

Trickle Research

Every raging river, every great lake, every
deep blue sea starts ... with a trickle



Initiating Research Coverage



Report Date: 05/31/18

12- 24 month Price Target: \$3.20

Allocation: 4

Closing Stock Price at Initiation (Closing Px: 05/30/18): \$1.44

PetroShare Corp. (PRHR)

(Stock Symbol - OTC: PRHR)

<http://www.petrosharecorp.com/>

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Disclosure: Portions of this report are excerpted from PetroShare's filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text.

Company Overview

PetroShareCorp. (“Petro”) is an Englewood, Colorado based oil/gas exploration and production company. The Company was incorporated in the State of Colorado in 2H 2012, with the goal of acquiring and developing oil and gas properties in the Rocky Mountain region of the United States, and principally in the Denver-Julesburg Basin (“DJ”) of northeast Colorado. PetroShare went public via an Initial Public Offering in November 2015. The Company’s focus in the DJ is largely on what is known as the Wattenburg Field. The DJ basin has been producing oil and gas from a number of formation since the 1970’s, and is one of the top tier production areas in the U.S. Because of the area’s considerable production history, producers benefit from both established (and growing) infrastructure, as well as “*seasoned service providers*”. We also think the collective and growing knowledge base of the area and its respective formations have lead to marked efficiencies amongst producers who have been able to “see further by standing on the shoulders” of one another. That “tribal knowledge” has driven down costs, and like some other areas of the domestic oil/gas production industry, has made these domestic producers flexible and formidable competitors with growing influence in the international oil markets. The recent advances in the domestic oil production industry are telling and represent a stark example of American ingenuity and persistence. In our view, the marked resurgence of the U.S. energy sector may someday prove to be one of the more important economic paradigms of the first half of the 21st century.

All of Petro’s properties are located in Colorado. As of March 28, 2018, they had “*an interest in 94 gross (31.8 net) productive wells plus 11 gross (1.3 net) wells in the final stages of completion and 33,681 gross (9,770 net) acres of oil and gas properties. As of December 31, 2017, (they) were producing hydrocarbons at the rate of approximately 785 BOE/D. At December 31, 2017, (they) had an estimated 1,534.1 MBOE of proved developed reserves and 6,310.8 MBOE of proved undeveloped reserves*”.

Historically, as the above alludes, the Company has focused on participating in wells that they owned relatively small fractions of and were operated by others. That is not an uncommon approach for small early stage players in the space, because they often lack the initial capital to develop and operate their own wells. That approach is perhaps a low-risk low-capital jump start, that when successful may provide small companies a platform to eventually develop and operate their own assets. Along those lines, in mid-2017 Petro commenced drilling on their ‘Shook Pad’ in northwest Adams County Colorado, which includes 14 wells. While they commenced drilling the Shook wells in 2017 with the idea of completing them in late 2017 or early 2018, the completion(s) was delayed when their anticipated financing plans failed to materialize. Recall, when the Company started drilling Shook in mid-May 2017, WTI oil prices were trading around \$50 per barrel, but over the next 6 weeks would trade under \$43. We think that compression impacted their financing plans/opportunities as concerns about oil prices permeated the capital markets.

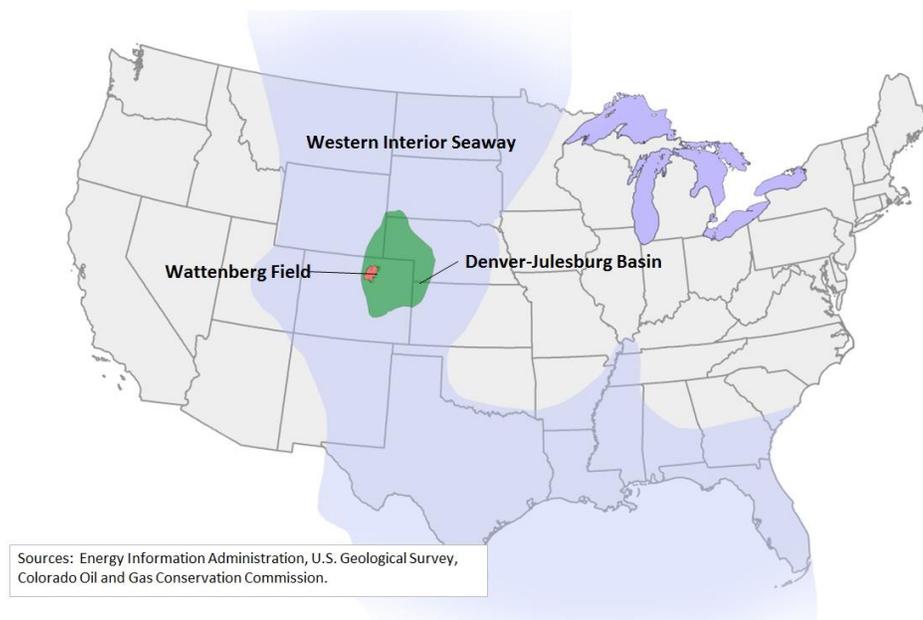
As one might expect, the delays at Shook impacted the stock negatively, which along with poor visibility for oil prices through the balance of 2017, pushed Petro shares lower, perhaps making required completion capital even more difficult to raise. Those challenges continued through 2017 until early 2018 when they announced the completion of a \$25 million Senior Secured Convertible Debt facility. With the proceeds of that facility, the Company is currently in the process of completing the 14 operated wells on the Shook pad, and they believe production should commence just prior the end of Q2. In addition, they continue to participate in other new non-operated projects. Cumulatively, the Company anticipates a marked increase in production through 2018.

Our research thesis here is built on a few primary drivers. First, we think the Company has assembled a promising land position in the DJ Basin, part of which has allowed them to participate in production operated by others. They were able to parlay some of that progress into their Shook Pad, which unfortunately was delayed by the adverse macro environment. However, today, having secured necessary financing, they are on the cusp of Shook production in what looks to be the next few weeks. Despite that progress, the stock is trading at about 75% of what it was when they commenced the original drilling one year ago, *and oil prices are about 35% higher*. We

think that warrants consideration on the face. As an extension, just as falling oil prices at the front end of their 2017 drilling created a “worst case scenario” for the Company, their ramping production profile (lead largely by the Shook completions) in the face of *rising* oil prices may have turned the tables to what now appears to be a “best case scenario”. We are not sure the street has bothered to reconstruct the ruble here, but if our operating assumptions prove reasonably accurate, we think the coming results could speak to much better intrinsic valuations. We also think financial success in that regard, will allow them to unlock other potential value in the existing resource base, perhaps on multiple levels.

Project Overview

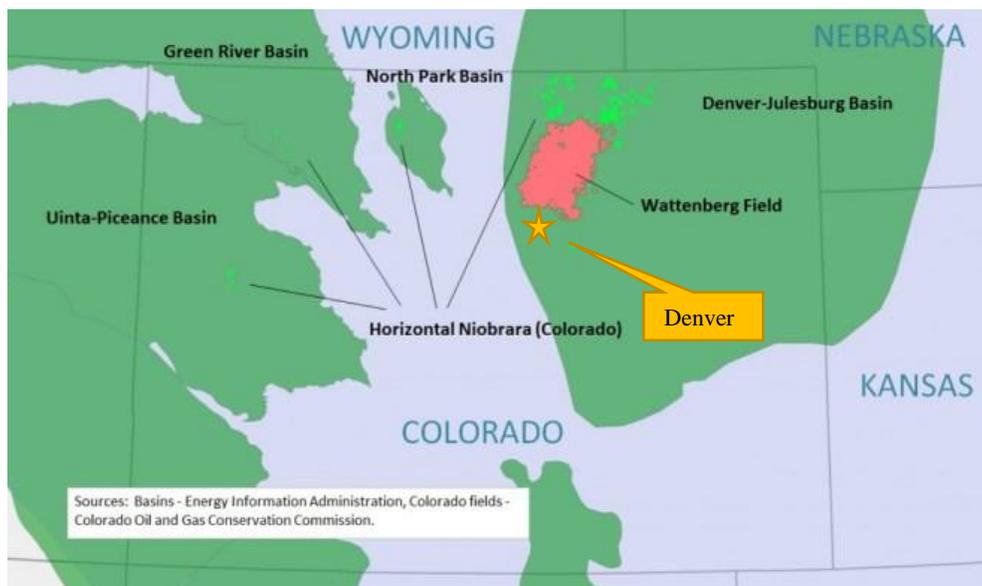
As noted, the Company’s assets located in the Denver-Julesburg Basin, located largely in the northeastern quadrant of the State of Colorado:



As the following excerpt from The History of Oil and Gas Development in the Denver Basin By: Debra K. Higley) suggests, the DJ basin has a long and prolific history:

“The Denver Basin (DJ) encompasses an area of about 70,000 square miles in eastern Colorado, southeastern Wyoming, and western Nebraska. More than 1.3 billion barrels of oil, 7.4 trillion cubic feet of natural gas, and 3.6 million barrels of water have been produced from more than 47,000 wells across the basin. Petroleum production is from Mississippian through Upper Cretaceous strata. The first oil well in the basin was completed in 1881 in the Upper Cretaceous Pierre Shale in the Florence field, the oldest active oil field in the United States. Depths of production across the basin vary from less than 900 feet (270 meters) from the Pierre Shale in the Florence field to about 10,000 feet (3048 meters) in Lower Cretaceous Muddy (J) Sandstone in the Wattenberg field...”

