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

FORM 10-Q

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

For the quarterly period ended June 30, 2014

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

For the transition period from _____to_____.

001-35330
(Commission File No.)

LILIS ENERGY, INC.
(Exact name of registrant as specified in charter)

NEVADA	**74-3231613**
(State or other jurisdiction of incorporation or organization)	(IRS Employee Identification No.)

1900 Grant Street, Suite #720
Denver, CO 80203
(Address of Principal Executive Offices)

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

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 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 ☒

As of November 21, 2014, 27,676,067 shares of the registrant's common stock were issued and outstanding.

Lilis Energy, Inc.

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PART I–FINANCIAL INFORMATION

FORWARD-LOOKING STATEMENTS

This quarterly report, including materials incorporated by reference herein, 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 or financing 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 our 2013 Annual Report on Form 10-K for the year ended December 31, 2013;*
- *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;*
- *failure to fund our authorization for expenditures from other operators for key projects which will reduce/eliminate our interest in the wells/area;*
- *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 or an increase in our price deferential, from our first purchaser due to the excess of supply in the area, which negatively affect our 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 operating field 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 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 Annual Report on Form 10-K for the year ended December 31, 2013 and other SEC filings, available free of charge at the SEC's website (www.sec.gov).

Part 1. FINANCIAL INFORMATION

Item 1. Financial Statements

LILIS ENERGY, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash	$ 1,449,152	$ 165,365
Restricted cash	409,163	504,623
Accounts receivable (net of allowance of $50,000 at June 30, 2014 and December 31, 2013, respectively)	614,504	467,337
Prepaid assets	180,283	195,716
Preferred stock subscriptions receivable	1,853,000	-
Commodity price derivative receivable	-	6,679
Total current assets	4,506,102	1,339,720
Oil and gas properties (full cost method), at cost:		
Evaluated properties	68,797,806	68,213,467
Unevaluated acreage, excluded from amortization	18,957,997	18,663,569
Wells in progress, excluded from amortization	5,903,307	1,145,794
Total oil and gas properties, at cost	93,659,110	88,022,830
Less accumulated depreciation, depletion, amortization, and impairment	(46,388,956)	(45,457,637)
Total oil and gas properties, net	47,270,154	42,565,193
Other assets:		
Office equipment, net	78,386	91,161
Deferred financing costs, net	160,301	294,699
Restricted cash and deposits	215,541	215,541
Total other assets	454,228	601,401
Total assets	$ 52,230,484	$ 44,506,314

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

LILIS ENERGY, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30, 2014	December 31, 2013
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 6,705,112	$ 1,932,618
Accrued expenses	1,929,950	1,439,956
Short term loans payable	-	10,662,904
Convertible notes payable, net of discount	6,930,118	-
Total current liabilities	15,565,180	14,035,478
Long term liabilities:		
Asset retirement obligation	1,149,216	1,104,952
Term loans payable	14,800,175	8,111,436
Convertible notes payable, net of discount	-	14,586,618
Convertible notes conversion derivative liability	-	1,150,000
Total long-term liabilities	15,949,391	24,953,006
Total liabilities	31,514,571	38,988,484
Commitments and contingencies – Notes 2, 9, 10, 12, 13, and 14		
Shareholders' equity:		
Preferred stock, $.0001 par value; stated rate $1,000:10,000,000 authorized, 7,500 and none issued and outstanding as of June 30, 2014 and December 31, 2014, respectively, liquidation preferences of $7,540,681 at June 30, 2014	7,500,000	-
Common stock, $0.0001 par value:100,000,000 shares authorized; 27,513,566 and 19,671,901 shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively	2,751	1,967
Additional paid in capital	147,472,098	121,451,232
Accumulated deficit	(134,258,968)	(115,935,369)
Total shareholders' equity	20,715,913	5,517,830
Total liabilities and shareholders' equity	$ 52,230,484	$ 44,506,314

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

LILIS ENERGY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Six months ended June 30,		Three months ended June 30,	
	2014	**2013**	**2014**	**2013**
Revenues:				
Oil sales	$ 1,679,609	$ 2,316,338	$ 979,523	$ 1,189,005
Gas sales	189,990	145,202	102,324	38,805
Operating fees	76,881	90,522	42,152	42,019
Realized gain on commodity price derivatives	11,143	19,890	-	-
Total revenues	1,957,623	2,571,952	1,123,999	1,269,829
Costs and expenses:				
Production costs	637,583	559,301	221,260	255,454
Production taxes	194,910	278,039	101,230	162,045
General and administrative	5,601,478	2,352,235	2,643,063	1,367,976
Depreciation, depletion and amortization	959,039	1,340,829	570,403	651,175
Total costs and expenses	7,393,010	4,530,404	3,535,956	2,436,650
Loss from operations	(5,435,387)	(1,958,452)	(2,411,957)	(1,166,821)
Other Income (expenses):				
Other income	97	392	44	141
Inducement expense	(6,661,275)	-	-	-
Convertible notes conversion derivative gain (loss)	850,000	(30,000)	(300,000)	(10,000)
Interest expense	(3,469,458)	(3,305,678)	(1,953,127)	(1,669,519)
Total other expenses	(9,280,636)	(3,333,206)	(2,253,083)	(1,679,378)
Net loss	(14,716,023)	(5,293,738)	(4,665,040)	(2,846,199)
Accretion of Series A Convertible Preferred Stock	(3,566,895)	-	(3,566,895)	-
Accrued dividends for Series A Convertible Preferred Stock	(40,681)		(40,681)	
Net loss attributable to common shareholders	(18,323,599)	(5,293,738)	(8,272,616)	(2,846,199)
Loss per common share:				
Net loss per common share (basic and diluted)	(0.70)	(0.29)	(0.30)	(0.15)
Weighted average shares outstanding (basic and diluted)	26,292,183	18,551,301	27,498,284	18,668,080

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

LILIS ENERGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six months ended June 30,	
	2014	**2013**
Cash flows from operating activities:		
Net loss	$ (14,716,023)	$ (5,293,738)
Adjustments to reconcile net loss to net cash used in operating activities:		
Inducement of conversion of convertible debentures	6,661,275	-
Common stock issued for convertible note interest	148,129	270,032
Common stock issued for financing cost	686,273	-
Common stock for services and compensation	1,177,039	799,567
Amortization of deferred financing costs	134,398	354,493
Change in fair value of convertible notes conversion derivative	(850,000)	30,000
Accretion of debt discount	895,369	1,128,442
Depreciation, depletion, amortization and accretion of asset retirement obligation	989,126	1,333,922
Changes in operating assets and liabilities:		
Accounts receivable	(147,166)	362,380
Restricted cash	95,460	86,512
Other assets	431,003	(43,084)
Accounts payable and other accrued expenses	30,293	(288,384)
Net cash used in operating activities	(4,464,824)	(1,256,858)
Cash flows from investing activities:		
Acquisition of undeveloped acreage	(305,000)	-
Drilling capital expenditures	(109,057)	(85,371)
Sale of oil and gas properties	-	640,000
Additions to oil and gas properties	(24,030)	(732,061)
Additions to office equipment	(768)	(23,276)
Investments in operating bonds	-	(106)
Net cash used in investing activities	(438,855)	(200,814)
Cash flows from financing activities:		
Proceeds from issuance of common stock	5,327,687	1,161,912
Debt issuances	1,000,000	-
Proceeds from issuance of Series A Convertible Preferred Stock	4,940,992	-
Repayment of debt	(5,081,213)	(44,368)
Net cash provided by financing activities	6,187,466	1,117,544
Change in cash and cash equivalents	1,283,787	(340,128)
Cash and cash equivalents at beginning of period	165,365	970,035
Cash and cash equivalents at end of period	$ 1,449,152	$ 629,907
Non-cash transactions:		
Additions to drilling capital expenditures from an increase in accounts payable and other accrued expenses	$ 5,198,193	$ -
Stock issued for payment on Convertible Debentures	$ 8,744,836	$ -
Preferred stock subscription receivable	$ 1,853,000	$ -

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

LILIS ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2014
(UNAUDITED)

NOTE 1 – ORGANIZATION

Lilis Energy, Inc. ("Lilis", "Lilis Energy", "we", "our", and the "Company") is an independent oil and gas exploration and production company focused on the Denver-Julesburg Basin ("DJ Basin"), where it holds 84,000 net acres. Lilis drills, 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 June 30, 2014, the Company had $14.80 million outstanding under its term loans with Hexagon, LLC ("Hexagon") and $6.93 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. In June 2014, the maturity date under the Debentures was extended to January 15, 2015. In May 2014, Hexagon extended the maturity of the Company's term loan to August 15, 2014, and in September 2014, the Company entered into a settlement agreement with Hexagon whereby the total principal and interest outstanding under the term loans was settled. (See Note 14- Subsequent Events for a more detailed discussion of the transactions consummated with respect to the Hexagon term loans.) While the settlement of the Hexagon term loans eliminated a significant debt burden to the Company, it also resulted in the assignment of several producing properties, which will affect the Company's operating revenue.

Since March 31, 2014, the Company has consummated the following other transactions related to its liquidity: (i) on May 30, 2014 the Company consummated a private placement to accredited investors of its Series A 8% Convertible Preferred Stock (the "Series A Preferred") and three-year warrants to purchase Common Stock equal to 50% of the number of shares issuable upon full conversion of the Series A Preferred for gross proceeds of $7.50 million; (ii) 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; (iii) on June 6, 2014, T.R. Winston & Company, LLC ("T.R. Winston") executed an agreement that they or a designee will purchase an additional $15.0 million of preferred stock under the same terms of the Series A Preferred Stock within 90 days; furthermore, on November 25, 2014, T.R. Winston has reaffirmed and extended their commitment for 90 days or until February 22, 2015. In November 2014, a controlling member of T.R. Winston was elected to the Company's board of directors. T.R. Winston has informed the Company that there is a possible conflict between being the Company's investment banker and board member, and as a result will refrain from acting as the Company's investment banker; and (iv) on October 6, 2014, the Debenture holders agreed to waive any event of default under the Debentures that may have occurred prior to the date of the waiver (including, without limitation, any default relating to the Company's indebtedness to Hexagon), and to rescind and annul any acceleration or right to acceleration that may have been triggered thereby. (See Note 14 – Subsequent Events.)

As of November 24, 2014, the Company has $1.00 million in cash on hand and is currently producing approximately 70 BOE a day from eight economically producing wells. Furthermore, as of the date of this report, the Company has a negative working capital of approximately $8.25 million, including $6.93 million in convertible debentures due as of January 15, 2015, and $0.50 million within the accrued liabilities for convertible debenture interest. The Company is negotiating with the holders of the convertible debentures to pay the interest currently due with restricted shares of common stock, and extension of the maturity date of the debentures.

The Company will require additional capital to satisfy its obligations, including repayment of the Debentures in January 2015; to fund its current drilling commitments and acquisition 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 borrowing transactions, the sale of additional debt and/or equity securities, the sale 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 to fund the aforementioned capital requirements, we would be required to curtail our expenditures, and may be required to restructure our operations, sell assets on terms which may not be deemed favorable and/or curtail other aspects of our operations, including deferring all or portions of our capital budget. There is no assurance that any such funding will be available to the Company on acceptable terms, if at all.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires us to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Management evaluates estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic and commodity price environment.

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 undeveloped properties, as well as valuation of common stock used in various issuances, options and warrants, and estimated derivative liabilities.

Net Loss per Common Share

Earnings (losses) per common 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 June 30, 2014, a total of 16,080,139 and 3,364,016 shares underlying warrants and convertible debentures, respectively, 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.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-08: Presentation of Financial Statements ("Topic 205") and Property, Plant, and Equipment ("Topic 360"): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU 2014-08"). ASU 2014-08 changes the criteria for reporting discontinued operations while enhancing disclosures in this area and is effective for annual and interim periods beginning after December 15, 2014. Early adoption is permitted for disposals or for assets classified as held for sale that have not been reported in previously issued financial statements. We elected to early adopt ASU 2014-08 on a prospective basis, and the adoption did not have any impact on our financial statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 ("ASU 2014-09"), which creates Topic 606, Revenue from Contracts with Customers, and supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, ASU 2014-09 supersedes the cost guidance in Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts, and creates new Subtopic 340-40, Other Assets and Deferred Costs— Contracts with Customers. In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, ASU 2014-09 requires enhanced financial statement disclosures over revenue recognition as part of the new accounting guidance. The amendments in ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and early application is not permitted. We are currently evaluating the provisions of ASU 2014-09 and assessing the impact, if any, it may have on our financial position and results of operations.

NOTE 4 – PREFERRED STOCK SUBSCRIPTION RECEIVABLE

In May 2014, the Company consummated a private placement to accredited investors of its Series A 8% Convertible Preferred Stock (the "Series A Preferred") and three-year warrants to purchase Common Stock equal to 50% of the number of shares issuable upon full conversion of the Series A Preferred, for gross proceeds of $7.50 million (the "May 2014 Private Placement"). As of June 30, 2014, $1.85 million of subscriptions were not funded. However, as of September 2014, the full $7.50 million had been received. (See Note 12- Preferred Stock.)

NOTE 5 – OIL AND GAS PROPERTIES

In April 2014, the Company transferred $0.47 million from wells-in-progress to oil and gas properties for one of its wells in Northern Wattenberg within Weld County, Colorado.

The Company has accrued expenses related to development of certain wells in the Northern Wattenberg field with a joint venture partner which is currently being disputed. Upon resolution of that dispute, the Company may lose all or a portion of the value of its ownership interests in the wells in question. Once the status of the wells is finally determined, the Company will transfer the wells and the applicable reserves to the full cost pool.

On September 2, 2014, the Company assigned to Hexagon all of the collateral securing the Company's term loans (the "Hexagon Collateral"), which consisted of 30,000 net acres and several economic wells which secured several Proved Development Producing reserves and several Proved Undeveloped reserves following the assignment of collateral to Hexagon, the Company retained 84,000 net acres in the DJ Basin and various producing wells. (see Note-14 Subsequent Events).

NOTE 6 – WELLS IN PROGRESS

As of June 30, 2014, the Company had $5.90 million in wells in progress compared to $1.15 million as of December 31, 2013. The June 30, 2014 amount relates to accrued but unfunded accrued expenses on certain wells in the Northern Wattenberg field with a joint venture partner, which is currently being disputed. Upon resolution of that dispute, the Company may lose all or a portion of its ownership interests in the wells, and the value of the associated reserves in question. Once the status of the wells is finally determined, the Company will transfer the wells and the applicable reserves to the full cost pool.

In April 2014, the Company transferred $0.47 million from wells in progress to oil and gas properties from another property in Northern Wattenberg. The well is producing.

The Company has accrued $0.50 million of costs from wells in progress due to a dispute between two royalty interest owners unrelated to the Company. Once the dispute is resolved, the Company expects to retain its original working interest.

NOTE 7 - DERIVATIVES

We are exposed to fluctuations in crude oil prices, natural gas liquids, and natural gas prices for all of our production. In order to mitigate the effect of commodity price volatility with our crude oil and enhance the predictability of cash flows relating to the marketing of our crude oil, we may enter into crude oil price hedging arrangements with respect to a portion of our expected production.

As of June 30, 2014, the Company did not maintain any commodity derivatives.

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

	For the Six Months Ended June 30,		For the Three Months Ended June 30,	
	2014	2013	2014	2013
Realized gain on oil price hedges	$ 11	$ 20	$ -	$ -

Realized gains and losses are recorded as income or expenses in the periods during which applicable contracts mature and settle. (See Note 8 - Fair Value of Financial Instruments.)

NOTE 8 - 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 market place.
- 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, preferred stock subscription 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.

Convertible Debentures Conversion Derivative Liability

In February 2011, the Company issued in a private placement $8.40 million aggregate principal amount of three year Debentures to 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 in Debentures outstanding as of December 31, 2012. During the year ended December 31, 2013, the Company issued an additional $2.20 million of Debentures, for a total Debenture amount of $15.58 million. On January 31, 2014, the Company entered into a Debenture Conversion Agreement (the "Conversion Agreement") with all of the holders of the Debentures. Pursuant to the terms of the Agreement, $9.00 million in Debentures was converted at a price of $2.00 per share of the Company's common stock, par value $0.0001 ("Common Stock"). In addition, the Company issued warrants to the Debenture holders to purchase one share of Common Stock at an exercise price equal to $2.50 per share, equal to the number of shares of Common Stock issued in connection with conversion of the Debentures. The Company's Chief Executive Officer ("CEO") is an indirect owner of a group which converted approximately $0.22 million of Debentures.

As of June 30, 2014, the Company had $6.93 million in remaining Debentures which are convertible at any time at the holders' option into shares of Common Stock at $2.00 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 9-Loan Agreements).

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

June 30, 2014:

	Level 1	Level 2	Level 3	Total
Liabilities				
Executive employment agreements compensation	$ -	$ -	$ (325)	$ (325)
Convertible debentures conversion derivative liability	$ -	$ -	$ (300)	$ (300)
Total liability, at fair value	$ -	$ -	$ (625)	$ (625)

December 31, 2013:

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

The following table provides a summary of changes in fair value of the Company's Level 3 financial assets and liabilities for the six months ended June 30, 2014 (in thousands):

Beginning balance, December 31, 2013	$ (1,295)
Executive compensation liability	(180)
Convertible debentures conversion derivative gain	850
Ending balance, June 30, 2014	$ (625)

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 three and six months ended June 30, 2014 or 2013.

NOTE 9 – LOAN AGREEMENTS

Our total outstanding debt as of June 30, 2014 consisted of the following:

(thousands, except percentages)	**June 30, 2014**		**December 31, 2013**	
	Debt	**Interest Rate**	**Debt**	**Interest Rate**
10% Term Notes, maturity August 15, 2014 (2)(3)	$ 14,800	10%	$ 18,774	10%
8% Convertible Debentures, maturity January 15, 2015 (1)(4)(5)	6,728	8%	15,580	8%
Total	21,528		34,354	
Unamortized discount	(98)		(993)	
Total debt, net of discount	21,430		33,361	
Less: amount due within one year	(6,630)		(10,663)	
Long-term debt due after one year	$ 14,800		$ 22,698	

(1) The Debentures contain cross collateralization and cross default provisions and are collateralized by mortgages against the majority of the Company's developed and undeveloped leasehold acreage. In accordance with the cross-default provision under the Debentures, as of August 15, 2014 the Company was in default due to its default under the Hexagon term loans. In October 2014, the Debenture holders waived their right to declare a default on that basis. The Debentures mature in January 2015. (See Note 14 - Subsequent Events.)

(2) The Hexagon loan agreements contained certain non-financial covenants, with which the Company was in substantial compliance as of June 30, 2014.

(3) Amount represents three separate loan agreements with Hexagon in January, March and April 2010, each of which contained a cross-default provision and which together were secured by a significant amount of the Company's developed and undeveloped leasehold acreage. On September 2, 2014, the Company entered into the Final Settlement Agreement, pursuant to which the Company assigned the Hexagon Collateral to Hexagon and issued to Hexagon an additional $2 million in 6% Redeemable Preferred. As a result, the Hexagon loan obligations were deemed satisfied, and Hexagon released the related mortgages. Therefore, the loan obligations are classified as a long-term liability for the period ended June 30, 2014. (See Note 14 -Subsequent Events.)

(4) Debentures are convertible at any time at the holders' option into shares of Common Stock at $2.00 per share. The balance of the Debentures may be converted to Common Stock on the terms provided in the Conversion Agreement (including the terms related to the warrants); subject to receipt of shareholder approval as required by NASDAQ continued listing requirements.

(5) Interest payments have historically been paid in Common Stock; interest is calculated at an annualized rate of 8% and is payable quarterly on each May 15, August 15, November 15 and February 15 in cash or, at the Company's option (subject to certain conditions), 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.

Term Loans

As of June 30, 2014, the Company had three term loans with Hexagon, its senior lender, with an aggregate outstanding principal amount of approximately $14.80 million. The loans required the Company to make monthly payments of $0.23 consisting of interest and principal. 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. In connection with the extension, the Company paid a forbearance fee of $0.25 million which was recorded as deferred financing cost and amortized over the extension period of the term loans. The Company amortized $0.12 million of deferred financing costs into interest expense during the three and six months ended June 30, 2014.

On May 30, 2014, the Company entered into the First Settlement Agreement with Hexagon, which provided for the settlement of all amounts outstanding under the term loans. In connection with the execution of the First Settlement Agreement, the Company made initial cash payment of $5.0 million. The First Settlement Agreement required the Company to make an additional cash payment of $5.0 million (the "Second Cash Payment") by August 15, 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 also agreed that if the Second Cash Payment was not made by June 30, 2014, an additional $1.0 million in principal would be added to the Replacement Note, and if the Replacement Note was not retired by December 31, 2014, the Company would issue an additional 1.0 million shares of Common Stock to Hexagon.

