.887	7453.845
12-2024	14.866	12.691	102.008	0.000	0.000	0.000	159.283	9679.170	7512.419
12-2025	13.282	10.822	98.194	0.000	0.000	0.000	130.664	9809.834	7556.101
12-2026	12.178	9.488	98.194	0.000	0.000	0.000	106.342	9916.176	7588.420
12-2027	11.214	8.360	98.194	0.000	0.000	0.000	85.494	10001.670	7612.041
12-2028	10.365	7.403	98.194	0.000	0.000	0.000	67.501	10069.171	7628.996
12-2029	9.258	6.585	94.145	0.000	0.000	0.000	51.897	10121.068	7640.846
12-2030	7.568	4.995	65.665	0.000	0.000	0.000	39.544	10160.612	7649.057
12-2031	7.015	3.952	54.000	0.000	0.000	0.000	32.239	10192.851	7655.141
12-2032	6.517	3.642	54.000	0.000	0.000	0.000	26.077	10218.928	7659.614
12-2033	6.066	3.367	54.000	0.000	0.000	0.000	20.505	10239.433	7662.812
S TOT	729.787	817.909	4640.975	0.000	0.000	0.000	10239.433	10239.433	7662.812

AFTER	24.560	3.116	200.902	0.000	0.000	0.000	85.921	10325.353	7671.946
TOTAL	754.347	821.025	4841.877	0.000	0.000	0.000	10325.354	10325.353	7671.946

	OIL	GAS			P.W. %	P.W., M$
GROSS WELLS	21.0	1.0	LIFE, YRS.	33.25	5.00	8756.774
GROSS ULT., MB & MMF	1493.196	5733.325	DISCOUNT %	10.00	8.00	8063.625
GROSS CUM., MB & MMF	1039.241	1479.226	UNDISCOUNTED PAYOUT, YRS.	0.00	10.00	7671.945
GROSS RES., MB & MMF	453.955	4254.099	DISCOUNTED PAYOUT, YRS.	0.00	12.00	7324.854
NET RES., MB & MMF	170.297	313.358	UNDISCOUNTED NET/INVEST.	0.00	15.00	6871.919
NET REVENUE, M$	15255.046	1487.557	DISCOUNTED NET/INVEST.	0.00	18.00	6483.983
INITIAL PRICE, $	90.438	4.407	RATE-OF-RETURN, PCT.	260.00	30.00	5359.146
INITIAL N.I., PCT.	44.236	10.209	INITIAL W.I., PCT.	44.422	60.00	3920.405
					80.00	3403.934
					260.00	1909.667

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