More specifically, PetroShare’s rights are largely concentrated in the Wattenberg Field, which as a subset of the DJ has also experienced marked production over the years and is expected to continue to do so.



“In 2013, the US Energy Information Administration listed Wattenberg as the 9th largest gas field in the US in terms of remaining proved gas reserves, and 4th in remaining proved oil/condensate reserves”. According to industry estimates there are more than 24,000 active wells in the Wattenberg, and that number continues to grow. As an additional point of interest, the American Petroleum Institute notes that “In 1973, the field was thought to contain 1.1 trillion cubic feet of recoverable gas. Through 2008, the Wattenberg Field had produced 2.8 trillion cubic feet of gas,^[6] and an estimated 5.2 trillion cubic feet of recoverable gas remained”.

Obviously, the field has become far more prolific than “estimates” have suggested, and we tend to think that may have at least something to do with advances in the industry, which we will address further in this report. The attraction of the field’s potential is underscored by public information from some of the area’s larger producers, that collectively, indicate plans to spend **billions** of dollars developing the Wattenberg (and other DJ properties) in 2018 alone. (Recognize, the Wattenberg is generally viewed as the “core” of the DJ). Our point is, we believe PetroShare’s position in a field of this nature, may underscore our thesis that their resource base is likely not being valued properly by the market, which would include in our view a lower risk profile that is often associated with established and well understood areas like the DJ in general, and the Wattenberg more specifically.

Over the years, the DJ has also benefitted from the addition of much need gas gathering and transportation infrastructure, such as the Rocky Mountain Express (“TREX”), which carries natural gas from the Rocky Mountains to Ohio ultimately providing access to eastern U.S. markets and associate population centers. In the past, a lack of that capacity has provided marked constraints for Rockies gas producers. In our view, the expansion of that infrastructure/capacity has played a role in the growing production from the region and as such is quite germane to the valuation analysis of most Rockies producers. We would submit, the prospects of gas production being “stranded” has impeded Rockie’s production, access to capital and valuations in the past. Transport capacity is not insignificant to the oil and gas fortunes of the region.

Just to summarize the above, since its inception in 2012, the Company has been acquiring and gathering oil and gas assets largely in the DJ Basin. We tend to believe that the state of **oil prices** from then until now, has shaped the Company’s progress both positively and negatively:



Much of the Company’s current asset base was acquired after its late 2015 IPO, and through much of 2016. As the oil price chart above depicts, 2015 through 2017 provided a difficult pricing environment for producers. On one hand, that situation made it challenging for many early stage (undercapitalized) players like PetroShare, in fact, in retrospect, given the prevailing environment at the time, it is surprising they were able to complete the IPO at all, which we suspect is probably a tribute to their management team. As we covered above, their struggles to access the capital markets to advance projects were only recently addressed by the \$25 million facility at the start of 2018 (again we believe in part because of improving oil prices). However, we also tend to think that oil’s problems through 2016 and 2017 allowed the Company to acquire highly prospective assets that they may have otherwise not been able to achieve. All things considered, we believe oil’s shakeup may have created a considerable opportunity for Petro.

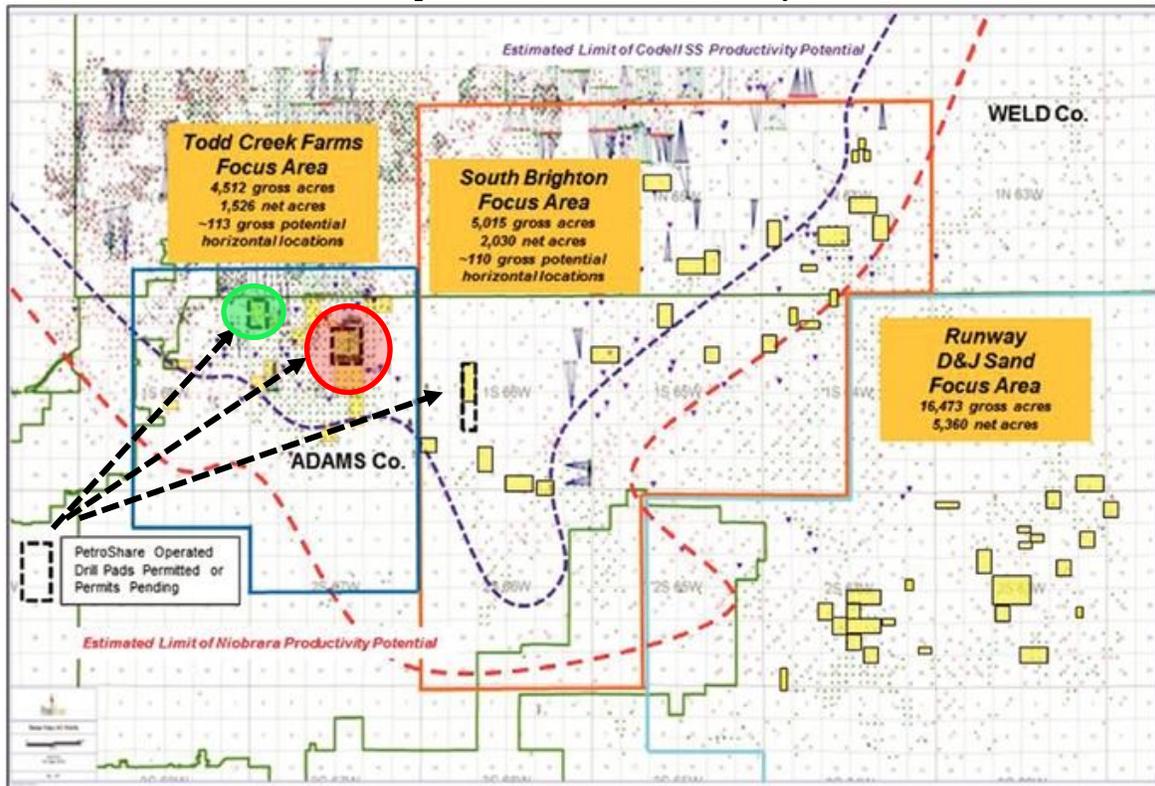
The Company currently has three areas of development and production concentration, and all are within reasonable proximity to one another. The maps below provide a good reference to these areas, each on an increasingly granular level:

Map 1: All PetroShare Development Areas



As Map 1 above reflects, the Company refers to its three primary development areas as, the “Southern Core” (which is then again broken down into South Brighton and Todd Creek Farms), the “Northern Core” and the “Runway”. Again, each of these areas within the Wattenberg.

Map 2: Southern Core & Runway



As Map 2 illustrates, the Company has several (somewhat unconsolidated) leases that are scattered throughout the three focus areas. The current production focus is in Todd Creek where they are just now completing the 14 standard lateral well Shook pad. There are a few important takeaways from the above that collectively are a big portion of the story here.

First, for those who may not be as versed in oil and gas jargon as others, it is not atypical for exploration and production (“E&Ps”) companies, especially smaller ones, to participate with others in the development and production of wells. In some cases, the company may oversee the project themselves as the “operator” while in others they may have a more passive role as other companies engage the operator role. E&Ps may end up with participating (“working”) interests in these wells through various means. For example, if a company holds a lease for the mineral rights on a particular parcel, they may contribute that lease while another company might be responsible for putting up the money to drill and operate the well. As a result, the company putting up the lease as their “share” of the project might end up with (hypothetically) 25% of the total project. This is the way in which E&P companies use the assets they have (a lease) and turn into them production by attracting assets they do not (cash to drill and operate the well). So, in this case, the company started out with 100% of lease on some non-producing acreage, which the industry refers to as “gross acres”. However, by attracting a partner that puts up the money to drill the well, the company now owns 25% of a producing asset. The industry in turn refers to that 25% interest as a “net interest”. Obviously, the detail of how these percentages are divided up, is a function of the agreement between the participating parties and are based on the perceived values of all the contributed pieces in the context of the anticipated production from the wells. That might include a bigger piece for being the operator as well for example. As a result, these deals typically differ one to the next, so a company like PetroShare

that may have many of these agreements covering multiple projects will have varying amounts of “net” interests in each. Moreover, that process may involve acreage/leases that are yet to be developed. That is, it is not uncommon for these companies to swap pieces of rights to properties as well. Consequently, the analysis requires adding up all the bits and pieces, which adds to the complexity of the analysis. Our job is to sort that out for our subscribers. For edification, the yellow boxes on Map 2 above, illustrate the locations of the company’s gross acreage.

