

Trickle Research

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



Earnings Update - Q2F18



Report Date: 08/23/18

12- 24 month Price Target: \$3.20

Allocation: 4

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

Closing Stock Price at This Update (Closing Px: 08/23/18): \$1.45

PetroShare Corp. (PRHR)

(Stock Symbol - OTC: PRHR)

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

Prepared By:

David L. Lavigne

Senior Analyst, Managing Partner

Trickle Research

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.

PetroShare had a much better quarter than we anticipated. We think it's safe to say, that was the best quarter of their nascent existence. Keep in mind, the quarter did not include any contributions from Shook, which will commence in Q3, so all of the revenue was associated with small non-operated interests in the wells of others. To be honest, it's a bit difficult to try projecting their participation in non-operated assets because they essentially amount to small fragments of a number of wells. Regardless, they realized more production than we were projecting from the non-operated segment, and interestingly enough, the numbers were also positively impacted by a good mix of oil to gas/NGL. Oil revenues were nearly 65% of the total, which was considerably better than the sub 40% oil mix for Q1F18. That was the best oil/gas ratio they have reported since the same quarter last year. Obviously, higher oil mix can be impactful in times of high relative oil prices. Again, we wish we could find a way to better project the non-operating segment in general, however, we expect the focus going to shift toward operated assets, so much of that difficulty should become less relevant as we move forward.

Shook is a bit behind our anticipated production time line. We think the Company expected production a little sooner as well. Here again, that is not particularly germane to the story from here out, as they provided a recent update that suggested that all wells should be producing by the end of 3QF18. They also noted that they are *"encouraged by the initial production rates and tubing pressures we have witnessed thus far"*. Both of these pieces of news; production has commenced and initial flow data is encouraging, are highly positive developments.

To reiterate our theme from the initial coverage, we think PetroShare is in the midst of a transition, largely from a non-operating to an operating posture that we think will dramatically change the Company and its potential/opportunities. From the sounds of their update, Q4 should provide our first full period glimpse of what their new status as an operator will look like, but we also think Q3 will give us some good (albeit incomplete) information in that regard as well. In short, we think they have provided good news on all the major data points, and we expect the story to begin getting visibly better through the balance of the year. As long as the positive initial early production theme holds and oil prices don't fall out of bed, we think the Company will be able to provide results that will speak to our current \$3.20 price target. Recognize, the stock has been illiquid over much of its public existence, so it would not surprise us if it has to churn some volume to move higher in spite of improving fundamentals. In our view, that scenario (improving fundamentals in the face of a shareholder base looking for a bit of liquidity) often provides one of the better buying opportunities that microcaps sometimes present. Obviously, we would view weakness in the stock (all other things remaining equal) as a telling opportunity.

Projected Operating Model

PetroShare Corp.						
Projected Operating Model						
By: Trickle Research LLC						
	(Actual)	(Actual)	(Estimate)	(Estimate)	(Estimate)	(Estimate)
	3/31/2018	6/30/2018	9/30/2018	12/31/2018	Fiscal 2018	Fiscal 2019
REVENUE:						
Crude oil sales	\$ 1,425,233	\$ 4,042,615	\$ 5,024,160	\$ 7,153,529	\$ 17,645,537	\$ 39,438,784
Natural gas sales	\$ 394,411	\$ 397,978	\$ 879,228	\$ 1,440,881	\$ 3,112,497	\$ 7,486,802
NGL sales	\$ 249,288	\$ 184,943	\$ 376,812	\$ 624,609	\$ 1,435,652	\$ 3,230,570
Total revenue	\$ 2,068,932	\$ 4,625,536	\$ 6,280,200	\$ 9,219,019	\$22,193,687	\$50,156,156
COSTS AND EXPENSES:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Lease operating expense	\$ 305,809	\$ 187,201	\$ 837,360	\$ 1,284,624	\$ 2,614,994	\$ 6,859,023
Production taxes, gathering and marketing	\$ 230,919	\$ 519,520	\$ 636,394	\$ 976,314	\$ 2,363,147	\$ 5,212,857
Exploration costs	\$ -	\$ -	\$ 9,251	\$ 12,560	\$ 21,811	\$ 94,560
Depletion, depreciation and amortization	\$ 741,954	\$ 1,218,175	\$ 2,074,350	\$ 3,182,334	\$ 7,216,813	\$ 16,991,512
Accretion expense	\$ -	\$ 27,255	\$ -	\$ -	\$ 27,255	\$ -
Plugging expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Loss on impairment of proved crude oil and natural gas properties	\$ (55,067)	\$ -	\$ -	\$ -	\$ (55,067)	\$ -
General and administrative expense	\$ 597,012	\$ 942,884	\$ 1,530,757	\$ 1,686,643	\$ 4,757,297	\$ 7,444,988
Total costs and expenses	\$ 1,820,627	\$ 2,895,035	\$ 5,088,112	\$ 7,142,477	\$16,946,250	\$36,602,939
Operating income (loss)	\$ 248,305	\$ 1,730,501	\$ 1,192,088	\$ 2,076,542	\$ 5,247,437	\$ 13,553,216
OTHER INCOME (EXPENSE):	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other income	\$ -	\$ (12,459)	\$ -	\$ -	\$ (12,459)	\$ -
Change in fair value - derivative liability	\$ 89,887	\$ (110,987)	\$ -	\$ -	\$ (21,100)	\$ -
Interest expense	\$ (1,826,733)	\$ (1,717,129)	\$ (1,041,686)	\$ (1,041,686)	\$ (5,627,234)	\$ (3,192,658)
Loss on conversion of notes payable	\$ 798	\$ -	\$ -	\$ -	\$ 798	\$ -
Total other (expense)	\$ (1,736,048)	\$ (1,840,575)	\$ (1,041,686)	\$ (1,041,686)	\$ (5,659,995)	\$ (3,192,658)
Gain/Loss before Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Income Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net (loss)	\$ (1,487,743)	\$ (110,074)	\$ 150,402	\$ 1,034,856	\$ (412,558)	\$10,360,558
Net (loss) per share:	\$ -	\$ -	\$ -	\$ -		
Basic (in dollars per share)	\$ (0.05)	\$ (0.00)	\$ 0.01	\$ 0.04	\$ (0.01)	\$ 0.37
Fully Diluted (in dollars per share)	\$ (0.05)	\$ (0.00)	\$ 0.01	\$ 0.04	\$ (0.01)	\$ 0.37
Weighted average number of shares outstanding:						
Basic (in shares)	27,775,505	28,005,624	28,005,624	28,005,624	27,948,094	28,005,624
Fully Diluted (in shares)	27,775,506	31,779,941	28,227,504	28,211,069	28,998,505	28,175,739

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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.