The Company did not make the Second Cash Payment by August 15, 2014.

On September 2, 2014, the Company entered into the Final Settlement Agreement which replaced the First Settlement Agreement, pursuant to which, in exchange for full extinguishment of all amounts payable under the term loans (approximately $14.03 million in principal and interest as of the settlement date), the Company assigned Hexagon the Hexagon Collateral, which consisted of 30,000 net acres including several economic wells which secured properties with Proved Development Producing reserves and Proved Undeveloped reserves, and issued to Hexagon the Redeemable Preferred. (See Note 14 - Subsequent Events.)

Convertible Debentures Payable

In separate private placement transactions between February 2011 and October 2013, the Company issued an aggregate of approximately $15.6 million of Debentures, secured by mortgages on several of its properties. The Debentures are currently convertible at the holders' option into shares of Common Stock at $2.00 per share, subject to certain adjustments, and bear interest at an annualized rate of 8%, payable quarterly on each May 15, August 15, November 15 and February 15 in cash or, at the Company's option subject to certain conditions, in shares of Common Stock.

On January 31, 2014, the Company entered into a "Conversion Agreement" with all of the holders of the Debentures. Pursuant to the terms of the Conversion Agreement, $9.00 million in Debentures was converted by the holders to common stock at a conversion price of $2.00 per share of common stock. In addition, the Company issued warrants to the Debenture holders to purchase one share of Common Stock for each share issued in connection with conversion of the Debentures, at an exercise price equal to $2.50 per share. The Company's CEO is an indirect owner of a group which converted approximately $0.22 million of Debentures pursuant to the Conversion Agreement. As of June 30, 2014, the Company had $6.93 million remaining Debentures which are convertible at any time at the holders' option into shares of Common Stock at $2.00 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.

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.

We periodically engage a third party valuation firm to complete a valuation of the conversion feature associated with the Debentures. This valuation resulted in an estimated derivative liability as of June 30, 2014 and December 31, 2013 of $0.30 million and $1.15 million, respectively (See Note 8 - Fair Value of Financial Instruments).

The Company's failure to meet its obligations under the First Settlement Agreement with Hexagon constituted a default under the term loans, which in turn triggered an event of default under the Debentures. However, the holders of the Debentures have waived their right to declare a default in respect of that matter.

Interest Expense

For the three months ended June 30, 2014 and 2013, the Company incurred interest expense of approximately $1.95 million and $1.67 million, respectively, of which approximately $1.47 million and $1.04 million is classified as non-cash interest expense, respectively. The details of the non-cash interest expense are as follows: (i) amortization of the deferred financing costs of $0.07 million, (ii) accretion of the convertible debentures payable discount of $0.23 million, (iii) accrued interest for term note loan fees of $1.00 million and (iv)amortization of forbearance fees of $0.12 million. Cash interest is comprised of, term loan cash expense payment. The increase in interest expense was primarily attributable to fees for not paying a designated amount to the term note holder. Other cash interest increased due to $0.25 million forbearance fees paid to Hexagon, which is being amortized over the life of the extension.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Environmental and Governmental Regulation

At June 30, 2014, 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, royalty rates 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 June 30, 2014 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 were stayed by Court Order dated January 30, 2013. Judgment was entered by the trial court in favor of defendant Tracinda Corp. ("Tracinda") on Tracinda's counterclaim for breach of a promissory note before Mr. Parker's bankruptcy. Although the trial court found that Tracinda had breached its pledge agreement with Mr. Parker, the court ruled Tracinda was not liable on Mr. Parker's breach of contract claim based on several defenses. Mr. Parker appealed the judgment to the Colorado Court of Appeals (Case No. 2012CA2096) and the appellate proceedings were also stayed by Order of the Colorado Court of Appeals dated April 1, 2013. Stay of the state court proceedings was lifted by Bankruptcy Court Order dated April 12, 2013. On October 17, 2013, the Colorado Court of Appeals affirmed in part, reversed in part (reversing judgment on Mr. Parker's contract claim) and remanded the case to the trial court with directions to determine damages. At this stage, we cannot express an opinion as to the probable outcome of this matter, although a determination of the issues relating to rights in the unvested stock is expected to be made in the Adversary Proceeding currently pending in the United States Bankruptcy Court for the District of Colorado (described below).

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 in an Adversary Proceeding (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 various writs of garnishment issued by the Denver District Court (discussed above). Tracinda seeks, among other things, a declaratory judgment stating that Tracinda is entitled to such property allegedly subject to such writs. The Company filed an answer to this complaint on July 10, 2013. The Bankruptcy Court entered an Order dated August 12, 2014, holding the case in abeyance pending resolution of the state-court appeal of the Denver District Court lawsuit. On October 2, 2014, the Bankruptcy Court entered a Minute Order declaring that it would issue an order in due course continuing the abeyance or ruling on pending motions for summary judgment. A trial date has not been set.

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

NOTE 11 - SHAREHOLDERS' EQUITY

Common Stock

As of June 30, 2014, the Company had 100,000,000 shares of Common Stock and 10,000,000 shares of preferred stock authorized, of which 27,513,566 shares of Common Stock and 7,500 preferred shares were issued and outstanding.

During the six months ended June 30, 2014, the Company issued 7,863,166 shares of Common Stock, including 4,500,000 shares in connection with the Debenture Conversion Agreement, 250,000 for finance expense to complete the conversion of convertible debentures, 3,037,500 for the stock issued for the January 2014 Private Placement, 229,150 shares as restricted stock grants to employees, board members, or consultants (see Note 13 – Share Based and Other Compensation) and 7,500 shares of Series A Preferred (see Note 12 - Preferred Stock).

Convertible Debenture Interest

During the six months ended June 30, 2014, the Company did not issue any shares as interest in connection with the Debentures, other than the shares issued in connection with the Debenture Conversion Agreement. As of June 30, 2014, the Company accrued $0.34 million of non-cash interest for the Debenture interest, which the Company anticipates paying with shares upon conversion of the Debentures.

Debenture Conversion Agreement

On January 31, 2014, the Company entered into a Debenture Conversion Agreement pursuant to which $9.00 million in Debentures were converted into Common Stock. T.R. Winston & Company, LLC ("T.R. Winston") acted as the investment banker for the Conversion Agreement and received compensation of $0.45 million, which represented 5% of the $9.0 million. (See Note 9 – Loan Agreements.)

May 2014 Private Placement

On May 30, 2014, the Company completed a private placement of 7,500 shares of Series A Preferred, along with detachable warrants to purchase up to 1,167,013 shares of Common Stock at an exercise price of $2.89 for aggregate proceeds of $7.5 million (See Note 12 - Preferred Stock)

Consulting Agreement

In January 2014, the Company entered into a consulting agreement with a public relations company. The agreement provided for the issuance by the Company of 350,000 warrants and 90,000 shares of restricted stock. Using a Black Scholes lattice model, the warrants, valued at $0.28 million in the aggregate on the date of grant, vested immediately, and the restricted stock, using the price at issuance, vested on a monthly basis until August 1, 2014, when the agreement was terminated. During the six months ended June 30, 2014, the Company recognized a total expense of $0.41 million for the restricted stock issued pursuant to the consulting agreement.

Warrants

A summary of warrant activity for the six months ended June 30, 2014 is presented below:

	Warrants	Weighted-Average Exercise Price
Outstanding at December 31, 2013	6,773,913	$ 4.40
Granted-January 2014 private placement	3,012,500	2.50
Granted-debenture conversion agreement	4,500,011	2.50
Granted –May 2014 preferred private placement	1,556,017	2.89
Granted-other	663,840	2.88
Exercised, forfeited, or expired	-	-
Outstanding at June 30, 2014	16,506,281	$ 3.33

The weighted average remaining contract value life as of June 30, 2014 was 2.16 years, and 1.56 years as of December 31, 2013.

NOTE 12 –PREFERRED STOCK

Series A 8% Convertible Preferred Stock

On May 30, 2014, the Company consummated a private placement of 7,500 shares of our Series A Preferred, along with detachable warrants to purchase up to 1,167,013 shares of Common Stock at an exercise price of $2.89, for aggregate proceeds of $7.5 million. The Series A Preferred has a par value of $0.0001 per share, a stated value of $1,000 per share and a conversion price of $2.41, subject to adjustment under certain circumstances. Except as otherwise required by law, holders of Series A Preferred shall not be entitled to voting rights. The holders of the Series A Preferred are entitled to receive a dividend payable, at the election of the Company (subject to certain conditions as set forth in the Certificate of Designations), in cash or shares of Common Stock, at a rate of 8% per annum. The Series A Preferred is convertible at any time at the option of the holders, or at the Company's discretion when Common Stock trades above $7.50 for ten consecutive days with a daily dollar trading volume above $300,000. In addition, the Company has the right to redeem the shares of Series A Preferred, along with any accrued and unpaid dividends, at any time, subject to certain conditions as set forth in the Certificate of Designations. In addition, holders of the Series A Preferred can require the Company to redeem the Series A Preferred upon the occurrence of certain triggering events, including (i) failure to timely deliver shares of Common Stock after valid delivery of a notice of conversion by the holder; (ii) failure to have available a sufficient number of authorized and unreserved shares of Common Stock to issue upon conversion; (iii) the occurrence of certain change of control transactions; (iv) the occurrence of certain events of insolvency; and (v) the ineligibility of the Company to electronically transfer its shares via the Depository Trust Company or another established clearing corporation.

As of June 30, 2014, the Company had received gross proceeds of $5.65 million from the May 2014 Private Placement, for which the Company paid $0.71 million in fees for net proceeds of $4.94 million. As of June 30, 2014, the Company immediately recognized, since the preferred shares are convertible at any time after the date of issuance, an accretion expense of $3.57 million and a private preferred subscription receivable of $1.85 million. The subscription receivable was fully funded in September 2014. As of June 30, 2014, the Company has accrued a cumulative dividend for $.04 million which is payable as of July 1, 2014 and funded August 2014.

The table below summarizes the primary characteristics of the Series A Preferred as of June 30, 2014:

Total shares outstanding as of June 30, 2014		7,500
Conversion price	$	2.41
Shares of Common Stock issuable upon conversion		3,112,033
Warrants issued		1,556,017
Fees paid to placement agent	$	706,000
Aggregate value of warrants issued (1)	$	1,321,526
Beneficial conversion feature (2)	$	1,539,369

(1) The intrinsic value of the warrant was calculated at $1.60 million utilizing the Black Scholes Lattice Model. The gross proceeds of $7,500,000 were allocated to the preferred stock and the warrants on a relative fair value basis, resulting in an allocation to the warrants of $1,321,526.

(2) The Company considered the beneficial ownership features of the Series A Preferred shares and determined that since the conversion price is $2.41 along with a detachable warrant, the Company recorded a beneficial conversion feature of $1.54 million, after considering the discount resulting from the proceeds allocated to the warrants

NOTE 13 - SHARE BASED AND OTHER COMPENSATION

Share-Based Compensation

In September 2012, the Company adopted the 2012 Equity Incentive Plan (the "EIP"). The EIP was amended by the stockholders on June 27, 2013 to increase the number of shares of Common Stock 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 shares of Common Stock available for grant under the EIP from 1,800,000 shares to 6,800,000 shares and to increase the number of shares of Common Stock 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 EIP.

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 six months ended June 30, 2014, the Company granted 229,150 shares of restricted common stock to employees, directors and consultants, and 400,000 shares of restricted common stock and stock options that had previously been granted under the EIP were forfeited in connection with the termination of certain employees, directors and consultants.

The Company recognized a stock compensation expense, for the six months ended June 30, 2014, of approximately $0.20 million and a credit to expense of $0.11 million for cancelled shares for the six months ended June 30, 2014.

Stock Options

A summary of stock options activity for the six months ended June 30, 2014 is presented below:

	Stock Options
Outstanding at December 31, 2013	3,800,000
Granted	1,500,000
Exercised, forfeited, or expired	(400,000)
Outstanding at June 30, 2014	5,100,000

In June 2013, the Company entered into employment agreements with W. Phillip Marcum and A. Bradley Gabbard 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. 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 to be amortized over the remaining vesting period. In April 2014, Mr. Marcum resigned from his role as CEO, entering into a severance agreement pursuant to which, among other things, the 200,000 options that had been unvested at the time of his termination became immediately vested. The Company reversed the 200,000 unvested options valued at $0.07 million, and reissued fully vested options, which it valued utilizing the Black Scholes Lattice model at $0.41 million.

In May 2014, in connection with his resignation as Chief Financial Officer ("CFO"), A. Bradley Gabbard forfeited 200,000 options that were unvested at the time of his termination. The Company recorded a reversal of $0.08 million. Both Mr. Marcum and Mr. Gabbard forfeited their respective 68,750 shares of unvested restricted stock, for which the Company recorded a reversal of $0.10 million.

Employment Agreements

Executive Compensation for Abraham Mirman

The Company is party to an employment agreement with its CEO, Abraham Mirman (the "Mirman Agreement"). The Mirman Agreement, as amended, 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, 2015, may result in a cash bonus payment to Mr. Mirman of up to 3.0 times his base salary. In addition, in connection with the Mirman Agreement, Mr. Mirman was granted options to purchase up to 2,000,000 shares of Common Stock, subject to vesting when the value of the Common Stock reaches certain thresholds. 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. The Company recorded an expense of $0.03 million for the six months ended June 30, 2014, which resulted in a total liability of $0.03 million. We valued the option bonus and stock option grant utilizing a third party valuation expert and valued the option bonus and stock option grant for $0.65 million, to be amortized over the term of the employment contract. During the three months and six months ended June 30, 2014, the Company amortized $0.13 million and $0.25 million, respectively. (See Note 12-Share Based and Other Compensation.) As of October 7, 2014, Mr. Mirman reached the $30.0 million recapitalization provision within his employment contract which immediately triggered the vesting of 600,000 options.

Board of Directors

In October 2013, the Company granted each of its independent directors 200,000 non-statutory options to purchase 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.

In June 2013, each director also agreed to receive 31,250 shares of restricted Common Stock in lieu of a portion of his cash compensation, to vest on April 15, 2014. During the three and six months ended June 30, 2014, the Company recognized $0.05 million and $0.11 million, respectively, in compensation expense related to this issuance.

Robert A. Bell

In April 2014, in connection with the appointment of Robert A. Bell as our President and Chief Operating Officer, the Company entered an employment agreement with Mr. Bell, which provided for the issuance of 100,000 shares of Common Stock, of which 1/3 vested immediately and the balance was scheduled to vest over three years, subject to certain conditions. In addition, the employment agreement provided that Mr. Bell would receive an equity incentive bonus consisting of a non-statutory stock option to purchase up to 1,500,000 shares of Common Stock subject to Mr. Bell's continued employment and the Company's achievement of certain pre-defined production thresholds. The Company received independent valuations of the i) option bonus to purchase 1,500,000 shares of Common Stock; and ii) the incentive bonus. The option to purchase 1,500,000 shares was valued at $1.29 million to be amortized over the life of the employment agreement. During the three months ended June 30, 2014, the Company recorded an expense for the incentive bonus of $0.07 million, and recorded a liability for the incentive bonus of $0.30 million. On August 1, 2014, in connection with the termination of Mr. Bell's employment, the Company entered into a separation agreement with Mr. Bell. (See Note 14 - Subsequent Events.)

Separation Agreements

W. Phillip Marcum

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 Mr. Marcum 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 would 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 Mr. 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 January 2014 Private Placement, 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.

A summary of restricted stock grant activity for the six months ended June 30, 2014 is presented below:

	Shares
Balance outstanding at December 31, 2013	2,024,375
Granted	212,750
Vested	(150,459)
Expired/ cancelled	(174,585)
Balance outstanding at June 30, 2014	1,912,081

As of June 30, 2014, total unrecognized compensation cost related to unvested stock grants was approximately $0.58 million, which is expected to be recognized over a weighted-average remaining service period of 3 years.

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 $0.01 million and $0.02, respectively, for the three and six months ended June 30, 2014.

NOTE 14- SUBSEQUENT EVENTS

Separation from Employment of Robert A. Bell

On August 1, 2014, the Company entered into a separation agreement with Robert A. Bell, its former president and chief operating officer (the "Bell Agreement"). Pursuant to the Bell Agreement, the Company paid to Mr. Bell a lump-sum payment of $100,000 in cash and issued to Mr. Bell 66,667 shares of Common Stock, in addition to satisfying the Company's outstanding obligation to pay Mr. Bell $0.10 million in cash and issue to Mr. Bell 33,333 shares of Common Stock. The Bell Agreement also contains certain mutual covenants, and reaffirms the survival of certain confidentiality provisions contained in Mr. Bell's employment agreement dated as of May 1, 2014 between the Company and Mr. Bell. In addition, Mr. Bell 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. Bell's employment.

Final Settlement of Hexagon Debt

Until September 2014, the Company was party to three separate credit agreements with Hexagon, LLC ("Hexagon"): (i) a Credit Agreement, dated as of January 29, 2010, providing for a secured term loan in the original principal amount of $4.5 million (as amended, modified, supplemented, substituted or replaced, "Credit Agreement No. 1"); (ii) a Credit Agreement, dated as of March 25, 2010, providing for a secured term loan in the original principal amount of $6.0 million (as amended, modified, supplemented, substituted or replaced, "Credit Agreement No. 2"); and (iii) a Credit Agreement, dated as of April 14, 2010, providing for a term loan in the original principal amount of $15.0 million (as amended, modified, supplemented, substituted or replaced, "Credit Agreement No. 3" and, together with Credit Agreement No. 1 and Credit Agreement No. 2, the "Credit Agreements").

The Credit Agreements were scheduled to mature on May 16, 2014. On May 19, 2014, the Company received extensions from Hexagon of the maturity dates under the Credit Agreements to August 15, 2014, and 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 the issuance to Hexagon of a two-year $6.0 million unsecured 8% note and 943,208 shares of the Company's unregistered common stock and two cash payments of $5.0 million each, the first of which was paid concurrently with execution and the second of which was to be made by August 15, 2014 (the "First Settlement Agreement").

The Company did not make the second $5.0 million payment on August 15, 2014, and on September 2, 2014, the Company entered into the Final Settlement Agreement with Hexagon to settle all amounts payable by the Company pursuant to the Credit Agreements. Pursuant to the Final Settlement Agreement, in exchange for full extinguishment of all amounts payable, approximately $14.8 million in principal and interest, as of June 30, 2014 pursuant to the Credit Agreements and related promissory notes, the Company assigned to Hexagon all of the Hexagon Collateral which consisted of 30,000 net acres and several economical wells which secured several Proved Development Producing reserves and several Proved Undeveloped reserves, and issued to Hexagon $2.0 million in Redeemable Preferred. The Redeemable Preferred bears a 6% dividend per annum, payable quarterly, and is redeemable at face value (plus any accrued and unpaid dividends) at any time at the Company's option, or at Hexagon's option upon the Company's achievement of certain production and reserves thresholds. The Redeemable Preferred is not convertible into Common Stock or any other securities of the Company. Except as otherwise required by law, holders of the Redeemable Preferred shall not be entitled to voting rights. The Final Settlement Agreement also prohibits Hexagon from selling or otherwise disposing of any shares of Common Stock held by Hexagon until February 29, 2016. In addition, pursuant to the Final Settlement Agreement, Hexagon 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 the Credit Agreements.

Consulting Agreement with Bristol Capital

On September 2, 2014, the Company entered into a Consulting Agreement (the "Consulting Agreement") with Bristol Capital, LLC ("Bristol"). Pursuant to the Consulting Agreement, Bristol will assist the Company in general corporate activities including but not limited to strategic planning; management and business operations; introductions to further its business goals; provide advice and services related to the Company's growth initiatives; and any other consulting or advisory services the Company reasonably requests that Bristol provide to the Company. The Consulting Agreement has a term of three years. In connection with the Consulting Agreement and as compensation for the services to be provided by Bristol thereunder, the Company has issued to Bristol a warrant to purchase up to 1,000,000 shares of Common Stock at an exercise price of $2.00 per share (the "Bristol Warrant"). In addition, the Company has issued to Bristol an option to purchase up to 1,000,000 shares of Common Stock at an exercise price of $2.00 per share (the "Bristol Option"). The Bristol Option is intended as an alternative to the Bristol Warrant, and will automatically terminate upon and to the extent the Bristol Warrant is exercised. Likewise, if and to the extent the Bristol Option is exercised, the Bristol Warrant will terminate. If the Company has not registered the Common Stock underlying the Bristol Warrants within six months following the execution of the Consulting Agreement, Bristol may elect to terminate the Bristol Warrant and retain the Bristol Option, or to terminate the Bristol Option and retain the Bristol Warrant, but in either case may only retain either the Warrant or the Option. In no event will Bristol have the right to exercise, in whole or in part, the Bristol Warrant and/or Bristol Option for a number of shares in excess of 1,000,000. Each of the Bristol Warrant and the Bristol Option (whichever ultimately remains outstanding) has a term of five years. The Consulting Agreement did not include any cash payment.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our Annual Report on Form 10-K for the year ended December 31, 2013, as well as the unaudited condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q. 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" in our Annual Report on Form 10-K for the year ended December 31, 2013.