The above said, the Company has provided some guidance in terms of the gross and net acreage they currently control. (Note, these numbers change regularly as the Company addresses the land position, so these acreage amounts are approximate.) Here is a summary of those numbers:

Southern Core:

- Todd Creek Farms. 4,512 gross acres. 1,526 net acres.
- South Brighton. 5,015 gross acres. 2,030 net acres.

Runway:

- 16,473 gross acres. 5,360 net acres.

Northern Core:

- 3,836 gross acres. 805 net acres.

While the Company believes each of these sectors possess production potential, its current primary focus is on the Southern Core assets. As noted, their first self-operated pad/wells (“Shook”) is located in Todd Creek (see Map 3) and as indicated on Map 2, they have additional pads permitted (or pending permitting) in both Todd Creek and in South Brighton.

Map 3: Todd Creek



Succinctly we think the completion and production results from Shook will be a telling proxy for the direction of PetroShare. To edify, if the company has roughly 3,600 net acres in the Southern Core, that implies the potential for around an additional 90 standard range lateral wells (4,400 feet) or 45 long lateral wells (9,000 feet) or perhaps

some combination of the two. That would imply that the current inventory will support about 6X to 6.5X the current production profile added by Shook. Many of these sites are already permitted or are in the process of being so. As an extension to the thought, the cost of a single standard horizontal well is estimated to be \$3.6 million, while the estimate for a long lateral is about \$5.5 million. That would suggest that the capital required to drill the current Todd Farms/South Brighton inventory would be between \$250 million and \$325 million. Translation: they have plenty of work to do on acreage they current hold and have permitted, and exploiting those resources *would result in several times* our anticipated year end 2018 production run rate.

We have used the above data points in our model (potential future wells) and we will look to the results at Shook as guidance to additional data points regarding initial flow rates and decline curves, although we also have some of that information regarding producing wells in proximity to their acreage to augment that as well. The point is, we expect PetroShare to add significantly to their operated well counts as we mover forward, which we think will provide a basis for significant increases in both operated and net production. As we address in the operating section of this report, Shook will provide a marked increase in net production, and we expect future wells to provide the same. Recognize the recent raise is the impetus for the completion of Shook and by extension the expected production/revenue expansion, which we think will in turn provide capital for more expansion, which is why we see the financing as such a meaningful catalyst.

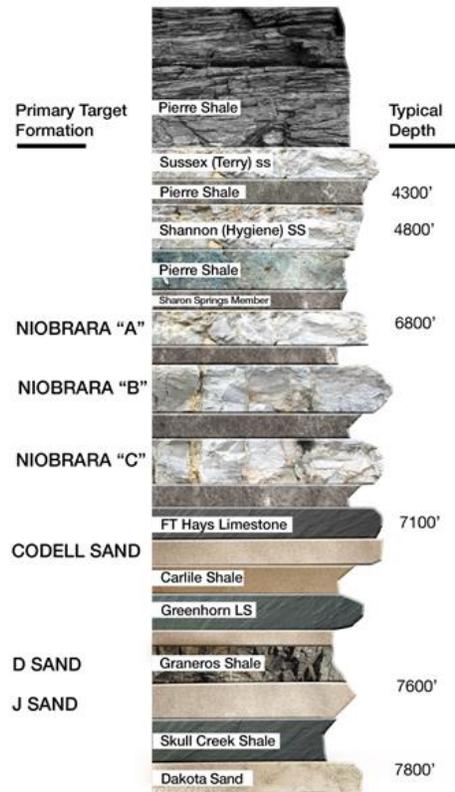
In addition, we expect the Company to continue to consolidate its position in Todd Creek and South Brighton through additional swaps and/or acquisitions. While we are not sure how that will impact their net acreage, we do think consolidating the acres geographically may create some operating benefits and may hasten the development of the collective acreage to the degree that a greater portion of their activity involves projects they operate. Obviously, if they are the operator they have greater control of when projects get developed (although we submit, access to capital, both their and others they may participate with is also a major determinant to that notion).

We are comfortable suggesting that Todd Creek and South Brighton development will likely be the focus of new production through at least 2020. As the numbers above illustrate, the currently identified inventory in the context of foreseeable capital suggests that. (That could change in the case of added capital opportunities). On the other hand, Runway represents their largest acreage focus area, and we know there is considerable E&P activity being conducted in that part of the Front Range as well. While we see Runway as a potential wildcard (for example acreage sales that could generate capital for drilling) we generally view this as the “next leg up” in future production expansion beyond the current areas of focus. Frankly, we think the Runway assets hold considerable potential value that is largely being ignored by current implied valuations of the stock. That view is part of our enthusiasm for the stock at current levels. Runway may well be the “ace in the hole” for PetroShare.

We think this is a good place to reiterate something the Company points out in its filings regarding their projects in the context of the DJ/Wattenberg area. They believe, and we concur, that *“nearby operator horizontal drilling activity and well results in and around our acreage have significantly mitigated the geologic risk in our drilling program”*. Having followed several early stage Colorado based E&P companies over the years, we can attest that this is not a statement that operators could always make. As we suggested in our opening introduction, the DJ has a long operating history, and that includes being among the very first domestic shale plays. Operators have benefitted greatly from the substantial knowledge base about the region and specific formations within the region, and that has led in our view, to the “lower geological risks” the Company alludes to. That is, the visibility regarding the initial flow rates, decline rates and sustainable forward production is far better today than at points in the past, and that is an important (positive) variable in the analysis of PetroShare and its resulting valuation.

Along the same lines, the Company also notes that *“the Southern Core area contains the Niobrara and Codell geologic formations, which tend to yield oil-weighted production that remains economic in lower commodity price environments”*. Historically, the Company’s production has been predominantly from oil (as opposed to natural gas) and while that ratio will fluctuate over time we expect that to continue. That is the experience of other operators in the area from these particular formations. The Niobrara a Codell are both well understood, but we

would note, we think as the knowledge base expands, there is potential for additional marked production from deeper formations like the D and J sands. The illustration below might be helpful in that regard:



Industry Overview

We generally include an industry overview in our research because many of the small companies we follow tend to operate in niches or perhaps portions of larger industry that may not be intuitively familiar to people. Obviously, while we do think there are some nuances to shale production, in general, we don't think the oil and gas industry needs much clarification. That said, there are a few industry level issues that we think are worth covering.

On some levels, it may be counterintuitive that we are writing on a small E&P company because we have been generally skeptical about the prospects of higher oil prices. Setting aside the notion that in the short and even intermediate term(s), anything can happen in the marketplace, we still believe that oil prices face some headwinds. Interestingly enough, domestic production from the likes of PetroShare and many others is one of the tenets of that view.

Over the past several years in a handful of spots we have opined that *"we believe the resurgence of domestic oil production brought on largely by the emergence of production from unconventional (oil shale) resources might ultimately be the most "disruptive" economic event of the 21st century, or at least the first half of the 21st century"*. By the way, we still stand by that notion today.

As a bit of history, OPEC was conceived by Juan Pablo Pérez Alfonzo a Venezuelan politician, and the organization was initially formed in 1960 by five founding members, Venezuela, Saudi Arabia, Iran, Iraq and

Kuwait. Nine others joined the group over the next decade or so. Prior to OPEC's emergence the world's oil markets were largely controlled by a number of multinational oil companies sometimes referred to as the "Seven Sisters". Some of those companies, for example BP and Exxon, remain significant players today. From its inception OPEC was able to control larger and larger portions of the world's oil production and reserves. OPEC's control became apparent to the world in 1973 when it issued an oil embargo against allies of Israel (largely the U.S.), which was at the time fighting the Yom Kippur war against Egypt and Syria. During that period (approximately 6 months) oil prices rose from \$3 per barrel to \$13 per barrel. The next major oil shock came about in 1979 when the Iranian government was overthrown driving prices from \$14 per barrel to \$35.