General

Lilis Energy, Inc. ("Lilis", "Lilis Energy", "we", "our", and the "Company") is an independent oil and gas exploration and production company focused on the Denver-Julesburg Basin ("DJ Basin"), where it holds 84,000 net acres. Lilis drills, operates and produces oil and natural gas wells through the Company's land holdings located in Wyoming, Colorado, and Nebraska.

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.

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

Financial Condition and Liquidity

As of June 30, 2014, the Company had $14.80 million outstanding under its term loans with Hexagon, LLC ("Hexagon") and $6.93 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. In June 2014, the maturity date under the Debentures was extended to January 15, 2015. In May 2014, Hexagon extended the maturity of the Company's term loan to August 15, 2014, and in September 2014, the Company entered into a settlement agreement with Hexagon whereby the total principal and interest outstanding under the term loans was settled. (See Note 14- Subsequent Events for a more detailed discussion of the transactions consummated with respect to the Hexagon term loans.) While the settlement of the Hexagon term loans eliminated a significant debt burden to the Company, it also resulted in the assignment of several producing properties, which will have an adverse impact on the Company's operating revenue going forward.

Since March 31, 2014, the Company has consummated the following other transactions related to its liquidity: (i) on May 30, 2014 the Company consummated a private placement to accredited investors (the "May 2014 Private Placement") of its Series A 8% Convertible Preferred Stock (the "Series A Preferred") and three-year warrants to purchase Common Stock equal to 50% of the number of shares issuable upon full conversion of the Series A Preferred for gross proceeds of $7.50 million; (ii) on June 6, 2014, T.R. Winston & Company, LLC ("T.R. Winston") executed an agreement that they or a designee will purchase an additional $15.0 million of preferred stock under the same terms of the Series A Preferred Stock within 90 days; furthermore, on November 25, 2014, T.R. Winston has reaffirmed and extended their commitment for 90 days or until February 22, 2015. In November 2014, a controlling member of T.R. Winston was elected to the Company's board of directors. T.R. Winston has informed the Company that there is a possible conflict between being the Company's investment banker and board member, and as a result will refrain from acting as the Company's investment banker; and (iii) on October 6, 2014, the Debenture holders agreed to waive any event of default under the Debentures that may have occurred prior to the date of the waiver (including, without limitation, any default relating to the Company's indebtedness to Hexagon), and to rescind and annul any acceleration or right to acceleration that may have been triggered thereby.

As of November 24, 2014, the Company has $1.00 million in cash on hand and is currently producing approximately 70 BOE a day from eight economically producing wells. Furthermore, as of the date of this report, the Company has a negative working capital of approximately $8.25 million, including $6.93 million in convertible debentures due as of January 15, 2015, and $0.50 million within the accrued liabilities for convertible debenture interest. The Company is negotiating with the holders of the convertible debentures to pay the interest currently due with restricted shares of common stock, and extension of the maturity date of the debentures.

The Company will require additional capital to satisfy its obligations, including repayment of the Debentures in January 2015; to fund its current drilling commitments and acquisition 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 borrowing transactions, the sale of additional debt and/or equity securities, the sale 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 to fund the aforementioned capital requirements, we would be required to curtail our expenditures, and may be required to restructure our operations, sell assets on terms which may not be deemed favorable and/or curtail other aspects of our operations, including deferring all or portions of our capital budget. There is no assurance that any such funding will be available to the Company on acceptable terms, if at all.

Cash Flows

Cash used in operating activities during the six months ended June 30, 2014 was $4.64 million. Cash used in operating activities and cash used in investing activities was offset by cash provided in financing activities by $1.28 million, and resulted in a corresponding increase in cash.

The following table compares cash flow items during the six months ended June 30, 2014 and 2013 (in thousands):

	Six months ended June 30,	
	2014	**2013**
Cash provided by (used in):		
Operating activities	$ (4,464)	$ (1,257)
Investing activities	(439)	(201)
Financing activities	6,187	1,118
Net change in cash	$ 1,283	$ (340)

During the six months ended June 30, 2014, net cash used in operating activities was $4.46 million, compared to net cash used in operating activities of $1.26 million during the six months ended June 30, 2014, an increase of cash used in operating activities of $3.16 million. The primary changes in operating cash during the six months ended June 30, 2014 were $14.72 million of net loss, $0.43 million increase in cash for other assets, an increase in cash of $0.10 million for restricted cash, an increase in accounts payable and accrued expenses of $0.07 million, and offset a decrease of cash of $0.15 million for accounts receivable. The cash flows from operating activities were adjusted for non-cash charges of $0.99 million of depreciation, depletion, amortization and accretion expenses, $0.90 million of debt discount accretion, $0.13 million of amortization of deferred financing costs; $0.70 million for common stock issued in satisfaction of financing costs for both the private placement of common stock and the conversion of convertible debentures; $0.15 million for common stock issued for interest on the Debentures; $6.66 million for the issuance of a warrant to purchase common stock recorded as a debt inducement for the conversion of the Debentures; $1.18 million for issuance of stock for services and compensation, and offset by a decrease in cash of $0.85 million for a non-cash change in fair value of the conversion option with respect to the Debentures.

During the six months ended June 30, 2014, net cash used in investing activities was $0.44 million, compared to net cash used in investing activity of $0.20 million during the six months ended June 30, 2013, an increase of cash used in investing activities of $0.24 million. The primary changes in investing cash during the six months ended June 30, 2014 were a decrease in cash of $0.11 million of drilling expenditures and acquisitions of undeveloped properties, $0.33 million in expenditures related to additions to oil and gas properties, and $0.01 million in expenditures related to office equipment.

During the six months ended June 30, 2014, net cash provided by financing activities was $6.19 million, compared to net cash provided by financing activities of $1.12 million during the six months ended June 30, 2013, an increase of $5.02 million. The increase in financing cash during the six months ended June 30, 2014 were primarily due to net proceeds of $4.94 million from the May Private Placement, and net proceeds of $5.33 million from the private placement of 3,750,000 units in January 2014 (the "January 2014 Private Placement") consisting of (i) one share of Common Stock and (ii) one warrant to purchase one share of Common Stock, for proceeds of $5.33 million net of fees associated with the financing. The proceeds from the January 2014 Private Placement and the May 2014 Private Placement were partially offset by net repayments of debt of $5.08 million payment of dividend for Series A Convertible Preferred Stock of $0.04 million.

As of June 30, 2014, the Company had received gross proceeds of $4.94 million in connection with the January 2014 Private Placement and $5.65 million from the May 2014 Private Placement. As of June 30, 2014, the Company immediately recognized an accretion expense of $3.57 million and a private preferred subscription receivable of $1.85 million. The subscription receivable was fully funded in September 2014.

Capital Resources

The Company will require additional capital to fund its current debt obligations and accrued interest of $7.43 million, current capital obligations, capital budget plans, to help fund its ongoing overhead and general and administrative expenses, 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 borrowing transactions, the sale of additional debt and/or equity securities, the sale of working interests in certain un-evaluated and evaluated properties and by the development of certain undeveloped properties via arrangements with joint venture ("JV") partners which may reduce our working interest in certain properties. 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, decrease our working interest in planned drilling areas, including deferring certain capital expenditures in key development areas. There is no assurance that any such funding will be available to the Company.

During the second quarter of 2014, the Company was provided cash call notices for authorizations for expenditures ("AFE's") relating to three horizontal wells in the North Wattenberg field, for a total of approximately $5.05 million. A notice of default was issued to the Company on June 12, 2014, and the thirty-day cure period under the notice of default and applicable joint operating agreements ("JOA's") expired on July 12, 2014. Per the terms of the applicable JOA's, while this default remains uncured, the operator of the three wells is entitled to exercise its remedies under the JOA, including, without limitation, issuing to the Company a notice of non-consent, which would entitle the operator to recoup 300% of its expenditures before the Company would be permitted to participate in the wells. As of November 2014, the Company is in further negotiations with the operator to remedy the default under the JOA's and participate in the current and future wells on the lease. Furthermore, the Company has accrued $5.05 million in well cost as wells-in-progress and believes the Company will retain an interest in the wells.

Results of Operations

Three months ended June 30, 2014 compared to three months ended June 30, 2013

The following table compares operating data for the three months ended June 30, 2014 to June 30, 2013:

	Three months ended June 30,	
	2014	**2013**
Revenues:		
Oil sales	$ 979,523	$ 1,189,005
Gas sales	102,324	38,805
Operating fees	42,152	42,019
Total revenues	1,123,999	1,269,829
Costs and expenses:		
Production costs	221,260	255,454
Production taxes	101,230	162,045
General and administrative	2,643,063	1,367,976
Depreciation, depletion and amortization	570,403	651,175
Total costs and expenses	2,293,764	2,436,650
Loss from operations	(2,411,957)	1,166,821
Other Income (expenses):		
Other income	44	141
Inducement expense	-	-
Convertible notes conversion derivative gain (loss)	(300,000)	(10,000)
Interest expense	(1,953,127)	(1,669,519)
Total other expenses	(2,253,083)	(1,679,378)
Net loss	$ (4,665,040)	$ (2,846,199)

Total revenues

Total revenues were $0.98 million for the three months ended June 30, 2014, compared to $1.19 million for the three months ended June 30, 2013, decrease of $0.21 million, or 18%. The decrease in revenues was due primarily to a decrease in production volumes. During the three months ended June 30, 2014 and 2013, production amounts were 15,533 and 16,145 BOE, respectively, a decrease of 612 BOE, or 4%. Declines in production are primarily attributable to natural production declines related to mature producing properties and wells which need work-overs to continue production. During the three months ended June 30, 2014, the differential between the price per BOE received by the Company and the NYMEX crude price ranged from $11.50-$15.15 from the excess supply of oil in the area; compared to $7.64 from the same period in 2013. The work-over down time can range from a few days to a few months based on the availability of the work-over rigs in the immediate area. Furthermore, the decrease in production is from the Company analyzing the economics of the wells and cycling producing days instead of continuous production. These decreases were offset by the Company's participation in and production from one non-operated horizontal Wattenberg well. The effect of the production decrease was offset by an increase of overall average price decrease per BOE to $69.95 in 2014 from $76.05 in 2013, decrease of $6.40 or 8%.

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

	For the Three Months Ended June 30,	
	2014	2013
Product		
Oil (Bbl.)	10,918	13,617
Oil (Bbls)-average price (1)	$ 89.72	$ 87.32
Natural Gas (MCF)-volume	27,688	15,170
Natural Gas (MCF)-average price (2)	$ 3.70	$ 2.56
Barrels of oil equivalent (BOE)	15,533	16,145
Average daily net production (BOE)	171	177
Average Price per BOE (1)	$ 69.65	$ 76.05

(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)	$ 69.65	$ 76.05
Production costs per BOE	14.24	15.82
Production taxes per BOE	6.52	10.04
Depreciation, depletion, and amortization per BOE	36.72	40.33
Total operating costs per BOE	57.55	66.19
Gross margin per BOE	$ 12.10	$ 9.86
Gross margin percentage	17%	13%

(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 June 30, 2014, the Company did not maintain any active commodity derivatives.

Production costs

Production costs were $0.22 million during the three months ended June 30, 2014, compared to $0.26 million for the three months ended June 30, 2013, decrease of $0.04 million, or 15%. Decrease in production costs in 2014 was from the Company's in-depth analysis of our wells and determining the economics of the wells and changing well mechanics to reduce work-overs from strain on the pumping units and downhole equipment. Production costs per BOE decreased to $14.24 for the three months ended June 30, 2014 from $15.82 in 2013, decrease of $1.58 per BOE, or 10%.

Production taxes

Production taxes were $0.10 million for the three months ended June 30, 2014, compared to $0.16 million for the three months ended June 30, 2013, a decrease of $0.06 million, or 38%. Decrease in production taxes was from a decrease in production and product mix per state. Currently, ad valorem, severance and conservation taxes range from 1% to 13% based on the state and county in which production is derived. Production taxes per BOE decreased to $6.52 during the three months ended June 30, 2014 from $10.04 in 2013, decrease of $3.52 or 35%. Declines in production taxes per BOE are primarily attributable to declines in production, which are the result of natural production declines related to mature producing properties and wells which need work-overs to continue production. Additionally, the decrease is from product mix within certain states which have different tax burdens for hydrocarbons. The work-over down time can range from a few days to a few months based on the availability of the work-over rigs in the immediate area. Furthermore, the decrease in production is from the Company analyzing the economics of the wells and cycling producing days instead of continuous production.

General and administrative

General and administrative expenses were $2.64 million during the three months ended June 30, 2014, compared to $1.37 million during the three months ended June 30, 2013, an increase of $1.27 million, or 92%. Non-cash general and administrative items for the three months ended June 30, 2014 was an expense of $0.60 million compared to $0.64 million during the three months ending June 30, 2013, decrease of $.04 million, or 6%. The increase in non-cash general and administrative expenses was due to the reversal of non-cash stock compensation for executive management and reevaluation of the stock issued at a lower cost basis. Cash general and administrative expenses were $2.04 million during the three months ended June 30, 2014, compared to $0.73 million during the three months ended June 30, 2013, an increase of $1.31 million, or 179%. The increase in cash general and administrative expenses was due to $0.15 million of due diligence cost incurred in connection with a potential acquisition, $0.65 million for expenses related to severance agreements, $0.87 million for employee incentive payments, and additional contractors, as well as additional legal and other contract professional services expenses.

Depreciation, depletion, and amortization

Depreciation, depletion, and amortization were $0.57 million during the three months ended June 30, 2014, compared to $0.65 million during the three months ended June 30, 2013, a decrease of $0.08 million, or 12%. Decrease in depreciation, depletion, and amortization was from (i) a decrease in production amounts in 2014 from 2013, (ii) an increase in the depletion base for the depletion calculation, and (iii) a decrease in the depletion rate. Production amounts decreased to 15,533 from 16,145 for the three months ended June 30, 2014 and 2013, respectively, a decrease of 612, or 4%. The decrease in depletion was based on a lower depletion base. Depreciation, depletion, and amortization per BOE decreased to $36.72 from $40.33, respectively, for the three months ended June 30, 2014 and 2013, a decrease of $3.61, or 9%. Declines in production are primarily attributable to natural production declines related to mature producing properties, but were also affected by the temporary reduction in production from five of the Company's properties that experienced production difficulties during the quarter. Producing wells that went off-line were idle for longer periods of time than expected due to the lack of availability of work-over/production rigs in the area.

Interest Expense

For the three months ended June 30, 2014 and 2013, the Company incurred interest expense of approximately $1.95 million and $1.67 million, respectively, of which approximately $1.47 million and $1.04 million is classified as non-cash interest expense, respectively. The details of the non-cash interest expense are as follows: (i) amortization of the deferred financing costs of $0.07 million, (ii) accretion of the convertible debentures payable discount of $0.23 million, (iii) accrued interest for term note loan fees of $1.00 million and (iv)amortization of forbearance fees of $0.12 million. Cash interest is comprised of term loan cash expense payment. The increase in interest expense was primarily attributable to fees for not paying a designated amount to the term note holder. Other cash interest increased due to $0.25 million forbearance fees paid to Hexagon, which is being amortized over the life of the extension.

Results of Operations

Six months ended June 30, 2014 compared to six ended June 30, 2013

The following table compares operating data for the six months ended June 30, 2014 to June 30, 2013:

	Six months ended June 30,	
	2014	**2013**
Revenues:		
Oil sales	$ 1,679,609	$ 2,316,338
Gas sales	189,990	145,202
Operating fees	76,881	90,522
Realized gain on commodity price derivatives	11,143	19,890
Total revenues	1,957,623	2,571,952
Costs and expenses:		
Production costs	637,583	559,301
Production taxes	194,910	278,039
General and administrative	5,601,478	2,352,235
Depreciation, depletion and amortization	959,039	1,340,829
Total costs and expenses	7,393,010	4,530,404
Loss from operations	(5,435,387)	(1,958,452)
Other Income (expenses):		
Other income	97	392
Inducement expense	(6,661,275)	-
Convertible notes conversion derivative gain (loss)	850,000	(30,000)
Interest expense	(3,469,458)	(3,305,678)
Total other expenses	(9,280,636)	(3,335,286)
Net loss	$ (14,716,023)	$ (5,293,738)

Total revenues

Total revenues were $1.68 million for the six months ended June 30, 2014, compared to $2.32 million for the six months ended June 30, 2013, a decrease of $0.64 million, or 28%. The decrease in revenues was due primarily to a decrease in production volumes. During the six months ended June 30, 2014, the Company's differential from the purchaser ranged from $11.50-$15.00 from the excess supply of oil in the area; compared to $7.64 from the same period in 2013. During the six months ended June 30, 2014 and 2013, production amounts were 25,821 and 34,359 BOE, respectively, a decrease of 8,538 BOE, or 25%. Declines in production are primarily attributable to natural production declines related to mature producing properties, but were also affected by the temporary reduction in production from five of the Company's properties that experienced production difficulties during the six months ended June 30, 2014. Work-over rigs had limited availability due to high industry activity within the operating area of the Company and the Company performed an in-depth analysis of production and started to reduce the amount of on-time that the wells pumped. As a result, idled wells for routine well maintenance or other repairs were off-line more often and longer than anticipated, which substantially decreased our production. The effect of this production decrease was partially offset by an increase in the overall average price per BOE to $72.41 in 2014 from $71.64 in 2013, an increase of $0.77 or 1%.

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

	For the Six Months Ended June 30,	
	2014	2013
Product		
Oil (Bbl.)	19,373	27,075
Oil (Bbls)-average price (1)	$ 86.70	$ 85.55
Natural Gas (MCF)-volume	38,685	43,704
Natural Gas (MCF)-average price	$ 4.91	$ 3.89
Barrels of oil equivalent (BOE)	25,821	34,359
Average daily net production (BOE)	143	190
Average Price per BOE (1)	$ 72.41	$ 71.64

(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)	$ 72.41	$ 71.64
Production costs per BOE	24.69	16.28
Production taxes per BOE	7.55	8.09
Depreciation, depletion, and amortization per BOE	37.14	39.02
Total operating costs per BOE	69.38	63.39
Gross margin per BOE	$ 3.03	$ 8.25
Gross margin percentage	4%	12%

(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 June 30, 2014, the Company did not maintain any active commodity swaps. The commodity swap ended in January 31, 2014 for 100 barrels of oil per day at a price of $99.25 per barrel.

Commodity price derivative realized gains were $0.01 million for the six months ended June 30, 2014, compared to realize gains of $0.02 million during the six months ended June 30, 2013, a decrease in realized gains/losses of $0.01 million or 50%.

Production costs

Production costs were $0.64 million during the six months ended June 30, 2014, compared to $0.56 million for the six months ended June 30, 2013, an increase of $0.08 million, or 14%. Increase in production costs in 2014 was from an increase of the number of required well work, property improvements, and maintenance of productive wells. Production costs per BOE increased to $24.69 for the six months ended June 30, 2014 from $16.28 in 2013, an increase of $8.41 per BOE, or 52%. The increase in production costs was several wells were requiring work overs from over-working the pumping units and creating an excessive amount of tubing leaks, whole in the tubing, and parted rods. Due to the large amount of work overs needed at one time, the Company hired different Company’s to perform the work which costs a premium from the normal vendors. During the second three months ended the Company performed an in-depth analysis of our wells and determining the economics of the wells and changing well mechanics to reduce work-overs from strain on the pumping units and downhole equipment.

Production taxes

Production taxes were $0.19 million for the six months ended June 30, 2014, compared to $0.28 million for the six months ended June 30, 2013, a decrease of $0.09 million, or 32%. Decrease in production taxes was from a decrease in production and product mix per state. Currently, ad valorem, severance and conservation taxes range from 1% to 13% based on the state and county in which production is derived. Production taxes per BOE decreased to $7.55 during the three months ended June 30, 2014 from $8.09 in 2013, decrease of $0.54 or 7%. During the six months ended June 30, 2014, work-over rigs were in high demand within the operating area of the Company with a small supply of work-over rigs. As a result, our wells that went down for normal well maintenance or other repairs did not operate for an extended period of time which substantially decreased our BOE.

General and administrative

General and administrative expenses were $5.60 million during the six months ended June 30, 2014, compared to $2.35 million during the six months ended June 30, 2013, an increase of $3.25 million, or 138%. Non-cash general and administrative items for the six months ended June 30, 2014 were $2.28 million compared to $1.00 million during the six months ending June 30, 2013, an increase of $1.28 million, or 128%. The increase in non-cash general and administrative expenses was due to additional financing costs of $0.69 million; increase in non-cash compensation of $0.44 million; $0.69 million fees associated with completing the January 2014 Private Placement; $0.06 million for non-cash payment of the financing fees for the May 2014 Private Placement, and $0.5 million non-cash compensation to a third party. Cash general and administrative expenses were $3.31 million during the six months ended June 30, 2014, compared to $1.35 million during the six months ended June 30, 2013, an increase of $1.96 million, or 145%. The increase in cash general and administrative expenses was largely due to $0.15 million of due diligence cost incurred in connection with a potential acquisition, $0.65 million for expenses related to severance agreements, $0.87 million for employee incentive payments, $0.25 million to our term loan holder as a forbearance fees, as well as additional legal and other contract professional services expenses.

Depreciation, depletion, and amortization

Depreciation, depletion, and amortization were $0.96 million during the six months ended June 30, 2014, compared to $1.34 million during the six months ended June 30, 2013, a decrease of $0.38 million, or 28%. Decrease in depreciation, depletion, and amortization was from (i) a decrease in production amounts in 2014 from 2013, (ii) an increase in the depletion base for the depletion calculation, and (iii) a decrease in the depletion rate. Production amounts decreased to 25,821 from 34,359 for the six months ended June 30, 2014 and 2013, respectively, a decrease of 8,538, or 25%. The decrease in depletion was based on a lower depletion base. Depreciation, depletion, and amortization per BOE decreased to $37.14 from $39.02, respectively, for the six months ended June 30, 2014 and 2013, a decrease of $1.88, or 5%. During the six months ended June 30, 2014, work-over rigs were in high demand within the operating area of the Company with a small supply of work-over rigs. As a result, our wells which went down for normal well maintenance or other repairs did not operate for an extended period of time which substantially decreased our BOE.

Inducement expense

Inducement expenses were $6.66 million during the six months ended June 30, 2014, compared to $0 during the six months ended June 30, 2013. In January 2014, the Company entered into the Conversion Agreement between the Company and all of the holders of the Debentures. Under the terms of the Conversion Agreement, $9.0 million of the approximately $15.6 million in Debentures then outstanding converted to Common Stock at a price of $2.00 per common share. As inducement for the conversion, 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 Company used the Black Sholes Lattice Model to value the warrants, utilizing a volatility of 65%, and a life of 3 years, arriving at a fair value of $6.61 million for the warrants.

Interest Expense

For the six months ended June 30, 2014 and 2013, the Company incurred interest expense of approximately $3.47 million and $3.31 million, respectively, of which approximately $2.82 million and $1.75 million is classified as non-cash interest expense, respectively. The details of the non-cash interest expense are as follows: (i) amortization of the deferred financing costs of $0.13 million, (ii) accretion of the convertible debentures payable discount of $0.90 million, (iii) common stock issued for interest of $0.15 million, (iv) accrued interest for term note loan fees of $1.00 million and (v) accrued interest to convertible debenture of $0.34 million (vi) amortization of forbearance fees of $0.12 million. Cash interest is comprised of term loan cash expenses of payment. The increase in interest expense was primarily attributable to fees for not paying a designated amount to the term note holder.

Off-Balance Sheet Arrangements

We do not have any material off-balance sheet arrangements.

Capital Budget

We anticipate a working capital budget of up to $50.0 million for 2015. The budget is expected to be allocated toward the acquisition and exploitation of opportunities to develop two unconventional reservoirs located in the Wattenberg field, within Colorado, that will apply horizontal drilling in the Niobrara and Codell formations. The Company is also targeting additional reservoirs in Wyoming which will target both the Codell and J-sand formations within the Silo and Pine Bluffs field. The entire capital budget is subject to the securing of adequate capital through drilling, equity, and debt instruments.

Although we secured approximately $5.0 million, from the January 2014 Private Placement and an additional $7.50 million, from the May 2014 Private Placement, some of the proceeds from these transactions were applied to the payment and servicing of our term debt and working capital and participating in working interest in the Wattenberg area. Furthermore, the Company has $6.93 million in outstanding principal amount of Debentures and $0.50 million of accrued interest that will mature in January 2015 if not converted.

In addition to the need to secure adequate capital to fund our working capital budget, the execution of, and results from, our capital budget are contingent on various other factors, including, but not limited to, 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. 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, and oil and gas prices. We do not anticipate any significant expansion of our current DJ Basin acreage position in the near term; however, we are targeting attractive opportunities for acquisition in the Wattenberg and surrounding areas.

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 and related acquisition opportunities 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 September 1, 2014, after we assigned 30,000 net acres and 17 wells to Hexagon pursuant to the Final Settlement Agreement, we owned interests in approximately 93,000 gross (84,000 net) leasehold acres, of which 81,000 gross (58,000 net) acres are classified as undeveloped acreage and all of which are located in Colorado, Wyoming and Nebraska within the DJ Basin. Our remaining 8 wells are located in Wyoming and Colorado. We are primarily focused on our North and South Wattenberg Field assets which include attractive unconventional reservoir drilling opportunities in mature development areas that offer low risk drilling opportunities within the Niobrara and Codell formation. We also believe that our conventional reservoir development potential in our Silo-East and south Pine Bluffs well areas will yield competitive results. We expect to pursue an aggressive multi-well development drilling program during 2015.

During September 2014, in connection with the Final Settlement Agreement, in exchange for full extinguishment of the term notes, the Company assigned to Hexagon property consisting of 30,000 net acres and 17 producing wells, and provided Hexagon $ 2.0 million in Redeemable Preferred. The relief of the $14.03 million secured term loan has reduced the Company's level of debt, but the loss of the property assigned to Hexagon will have a significant impact on the Company's production volumes and revenues in 2014 and until we develop additional production and reserves.

Our intermediate goal is to create significant value via the attraction of additional capital to develop and expand through acquisition our inventory of low and controlled-risk conventional and unconventional properties, while maintaining a low cost structure, which will result in high investment returns and shareholder value. 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 during the fourth quarter of 2013, which was completed in the first quarter of 2014 and is now producing both crude oil, natural gas liquids, and natural gas. We also plan to operate the drilling of horizontal wells on our South Wattenberg property during the first half of 2015 in which we have a 50% working interest in up to 6 wells and a 25% working interest in two additional wells. Drilling activities on both properties will target the prolific and well established Niobrara shale and Codell formations. Subject to the securing of additional capital, we expect to purchase additional property in the Wattenberg field which will bring substantial amount of reserves and drilling opportunities.

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 $5.0 million in drilling and development costs on three of our DJ Basin assets where initial exploitation has yielded positive results. We currently have one well permitted and ready to drill in the Silo field of Wyoming. 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 2015 to acquire 3-D seismic data and utilizing other advanced technological resources which reduce the drilling risks of future wells on our Wattenberg, Pine Bluffs, and Silo Field locations and increase our ultimate recovery of our wells.

Purchasing strategic land and wells with proved production and enhanced reserves. Subject to securing financing, we are currently analyzing "bolt-on" property which will increase our strategic acreage in the prolific Wattenberg area and the surrounding Silo field.

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 7,600 net acres that are held by production, approximately 15,740 net acres, 49,000, 6,900, 1,800 and 200 net acres that expire in the years 2014, 2015, 2016, 2017, and thereafter, respectively. Approximately 82% 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 any 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;
- transportation options from trucking, rail, and pipeline
- 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 June 30, 2014 (in thousands):

	Payments due by period				
Contractual obligations	Total	Within 1 Year	1-3 years	4-5 years	More than 5 years
Secured debt	$ 14,800	$ -	$ 14,800	$ -	$ -
Interest on secured debt	189	189	-	-	-
Convertible debentures	6,728	6,728	-	-	-
Interest on convertible debentures	298	298	-	-	-
Operating leases & Other	35	35	-	-	-
Total contractual cash obligations	$ 22,050	$ 7,250	$ 14,800	$ -	$ -

The Company has an obligation to pay a cumulative divided on the 8% Series A Convertible Preferred Stock which is payable on April 1, July 1, October 1, and January 1 until the preferred stock is converted to common stock. In September 2014, the Company

In September 2014, as a result of the final settlement with Hexagon, the Company issued Hexagon $2.0 million in Redeemable Preferred. The Redeemable Preferred bears a 6% dividend per annum, payable quarterly, and is redeemable at face value (plus any accrued and unpaid dividends) at any time at the Company's option, or at Hexagon's option upon the Company's achievement of certain production and reserves thresholds

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. See our 2013 Annual Report on Form 10-K for the year ended December 31, 2013 for the remaining Critical Accounting Policies and Estimates.

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 preparation of financial statements in conformity with US GAAP requires us to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Management evaluates estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic and commodity price environment.

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 undeveloped properties, as well as valuation of common stock used in various issuances, options and warrants, and estimated derivative liabilities.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not Applicable

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Management is required to evaluate, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of each fiscal quarter. In addition, 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 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. 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.

Management has conducted, with the participation of our Chief Executive Officer and Chief Financial Officer, an assessment, including evaluating the effectiveness of the Company's disclosure controls and procedures and testing of the effectiveness of our internal control over financial reporting as of June 30, 2014. Management's assessment of internal control over financial reporting was conducted using the criteria in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO.

Based on the evaluation and the identification of the material weaknesses in internal control over financial reporting described below, our Chief Executive Officer, Chief Financial Officer, and our Interim Chief Financial Officer have concluded that, as of June 30, 2014, the Company's disclosure controls and procedures were not effective.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. In connection with management's assessment of our internal control over financial reporting, we identified the following material weaknesses in our internal control over financial reporting as of June 30, 2014:

- As a result of the resignation of our Chief Financial Officer as previously disclosed by way of current reports on Form 8-K, we did not maintain effective monitoring controls and related segregation of duties over automated and manual journal entry transaction processes.

- As disclosed in the Form 8-K filed on November 7, 2014, the Company determined that during the fourth quarter of 2013 and the first three quarters of 2014, there existed a material weakness with respect to the operation of the Company's internal controls relating to the documentation and authorization procedures of certain travel and entertaining expenses incurred by certain past and present officers in those periods.

Because of both the material weaknesses described above, management has concluded that we did not maintain effective internal control over financial reporting as of June 30, 2014, based on the Internal Control—Integrated Framework issued by COSO.

Remediation Efforts

We plan to make necessary changes and improvements to the overall design of our control environment to address the material weakness in internal control over financial reporting described above. In particular, we expect to hire a financial consulting firm to assist with journal entry processing. Additionally, we will perform an analysis of all automated and manual procedures to strengthen the effectiveness of our segregation of duties.

We have implemented a new extensive Travel and Entertainment policy which all employees and directors have been presented the policy. All employees and directors are required to review and sign the document. Furthermore, the Company has required all employees and directors to review and sign all of the Company's corporate documents which include, yet not limited to, the Code of Ethics, By-laws, and Corporate Governance Policy.

Management believes through the implementation of the foregoing initiatives, we will significantly improve our control environment, the completeness and accuracy of underlying accounting data and the timeliness with which we are able to close our books. Management is committed to continuing efforts aimed at fully achieving an operationally effective control environment and timely filing of regulatory required financial information. The remediation efforts noted above are subject to our internal control assessment, testing, and evaluation processes. While these efforts continue, we will rely on additional substantive procedures and other measures as needed to assist us with meeting the objectives otherwise fulfilled by an effective control environment.

Changes in Internal Control over Financial Reporting

We have previously disclosed by way of current reports on Form 8-K filed with the SEC that on May 16, 2014, A. Bradley Gabbard, the Company's Chief Financial Officer, announced his decision to resign from his positions as an officer and a director of the Company in order to pursue other interests. Mr. Gabbard's resignation was not due to any disagreement with the Company, the Company's Board of Directors ("Board of Directors"). or the Company's management.

Also on May 16, 2014, the Board of Directors appointed Eric Ulwelling, who was the Company's Chief Accounting Officer and Controller, to the position of Interim Chief Financial Officer. This event caused a change in our internal control over financial reporting during the quarter-ended March 31, 2014 and continued through the quarter ended June 30, 2014.

PART II - OTHER INFORMATION

Item 1. 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 were stayed by Court Order dated January 30, 2013. Judgment was entered by the trial court in favor of defendant Tracinda Corp. ("Tracinda") on Tracinda's counterclaim for breach of a promissory note before Mr. Parker's bankruptcy. Although the trial court found that Tracinda had breached its pledge agreement with Mr. Parker, the court ruled Tracinda was not liable on Mr. Parker's breach of contract claim based on several defenses. Mr. Parker appealed the judgment to the Colorado Court of Appeals (Case No. 2012CA2096) and the appellate proceedings were also stayed by Order of the Colorado Court of Appeals dated April 1, 2013. Stay of the state court proceedings was lifted by Bankruptcy Court Order dated April 12, 2013. On October 17, 2013, the Colorado Court of Appeals affirmed in part, reversed in part (reversing judgment on Mr. Parker's contract claim) and remanded the case to the trial court with directions to determine damages. At this stage, we cannot express an opinion as to the probable outcome of this matter, although a determination of the issues relating to rights in the unvested stock is expected to be made in the Adversary Proceeding currently pending in the United States Bankruptcy Court for the District of Colorado (described below).

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 in an Adversary Proceeding (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 various writs of garnishment issued by the Denver District Court (discussed above). Tracinda seeks, among other things, a declaratory judgment stating that Tracinda is entitled to such property allegedly subject to such writs. The Company filed an answer to this complaint on July 10, 2013. The Bankruptcy Court entered an Order dated August 12, 2014, holding the case in abeyance pending resolution of the state-court appeal of the Denver District Court lawsuit. On October 2, 2014, the Bankruptcy Court entered a Minute Order declaring that it would issue an order in due course continuing the abeyance or ruling on pending motions for summary judgment. A trial date has not been set.

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

Item 1A. Risk Factors.

There has been no material changes in our Risk Factors from those reported in Item 1A of Part I of our 2013 Annual Report on Form 10-K filed with the Securities and Exchange Commission, which we incorporate by reference herein. No additional risk factors are noted.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

We have previously disclosed by way of current reports on Form 8-K filed with the SEC all sales by us of our unregistered securities during the first six months of 2014.

Limitations upon the Payment of Dividends

The Company filed a Certificate of Designation of Preferences, Rights and Limitations of Series A 8% Convertible Preferred Stock (the "Certificate of Designation") on May 30, 2014 with the Secretary of State of the State of Nevada, which was effective upon filing. The Certificate of Designation provides that the holders of the Series A Preferred are entitled to receive a dividend payable at the election of the Company at a rate of 8% per annum. (See Note 12 – Preferred Stock). In addition, the Certificate of Designation provides that so long as the Series A Preferred remains outstanding, neither the Company nor any subsidiary of the Company may directly or indirectly pay or declare any dividend or make any distribution upon or in respect of any Junior Securities (as that term is defined in the Certificate of Designation) as long as any dividends due on the Series A Preferred remain unpaid. Moreover, no money may be set aside for or applied to the purchase of or redemption (through a sinking fund or otherwise) of any Junior Securities or shares pari passu with the Series A Preferred.

Item 3. Defaults upon Senior Securities.

None other than what has previously been disclosed.

Item 4. Mine Safety Disclosures.

Not Applicable

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Exhibit Description
3.1	Certificate of Designation of Preferences, Rights, and Limitations, dated May 30 2014 (incorporated herein by reference to Exhibit 3.1 from our current report filed on Form 8-K filed on June 4, 2014).
3.2	Amendment to Certificate of Designations of Preferences, Rights, and Limitations, dated June 12, 2014 (incorporated herein by reference to Exhibit 3.1 from our quarterly report filed on Form 10-Q filed on June 17, 2014).
3.3	Certificate of Designation of 6% Redeemable Preferred Stock, dated August 29, 2014.
4.1	Form of Warrant dated May 30, 2014 (incorporated herein by reference to Exhibit 10.2 from our current report filed on Form 8-K filed on June 4, 2014).
4.2	Form of Hexagon Replacement Note (incorporated herein by reference to Exhibit 10.4 from our current report filed on Form 8-K filed on June 4, 2014).
4.3	Form of Bristol Capital Warrant.
10.1	Amendment to Transaction Fee Agreement with T.R. Winston dated as of April 29, 2014 (incorporated herein by reference to Exhibit 10.7 from our quarterly report filed on Form 10-Q filed on June 17, 2014).
10.2	Form of Securities Purchase Agreement dated May 30, 2014 (incorporated herein by reference to Exhibit 10.1 from our current report filed on Form 8-K filed on June 4, 2014).
10.3	Hexagon Settlement Agreement, dated May 30, 2014 (incorporated herein by reference to Exhibit 10.3 from our current report filed on Form 8-K filed on June 4, 2014).
10.4	Letter Agreement dated May 19, 2014 with holders of the 8% Senior Secured Convertible Debentures (incorporated herein by reference to Exhibit 10.1 from our quarterly report filed on Form 10-Q filed on June 17, 2014).
10.5	Letter Agreement with T.R. Winston dated as of June 6, 2014 (incorporated herein by reference to Exhibit 10.9 from our quarterly report filed on Form 10-Q filed on June 17, 2014).
10.6	Amendment to Debentures dated June 6, 2014 (incorporated herein by reference to Exhibit 10.2 from our quarterly report filed on Form 10-Q filed on June 17, 2014).
10.7	Separation Agreement with W. Phillip Marcum dated April 24, 2014 (incorporated herein by reference to Exhibit 10.3 from our quarterly report filed on Form 10-Q filed on June 17, 2014).
10.8	Employment Agreement with Robert A. Bell dated May 1, 2014 (incorporated herein by reference to Exhibit 10.4 from our quarterly report filed on Form 10-Q filed on June 17, 2014).
10.9	Separation Agreement with Robert A. Bell dated August 1, 2014.
10.10	Settlement Agreement with Hexagon dated September 2, 2014.
10.11	Consulting Agreement with Bristol Capital dated September 2, 2014.
10.12	Letter Agreement with holders of the Company's 8% Senior Secured Convertible Debentures, dated as of October 6, 2014 (incorporated herein by reference to Exhibit 99.1 from our current report filed on Form 8-K filed on October 7, 2014).
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002
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101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Schema
101.CAL	XBRL Taxonomy Calculation Linkbase
101.DEF	XBRL Taxonomy Definition Linkbase
101.LAB	XBRL Taxonomy Label Linkbase
101.PRE	XBRL Taxonomy Presentation Linkbase

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized

Signature	Title	Date
/s/ Abraham Mirman Abraham Mirman	Chief Executive Officer (Principal Executive Officer)	November 25, 2014
/s/ Eric Ulwelling Eric Ulwelling	Chief Financial Officer and Chief Accounting Officer (Principal Financial Officer)	November 25, 2014

EXHIBIT INDEX

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32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Schema
101.CAL	XBRL Taxonomy Calculation Linkbase
101.DEF	XBRL Taxonomy Definition Linkbase
101.LAB	XBRL Taxonomy Label Linkbase
101.PRE	XBRL Taxonomy Presentation Linkbase

Exhibit 3.3

LILIS ENERGY, INC.

**CERTIFICATE OF DESIGNATION OF PREFERENCES,
RIGHTS AND LIMITATIONS
OF
6% REDEEMABLE PREFERRED STOCK**

PURSUANT TO SECTION 78.1955 OF THE
NEVADA REVISED STATUTE

The undersigned, Abraham Mirman and Eric Ulwelling, do hereby certify that:

1. They are the Chief Executive Officer and Secretary, respectively, of Lilis Energy, Inc., a Nevada corporation (the "Corporation").