As a 2015 Wall Street Journal article on the history of OPEC points out, following that second oil crisis, OPEC began to more aggressively assert itself into the supply (and perhaps by extension the demand) equation of oil. In the early 1980's they implemented mandatory quotas amongst the membership, which was actually aimed at driving oil prices down in an effort to spur new demand. The latter half of the 1980's saw oil prices decline as new (non-OPEC) oil sources in the North Sea and Alaska came online. That particular scenario (new non-OPEC production) and the price declines that followed probably provided a good glimpse into the impact that future U.S. shale production might have on prices. Oil spent the balance of the next 10 years (essentially the 1990's), trading largely around \$20. On the other hand, over the *next* 15 years oil prices would be driven much higher by demand from a rapidly emerging China as well as various geopolitical events in the middle east that impacted supplies (9/11, the Iraq war, Iran sanctions etc.). OPEC greed may have played a role in the rapid rise of prices as well. In mid-2011, with oil trading above \$100 per barrel OPEC held a meeting to increase production amongst members, which was largely rejected. In the meantime, U.S. oil production was rapidly ramping up aided by elevated oil prices and corresponding flows of capital into the space. Just to reiterate, we believe the emergence of U.S. non-conventional oil production has changed the face of energy that may lead to one of the world's most prolific transfers of wealth rivaled perhaps only by that which occurred when OPEC took control of the energy markets in the second half of the 20th century.

Given the history of oil prices starting with the influence of the Seven Sisters and following with OPEC, we think it is safe to say that until very recently, oil supplies and by extension prices have been largely directed by cartels, rather than the free market. By extension, our expectations are that "the market", will play a much bigger role in deciding oil prices than perhaps it has in the past. To that end, we think U.S. shale players have become formidable players in that new paradigm. They are collectively driving efficiencies which are leading to lower costs, and the nature of their resources allow them greater flexibility in responding to changes in market demand. That is, they can drill and complete wells quickly in response to increasing prices or hold off on bringing on new wells when demand is weak. We think the changes in oil supply leadership (and its influences), the nature of the reserves and their accessibility and ultimately the prospects for marked energy substitution (renewables for example) have substantially altered the oil markets. There are cogent arguments on both side, but for now, we are not sure if this brave new world makes oil more or less volatile, but we suspect the latter, which frankly, we would view as positive for domestic producers.

Just to edify, we are not suggesting that OPEC and/or other large non-OPEC producers (Russia for instance) will not continue to assert their influence on oil markets. We think they will most certainly try, and recent events support that view. For example, in spite of our skepticism to the contrary, it appears that OPEC's production cut backs have in fact impacted oil prices, at least that looks to be the correlation. However, at the same time global economic activity seems to have gathered some steam which also appears to be bolstering demand. Given the confluence of the two (orchestrated supply constraints by large producers and renewed demand from improving economic activity) its not surprising that prices have benefitted.

On the other hand, the minutia of better pricing levels may not in our view, speak to OPEC's pricing power as some suggest. To edify, we don't believe that OPEC will be able to sustain production constraint compliance for any measurable period of time, which will likely be necessary to in turn impact sustainable pricing power. For

example, we would argue that OPEC's recent supply constraint efforts while by most measures have been "successful" have in reality been a "mixed bag" at best. In short, there are probably three takeaways from those initiatives; wealthier OPEC members (Saudi Arabia and Qatar) have exceeded reduction quotas, non-OPEC members (largely and most importantly Russia) have underachieved in terms of quotas, and "troubled" OPEC members (Venezuela and Angola) have substantially "outperformed" quota reductions. To be clear, this last group, Venezuela and Angola, did not take one for the team. They produced well below quota because their oil-based economies were driven to the brink by low oil prices, and now they face investment and infrastructure problems that may likely impact their ability to produce oil anywhere close to prior output without marked "change". This latter notion in the context of future oil prices is worth addressing.

Our past views of future oil prices (discounting the influence of a strong OPEC) included some caveats. One of those was the ability of certain large oil-based economies to survive in an industry where OPEC's clout is diminished. The case study here is Venezuela, which is quickly spiraling into (further) chaos. The net result of its failed socialist regime appears unfortunately, to be ever decreasing oil output as investment in vital infrastructure has ground to a halt under the government's dire financial condition. Specifically, Venezuela has exceeded its production reduction goal by 167%. We don't think that was the plan. Just the same, inasmuch as we continue to believe OPEC's influence on world oil supply will continue to diminish, we also think the crumbling infrastructure of some of OPEC's past members unable to adjust to lower sustainable prices, may prove irreparable. In that case, OPEC may not need quotas to constrain supply, which frankly, may speak to higher oil prices more clearly than OPEC controls.

In short, we expect oil prices to remain volatile, which, all things considered, we think may be advantageous for domestic producers who are driving down costs yet are able to maintain supply flexibility within volatile price environments.

Operating Overview

The operating side of Petro probably requires the most focus at this point given that Shook represents their first attempt at operating their own wells, which by extension also means greater participation than they have been able to garner in the past. To edify, their working interest in the Shook wells is 41%, whereas their participation in past non-operated properties has generally been a small fraction of that. Again, Shook (and everything required to get it into production) represents a marked milestone for the Company. With that said, the success/failure of the operations will depend on a handful of key variables that we have attempted to identify below and in turn provide a bit of color around.

Recognize, the economics of oil and gas include some unique nuances and those nuances are more unique (or at least perhaps more acute) than even other commodity comparisons. We think that statement has become more accurate in the "unconventional/shale" portion of the (domestic) industry that has essentially been driving most of the domestic production resurgence. (To be clear, we use the terms "conventional" and "unconventional" lightly because we think it is becoming more difficult to differentiate the two). For example, many shale producers, especially those operating in established areas such as the Wattenberg, generally have some sense of how the wells they are drilling will perform, and that includes things like initial flow rates, decline curves and resources mix (oil versus gas) associated with the ongoing production. While well performance tends to be more predictable than that of traditional reservoir wells (read fewer dry holes), unconventional wells also tend to have lower estimated ultimate recoveries ("EURs"). To put that into perspective, our current model assumes each of the 14 Shook wells will have initial flow rates of around 400 BOE per day, with steep decline rates (50% of the total production will occur in the first 18 to 24 months) and an ultimate recovery over time of around 380,000 BOE. By comparison, large offshore wells (obviously much more expensive to drill) might produce 250,000 BOE *per day*, and they may not experience marked declines for 3 or 4 years. Obviously, those two projects involve

markedly different economic profiles. As a result, Petroshare's goal is to drill wells quickly and inexpensively, that will produce as large a portion of their EUR as possible in the shortest period of time. That approach may provide better visibility and lower risk (exposure to changing commodity prices for example) than perhaps other more traditional/conventional oil projects, and the analysis is perhaps best reflected in terms of internal rate of return ("IRR"). That is, the faster the well can be drilled and the bulk of the accessible hydrocarbons retrieved and sold, the more economic/profitable the project. By extension, recovering the investment more quickly allows the operators to use cash flow from one project to initiate another, which avoids the cost of additional capital and in turn also lowers the risk profile of the Company. Once a small company can break into that cycle (projects that are producing quickly and providing internal cash flow for new production) their fortunes and resulting valuations can turn quickly. That is our basic thesis with respect to PetroShare. It is also why we think the Shook results, which should be available as we roll through 2018, are so topical to the valuation of PetroShare and could (provided they are close to what we have assumed...or better) represent a marked catalyst for the stock.

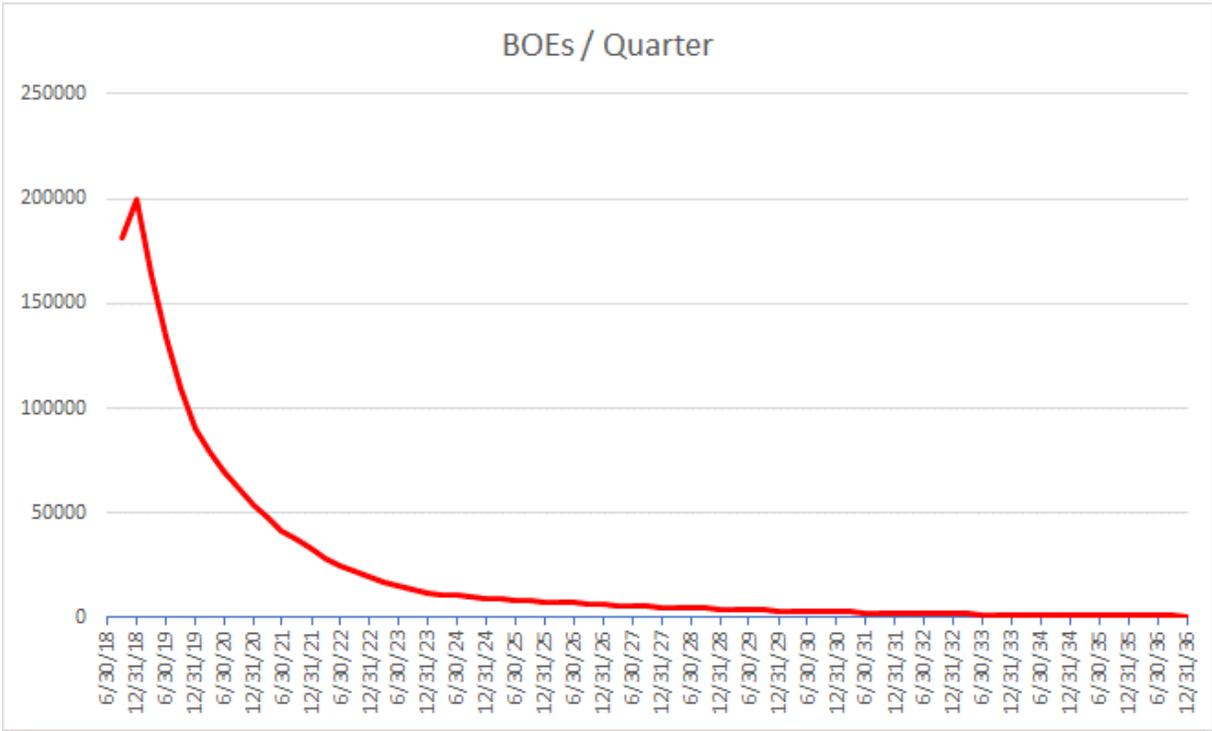
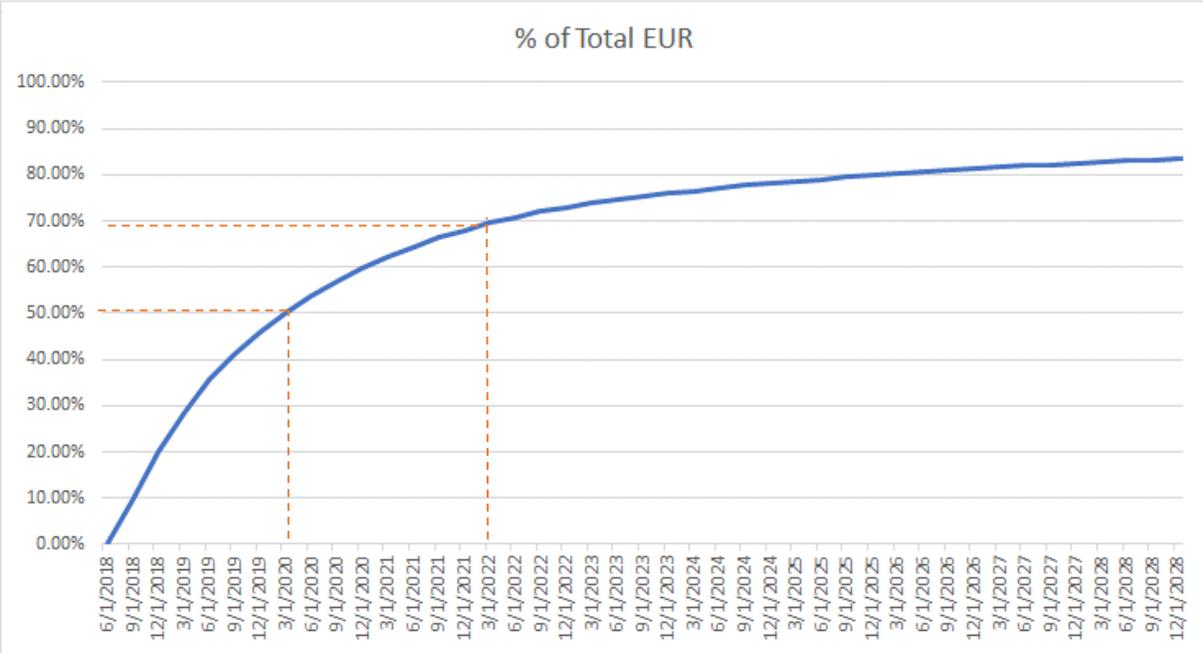
Given the above, assumptions regarding Shook production should be important to anyone contemplating the appropriate valuation of PetroShare. Here is a recap of our assumptions. Recognize many of these assumptions are based on the Company's projections therein.

The Shook pad includes 14 intermediate ("standard") range lateral (horizontal) wells. Recognize, lateral wells are drilled in different lengths depending on various inputs. Standard wells are approximately 1 mile long while "extended" range wells will be closer to 2 miles long. For our modeling, we are assuming CAPEX of around \$800,000 per 1,000 lateral feet per well. So then, we are assuming it costs \$4 million to drill a 5,000-foot lateral well. However, we know the economics of that improve significantly with longer wells. For example, our forward model assumes the addition of some extended laterals in South Brighton, and in that instance, we believe Capex will be closer to \$600,000 per 1000 feet. We have adopted these assumptions from Company presentations, and in the case of Shook (since we already know the Capex at this point) we think these are close to actual results. However, our homework suggests that others (albeit larger) operators in the basin are drilling horizontals in the neighborhood of 75% of the costs we are assuming here. That is a function of scale and "purchasing power" but the point is, we think our assessment of Capex per drill foot is reasonable.

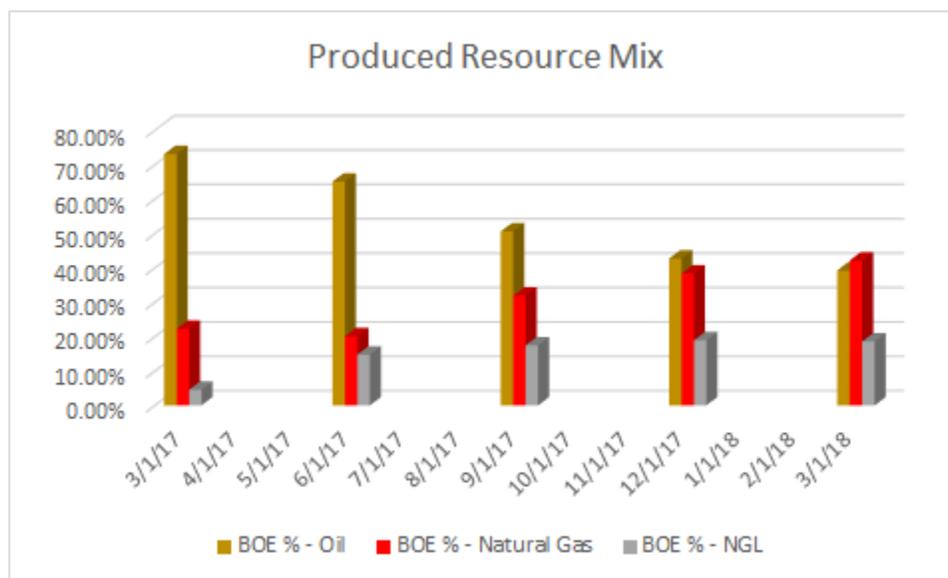
The Company estimates the EUR to be around 350,000 BOE for standard laterals and 700,000 BOE for extended laterals assuming a mix of Niobrara and Codell formation(s) production. We have found collateral from other operators in the region that support these assumptions. (Frankly, this assessment tends to impact production assumptions for out years that discount to nominal changes in NPV analysis so some of this is academic). We have used the Company's EUR estimates to back into initial flow rates, but we have modeled future long-term production around EURs in these ranges. Recognize, beyond establishing initial production/flow rates and decline curves thereafter, the EUR assessments become less germane the farther they get from the present. Moreover, they are a bit of an educated guess in the first place.

As we noted, part of the trick here, is to extract as much of the resource from the well(s) as possible, in the shortest period of time essentially reducing the payback time of the well, and in turn increasing the internal rate of return. In that regard, we have provided two illustrations below, which provide a visual representation of our assumptions regarding the decline curve at Shook. (our assessments of future projects will utilize similar curves which may or may not be the case). To edify, the first graph illustrates that we anticipate that roughly 50% of the entire production from Shook will be recovered in the first 18-24 months of production, and over 70% will be retained over the first four years. Here again, as far as we can tell, that is consistent with other activity in the Basin. The second chart is perhaps another way of illustrating a similar point, as it reflects the steep decline in BOE production going forward. Clearly, the chart reflects the diminishing impact that Shook (or any other) wells will have in the financial performance of future reporting periods, and it reinforces the need for E&P enterprises that wish to develop long term sustainable businesses, to continue adding to their reserve bases to maintain/grow production. Also, as an adjunct to the metrics, if the wells perform in conjunction with our estimates, we would expect them to "payout" (recoup the Capex) somewhere between 15 and 18 months. We think that type of time frame may allow them to organically add another operated pad by 1H-2019 (with similar working interests to Shook). We

are modeling (projecting) that scenario, however, if an improved production and financial posture provides them access to attractive financing, we would expect them to take advantage of that to either replace the existing (more expensive) legacy financing, and/or accelerate additional production opportunities.