2. The Corporation is authorized to issue 10,000,000 shares of preferred stock, of which 7,000 shares have been issued.

3. The following resolutions were duly adopted by the board of directors of the Corporation (the "Board of Directors"):

WHEREAS, the articles of incorporation of the Corporation (the "Charter") provides for a class of its authorized stock known as preferred stock, consisting of 10,000,000 shares, $0.0001 par value per share, issuable from time to time in one or more series;

WHEREAS, the Charter authorizes the Board of Directors to fix the dividend rights, dividend rate, voting rights, conversion rights, rights and terms of redemption and liquidation preferences of any wholly unissued series of preferred stock and the number of shares constituting any series and the designation thereof, of any of them;

WHEREAS, the Corporation executed that certain Certificate of Designation of Preferences, Rights and Limitations of Series A 8% Convertible Preferred Stock on May 30, 2014 (as subsequently amended, the "Series A Certificate"), which authorizes the Corporation to issue up to 20,000 shares of Series A 8% Convertible Preferred Stock (the "Series A Preferred"); and

WHEREAS, it is the desire of the Board of Directors, pursuant to its authority as aforesaid, to fix the rights, preferences, restrictions and other matters relating to a series of the preferred stock, which shall consist of up to 2,000 shares of the preferred stock which the Corporation has the authority to issue, as follows:

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors does hereby provide for the issuance of a series of preferred stock for cash or exchange of other securities, rights or property and does hereby fix and determine the rights, preferences, restrictions and other matters relating to such series of preferred stock as follows:

TERMS OF PREFERRED STOCK

Section 1. Definitions. For the purposes hereof, the following terms shall have the following meanings:

"Affiliate" means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person, as such terms are used in and construed under Rule 405 of the Securities Act.

"Business Day" means any day except any Saturday, any Sunday, any day which is a federal legal holiday in the United States or any day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close.

"Change of Control Transaction" means the occurrence after the date hereof of any of (a) an acquisition after the date hereof by an individual or legal entity or "group" (as described in Rule 13d-5(b)(1) promulgated under the Securities Exchange Act of 1934, as amended) of effective control (whether through legal or beneficial ownership of capital stock of the Corporation, by contract or otherwise) of in excess of 40% of the voting securities of the Corporation, (b) the Corporation merges into or consolidates with any other Person, or any Person merges into or consolidates with the Corporation and, after giving effect to such transaction, the stockholders of the Corporation immediately prior to such transaction own less than 60% of the aggregate voting power of the Corporation or the successor entity of such transaction, (c) the Corporation sells or transfers all or substantially all of its assets to another Person and the stockholders of the Corporation immediately prior to such transaction own less than 60% of the aggregate voting power of the acquiring entity immediately after the transaction, (d) a replacement at one time or within a one year period of more than one-half of the members of the Board of Directors that is not approved by a majority of those individuals who are members of the Board of Directors on the Original Issue Date (or by those individuals who are serving as members of the Board of Directors on any date whose nomination to the Board of Directors was approved by a majority of the members of the Board of Directors who are members on the Original Issue Date), or (e) the execution by the Corporation of an agreement to which the Corporation is a party or by which it is bound, providing for any of the events set forth in clauses (a) through (d) above.

"Colorado Courts" shall have the meaning set forth in Section 7(d).

"Commission" means the United States Securities and Exchange Commission.

"Common Stock" means the Corporation's common stock, par value $0.0001 per share, and stock of any other class of securities into which such securities may hereafter be reclassified or changed.

"Common Stock Equivalents" means any securities of the Corporation that would entitle the holder thereof to acquire at any time Common Stock, including, without limitation, any debt, preferred stock, rights, options, warrants or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock.

"Dividend Payment Date" shall have the meaning set forth in Section 3(a).

"Holder" shall have the meaning given such term in Section 2.

"Junior Securities" means the Common Stock and all other Common Stock Equivalents of the Corporation other than the Series A Preferred and all other securities that are explicitly senior or pari passu to the Preferred Stock in dividend rights or liquidation preference.

"Liquidation" shall have the meaning set forth in Section 5.

"Optional Redemption" shall have the meaning set forth in Section 6(a).

"Optional Redemption Amount" means the sum of (a) 100% of the aggregate Stated Value then outstanding, (b) accrued but unpaid dividends and (c) all other amounts due and payable by the Corporation in respect of the Preferred Stock.

"Optional Redemption Date" shall have the meaning set forth in Section 6(a).

"Optional Redemption Notice" shall have the meaning set forth in Section 6(a).

"Optional Redemption Notice Date" shall have the meaning set forth in Section 6(a).

"Original Issue Date" means the date of the first issuance of any shares of the Preferred Stock regardless of the number of transfers of any particular shares of Preferred Stock and regardless of the number of certificates which may be issued to evidence such Preferred Stock.

"Person" means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

"Preferred Stock" shall have the meaning set forth in Section 2.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"Stated Value" shall have the meaning set forth in Section 2, as the same may be increased pursuant to Section 3.

Section 2. Designation, Amount and Par Value. The series of preferred stock shall be designated as its 6% Redeemable Preferred Stock (the "Preferred Stock") and the number of shares so designated shall be up to 2,000 (which shall not be subject to increase without the written consent of all of the holders of the Preferred Stock (each, a "Holder" and collectively, the "Holders")). Each share of Preferred Stock shall have a par value of $0.0001 per share and a stated value equal to $1,000 per share, subject to increase set forth in Section 3(a) below (the "Stated Value").

Section 3. Dividends.

(a) Dividends in Cash. Holders shall be entitled to receive, and the Corporation shall pay, dividends at the rate per share (as a percentage of the Stated Value per share) of 6% per annum payable quarterly on January 1, April 1, July 1 and October 1, beginning on the first such date after the Original Issue Date (each such date, a "Dividend Payment Date") (if any Dividend Payment Date is not a Trading Day, the applicable payment shall be due on the next succeeding Trading Day) in cash.

(b) Corporation's Ability to Pay Dividends in Cash. On the Closing Date, the Corporation shall have notified the Holders whether or not it may legally pay cash dividends as of the Closing Date. The Corporation shall promptly notify the Holders at any time the Corporation shall become able or unable, as the case may be, to legally pay cash dividends.

(c) Dividend Calculations. Dividends on the Preferred Stock shall be calculated on the basis of a 360-day year consisting of twelve 30 calendar day periods, shall accrue daily commencing on the Original Issue Date, and shall be deemed to accrue from such date whether or not earned or declared and whether or not there are profits, surplus or other funds of the Corporation legally available for the payment of dividends.

Section 4. Voting Rights. Except as otherwise provided herein or as otherwise required by law, the Preferred Stock shall have no voting rights. However, as long as any shares of Preferred Stock are outstanding, the Corporation shall not, without the affirmative vote of the Holders of a majority of the then outstanding shares of the Preferred Stock, alter or change adversely the powers, preferences or rights given to the Preferred Stock or materially alter or amend this Certificate of Designation in any way that would reasonably have a material adverse effect on the Holders, provided that the approval of the Holders shall not be required in respect of an alteration or change in connection with a transaction or series of transactions in which the then outstanding Preferred Stock will be redeemed in its entirety pursuant to the terms and conditions of this Certificate of Designation.

Section 5. Liquidation. Upon any liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary (a "Liquidation"), pari passu with satisfaction of the liquidation preference for the Series A Preferred pursuant to Section 5 of the Series A Certificate, the Holders shall be entitled to receive out of the assets, whether capital or surplus, of the Corporation, an amount equal to the Stated Value, plus any accrued and unpaid dividends thereon and any other fees then due and owing thereon under this Certificate of Designation, for each share of Preferred Stock before any distribution or payment shall be made to the holders of any Junior Securities, and if the assets of the Corporation shall be insufficient to pay in full such amounts, then the entire assets to be distributed to the Holders shall be ratably distributed among the Holders in accordance with the respective amounts that would be payable on such shares if all amounts payable thereon were paid in full. A Change of Control Transaction pursuant to sections (b) or (c) of the definition of "Change of Control" shall be deemed a Liquidation unless the holders of more than fifty percent (50%) of the Preferred Stock elect for a Change in Control not to constitute a Liquidation; a Change of Control Transaction pursuant to sections (a) or (d) of the definition of "Change of Control" shall not be deemed a Liquidation. The Corporation shall mail written notice of any impending Liquidation to each Holder not later than the earlier of (a) twenty (20) days prior to the stockholders' meeting called to approve such transaction, or (b) twenty (20) days prior to the closing of such transaction, and shall also notify each such holder in writing of the final approval of such transaction. The first of such notices shall describe the material terms and conditions of the impending transaction and the provisions of this Section 5, and the Corporation shall thereafter give such holders prompt notice of any material changes.

Section 6. Optional Redemption; Mandatory Redemption.

(a) Optional Redemption at Election of Corporation. Subject to the provisions of this Section 6, at any time after the Original Issue Date, the Corporation may deliver a notice to the Holders (an "Optional Redemption Notice" and the date such notice is deemed delivered hereunder, the "Optional Redemption Notice Date") of its irrevocable election to redeem some or all of the then outstanding Preferred Stock, for cash in an amount equal to the Optional Redemption Amount on the 20th Trading Day following the Optional Redemption Notice Date (such date, the "Optional Redemption Date" and such redemption, the "Optional Redemption"). The Optional Redemption Amount is payable in full on the Optional Redemption Date.

(b) Redemption Procedure. The payment of cash pursuant to an Optional Redemption shall be made on the Optional Redemption Date. If any portion of the cash payment for an Optional Redemption has not been paid by the Corporation on the Optional Redemption Date, interest shall accrue thereon until such amount is paid in full at a rate equal to the lesser of 10% per annum or the maximum rate permitted by applicable law.

(c) Mandatory Redemption. Upon the occurrence of one or more of the following events, the Holders shall have the right to redeem any shares of Preferred Stock that have not been redeemed pursuant to Section 6(a) and (b) above prior to the occurrence of such event, at a price equal to the Optional Redemption Amount, which redemption shall occur not more than 180 days after receipt by the Corporation from the Holders of more than fifty percent (50%) of the then outstanding shares of Preferred Stock, of written notice requesting redemption of all shares of Preferred Stock then outstanding (the "Mandatory Redemption Request"):

(i) the Corporation's annualized gross production average for a consecutive 90-day period, as disclosed in the Corporation's periodic reports filed with the Securities and Exchange Commission, is equal to or exceeds 2,500 BOE per day; or

(ii) the Corporation has determined that the PV-10 value of its producing developed properties, as disclosed in the Corporation's periodic reports filed with the Securities and Exchange Commission, exceeds $50,000,000.

Upon receipt of a Mandatory Redemption Request, the Corporation shall apply all of its cash and cash equivalents to any such redemption, and to no other corporate purpose, except to the extent prohibited by Nevada law governing distributions to stockholders. The date of such redemption payment shall be referred to as the "Mandatory Redemption Date." On the Mandatory Redemption Date, the Corporation shall redeem, on a pro rata basis in accordance with the number of shares of Preferred Stock owned by each holder, the outstanding shares of Preferred Stock held by each such holder. If on the Mandatory Redemption Date, Nevada law governing distributions to stockholders prevents the Corporation from redeeming all shares of Preferred Stock to be redeemed, the Corporation shall ratably redeem the maximum number of shares of Preferred Stock that it may redeem consistent with such law, and shall redeem the remaining shares as soon as it may lawfully do so under such law. If for any reason any portion of the cash payment for a mandatory redemption under this Section 6(c) has not been paid by the Corporation on the Mandatory Redemption Date, interest shall accrue thereon until such amount is paid in full at a rate equal to the lesser of 10% per annum or the maximum rate permitted by applicable law.

Section 7. Miscellaneous.

(a) Notices. Any and all notices or other communications or deliveries to be provided by the Holders hereunder shall be in writing and delivered personally, by facsimile, or sent by a nationally recognized overnight courier service, addressed to the Corporation, at 1900 Grant Street, Suite 720, Denver, Colorado 80203, Attention: Chief Executive Officer, facsimile number (303) 957-2234, or such other facsimile number or address as the Corporation may specify for such purposes by notice to the Holders delivered in accordance with this Section 7. Any and all notices or other communications or deliveries to be provided by the Corporation hereunder shall be in writing and delivered personally, by facsimile, or sent by a nationally recognized overnight courier service addressed to each Holder at the facsimile number or address of such Holder appearing on the books of the Corporation, or if no such facsimile number or address appears on the books of the Corporation, at the principal place of business of such Holder. Any notice or other communication or deliveries hereunder shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number set forth in this Section prior to 5:30 p.m. (New York City time) on any date, (ii) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number set forth in this Section on a day that is not a Trading Day or later than 5:30 p.m. (New York City time) on any Trading Day, (iii) the second Trading Day following the date of mailing, if sent by U.S. nationally recognized overnight courier service, or (iv) upon actual receipt by the party to whom such notice is required to be given.

(b) Absolute Obligation. Except as expressly provided herein, no provision of this Certificate of Designation shall alter or impair the obligation of the Corporation, which is absolute and unconditional, to pay accrued dividends and accrued interest, as applicable, on the shares of Preferred Stock at the time, place, and rate, and in the coin or currency, herein prescribed.

(c) Lost or Mutilated Preferred Stock Certificate. If a Holder's Preferred Stock certificate shall be mutilated, lost, stolen or destroyed, the Corporation shall execute and deliver, in exchange and substitution for and upon cancellation of a mutilated certificate, or in lieu of or in substitution for a lost, stolen or destroyed certificate, a new certificate for the shares of Preferred Stock so mutilated, lost, stolen or destroyed, but only upon receipt of evidence of such loss, theft or destruction of such certificate, and of the ownership hereof reasonably satisfactory to the Corporation.

(d) Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Certificate of Designation shall be governed by and construed and enforced in accordance with the internal laws of the State of Nevada, without regard to the principles of conflict of laws thereof. Each party agrees that all legal proceedings concerning the interpretation, enforcement and defense of the transactions contemplated hereby (whether brought against a party hereto or its respective Affiliates, directors, officers, shareholders, employees or agents) shall be commenced in the state and federal courts sitting in the City and County of Denver, Colorado (the "Colorado Courts"). Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the Colorado Courts for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of such Colorado Courts, or such Colorado Courts are improper or inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Certificate of Designation and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by applicable law. Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Certificate of Designation or the transactions contemplated hereby. If any party shall commence an action or proceeding to enforce any provisions of this Certificate of Designation, then the prevailing party in such action or proceeding shall be reimbursed by the other party for its attorneys' fees and other costs and expenses incurred in the investigation, preparation and prosecution of such action or proceeding.

(e) Waiver. Any waiver by the Corporation or a Holder of a breach of any provision of this Certificate of Designation shall not operate as or be construed to be a waiver of any other breach of such provision or of any breach of any other provision of this Certificate of Designation or a waiver by any other Holders. The failure of the Corporation or a Holder to insist upon strict adherence to any term of this Certificate of Designation on one or more occasions shall not be considered a waiver or deprive that party (or any other Holder) of the right thereafter to insist upon strict adherence to that term or any other term of this Certificate of Designation on any other occasion. Any waiver by the Corporation or a Holder must be in writing.

(f) Severability. If any provision of this Certificate of Designation is invalid, illegal or unenforceable, the balance of this Certificate of Designation shall remain in effect, and if any provision is inapplicable to any Person or circumstance, it shall nevertheless remain applicable to all other Persons and circumstances. If it shall be found that any interest or other amount deemed interest due hereunder violates the applicable law governing usury, the applicable rate of interest due hereunder shall automatically be lowered to equal the maximum rate of interest permitted under applicable law.

(g) Next Business Day. Whenever any payment or other obligation hereunder shall be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day.

(h) Headings. The headings contained herein are for convenience only, do not constitute a part of this Certificate of Designation and shall not be deemed to limit or affect any of the provisions hereof.

(i) Status of Redeemed Preferred Stock. If any shares of Preferred Stock shall be redeemed or reacquired by the Corporation, such shares shall resume the status of authorized but unissued shares of preferred stock and shall no longer be designated as 6% Redeemable Preferred Stock.

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RESOLVED, FURTHER, that the Chairman, the president or any vice-president, and the secretary or any assistant secretary of the Corporation be and they hereby are authorized and directed to prepare and file this Certificate of Designation of Preferences, Rights and Limitations in accordance with the foregoing resolution and the provisions of Nevada law.

IN WITNESS WHEREOF, the undersigned have executed this Certificate this 29th day of August 2014.

/s/ Abraham Mirman
Name: Abraham Mirman
Title: Chief Executive Officer

/s/ Eric Ulwelling
Name: Eric Ulwelling
Title: Secretary and Acting Chief Financial Officer

Exhibit 4.3

NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL, IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

Lilis Energy, Inc.

Warrant To Purchase Common Stock

Number of Shares of Common Stock: 1,000,000
Date of Issuance: September 2, 2014 ("**Issuance Date**")

Lilis Energy, Inc., a Nevada corporation, (the "**Company**"), hereby certifies that, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Bristol Capital, LLC, the registered holder hereof or its permitted assigns (the "**Holder**"), is entitled, subject to the terms set forth below and pursuant to a Consulting Agreement between the Company and Consultant entered into on September 2, 2014 (the "Consulting Agreement"), to purchase from the Company, at the Exercise Price (as defined below) then in effect, upon surrender of this Warrant to Purchase Common Stock (including any Warrants to Purchase Common Stock issued in exchange, transfer or replacement hereof, the "**Warrant**"), at any time or times on or after the date hereof, but not after 11:59 p.m., New York Time, on the Expiration Date (as defined below), One Million (1,000,000) fully paid nonassessable shares of Common Stock (as defined below) (the "**Warrant Shares**"). Except as otherwise defined herein, capitalized terms in this Warrant shall have the meanings set forth in Section 16. In the event of any conflict between the terms of this Warrant and the Consulting Agreement, the terms of the Consulting Agreement shall govern.

1. EXERCISE OF WARRANT.

(a) Mechanics of Exercise. Subject to the terms and conditions hereof (including, without limitation, the limitations set forth in Section 1(f)), this Warrant may be exercised by the Holder on any day on or after the date hereof in whole or in part, by (i) delivery of a written notice, in the form attached hereto as Exhibit A (the "**Exercise Notice**"), via electronic mail to an e-mail address provided by the Company, of the Holder's election to exercise this Warrant and (ii) payment to the Company of an amount equal to the applicable Exercise Price multiplied by the number of Warrant Shares as to which this Warrant is being exercised (the "**Aggregate Exercise Price**") in cash or by wire transfer of immediately available funds or (B) by notifying the Company that this Warrant is being exercised pursuant to a Cashless Exercise (as defined in Section 1(f)). The Holder shall not be required to deliver the original Warrant in order to effect an exercise hereunder. Execution and delivery of the Exercise Notice with respect to less than all of the Warrant Shares shall have the same effect as cancellation of the original Warrant and issuance of a new Warrant evidencing the right to purchase the remaining number of Warrant Shares. On or before the third Business Day following the date on which the Company has received each of the Exercise Notice and the Aggregate Exercise Price (or notice of a Cashless Exercise) (the "**Exercise Delivery Documents**"), the Company shall transmit by facsimile or electronic mail to an e-mail address provided by an authorized representative of the Holder an acknowledgment of confirmation of receipt of the Exercise Delivery Documents to the Holder and the Company's transfer agent (the "**Transfer Agent**"). On or before the third Trading Day following the date on which the Company has received all of the Exercise Delivery Documents (the "**Share Delivery Date**"), the Company shall (X) provided that the Transfer Agent is participating in The Depository Trust Company ("**DTC**") Fast Automated Securities Transfer Program, upon the request of the Holder, credit such aggregate number of shares of Common Stock to which the Holder is entitled pursuant to such exercise to the Holder's or its designee's balance account with DTC through its Deposit Withdrawal Agent Commission system, or (Y) if the Transfer Agent is not participating in the DTC Fast Automated Securities Transfer Program, issue and dispatch by overnight courier to the address as specified in the Exercise Notice, a certificate, registered in the Company's share register in the name of the Holder or its designee, for the number of shares of Common Stock to which the Holder is entitled pursuant to such exercise. Upon delivery of the Exercise Delivery Documents, the Holder shall be deemed for all corporate purposes to have become the holder of record of the Warrant Shares with respect to which this Warrant has been exercised, irrespective of the date such Warrant Shares are credited to the Holder's DTC account or the date of delivery of the certificates evidencing such Warrant Shares, as the case may be. If this Warrant is submitted in connection with any exercise pursuant to this Section 1(a) and the number of Warrant Shares represented by this Warrant submitted for exercise is greater than the number of Warrant Shares being acquired upon an exercise, then the Company shall as soon as practicable and in no event later than three Business Days after any exercise and at its own expense, issue a new Warrant (in accordance with Section 7(d)) representing the right to purchase the number of Warrant Shares purchasable immediately prior to such exercise under this Warrant, less the number of Warrant Shares with respect to which this Warrant is exercised. No fractional shares of Common Stock are to be issued upon the exercise of this Warrant, but rather the number of shares of Common Stock to be issued shall be rounded up to the nearest whole number. The Company shall pay any and all taxes which may be payable with respect to the issuance and delivery of Warrant Shares upon exercise of this Warrant.