Another income side variable that will impact results will be the resources mix. Generally, oil will trade at better relative values than either natural gas or NGL (natural gas liquids). For example, 1 barrel of oil is equal to approximately 6 mcf of natural gas. For Q1-F2018, the Company’s 10Q notes the average of each for the quarter was \$59.34 per barrel and \$2.55 per mcf respectively. Given the 6 to 1 ratio, that would put gas at an equivalent price of about \$15.30 per BOE. There are a number of reasons for the stark disparity between natural gas and oil prices, but as a general rule, a higher ratio of oil to gas will almost always be desirable. NGLs are a bit different in that their price is a function of other variables that often decouple those prices from oil and/or gas prices. In any event, we have modeled ongoing resource mix at 50% oil, 35% natural gas and 15% NGL. The chart below represents the Company’s product mix over the past few quarters through Q1 F2018:



Our resource mix assumptions are largely a product of company expectations, however, looking over the presentation of some of the major players in the basin over the same period above, oil mixes between 50% and 55% appear typical. We would add, our model includes some assumptions about production in the South Brighton portions of the reserves. In that instance, we have reduced our expectations for resource mix given that the area appears to yield higher natural gas results than are typical at Todd Creek. Obviously, we will modify our model accordingly as more data points become available.

Beyond the above, the remaining major revenue variables are oil, gas and condensate prices. We are modeling the following prices for each going forward:

- Oil: \$60 per barrel
- Natural gas: \$2.50 per mcf
- NGL: \$15 per barrel

The model has considerable sensitivity to these prices, so they will represent important data points going forward. We would add, we have made our natural gas assumptions around Opal Wyoming (“Opal”) hub prices, which we think most often best approximates the Company’s pricing and often represents a considerable discount to Henry Hub. By the way, Opal is located in south western Wyoming. It is the point of convergence of several natural gas pipelines and as such is *the market* for much of the natural gas production in Wyoming and other proximate locations.

As noted above, the revenue side of the equation will be driven by the many variables, however, the expense line items should be a bit more predictable. We won’t belabor what can be found in the model at the end of this report.

In a nutshell, many of the prevailing costs will be a function of production (production costs, leasing operating, depletion etc.). The one exception to that will be SG&A. While we have built some escalation in this item to account for increasing overhead as a result of business expansion, we expect it to decrease as a % of revenues going forward providing some operating leverage at scale. Keep in mind the depletion line item is a significant, but non-cash item.

Below the operating line, inasmuch as the recent \$25 million financing may have saved the day here, it was not cheap, and it added a significant layer of debt and equity dilution to go along with that which they were already carrying. We have reflected what we believe to be the appropriate interest expense, which is significant. Our expectation is that as the Company's financial condition improves via expanding production, they will be able to replace expensive debt with more conventional (cheaper) alternatives. In addition, much of the current debt carries conversion features that we have not attempted to work into the equity table. To translate, should debt holders choose to convert their debt into equity (which we assume will be a function of the fundamental success of the Company and the ultimate reflection of that progress into higher stock prices), the share counts will be higher than we are reflecting, although, so then in turn will their cash/working capital. We have attempted to reflect the potential dilution of other derivatives (options and warrants) in both the fully diluted share calculations (using a treasury method approach), as well as an assumption of the eventual exercise of these derivatives prior to their respective expiration dates. Keep in mind, our assumptions about those exercises also leads to an assumption about the underlying cash collections for those exchanges, which we have then worked into the cash flow table to support assumptions about added production.

Management

As we noted, management has considerable collective industry experience that we think is paramount (although not necessarily definitive) to their ultimate success.

Stephen J. Foley, Chief Executive Officer

Mr. Foley has served as our Chief Executive Officer since our inception in 2012. Prior to entering private business, Mr. Foley had a successful professional football career as a safety with the Denver Broncos football organization of the National Football League where he played for 11 seasons, from 1976 to 1986. In 1991, Mr. Foley founded and continues to serve as the president of FSI Development Inc., a privately-held construction and development company engaged in residential development and construction. In 2000, he founded and continues to serve as a managing member of FS Land, LLC, a privately-held real estate development company. From August 2011 to the present, he has served as Vice President, Secretary and Director of KBW Enterprises, Inc., an oil and gas servicing company. He holds a B.S. in Business Administration from Tulane University and serves on the Board of Denver Street Schools. Mr. Foley has extensive knowledge of our operations and of developing companies.

Frederick J. Witsell, President

Mr. Witsell became our President in November 2012 and assumed the role of Secretary in August 2013. Mr. Witsell has over 32 years of experience in several facets of the oil and gas industry, including prospect development, conventional and horizontal drilling and completion operations, project management, gathering and compression systems, and marketing and risk management. From July 2011 to September 2012, Mr. Witsell served as the owner and General Manager of Premier Energy Supply, LLC, a consulting service firm in the oil and gas industry. From 2010 to 2011, Mr. Witsell served as Vice-President and General Manager of Monroe Gas Storage, an affiliate of High Sierra Energy Partners, and led the organization's projects and eventual divestiture in 2011. From 1999 to 2003, he was with Markwest Hydrocarbons in the capacity of Vice-President of the Rocky Mountain Business Unit and responsible for the growth through capital programs and financial performance of the company's oil and gas operations in the United

States and Canada. Mr. Witsell led the acquisition and eventual divestiture process of Markwest oil and gas assets. Prior to 1999 and at various times between 2003 and 2010 and in 2012, Mr. Witsell also served as an executive and co-founder of a series of small, privately-funded oil and gas companies with properties in North Dakota, Wyoming, Utah and Colorado. He was responsible for the growth and execution of capital programs, utilizing modern horizontal / directional drilling and completion technologies. He led the divestiture of these oil and gas companies. Mr. Witsell has a B.A. in Geology from Colorado College, an M.B.A. in Energy Management from the University of Denver, and is a member of Society of Petroleum Engineers, the American Association of Petroleum Geologists and the Rocky Mountain Association of Geologists. Our Board of Directors believes that Mr. Witsell is well qualified to serve as a director and executive officer of the company as a result of his extensive oil and gas industry experience including areas of executive management and operations developed by serving as an executive officer of other oil and gas companies throughout his career. Mr. Witsell brings years of hands-on experience with oil and natural gas companies in many capacities and across multiple basins.

Paul D. Maniscalco, Chief Financial Officer

Mr. Maniscalco became our Chief Financial Officer in January 2016. Mr. Maniscalco has been a principal with SJM Holdings, Inc., d/b/a SJM Accounting, Inc., an accounting and business advisory services firm headquartered in Englewood, Colorado, since 2008. From 2012 until 2014, Mr. Maniscalco served as interim Chief Financial Officer of Earthstone Energy Inc., a company engaged in the oil and gas industry. From 2010 until 2011, Mr. Maniscalco served as the interim Chief Financial Officer of GeoPetro Resources Company, a company engaged in the oil and gas industry with securities formerly traded on AMEX and currently traded on OTC Pink of OTCMarkets. Prior to joining SJM Accounting, Inc., Mr. Maniscalco was a senior manager for several accounting firms. Mr. Maniscalco holds a B.B.A. in Accounting and a B.H.S. in Healthcare Administration, each from Florida Atlantic University.

William B. Lloyd, Chief Operating Officer

Mr. Lloyd became our Chief Operating Officer in January 2016. Mr. Lloyd has over 35 years of experience in the oil and gas industry, serving in engineering, management, and senior leadership capacities. Prior to joining the Company, from 2007 until 2015, Mr. Lloyd served as the Senior Vice President of Operations for Cirque Resources L.P., a company engaged in the oil and gas industry. From 2006 until 2007, Mr. Lloyd served as the Western Region Drilling Manager for El Paso Exploration Company, which has oil and gas exploration and drilling operations in the Uintah Basin, Powder River Basin, and the Raton Basin. From 2002 until 2006, Mr. Lloyd served as Operations Director for ConocoPhillips Norway, during which time Mr. Lloyd managed well operations on multiple fixed platforms and exploratory drilling operations. Mr. Lloyd holds a Bachelor of Science in Petroleum Engineering from Montana Tech of the University of Montana.