(b) Exercise Price. For purposes of this Warrant, "**Exercise Pric**e" means $2.00, subject to adjustment as provided herein.

(c) Company's Failure to Timely Deliver Securities. If the Company shall fail for any reason or for no reason to issue to the Holder within three (3) Trading Days of receipt of the Exercise Delivery Documents, a certificate for the number of shares of Common Stock to which the Holder is entitled and register such shares of Common Stock on the Company's share register or to credit the Holder's balance account with DTC for such number of shares of Common Stock to which the Holder is entitled upon the Holder's exercise of this Warrant, and if on or after such Trading Day the Holder purchases (in an open market transaction or otherwise) shares of Common Stock to deliver in satisfaction of a sale by the Holder of shares of Common Stock issuable upon such exercise that the Holder anticipated receiving from the Company (a "**Buy-In**"), then, in addition to all other remedies available to the Holder, the Company shall, within three Business Days after the Holder's request and in the Holder's discretion, either (i) pay cash to the Holder in an amount equal to the Holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased (the "**Buy-In Price**"), at which point the Company's obligation to deliver such certificate (and to issue such shares of Common Stock) or credit such Holder's balance account with DTC shall terminate, or (ii) promptly honor its obligation to deliver to the Holder a certificate or certificates representing such shares of Common Stock or credit such Holder's balance account with DTC and pay cash to the Holder in an amount equal to the excess (if any) of the Buy-In Price over the product of (A) such number of shares of Common Stock, times (B) the Closing Bid Price on the date of exercise.

(d) Cashless Exercise. Notwithstanding anything contained herein to the contrary, if a Registration Statement covering the resale of the Warrant Shares that are the subject of the Exercise Notice (the "**Unavailable Warrant Shares**") is not available or has not been demanded for the resale of such Unavailable Warrant Shares, the Holder may, in its sole discretion, exercise this Warrant in whole or in part and, in lieu of making the cash payment otherwise contemplated to be made to the Company upon such exercise in payment of the Aggregate Exercise Price, elect instead to receive upon such exercise the "Net Number" of shares of Common Stock determined according to the following formula (a "**Cashless Exercise**"):

$$\text{Net Number} = \frac{(A \times B) - (A \times C)}{B}$$

For purposes of the foregoing formula:

A= the total number of shares with respect to which this Warrant is then being exercised.

B= the Closing Sale Price of the shares of Common Stock (as reported by Bloomberg) on the date immediately preceding the date of the Exercise Notice.

C= the Exercise Price then in effect for the applicable Warrant Shares at the time of such exercise.

(e) Disputes. In the case of a dispute as to the determination of the Exercise Price or the arithmetic calculation of the Warrant Shares, the Company shall promptly issue to the Holder the number of Warrant Shares that are not disputed and resolve such dispute in accordance with Section 12.

(f) Limitation on Exercises. The Company shall not effect the exercise of this Warrant, and the Holder shall not have the right to exercise this Warrant, to the extent that after giving effect to such exercise, such Person (together with such Person's affiliates) would beneficially own in excess of 4.99% (the "**Maximum Percentage**") of the shares of Common Stock outstanding immediately after giving effect to such exercise; provided that the Holder may waive the limitations set forth herein to increase its beneficial ownership to 9.9% with sixty-one (61) days written notice to the Company. For purposes of the foregoing sentence, the aggregate number of shares of Common Stock beneficially owned by such Person and its affiliates shall include the number of shares of Common Stock issuable upon exercise of this Warrant with respect to which the determination of such sentence is being made, but shall exclude shares of Common Stock which would be issuable upon (A) exercise of the remaining, unexercised portion of this Warrant beneficially owned by such Person and its affiliates and (B) exercise or conversion of the unexercised or unconverted portion of any other securities of the Company beneficially owned by such Person and its affiliates (including, without limitation, any convertible notes or convertible preferred stock or warrants) subject to a limitation on conversion or exercise analogous to the limitation contained herein. Except as set forth in the preceding sentence, for purposes of this paragraph, beneficial ownership shall be calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). For purposes of this Warrant, in determining the number of outstanding shares of Common Stock, the Holder may rely on the number of outstanding shares of Common Stock as reflected in (1) the Company's most recent Form 10-K, Form 10-Q, Current Report on Form 8-K or other public filing with the Securities and Exchange Commission, as the case may be, (2) a more recent public announcement by the Company or (3) any other notice by the Company or the Transfer Agent setting forth the number of shares of Common Stock outstanding. For any reason at any time, upon the written or oral request of the Holder, the Company shall within one (1) Business Day confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company by the Holder and its affiliates since the date as of which such number of outstanding shares of Common Stock was reported. The provisions of this paragraph shall be construed and implemented in a manner otherwise than in strict conformity with the terms of this Section1(f) to correct this paragraph (or any portion hereof) which may be defective or inconsistent with the intended beneficial ownership limitation herein contained or to make changes or supplements necessary or desirable to properly give effect to such limitation.

(g) Insufficient Authorized Shares. If at any time while this Warrant remain outstanding the Company does not have a sufficient number of authorized and unreserved shares of Common Stock to satisfy its obligation to reserve for issuance upon exercise of this Warrant at least a number of shares of Common Stock equal to 130% (the "**Required Reserve Amount**") of the number of shares of Common Stock as shall from time to time be necessary to effect the exercise of all of this Warrant then outstanding (an "**Authorized Share Failure**"), then the Company shall immediately take all action necessary to increase the Company's authorized shares of Common Stock to an amount sufficient to allow the Company to reserve the Required Reserve Amount for this Warrant then outstanding. Without limiting the generality of the foregoing sentence, as soon as practicable after the date of the occurrence of an Authorized Share Failure, but in no event later than sixty (60) days after the occurrence of such Authorized Share Failure, the Company shall hold a meeting of its stockholders for the approval of an increase in the number of authorized shares of Common Stock. In connection with such meeting, the Company shall provide each stockholder with a proxy statement and shall use its best efforts to solicit its stockholders' approval of such increase in authorized shares of Common Stock and to cause its board of directors to recommend to the stockholders that they approve such proposal.

2. ADJUSTMENT OF EXERCISE PRICE AND NUMBER OF WARRANT SHARES. The Exercise Price and the number of Warrant Shares shall be adjusted from time to time as follows:

(a) Adjustment upon Issuance of shares of Common Stock. If and whenever on or after the Issuance Date, while this Warrant is outstanding, the Company issues or sells, or in accordance with this Section 2 is deemed to have issued or sold, to any third party providing consulting services to the Company (other than Consultant or its affiliates), any shares of Common Stock for a consideration per share (the "**New Issuance Price**") less than the Exercise Price (the "**Applicable Price**") in effect immediately prior to such issue or sale or deemed issuance or sale (the foregoing a "**Dilutive Issuance**"), then immediately after such Dilutive Issuance, the Exercise Price then in effect shall be reduced to an amount equal to the New Issuance Price. For purposes of determining the adjusted Exercise Price under this Section 2(a), the following shall be applicable:

(i) Issuance of Options. If the Company in any manner grants any Options and the lowest price per share for which one share of Common Stock is issuable upon the exercise of any such Option or upon conversion, exercise or exchange of any Convertible Securities issuable upon exercise of any such Option is less than the Applicable Price, then such share of Common Stock shall be deemed to be outstanding and to have been issued and sold by the Company at the time of the granting or sale of such Option for such price per share. For purposes of this Section 2(a)(i), the "lowest price per share for which one share of Common Stock is issuable upon exercise of such Options or upon conversion, exercise or exchange of such Convertible Securities issuable upon exercise of any such Option" shall be equal to the sum of the lowest amounts of consideration (if any) received or receivable by the Company with respect to any one share of Common Stock upon the granting or sale of the Option, upon exercise of the Option and upon conversion, exercise or exchange of any Convertible Security issuable upon exercise of such Option. No further adjustment of the Exercise Price shall be made upon the actual issuance of such shares of Common Stock or of such Convertible Securities upon the exercise of such Options or upon the actual issuance of such shares of Common Stock upon conversion, exercise or exchange of such Convertible Securities.

(ii) Issuance of Convertible Securities. If the Company in any manner issues or sells any Convertible Securities and the lowest price per share for which one share of Common Stock is issuable upon the conversion, exercise or exchange thereof is less than the Applicable Price, then such share of Common Stock shall be deemed to be outstanding and to have been issued and sold by the Company at the time of the issuance or sale of such Convertible Securities for such price per share. For the purposes of this Section 2(a)(ii), the "lowest price per share for which one share of Common Stock is issuable upon the conversion, exercise or exchange thereof" shall be equal to the sum of the lowest amounts of consideration (if any) received or receivable by the Company with respect to one share of Common Stock upon the issuance or sale of the Convertible Security and upon conversion, exercise or exchange of such Convertible Security. No further adjustment of the Exercise Price shall be made upon the actual issuance of such shares of Common Stock upon conversion, exercise or exchange of such Convertible Securities, and if any such issue or sale of such Convertible Securities is made upon exercise of any Options for which adjustment of this Warrant has been or is to be made pursuant to other provisions of this Section 2(a), no further adjustment of the Exercise Price shall be made by reason of such issue or sale.

(iii) Change in Option Price or Rate of Conversion. If the purchase price provided for in any Options, the additional consideration, if any, payable upon the issue, conversion, exercise or exchange of any Convertible Securities, or the rate at which any Convertible Securities are convertible into or exercisable or exchangeable for shares of Common Stock increases or decreases at any time, the Exercise Price in effect at the time of such increase or decrease shall be adjusted to the Exercise Price which would have been in effect at such time had such Options or Convertible Securities provided for such increased or decreased purchase price, additional consideration or increased or decreased conversion rate, as the case may be, at the time initially granted, issued or sold. For purposes of this Section 2(a)(iii), if the terms of any Option or Convertible Security that was outstanding as of the date of issuance of this Warrant are increased or decreased in the manner described in the immediately preceding sentence, then such Option or Convertible Security and the shares of Common Stock deemed issuable upon exercise, conversion or exchange thereof shall be deemed to have been issued as of the date of such increase or decrease. No adjustment pursuant to this Section 2(a)(iii) shall be made if such adjustment would result in an increase of the Exercise Price then in effect.

(iv) Calculation of Consideration Received. In case any Option is issued in connection with the issue or sale of other securities of the Company, together comprising one integrated transaction in which no specific consideration is allocated to such Options by the parties thereto, the Option Value will be calculated as set forth in Section 1(b). If any shares of Common Stock, Options or Convertible Securities are issued or sold or deemed to have been issued or sold for cash, the consideration received therefor will be deemed to be the net amount received by the Company therefor. If any shares of Common Stock, Options or Convertible Securities are issued or sold for a consideration other than cash, the amount of such consideration received by the Company will be the fair value of such consideration, except where such consideration consists of publicly traded securities, in which case the amount of consideration received by the Company will be the Closing Sale Price of such security on the date of receipt. If any shares of Common Stock, Options or Convertible Securities are issued to the owners of the non-surviving entity in connection with any merger in which the Company is the surviving entity, the amount of consideration therefor will be deemed to be the fair value of such portion of the net assets and business of the non-surviving entity as is attributable to such shares of Common Stock, Options or Convertible Securities, as the case may be. The fair value of any consideration other than cash or publicly traded securities will be determined jointly by the Company and the Holder. If such parties are unable to reach agreement within ten (10) days after the occurrence of an event requiring valuation (the "**Valuation Event**"), the fair value of such consideration will be determined within five (5) Business Days after the tenth day following the Valuation Event by an independent, reputable appraiser jointly selected by the Company and the Holder. The determination of such appraiser shall be final and binding upon all parties absent manifest error and the fees and expenses of such appraiser shall be borne by the Company.

(v) Record Date. If the Company takes a record of the holders of shares of Common Stock for the purpose of entitling them (A) to receive a dividend or other distribution payable in shares of Common Stock, Options or in Convertible Securities or (B) to subscribe for or purchase shares of Common Stock, Options or Convertible Securities, then such record date will be deemed to be the date of the issue or sale of the shares of Common Stock deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be.

(b) Adjustment upon Subdivision or Combination of shares of Common Stock. If the Company at any time on or after the Issuance Date subdivides (by any stock split, stock dividend, recapitalization or otherwise) one or more classes of its outstanding shares of Common Stock into a greater number of shares, the Exercise Price in effect immediately prior to such subdivision will be proportionately reduced and the number of Warrant Shares will be proportionately increased. If the Company at any time on or after the Issuance Date combines (by combination, reverse stock split or otherwise) one or more classes of its outstanding shares of Common Stock into a smaller number of shares, the Exercise Price in effect immediately prior to such combination will be proportionately increased and the number of Warrant Shares will be proportionately decreased. Any adjustment under this Section 2(b) shall become effective at the close of business on the date the subdivision or combination becomes effective.

(c) Voluntary Adjustment By Company. The Company may at any time during the term of this Warrant reduce the then current Exercise Price to any amount and for any period of time deemed appropriate by the Board of Directors of the Company.

(d) Other Events. If any event occurs of the type contemplated by the provisions of this Section 2 but not expressly provided for by such provisions, then the Company's Board of Directors will make an appropriate adjustment in the Exercise Price and the number of Warrant Shares so as to protect the rights of the Holder; provided that no such adjustment pursuant to this Section 2(d) will increase the Exercise Price or decrease the number of Warrant Shares as otherwise determined pursuant to this Section 2.

3. RIGHTS UPON DISTRIBUTION OF ASSETS. If the Company shall declare or make any dividend or other distribution of its assets (or rights to acquire its assets) to holders of shares of Common Stock, by way of return of capital or otherwise (including, without limitation, any distribution of cash, stock or other securities, property or options by way of a dividend, spin off, reclassification, corporate rearrangement, scheme of arrangement or other similar transaction) (a "**Distribution**"), at any time after the issuance of this Warrant, then, in each such case:

(a) any Exercise Price in effect immediately prior to the close of business on the record date fixed for the determination of holders of shares of Common Stock entitled to receive the Distribution shall be reduced, effective as of the close of business on such record date, to a price determined by multiplying such Exercise Price by a fraction of which (i) the numerator shall be the Closing Bid Price of the shares of Common Stock on the Trading Day immediately preceding such record date minus the value of the Distribution (as determined in good faith by the Company's Board of Directors) applicable to one share of Common Stock, and (ii) the denominator shall be the Closing Bid Price of the shares of Common Stock on the Trading Day immediately preceding such record date; and

(b) the number of Warrant Shares shall be increased to a number of shares equal to the number of shares of Common Stock obtainable immediately prior to the close of business on the record date fixed for the determination of holders of shares of Common Stock entitled to receive the Distribution multiplied by the reciprocal of the fraction set forth in the immediately preceding paragraph (a); provided that in the event that the Distribution is of shares of common stock ("**Other Shares of Common Stock**") of a company whose common shares are traded on a national securities exchange or a national automated quotation system, then the Holder may elect to receive a warrant to purchase Other Shares of Common Stock in lieu of an increase in the number of Warrant Shares, the terms of which shall be identical to those of this Warrant, except that such warrant shall be exercisable into the number of shares of Other Shares of Common Stock that would have been payable to the Holder pursuant to the Distribution had the Holder exercised this Warrant immediately prior to such record date and with an aggregate exercise price equal to the product of the amount by which the exercise price of this Warrant was decreased with respect to the Distribution pursuant to the terms of the immediately preceding paragraph (a) and the number of Warrant Shares calculated in accordance with the first part of this paragraph (b).

4. PURCHASE RIGHTS; FUNDAMENTAL TRANSACTIONS.

(a) Purchase Rights. In addition to any adjustments pursuant to Section 2 above, if at any time the Company grants, issues or sells any Options, Convertible Securities or rights to purchase stock, warrants, securities or other property pro rata to the record holders of any class of shares of Common Stock (the "**Purchase Rights**"), then the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of shares of Common Stock acquirable upon complete exercise of this Warrant (without regard to any limitations on the exercise of this Warrant) immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

(b) Fundamental Transactions. The Company shall not enter into or be party to a Fundamental Transaction (other than with respect to a Change of Control with a Public Successor or with respect to a Change of Control with a Public Successor where the sole consideration in such Change of Control transaction is cash (each, an "**Excluded Change of Control Transaction**")) unless the Successor Entity assumes in writing all of the obligations of the Company under this Warrant and the other Transaction Documents in accordance with the provisions of this Section 4(b) pursuant to written agreements in form and substance satisfactory to the Holder and approved by the Holder prior to such Fundamental Transaction, including agreements to deliver to each holder of Warrants in exchange for such Warrants a security of the Successor Entity evidenced by a written instrument substantially similar in form and substance to this Warrant, including, without limitation, an adjusted exercise price equal to the value for the shares of Common Stock reflected by the terms of such Fundamental Transaction, and exercisable for a corresponding number of shares of capital stock equivalent to the shares of Common Stock acquirable and receivable upon exercise of this Warrant (without regard to any limitations on the exercise of this Warrant) prior to such Fundamental Transaction, and satisfactory to the Holder. Upon the occurrence of any Fundamental Transaction (other than an Excluded Change of Control Transaction), the Successor Entity shall succeed to, and be substituted for (so that from and after the date of such Fundamental Transaction, the provisions of this Warrant referring to the "Company" shall refer instead to the Successor Entity), and may exercise every right and power of the Company and shall assume all of the obligations of the Company under this Warrant with the same effect as if such Successor Entity had been named as the Company herein. Upon consummation of the Fundamental Transaction (other than an Excluded Change of Control Transaction), the Successor Entity shall deliver to the Holder confirmation that there shall be issued upon exercise of this Warrant at any time after the consummation of the Fundamental Transaction, in lieu of the shares of the Common Stock (or other securities, cash, assets or other property) purchasable upon the exercise of the Warrant prior to such Fundamental Transaction, such shares of the publicly traded Common Stock (or its equivalent) of the Successor Entity (including its Parent Entity) which the Holder would have been entitled to receive upon the happening of such Fundamental Transaction had this Warrant been converted immediately prior to such Fundamental Transaction, as adjusted in accordance with the provisions of this Warrant. In addition to and not in substitution for any other rights hereunder, prior to the consummation of any Fundamental Transaction pursuant to which holders of shares of Common Stock are entitled to receive securities or other assets with respect to or in exchange for shares of Common Stock (a "**Corporate Event**"), the Company shall make appropriate provision to insure that the Holder will thereafter have the right to receive upon an exercise of this Warrant at any time after the consummation of the Fundamental Transaction but prior to the ninetieth (90th) day after the consummation of the Fundamental Transaction, in lieu of the shares of the Common Stock (or other securities, cash, assets or other property) purchasable upon the exercise of the Warrant prior to such Fundamental Transaction, such shares of stock, securities, cash, assets or any other property whatsoever (including warrants or other purchase or subscription rights) which the Holder would have been entitled to receive upon the happening of such Fundamental Transaction had the Warrant been exercised immediately prior to such Fundamental Transaction. Provision made pursuant to the preceding sentence shall be in a form and substance reasonably satisfactory to the Holder. The provisions of this Section shall apply similarly and equally to successive Fundamental Transactions and Corporate Events and shall be applied without regard to any limitations on the exercise of this Warrant.

5. WARRANT HOLDER NOT DEEMED A STOCKHOLDER. Except as otherwise specifically provided herein, the Holder, solely in such Person's capacity as a holder of this Warrant, shall not be entitled to vote or receive dividends or be deemed the holder of share capital of the Company for any purpose, nor shall anything contained in this Warrant be construed to confer upon the Holder, solely in such Person's capacity as the Holder of this Warrant, any of the rights of a shareholder of the Company or any right to vote, give or withhold consent to any corporate action (whether any reorganization, issue of stock, reclassification of stock, consolidation, merger, conveyance or otherwise), receive notice of meetings, receive dividends or subscription rights, or otherwise, prior to the issuance to the Holder of the Warrant Shares which such Person is then entitled to receive upon the due exercise of this Warrant. In addition, nothing contained in this Warrant shall be construed as imposing any liabilities on the Holder to purchase any securities (upon exercise of this Warrant or otherwise) or as a shareholder of the Company, whether such liabilities are asserted by the Company or by creditors of the Company. Notwithstanding this Section 5, the Company shall provide the Holder with copies of the same notices and other information given to the shareholders of the Company generally, contemporaneously with the giving thereof to the shareholders.

6. NONCIRCUMVENTION. The Company hereby covenants and agrees that the Company will not, by amendment of its Articles of Incorporation, Bylaws or through any reorganization, transfer of assets, consolidation, merger, scheme of arrangement, dissolution, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, and will at all times in good faith carry out all the provisions of this Warrant and take all action as may be required to protect the rights of the Holder. Without limiting the generality of the foregoing, the Company (i) shall not increase the par value of any shares of Common Stock receivable upon the exercise of this Warrant above the Exercise Price then in effect, (ii) shall take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock upon the exercise of this Warrant, and (iii) shall, so long as this Warrant is outstanding, take all action necessary to reserve and keep available out of its authorized and unissued shares of Common Stock, solely for the purpose of effecting the exercise of this Warrant, 130% of the number of shares of Common Stock as shall from time to time be necessary to effect the exercise of this Warrant (without regard to any limitations on exercise).

7. REISSUANCE OF WARRANTS.

(a) Transfer of Warrant. If this Warrant is to be transferred, the Holder shall surrender this Warrant to the Company, whereupon the Company will forthwith issue and deliver upon the order of the Holder a new Warrant (in accordance with Section 7(d)), registered as the Holder may request, representing the right to purchase the number of Warrant Shares being transferred by the Holder and, if less than the total number of Warrant Shares then underlying this Warrant is being transferred, a new Warrant (in accordance with Section 7(d)) to the Holder representing the right to purchase the number of Warrant Shares not being transferred.

(b) Lost, Stolen or Mutilated Warrant. Upon receipt by the Company of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant, and, in the case of loss, theft or destruction, of any indemnification undertaking by the Holder to the Company in customary form and, in the case of mutilation, upon surrender and cancellation of this Warrant, the Company shall execute and deliver to the Holder a new Warrant (in accordance with Section 7(d)) representing the right to purchase the Warrant Shares then underlying this Warrant.

(c) Exchangeable for Multiple Warrants. This Warrant is exchangeable, upon the surrender hereof by the Holder at the principal office of the Company, for a new Warrant or Warrants (in accordance with Section 7(d)) representing in the aggregate the right to purchase the number of Warrant Shares then underlying this Warrant, and each such new Warrant will represent the right to purchase such portion of such Warrant Shares as is designated by the Holder at the time of such surrender; provided, however, that no Warrants for fractional shares of Common Stock shall be given.

(d) Issuance of New Warrants. Whenever the Company is required to issue a new Warrant pursuant to the terms of this Warrant, such new Warrant (i) shall be of like tenor with this Warrant, (ii) shall represent, as indicated on the face of such new Warrant, the right to purchase the Warrant Shares then underlying this Warrant (or in the case of a new Warrant being issued pursuant to Section 7(a) or Section 7(c), the Warrant Shares designated by the Holder which, when added to the number of shares of Common Stock underlying the other new Warrants issued in connection with such issuance, does not exceed the number of Warrant Shares then underlying this Warrant), (iii) shall have an issuance date, as indicated on the face of such new Warrant which is the same as the Issuance Date, and (iv) shall have the same rights and conditions as this Warrant.

8. NOTICES. Whenever notice is required to be given under this Warrant, unless otherwise provided herein, such notice shall be given to the Holder at the following address: 1100 Glendon Ave., Suite 850, Los Angeles, CA 90024. The Company shall provide the Holder with prompt written notice of all actions taken pursuant to this Warrant, including in reasonable detail a description of such action and the reason therefore. Without limiting the generality of the foregoing, the Company will give written notice to the Holder (i) immediately upon any adjustment of the Exercise Price, setting forth in reasonable detail, and certifying, the calculation of such adjustment and (ii) at least fifteen days prior to the date on which the Company closes its books or takes a record (A) with respect to any dividend or distribution upon the shares of Common Stock, (B) with respect to any grants, issuances or sales of any Options, Convertible Securities or rights to purchase stock, warrants, securities or other property to holders of shares of Common Stock or (C) for determining rights to vote with respect to any Fundamental Transaction, dissolution or liquidation, provided in each case that such information shall be made known to the public prior to or in conjunction with such notice being provided to the Holder.

9. AMENDMENT AND WAIVER. Except as otherwise provided herein, the provisions of this Warrant may be amended and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, only if the Company has obtained the written consent of the Holder.

10. GOVERNING LAW. This Warrant shall be governed by and construed and enforced in accordance with, and all questions concerning the construction, validity, interpretation and performance of this Warrant shall be governed by, the internal laws of the State of New York, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of New York or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of New York.

11. CONSTRUCTION; HEADINGS. This Warrant shall be deemed to be jointly drafted by the Company and the Holder and shall not be construed against any person as the drafter hereof. The headings of this Warrant are for convenience of reference and shall not form part of, or affect the interpretation of, this Warrant.

12. DISPUTE RESOLUTION. In the case of a dispute as to the determination of the Exercise Price or the arithmetic calculation of the Warrant Shares, the Company shall submit the disputed determinations or arithmetic calculations via facsimile within two Business Days of receipt of the Exercise Notice giving rise to such dispute, as the case may be, to the Holder. If the Holder and the Company are unable to agree upon such determination or calculation of the Exercise Price or the Warrant Shares within three Business Days of such disputed determination or arithmetic calculation being submitted to the Holder, then the Company shall, within two Business Days submit via facsimile (a) the disputed determination of the Exercise Price to an independent, reputable investment bank selected by the Company and approved by the Holder, or (b) the disputed arithmetic calculation of the Warrant Shares to the Company's independent, outside accountant. The Company shall cause at its expense the investment bank or the accountant, as the case may be, to perform the determinations or calculations and notify the Company and the Holder of the results no later than ten Business Days from the time it receives the disputed determinations or calculations. Such investment bank's or accountant's determination or calculation, as the case may be, shall be binding upon all parties absent demonstrable error, provided however that if the determination is made by the Company's accountants, the Holder may request that a second accounting firm that is determined by the Holder to be independent also perform its own calculation to confirm the first calculation.

13. REMEDIES, OTHER OBLIGATIONS, BREACHES AND INJUNCTIVE RELIEF. The remedies provided in this Warrant shall be cumulative and in addition to all other remedies available under this Warrant and the other Transaction Documents, at law or in equity (including a decree of specific performance and/or other injunctive relief), and nothing herein shall limit the right of the Holder right to pursue actual damages for any failure by the Company to comply with the terms of this Warrant. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Holder and that the remedy at law for any such breach may be inadequate. The Company therefore agrees that, in the event of any such breach or threatened breach, the holder of this Warrant shall be entitled, in addition to all other available remedies, to an injunction restraining any breach, without the necessity of showing economic loss and without any bond or other security being required.

14. TRANSFER. This Warrant may be offered for sale, sold, transferred or assigned without the consent of the Company.

15. SEVERABILITY. If any provision of this Agreement is prohibited by law or otherwise determined to be invalid or unenforceable by a court of competent jurisdiction, the provision that would otherwise be prohibited, invalid or unenforceable shall be deemed amended to apply to the broadest extent that it would be valid and enforceable, and the invalidity or unenforceability of such provision shall not affect the validity of the remaining provisions of this Agreement so long as this Agreement as so modified continues to express, without material change, the original intentions of the parties as to the subject matter hereof and the prohibited nature, invalidity or unenforceability of the provision(s) in question does not substantially impair the respective expectations or reciprocal obligations of the parties or the practical realization of the benefits that would otherwise be conferred upon the parties. The parties will endeavor in good faith negotiations to replace the prohibited, invalid or unenforceable provision(s) with a valid provision(s), the effect of which comes as close as possible to that of the prohibited, invalid or unenforceable provision(s).

16. CERTAIN DEFINITIONS. For purposes of this Warrant, the following terms shall have the following meanings:

(a) "**Bloomberg**" means Bloomberg Financial Markets.

(b) "**Business Day**" means any day other than Saturday, Sunday or other day on which commercial banks in The City of New York are authorized or required by law to remain closed.

(c) "**Closing Bid Price**" and "**Closing Sale Price**" means, for any security as of any date, the last closing bid price and last closing trade price, respectively, for such security on the Principal Market, as reported by Bloomberg, or, if the Principal Market begins to operate on an extended hours basis and does not designate the closing bid price or the closing trade price, as the case may be, then the last bid price or last trade price, respectively, of such security prior to 4:00:00 p.m., New York Time, as reported by Bloomberg, or, if the Principal Market is not the principal securities exchange or trading market for such security, the last closing bid price or last trade price, respectively, of such security on the principal securities exchange or trading market where such security is listed or traded as reported by Bloomberg, or if the foregoing do not apply, the last closing bid price or last trade price, respectively, of such security in the over-the-counter market on the electronic bulletin board for such security as reported by Bloomberg, or, if no closing bid price or last trade price, respectively, is reported for such security by Bloomberg, the average of the bid prices, or the ask prices, respectively, of any market makers for such security as reported in the "pink sheets" by Pink Sheets LLC (formerly the National Quotation Bureau, Inc.). If the Closing Bid Price or the Closing Sale Price cannot be calculated for a security on a particular date on any of the foregoing bases, the Closing Bid Price or the Closing Sale Price, as the case may be, of such security on such date shall be the fair market value as mutually determined by the Company and the Holder. If the Company and the Holder are unable to agree upon the fair market value of such security, then such dispute shall be resolved pursuant to Section 12. All such determinations to be appropriately adjusted for any stock dividend, stock split, stock combination or other similar transaction during the applicable calculation period.

(d) "**Common Stock**" means (i) the Company's shares of Common Stock, par value $0.0001 per share, and (ii) any share capital into which such Common Stock shall have been changed or any share capital resulting from a reclassification of such Common Stock.

(e) "**Convertible Securities**" means any stock or securities (other than Options) directly or indirectly convertible into or exercisable or exchangeable for shares of Common Stock.

(f) "**Eligible Market**" means the Principal Market, the NYSE Amex, The New York Stock Exchange, Inc., The NASDAQ Global Market, The NASDAQ Capital Market or The NASDAQ Global Select Market.

(g) "**Expiration Date**" means sixty (60) months after the Issuance Date or, if any such date falls on a day other than a Business Day or on which trading does not take place on the Principal Market (a "**Holiday**"), the next day that is not a Holiday.

(h) "**Fundamental Transaction**" means that (i) the Company shall, directly or indirectly, in one or more related transactions, (A) consolidate or merge with or into (whether or not the Company is the surviving corporation) another Person or Persons, if the holders of the Voting Stock (not including any shares of Voting Stock held by the Person or Persons making or party to, or associated or affiliated with the Persons making or party to, such consolidation or merger) immediately prior to such consolidation or merger shall hold or have the right to direct the voting of less than 50% of the Voting Stock or such voting securities of such other surviving Person immediately following such transaction, or (B) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of the Company to another Person, or (C) allow another Person to make a purchase, tender or exchange offer that is accepted by the holders of more than the 50% of the outstanding shares of Voting Stock (not including any shares of Voting Stock held by the Person or Persons making or party to, or associated or affiliated with the Persons making or party to, such purchase, tender or exchange offer), or (D) consummate a stock purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another Person whereby such other Person acquires more than the 50% of the outstanding shares of Voting Stock (not including any shares of Voting Stock held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock purchase agreement or other business combination), (E) reorganize, recapitalize or reclassify its Common Stock or (ii) any "person" or "group" (as these terms are used for purposes of Sections 13(d) and 14(d) of the Exchange Act) is or shall become the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 50% of the aggregate Voting Stock of the Company.

(i) "**Options**" means any rights, warrants or options to subscribe for or purchase shares of Common Stock or Convertible Securities.

(j) "**Parent Entity**" of a Person means an entity that, directly or indirectly, controls the applicable Person and whose common stock or equivalent equity security is quoted or listed on an Eligible Market, or, if there is more than one such Person or Parent Entity, the Person or Parent Entity with the largest public market capitalization as of the date of consummation of the Fundamental Transaction.

(k) "**Person**" means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization, any other entity and a government or any department or agency thereof.

(l) "**Principal Market**" means the NASDAQ Global Market.

(m) "**Public Successor**" means a Successor Entity that is not a publicly traded corporation whose common stock is quoted on or listed for trading on an Eligible Market.

(n) "**Successor Entity**" means the Person (or, if so elected by the Holder, the Parent Entity) formed by, resulting from or surviving any Fundamental Transaction or the Person (or, if so elected by the Holder, the Parent Entity) with which such Fundamental Transaction shall have been entered into.

(o) "**Trading Day**" means any day on which the Common Stock is traded on the Principal Market, or, if the Principal Market is not the principal trading market for the Common Stock, then on the principal securities exchange or securities market on which the Common Stock is then traded; provided that "Trading Day" shall not include any day on which the Common Stock is scheduled to trade on such exchange or market for less than 4.5 hours or any day that the Common Stock is suspended from trading during the final hour of trading on such exchange or market (or if such exchange or market does not designate in advance the closing time of trading on such exchange or market, then during the hour ending at 4:00:00 p.m., New York Time).

(p) "**Voting Stock**" of a Person means capital stock of such Person of the class or classes pursuant to which the holders thereof have the general voting power to elect, or the general power to appoint, at least a majority of the board of directors, managers or trustees of such Person (irrespective of whether or not at the time capital stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused this Warrant to Purchase Common Stock to be duly executed as of the Issuance Date set out above.

Lilis Energy, Inc.

By: /s/ Abraham Mirman
Name: Abraham Mirman
Title: Chief Executive Officer

EXHIBIT A

EXERCISE NOTICE

TO BE EXECUTED BY THE REGISTERED HOLDER TO EXERCISE THIS WARRANT TO PURCHASE COMMON STOCK

LILIS ENERGY, INC.

The undersigned holder hereby exercises the right to purchase _____ of the shares of Common Stock ("**Warrant Shares**") of Lilis Energy, Inc., a Nevada corporation (the "**Company**"), evidenced by the attached Warrant to Purchase Common Stock (the "**Warrant**"). Capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Warrant.

1. Payment of Exercise Price. The holder shall pay the Aggregate Exercise Price in the sum of $_____ to the Company in accordance with the terms of the Warrant.

2. Delivery of Warrant Shares. The Company shall deliver to the holder _____ Warrant Shares in accordance with the terms of the Warrant.

Date: _____ __, _____

_____
Name of Registered Holder

By: _____
Name:
Title:

ACKNOWLEDGMENT

The Company hereby acknowledges this Exercise Notice and hereby directs [Name of Transfer Agent] to issue the above indicated number of shares of Common Stock in accordance with the Transfer Agent Instructions dated _____ from the Company and acknowledged and agreed to by [Name of Transfer Agent].

LILIS ENERGY, INC.

By: _____
Name:
Title:

Exhibit 10.9

SEPARATION AGREEMENT

This Separation Agreement (this "Agreement") is made this 1st day of August, 2014 by and between Lilis Energy, Inc. ("Lilis" or the "Company") and Robert A. Bell ("Bell"). As used herein, "Parties" means, collectively, Lilis and Bell, and "Party" means either Lilis or Bell.

RECITALS

WHEREAS, Lilis and Bell are parties to that Employment Agreement dated May 1, 2014 (the "Employment Agreement");

WHEREAS, Lilis and Bell agree that, effective August 1, 2014 (the "Separation Date"), Bell voluntarily resigned from his positions as officer and employee of Lilis and any of its subsidiaries, including his positions of President and Chief Operating Officer and member of the Board of Directors of Lilis; and

WHEREAS, in exchange for the consideration provided herein, Bell has agreed to (a) release all claims that Bell may have against the Company, including all his remaining rights (if any) in, to and under the Employment Agreement and any other interests or claims he might have against the Company arising from his efforts as President, Chief Operating Officer or member of the Board of Directors, and (b) confirm certain surviving provisions under the Employment Agreement, and Lilis has agreed to provide the payments and other consideration specified herein.

NOW, THEREFORE, in consideration of the provisions herein, and other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged by Lilis and Bell, the Parties agree as follows:

1. Resignation. Effective as of the Separation Date, Bell resigned, and Lilis accepted such resignation, from all his positions as officer and employee of Lilis and any of its subsidiaries, including his positions of President and Chief Operating Officer and member of the Board of Directors of Lilis.

2. Existing Obligations. The following payments and obligations exist independently of this Separation Agreement and the releases contained herein (the "Existing Obligations"):

    (a) Within five (5) calendar days after the date this Agreement is executed, Lilis will pay Bell all compensation due and owing to Bell including but not limited to:

        (i) All salary through the date this Agreement is executed;

        (ii) All accrued but unused vacation; and

        (iii) All unpaid expense reimbursements properly submitted in accordance with Section 4.8(a) of the Employment Agreement.

        The foregoing payments shall be less all applicable state and federal withholding and other lawful deductions.

    (b) Within five (5) calendar days after the date this Agreement is executed, Lilis will (in full settlement of the terms of the signing bonus and stock grant obligations under Section 4.2 of the Employment Agreement):

        (i) Pay Bell a lump sum of $100,000 (the "Lump Sum Payment"), less all applicable state and federal tax withholdings and other lawful deductions; and

        (ii) Provide to Bell evidence of the issuance of 33,333 shares of the common stock of Lilis to Bell, which vested on May 1, 2014, pursuant to Section 4.2 of the Employment Agreement and Lilis's 2012 Equity Incentive Plan (the "Plan"), relating to his employment as the COO, it being understood that Lilis will satisfy all withholding obligations and other lawful deductions related to these shares out of the Lump Sum Payment.

3. Consideration. Lilis agrees to make the following additional payments to Bell in consideration of the releases and other consideration provided by Bell under this Agreement, in full satisfaction of any and all other obligations of Lilis to Bell, under the Employment Agreement or otherwise (the "Consideration"):

    (a) Within ten (10) calendar days after the date this Agreement is executed, Lilis will pay Bell a lump sum of $25,000, less all applicable state and federal tax withholdings and other lawful deductions.

(b) Within ten (10) calendar days after the termination of the Revocation Period (as defined in Paragraph 6(g) below), on the express condition that Bell does not revoke his waiver and release of claims under the Age Discrimination in Employment Act, Lilis will:

i. Pay Bell an additional lump sum of $75,000, less all applicable state and federal tax withholdings and other lawful deductions, and

ii. Issue to Bell 66,667 shares of the common stock of Lilis, which shares shall be fully vested as of the date of issuance, it being understood that Lilis will satisfy all withholding obligations and other lawful deductions related to these shares out of the lump sum payment described in Paragraph 3(b)(i).

(c) Lilis and Bell agree and acknowledge that if Lilis fails for any reason to remit payment of the Existing Obligations or Consideration set forth in these Paragraphs 2 and 3 , Bell will retain his right to pursue claims under the terms of the Employment Agreement that govern resignation for "Good Reason" (including claims for additional severance in connection therewith) until such time as such payment of the Existing Obligations and Consideration are made, and that if Bell elects to pursue any such claims, Lilis shall retain its right to assert any and all defenses and counterclaims available under the Employment Agreement or otherwise, without giving effect to the provisions hereof. All other provisions of this Agreement will remain in full force and effect.

4. General Release.

(a) Except as otherwise set forth in this Agreement, Bell, for himself, and Lilis, for itself, and each Party for its respective affiliates, successors, heirs, subrogees, assigns, principals, agents, partners, employees, associates, attorneys and representatives, voluntarily, knowingly and intentionally releases and discharges the other Party and its respective predecessors, successors, parents, subsidiaries, affiliates and assigns and each of its respective officers, directors, principals, shareholders, agents, attorneys, board members, and employees (the "Released Parties") from any and all claims, actions, liabilities, demands, rights, damages, costs, expenses, and attorneys' fees (including but not limited to any claim of entitlement for attorneys' fees under any contract, statute, or rule of law allowing a prevailing party or plaintiff to recover attorneys' fees), of every kind and description through the date hereof (the "Released Claims"). Lilis expressly agrees and assents that this General Release includes a release of any and all claims, actions, liabilities, demands, rights, damages, costs, expenses, and attorneys' fees (including but not limited to any claim of entitlement for attorneys' fees under any contract, statute, or rule of law allowing a prevailing party or plaintiff to recover attorneys' fees), of every kind and description against Pierre Caland, Peak Oil LLC, Peak Oil Holdings LLC and Peak Operator LLC arising out of or related to the service of Bell or any other employee of Peak Operator LLC at Bell's direction, as an officer, director, employee or consultant to Lilis (each such party to be included as a "Released Party" and each such claim to be included as a "Released Claim").