William R. Givan, Executive Vice President Land

Mr. Givan joined our team in April, 2016 and became the Executive Vice President of Land in April, 2017. Mr. Givan has over 35 years of experience in the oil and gas industry having been involved with every phase of land work relating to oil and gas production. Prior to joining PetroShare, from 2008 until 2015, Mr. Givan served as Regional Land Manager for Cirque Resources LP, a privately-held Delaware limited partnership, and oversaw all land functions in Colorado, North Dakota, Montana, Wyoming and Utah. From 2004 until 2008, Mr. Givan served as Senior Landman for Bill Barrett Corporation overseeing all land functions in the Piceance Basin. Mr. Givan has worked on several large acquisitions on both the buyer's and seller's side and was instrumental in forming land departments in several oil and gas companies. Mr. Givan attended University of Colorado – Denver, School of Business and holds a Certified Professional Landman designation with the American Association of Professional Landmen. Mr. Givan is a member of

land organizations in Denver, Wyoming, North Dakota & Montana and is a Past President of the Montana Association of Professional Landmen.

Jon B. Kruljac, Executive Vice President, Capital Markets and Investor Relations

Mr. Kruljac became our Executive Vice President of Capital Markets & Investor Relations in April 2017, after serving as a consultant to the Company since August 2016. Prior to joining the Company, from March 2013 until June 2016, Mr. Kruljac served as Vice President of Capital Markets and Investor Relations with Synergy Resources Corporation, an oil and gas exploration and production company with operations focused in the Wattenberg Field. From April 2012 until February 2013, Mr. Kruljac served as Managing Director of MLV & Co. LLC, an investment bank and registered broker-dealer. Mr. Kruljac has 32 years of Wall Street experience and he has focused on publicly traded small-cap oil and gas companies since 1991 as an institutional salesman, investment banker, and investor relations consultant. Mr. Kruljac also serves as Vice Chair of Invest In Kids and is the former board chair, and 25 year financial supporter, of the Kempe Foundation, which is dedicated to research for treatment and prevention of child abuse and neglect. He holds a Bachelor of Arts in Chinese Studies from the University of Arizona in Tucson, AZ.

Risks and Caveats

If we were writing this risk section prior to the Company's attracting the \$25 million financing, this would be more abbreviated and much more definitive. Make no mistake, the financing (or something else in its place) while onerous, was paramount to the Company's ongoing operations. Unfortunately, the debt and the debt service that goes with it, along with that which they were carrying from prior financings, will remain onerous until they can work their way out of it by generating operating profits. Recognize, if they are unable to generate operating profits at levels in reasonable proximity to our assumptions, the debt could become untenable.

With respect to the operating profits, as we addressed in the Operating Overview, there are a number of moving parts here that will impact the operating numbers and resulting cash flow including flow rates, decline curves resource mix and others. For the numbers to approximate our estimates they will need the turn of a few friendly cards with respect to these variables. Unfortunately, they don't control many of those variables. As we noted, the initial results from Shook should be telling in terms of framing these variables.

The recent strength in oil prices in conjunction with PetroShare's transition into (growing) production is fortuitous. We have provided some color on the oil industry above, but the direction of oil is a well addressed topic, so there is no shortage of narrative regarding why they might be headed higher or lower. On the other and, the answer to that question will go a long way towards defining PetroShare's success or lack thereof. We would submit that the Company has done much of their planning around lower assumed oil prices, so any assessments they were working from that lower basis are now better. While we believe the Company's underlying value is about to become unlocked as their production ramps, one's enthusiasm for the stock should remain a function of one's enthusiasm for oil and gas prices. Granted, we believe the Company will be able to demonstrate greater value than the current stock price implies *even at lower oil prices*, but there are limits to the validity of that claim. Moreover, as we have illustrated, oil and natural gas prices quite often diverge, as liquidity for Rocky Mountain gas is sometimes a challenge; a problem that oil generally does not have. So then if for example the ultimate product mix ends up being a greater portion of gas than oil, then PetroShare could underperform *even if oil goes higher*. As we said, there are several moving parts here, but, from the 10,000-foot view, strong oil prices should benefit the stock, and weak oil prices will likely prove negative for the same. Along those same lines, it is important to recognize that the Company will almost certainly attempt to hedge a marked portion of their forward production. Our sense is

that they will attempt to hedge at least ½ of it. That would mitigate both the risks of lower oil prices, but also the benefits of higher oil prices.

Over the past several months, there have been plenty of things to keep PetroShare management awake at night. We have addressed several of those challenges throughout this report. However, one of the bigger risks we see, and frankly, the “elephant in the room” for nearly all Colorado E&P companies, is the state’s political climate. Make no mistake, the State’s oil and gas industry is in the eye of the storm when it comes to Colorado politics. Succinctly, as near as we can tell, there is not a Democratic Gubernatorial candidate that is not stressing the de facto phasing out of the State’s oil and gas industry. The leader in that clubhouse is probably Jared Polis who is literally running on a platform of 100% renewable energy, in spite of estimates that suggest that the economic impact of oil and gas in Colorado exceeds \$31 billion and is a major contributor to the budgets of both the state and several counties within it. *This may represent the single biggest threat to oil and gas producers in Colorado.* While we tend to view some of these positions as profoundly untenable, producers in the state will continue to face challenges even in more moderate political scenarios. The Wattenberg sits under a considerable amount of residential and commercial development that is in constant struggle with oil and gas constituents over the costs and benefits of production in their back yards. To that point, some of the recent optics surrounding some of these issues have not been good. Again, while we believe much of the political banter is utopic at best, there are legitimate concerns about public safety, encroachment, resource allocation and other quite *reasonable* issues that the industry will most certainly deal with going forward. In any event, it seems to us that if oil and gas prices remain elevated, the prospects of higher oil and gas taxes in one form or another may be the “best case scenario”.

As with many small companies we follow, PetroShare is managed by a small group of valuable individuals. As such we consider the retention of those people as potentially integral to the Company’s success.

While we have modeled modest growth built largely on estimated organically generated capital, the likelihood of additional capital requirements is nearly always an element of small early stage enterprises, and that may be especially true of small E&Ps. Additional future dilution should not surprise anyone. Further, while we have attempted to model their impact, past financings have created a considerable base of dilutive derivatives. Investors should realize that those types of derivatives can create marked resistance for higher stock prices at least for some period(s) of time. Along these lines, we have modeled some additional Capex paid for via the (assumed) exercise of outstanding derivatives, which is essentially predicated on higher stock prices that make the exercise of the derivatives attractive. Absent those advances in the stock price (and by extension the exercise of those derivatives) the Company would need to attract alternative financing to make that Capex and the resulting added/projected production feasible.

PRHR shares do not trade on a national exchange and the shares are illiquid. People should consider those factors in the context of their own liquidity, risk profile and time horizons.

These are just some of the more salient risks associated with PetroShare. There are likely others we have missed or are not as apparent at this time.

Valuation and Summary

To summarize the above, PetroShare was started by a handful of oil and gas people with specific experience in the DJ Basin. They started by raising a bit of money through an IPO in 2015, then began acquiring some properties through 2016 and 2017 raising some additional capital through a convertible debt raise in early 2017. Q1 2017 (ended March 31, 2017) marked the Company’s first measurable production quarter, when they realized revenues of \$1.22 million. The Company ended fiscal 2017 (ended December 31, 2017) with revenues of just under \$9 million. However, those revenues were entirely generated from the projects of other operators, in which

PetroShare participated. Recognize, the Company's goal from inception was/is to first and foremost, acquire properties with highly prospective oil/gas production potential, and thereafter, attract/generate the capital necessary to develop, retain and operate considerable portions of the ultimate production from those properties. In that regard, in mid-2017, the Company initiated that strategy by developing the Shook pad within their Todd Creek Farms acreage. Unfortunately, the Company was unable to attract the financing they believed they would in order to complete the Shook wells in 2017. Their inability to attract that financing and complete the wells, negatively impacted their financial condition and frankly, put them in a precarious spot through the second half of and exiting fiscal 2017. However, in early 2018, they were able to complete a \$25 million debt financing that while expensive, has put them in a position to complete Shook. We believe they may begin to generate revenue from Shook at the tail end of Q2 fiscal 2018, however, 3Q fiscal 2018 will likely be the first full or near full quarter of Shook production. We believe Shook production is a watershed event for PetroShare. We think that production could set the stage for marked increases in revenue and positive cash flow, and by extension improvements in their financial position providing a basis for higher valuations for the Company and its underlying stock.

Inasmuch as the debt financing will likely prove critical to PetroShare's success, presumably allowing them to complete Shook and begin generating positive cash flow, they also look to benefit from what appears to be higher oil prices. Granted, nobody knows where oil prices are headed for certain, but, given that they are just emerging into increased production, the higher prevailing prices at this time are clearly also a fortuitous event. We think it is fair to say that the Company's fortunes have improved *dramatically* on multiple fronts over the past 5 months, which provides much of the basis for our investment thesis.

While we anticipate Shook production shortly, we submit, the levels and resource mix of that production will be telling in terms of the Company's performance. We have modeled expectations therein, around the Company's assessment that expected initial production rates from Shook should push them to daily BOE production of something around 3,000 BOEs per day. Doing some quick math, 3,000 BOE per day at \$60 oil is \$180,000 per day and represents a run rate of about *7.5X their 2017 revenues*. As we said, completing Shook should be a watershed event for the Company. Keep in mind, as we discussed, these wells will have steep decline curves, so it may not even be appropriate to talk about run rates that are not sustainable. Furthermore, as we also discussed, oil and gas are not created equally, so neither are all "BOE's". However, the fact remains, the second half of 2018 and into 2019 should be breakout periods for the Company's financial performance on both the top and bottom lines and the magnitude of that breakout will be determined in part by production data points that we should learn very shortly as Shook comes on line.

As we indicated, we think the Company's increased production profile will provide a basis for additional organic production growth. That is, we think they can utilize the cashflow from Shook to drill additional wells on permitted acreage in Todd Creek and/or South Brighton. To edify, we are assuming the addition of a standard lateral pad at Todd Creek ("Corcillius") in early 2019 followed by extended lateral pads at South Brighton in early 2020 and another in early 2021. Those additions would lead to increased production, revenue and cash flow growth without the burden of added debt or equity financing, which we assume should lead to better stock valuations.

We noted the Company has a number of outstanding derivatives (options and warrants) the exercises of which we think should also contribute to capital if the stock responds to improved financial performance as we anticipate. Again, our model assumes this sort of moderate production expansion predicated on organically generated capital. Obviously, if our assumptions about production prove aggressive, it will negatively impact their ability add that production as timely and/or to the magnitude we have modeled. Along the same lines, the conversion of outstanding derivatives to cash is predicated on higher stock prices. If those don't materialize, then they will likely lack the capital to add new wells as we have modeled. On the other hand, if they can achieve some of the financial success we are modeling, we suspect they may also attract higher quality capital that we have not attempted to model. That sort of event could accelerate production growth beyond our model assumptions. Clearly, while we think visibility is improving dramatically and in turn reducing some of the risk profile of PRHR shares, we submit, there are many unknowns that remain that we hope to get clarity on as we move forward.

The above said, given the nascent posture of PetroShare's production profile, we have taken a bit different approach to valuation than we might otherwise. If it is not clear by now, the approach here is to (in the context of available capital) add wells as quickly and inexpensively as possible, and to have those wells produce the lion's share of their EUR as quickly as possible. That approach can create extraordinary IRRs for each pad/project, but also provide a necessity to continue adding new wells to maintain (much less grow) *future* production. That future production then depends on access to greater amounts of acreage, which then includes an added layer of assumptions to the forward model. We are not sure we are comfortable modeling added production caveats that far out. Rather, we have employed the following approach to arrive at our current valuation framework.

As we said, we are assuming the completion of four projects over the next three years, beginning with Shook which will be completed shortly. To peg valuation to those assumptions, we have attempted to determine a terminal value of the Company at the end of year 2022 (that is a terminal value time from we use for many of our valuations). We derived that terminal value as combination of DCF related to the reaming (declining) EUR production from completed wells, the cash we assume they would have accumulated by then through production (and the lack of assumed reinvestment) as well as a value that we believe they could perhaps receive for remaining acreage in the three respective areas of the Wattenberg. We then discounted that terminal value back using a discount rate that we think reflects risks associated with our various assumptions and that we think would approximate a reasonable cost of capital given assumed progress post Shook.

As a result of the above valuation analysis, we are initiating coverage of PRHR shares with an allocation of 4 and a 12-24 month price target of \$3.20 per share. We will revisit each of these assessments as further data points including initial flow data from Shook become available.

Projected Operating Model

PetroShare Corp.						
Projected Operating Model						
By: Trickle Research LLC						
	(Actual)	(Estimate)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	<u>3/31/2018</u>	<u>6/30/2018</u>	<u>9/30/2018</u>	<u>12/31/2018</u>	<u>Fiscal 2018</u>	<u>Fiscal 2019</u>
REVENUE:						
Crude oil sales	\$ 1,425,233	\$ 2,332,821	\$ 7,583,471	\$ 7,913,764	\$19,255,289	\$39,289,155
Natural gas sales	\$ 394,411	\$ 443,169	\$ 1,527,025	\$ 1,564,835	\$ 3,929,439	\$ 7,432,491
NGL sales	\$ 249,288	\$ 194,885	\$ 661,937	\$ 677,391	\$ 1,783,501	\$ 3,206,239
Total revenue	\$ 2,068,932	\$ 2,970,874	\$ 9,772,433	\$10,155,990	\$24,968,229	\$49,927,885
COSTS AND EXPENSES:						
Lease operating expense	\$ 305,809	\$ 451,000	\$ 1,361,610	\$ 1,406,889	\$ 3,525,308	\$ 6,820,339
Production taxes, gathering and marketing	\$ 230,919	\$ 342,760	\$ 1,034,824	\$ 1,069,236	\$ 2,677,738	\$ 5,183,458
Exploration costs	\$ -	\$ 4,138	\$ 5,942	\$ 19,545	\$ 29,624	\$ 96,086
Depletion, depreciation and amortization	\$ 741,954	\$ 1,173,102	\$ 3,373,048	\$ 3,485,215	\$ 8,773,319	\$16,895,684
Accretion expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Plugging expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Loss on impairment of proved crude oil and natural gas properties	\$ (55,067)	\$ -	\$ -	\$ -	\$ (55,067)	\$ -
General and administrative expense	\$ 597,012	\$ 1,357,564	\$ 1,715,854	\$ 1,735,937	\$ 5,406,367	\$ 7,432,801
Total costs and expenses	\$ 1,820,627	\$ 3,328,563	\$ 7,491,277	\$ 7,716,822	\$20,357,290	\$36,428,368
Operating income (loss)	\$ 248,305	\$ (357,689)	\$ 2,281,156	\$ 2,439,168	\$ 4,610,940	\$13,499,516
OTHER INCOME (EXPENSE):						
Other income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Change in fair value - derivative liability	\$ 89,887	\$ -	\$ -	\$ -	\$ 89,887	\$ -
Interest expense	\$(1,826,733)	\$(1,041,686)	\$(1,041,686)	\$(1,041,686)	\$(4,951,790)	\$(3,192,658)
Loss on conversion of notes payable	\$ 798	\$ -	\$ -	\$ -	\$ 798	\$ -
Total other (expense)	\$(1,736,048)	\$(1,041,686)	\$(1,041,686)	\$(1,041,686)	\$(4,861,105)	\$(3,192,658)
Gain/Loss before Taxes	\$ -					
Income Taxes	\$ -					
Net (loss)	\$(1,487,743)	\$(1,399,375)	\$ 1,239,470	\$ 1,397,482	\$ (250,166)	\$10,306,858
Net (loss) per share:	\$ -	\$ -	\$ -	\$ -		
Basic (in dollars per share)	\$ (0.05)	\$ (0.05)	\$ 0.04	\$ 0.05	\$ (0.01)	\$ 0.37
Fully Diluted (in dollars per share)	\$ (0.05)	\$ (0.04)	\$ 0.04	\$ 0.05	\$ (0.01)	\$ 0.37
Weighted average number of shares outstanding:						
Basic (in shares)	27,775,505	27,924,765	27,924,765	27,924,765	27,887,450	27,924,765
Fully Diluted (in shares)	27,775,506	31,699,082	28,146,645	28,130,210	28,937,861	28,094,880

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Rating System Overview:

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals \$250) and 10 representing 10 investment units or \$2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit \$25,000 to buying micro-cap stocks, that would assume an investment of \$1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to add to positions around allocation upgrades. We generally start initial coverage stocks with an allocation of 4. Thus, at \$1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same \$250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting \$1000 into the position ($\$250 * 4$). If we later raise the allocation to 6, you might consider adding two additional units or \$500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.

A Trickle rating of 1 thru 3 would best correspond to a "Speculative Buy" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.

A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.

A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.