(b) The Released Claims include but are not limited to those which arise out of, relate to, or are based upon: (i) Bell's employment with Lilis and the termination thereof, (ii) statements, acts or omissions by the Parties whether in their individual or representative capacities, (iii) express or implied agreements between the Parties (including the Employment Agreement), except as provided in this Agreement, (iv) any severance, stock, or stock option grant, agreement, or plan, except as provided in this Agreement, (v) all federal, state, and municipal statutes, ordinances, and regulations, including, but not limited to, claims of discrimination based on race, color, national origin, age, sex, sexual orientation, religion, disability, veteran status, whistleblower status, public policy, or any other characteristic of Bell under the Age Discrimination in Employment Act, the Older Workers Benefit Protection Act, the Americans with Disabilities Act, the Equal Pay Act, Title VII of the Civil Rights Act of 1964 (as amended), the Employee Retirement Income Security Act of 1974, the Rehabilitation Act of 1973, the Worker Adjustment and Retraining Notification Act, or any other federal, state, or municipal law prohibiting discrimination or termination for any reason, (vi) common law, including but not limited to claims for breach of contract, tort, defamation, slander or emotional distress, (vii) taxes, penalties, or interest assessed against vested or unvested compensation paid, provided, or granted to Bell by the Company, including all such claims that may arise based on the application of Code Section 409A, and (viii) any claim which was or could have been raised; provided, notwithstanding anything to the contrary in this Agreement. The "Released Claims" shall not include rights or obligations under this Agreement, Article 5 of the Employment Agreement, COBRA, any 401(k) plan or matters arising out of or in connection with claims by governmental authorities or self-regulatory organizations involving actual or potential violations of the securities laws, rules or regulations applicable to Lilis, any existing rights Bell has to indemnification, contribution and a defense from Lilis for the time that Bell was an officer and director of Lilis, any rights Bell has to any D&O and general liability insurance coverage of Lilis, any rights that Bell has as a shareholder of Lilis arising after the date hereof, and any rights which cannot be waived or released as a matter of law.

Moreover, nothing contained in this Agreement is intended to prohibit or restrict either party in any way from (1) bringing a lawsuit against the other to enforce the obligations under this Agreement; (2) providing information to, or testifying or otherwise assisting in any investigation or proceeding brought by, any federal regulatory or law enforcement agency or legislative body, any self-regulatory organization, or Lilis' legal, compliance or human resources officers; (3) testifying or participating in or otherwise assisting in a proceeding relating to an alleged violation of any federal, state or municipal law relating to fraud or any rule or regulation of the Securities and Exchange Commission or any self-regulatory organization; or (4) filing any claims that are not permitted to be waived or released under applicable law (although the ability to recover damages or other relief is still waived and released to the extent permitted by law).

(c) The releases in this paragraph 4 shall be construed in the broadest sense possible and shall be effective as a prohibition to all claims, charges, actions, suits, demands, obligations, damages, injuries, liabilities, losses, and causes of action of every character, nature, kind or description, known or unknown, and suspected or unsuspected that the Parties may have against the Released Parties. The Parties hereby expressly acknowledge that they are aware of the existence of California Civil Code § 1542 and its meaning and effect. The Parties expressly acknowledge that they have read and understood the following provision of that section which provides:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR."

The Parties expressly waive and release any right to benefits that they may have under California Civil Code § 1542 to the fullest extent they may do so lawfully. The Parties further acknowledge that they may later discover facts different from or in addition to those facts now known to them or believe by them to be true with respect to any or all of the matters covered by this Agreement, and the Parties agree that this Agreement nevertheless shall remain in full and complete force and effect.

5. Survival of Provisions of the Employment Agreement. The Parties expressly acknowledge and agree that notwithstanding Paragraph 12 of this Agreement, the following provisions of the Employment Agreement will continue in full force and effect: Section 4.2 (as specified in this Agreement) of Article 4, Article 5 and Sections 8.1-8.4, 8.6-8.9, 8.11-8.14, and 8.16-8.18 of Article 8; provided, however, that any provisions of the Employment Agreement that expire by their terms shall no longer have any force or effect. The Parties expressly acknowledge and agree that Section 7 of the Employment Agreement is no longer in effect. Any and all claims arising out of Section 7 of the Employment Agreement are included in "Released Claims" and are released herein. Lilis agrees and acknowledges that it will take no efforts to enforce Section 7 of the Employment Agreement against Bell. Lilis agrees and acknowledges that its obligation to Bell pursuant to Section 8.4 of the Employment Agreement to indemnify Bell for any claims arising out of or relating to his services for Lilis remains in full force and effect.

6. Representations and Warranties. Each of Bell and Lilis (except as to subparagraphs (f) and (g) below), severally and not jointly, warrants and represents as follows:

(a) He or it has read this Agreement and agrees to the conditions and obligations set forth in it.

(b) He or it voluntarily executes this Agreement (i) after having been advised to consult with legal counsel, (ii) after having had opportunity to consult with legal counsel and (iii) without being pressured or influenced by any statement, representation or omission of any person acting on behalf of the other or any of its officers, directors, employees, agents and attorneys.

(c) Bell has no knowledge of the existence of any lawsuit, charge or proceeding against Lilis or any of its officers, directors, employees or agents arising out of or otherwise connected with any of the matters herein released. Lilis has no knowledge of any lawsuit, charge or proceeding against Bell arising out of or otherwise connected with any of the matters herein released.

(d) He or it has the individual, corporate, or entity power and authority to execute and deliver this Agreement and to perform its obligations hereunder and, if such Party is a corporation, limited liability company or partnership, the execution, delivery, and performance of this Agreement has been duly authorized by all necessary corporate, company or partnership action. This Agreement constitutes the legal, valid, and binding obligation of each Party.

(e) Bell admits, acknowledges, and agrees that, other than the payments and consideration set forth in Paragraphs 1 and 3 of this Agreement, Bell has been fully paid or provided all wages, compensation, salary, commissions, bonuses, expense reimbursements, stock, stock options, vacation, change in control benefits, severance benefits, deferred compensation, or other benefits from Lilis, which are or could be due to Bell under the terms of Bell's employment or otherwise. Bell admits, acknowledges, and agrees that Bell is not otherwise entitled to the payments set forth in Paragraph 3 except in exchange for the releases by Bell contained in this Agreement. Lilis admits, acknowledges, and agrees that, other than the duties set forth in this Agreement, Bell has fully performed all his duties and obligations to Lilis, under the Employment Agreement or otherwise.

(f) Applicable law provides that Bell shall have at least 21 days to consider this Agreement. In the event that Bell executes this Agreement prior to the 21st day after receipt of it, Bell expressly intends such execution as a waiver of any rights Bell has to review the Agreement for the full 21 days. In such event, Bell represents that such waiver is voluntary and made without any pressure, representations or incentives from Lilis for such early execution.

(g) Bell understands that this Agreement waives and releases any claims Bell may have under the Age Discrimination in Employment Act (the "ADEA"). Bell may revoke such waiver and release of claims under the ADEA for 7 calendar days following its execution (the "Revocation Period"), and Bell's waiver and release of claims under the ADEA shall not become enforceable and effective against Bell or Lilis until 7 calendar days after such execution. If Bell chooses to revoke this Agreement, Bell must provide written notice by hand delivery and email to Ron Levine, 1550 Seventeenth Street, Suite 500, Denver, Colorado 80202 (email: ron.levine@dgslaw.com) within 7 calendar days of Bell's execution of this Agreement. If Bell does not revoke within Revocation Period, the right to revoke is lost. If Bell does revoke within the Revocation Period, such revocation shall only be effective with respect to Bell's ADEA claims, and the releases set forth in Paragraph 4 above otherwise shall remain in full force and effect.

7. Non-Disparagement. Bell agrees not to make to any person any statement that disparages the Company or its directors, officers, employees or affiliates or reflects negatively upon the Company, including, without limitation, statements regarding the Company's financial condition, business practices, employment practices, or its predecessors, successors, subsidiaries, officers, directors, employees or affiliates. Lilis and Abraham Mirman and its/his directors, officers, employees or affiliates agree not to make to any person any statement that disparages Bell or his affiliates, successors, heirs, subrogees, assigns, principals, agents, partners, employees, associates, attorneys and representatives, including but not limited to Pierre Caland, Peak Oil LLC, Peak Oil Holdings LLC, and Peak Operator LLC. In response to inquiries about Bell's employment, Bell and the Company shall make the statement set forth on Exhibit A hereto and file the Form 8-K substantially as set forth on Exhibit B, and nothing more.

8. Section 409A. It is the intention of the parties that compensation or benefits payable under this Agreement not be subject to the additional tax imposed pursuant to Section 409A of the Code and this Agreement shall be interpreted accordingly. To the extent such potential payments or benefits could become subject to additional tax under such Section, the parties shall cooperate to amend this Agreement with the goal of giving Bell the economic benefits described herein in a manner that does not result in such tax being imposed. Each payment or benefit made pursuant to this Agreement shall be deemed to be a separate payment for purposes of Code Section 409A and each payment made in installments shall be treated as a series of separate payments for purposes of Code Section 409A, to the extent permitted under applicable law. In addition, payments or benefits pursuant to this Agreement shall be exempt from the requirements of Code Section 409A to the maximum extent possible as "short-term deferrals" pursuant to Treasury Regulation Section 1.409A-1(b)(4), as exempt reimbursements under Treasury Regulation Section 1.409A-1(b)(9)(v), and/or under any other exemption that may be applicable, and this Agreement shall be construed accordingly. The parties agree and acknowledge that Bell incurred a "separation from service," as defined in Section 409A of the Code and the Treasury Regulations thereunder, on the Separation Date. If any payment made hereunder within 6 months of the Separation Date constitutes deferred compensation that would otherwise be subject to the additional tax imposed pursuant to Section 409A of the Code as a result of Bell's status as a specified employee, then such payment shall instead be payable on the date that is five (5) days following the earliest to occur of (i) 6 months after Bell's "separation from service," or (ii) Bell's death. All taxable reimbursements provided hereunder that are deferred compensation subject to the requirements of Code Section 409A shall be made not later than the calendar year following the calendar year in which the expense was incurred. Any such taxable reimbursements or any taxable in-kind benefits provided in one calendar year shall not affect the expenses eligible for reimbursement or in-kind benefits to be provided in any other taxable year.

9. Successors. This Agreement shall be binding upon, and inure to the benefit of, any successor to Lilis or Bell.

10. Restricted Assignment. Neither Party may assign, transfer, or delegate this Agreement or any of its or his rights or obligations under this Agreement without the prior written consent of the other Party. Any attempted assignment, transfer, or delegation in violation of the preceding sentence shall be void and of no effect.

11. Waiver and Amendment. No term or condition of this Agreement shall be deemed waived other than by a writing signed by the Party against whom or which enforcement of the waiver is sought. Without limiting the generality of the preceding sentence, a Party's failure to insist upon the other Party's strict compliance with any provision of this Agreement or to assert any right that a Party may have under this Agreement shall not be deemed a waiver of that provision or that right. Any written waiver shall operate only as to the specific term or condition waived under the specific circumstances and shall not constitute a waiver of that term or condition for the future or a waiver of any other term or condition. No amendment or modification of this Agreement shall be deemed effective unless stated in a writing signed by the Parties.

12. Entire Agreement. This Agreement contains the Parties' entire agreement regarding Bell's employment with the Company and the subject matter of this Agreement. This Agreement supersedes all other and prior agreements and understandings between the Parties, including the Employment Agreement, except as otherwise provided herein. The Parties have made no agreements, representations, or warranties regarding the subject matter of this Agreement that are not set forth in this Agreement.

13. Notice. Except as otherwise set forth in this Agreement, each notice or other communication required or permitted under this Agreement shall be in writing and transmitted, delivered, or sent by personal delivery, prepaid courier or messenger service (whether overnight or same-day), or prepaid certified United States mail (with return receipt requested), addressed (in any case) to the other Party at the address set forth as follows:

    If to Bell, to:

    300 E. Esplanade Drive, Suite 1810
    Oxnard, CA 93036

    With a copy to:

    Rapp & Krock, PC
    Attn: Bradley W. Rapp
    3050 Post Oak Blvd, Suite 1425
    Houston, Texas 77056
    brapp@rk-lawfirm.com

    If to Lilis, to:

    Lilis Energy, Inc.
    Attention: Chief Financial Officer
    1900 Grant Street, Suite #720
    Denver, CO 80203

    With a copy to:

    Davis Graham & Stubbs LLP
    Attention: Ron Levine
    1550 Seventeenth Street, Suite 500
    Denver, Colorado 80202

    Each notice or communication so transmitted, delivered, or sent in person, by courier or messenger service, or by certified United States mail shall be deemed given, received, and effective on the date delivered to or refused by the intended recipient (with the return receipt, or the equivalent record of the courier or messenger, being deemed conclusive evidence of delivery or refusal). Nevertheless, if the date of delivery is after 5:00 p.m. on a business day, the notice or other communication shall be deemed given, received, and effective on the next business day.

14. Severability. It is the desire of the Parties hereto that this Agreement be enforced to the maximum extent permitted by law. Should any provision contained herein be held unenforceable by a court of competent jurisdiction, the Parties hereby agree and consent that such provision shall be reformed to create a valid and enforceable provision to the maximum extent permitted by law; provided, however, if such provision cannot be reformed, it shall be deemed ineffective and deleted herefrom without affecting any other provision of this Agreement. This Agreement should be construed by limiting and reducing it only to the minimum extent necessary to be enforceable under then applicable law.

15. Title and Headings; Construction. Titles and headings to sections hereof are for the purpose of reference only and shall in no way limit, define or otherwise affect the provisions hereof. The words "herein," "hereof," "hereunder" and other compounds of the word "here" shall refer to the entire Agreement and not to any particular provision.

16. Governing Law; Jurisdiction. All matters or issues relating to the interpretation, construction, validity, and enforcement of this Agreement shall be governed by the laws of the State of Colorado, without giving effect to any choice-of-law principle that would cause the application of the laws of any jurisdiction other than Colorado. Jurisdiction and venue of any action or proceeding relating to this Agreement or any dispute shall be exclusively in the state or federal courts in Denver, Colorado.

17. Counterparts. This Agreement may be signed in counterparts, with the same effect as if both Parties had signed the same document. All counterparts shall be construed together to constitute one, and the same, document.

18. Cooperation. Bell hereby agrees that after the date hereof, Bell will reasonably cooperate with the Company to ensure a smooth transition of management, to continue to protect the Company's confidential information and trade secrets in accordance with Articles V and VII of the Employment Agreement, and to promptly respond to Company inquiries regarding such confidential information, including, without limitation, any corporate opportunities disclosed or entrusted to Bell by the Company, its affiliates or third parties during or prior to Bell's employment with the Company.

IN WITNESS WHEREOF, the Parties have executed this Agreement to be effective as of the date first above written.

BELL:

/s/ Robert A. Bell
Name: Robert A. Bell

LILIS:

Lilis Energy, Inc., a Nevada corporation

By: /s/ Eric Ulwelling
Its: Acting Chief Financial Officer
Name: Eric Ulwelling

Exhibit A

On August 1, 2014, Robert A. Bell resigned his positions as President, Chief Operating Officer and member of the Board of Directors of Lilis Energy, Inc. in order to focus his full attention on other ongoing roles and responsibilities.

Exhibit B

Form 8-K

[See attached]

Exhibit 10.10

SETTLEMENT AGREEMENT

This Settlement Agreement (this "Agreement") dated as of September 2, 2014, is made by and between Lilis Energy, Inc., a Nevada corporation formerly known as Recovery Energy, Inc. ("Lilis") and Hexagon, LLC, a Colorado limited liability company formerly known as Hexagon Investments, LLC ("Hexagon"). This Agreement is joined in by Labyrinth Enterprises LLC, The Reiman Foundation, Conway J. Schatz and Scott J. Reiman (together with Hexagon, the "Hexagon Parties") and, solely for purposes of Section 7 hereof, Grandhaven Energy, LLC.

RECITALS

A. Lilis and Hexagon entered into (i) a Credit Agreement, dated as of January 29, 2010, providing for a secured term loan in the original principal amount of $4,500,000 (as amended, modified, supplemented, substituted or replaced, "Credit Agreement No. 1"); (ii) a Credit Agreement, dated as of March 25, 2010, providing for a secured term loan in the original principal amount of $6,000,000 (as amended, modified, supplemented, substituted or replaced, "Credit Agreement No. 2"); and (iii) a Credit Agreement, dated as of April 14, 2010, providing for a term loan in the original principal amount of $15,000,000 (as amended, modified, supplemented, substituted or replaced, "Credit Agreement No. 3" and, together with Credit Agreement No. 1 and Credit Agreement No. 2, the "Credit Agreements").

B. In connection with the Credit Agreements, Lilis executed, in favor of Hexagon, (i) a Promissory Note, dated as of January 29, 2010 (as amended, modified, supplemented, substituted or replaced, "Promissory Note No. 1"); (ii) a Promissory Note, dated as of March 25, 2010 (as amended, modified, supplemented, substituted or replaced, "Promissory Note No. 2"); and a Promissory Note, dated as of April 14, 2010 (as amended, modified, supplemented, substituted or replaced, "Promissory Note No. 3" and, together with Promissory Note No. 1 and Promissory Note No. 2, the "Promissory Notes").

C. The obligations of Lilis under (i) Promissory Note No. 1 are secured by (a) that certain Mortgage, Security Agreement, Assignment of Production and Proceeds, Financing Statement and Fixture Filing, dated as of January 29, 2010, by and between Lilis and Hexagon (as amended, the "Colorado Mortgage"), and (b) that certain Deed of Trust, Mortgage, Security Agreement, Assignment of Production and Proceeds, Financing Statement and Fixture Filing, dated as of January 29, 2010, by and among Lilis, Hexagon and Jacob B. Mueller, Trustee (as amended, the "First Nebraska Mortgage"); (ii) Promissory Note No. 2 are secured by (a) that certain Deed of Trust, Mortgage, Security Agreement, Assignment of Production and Proceeds, Financing Statement and Fixture Filing, dated as of March 25, 2010, by and among Lilis, Hexagon and Jacob B. Mueller, Trustee (the "Second Nebraska Mortgage"), and (b) that certain Mortgage, Security Agreement, Assignment of Production and Proceeds, Financing Statement and Fixture Filing, dated as of March 25, 2010, by and between Lilis and Hexagon (the "First Wyoming Mortgage"); (iii) Promissory Note No. 3 are secured by that certain Mortgage, Security Agreement, Assignment of Production and Proceeds, Financing Statement and Fixture Filing, dated as of April 14, 2010, by and between Lilis and Hexagon (the "Second Wyoming Mortgage"); and all of the Promissory Notes are additionally secured by (a) that certain Mortgage, Security Agreement, Assignment of Production and Proceeds, Financing Statement and Fixture Filing, dated as of March 1, 2013, by and between Lilis and Hexagon (the "Third Wyoming Mortgage"), and (b) that certain First Amendment to Deed of Trust, Mortgage, Security Agreement, Assignment of Production and Proceeds, Financing Statement and Fixture Filing, dated as of March 1, 2013, by and between Lilis and Hexagon (the "Amendment to Nebraska Mortgage" and, together with the Colorado Mortgage, the First Nebraska Mortgage, the Second Nebraska Mortgage, the First Wyoming Mortgage, the Second Wyoming Mortgage and the Third Wyoming Mortgage, the "Mortgages").

D. The parties have agreed to fully settle the Promissory Notes, all amounts due thereunder, and other matters as set forth herein.

AGREEMENT

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

1. Settlement. The parties hereby agree that in consideration of (a) the execution and delivery by the parties thereto of that certain Assignment, Bill of Sale and Conveyance, effective as of September 1, 2014 (the "Effective Date"), by and between Lilis and Grandhaven Energy, LLC ("Grandhaven"), substantially in the form attached hereto as Exhibit A (the "Assignment"), conveying to Grandhaven one hundred percent (100%) of Lilis's right, title and interest in the collateral secured by the Mortgages (the "Collateral") and the other documents to be delivered in connection with the Assignment as provided in Section 7 below (the "Transfer Documents"), (b) the issuance by Lilis to Hexagon of 2,000 shares of Lilis's 6% Redeemable Preferred Stock (the "Preferred Stock"), on the terms set forth in that certain Certificate of Designation of Preferences, Rights and Limitations of 6% Redeemable Preferred Stock, adopted by the board of directors of Lilis and filed with the Secretary of State of the State of Nevada on or prior to the date hereof, substantially in the form attached hereto as Exhibit B, and (c) the execution and delivery of that certain General Release by Bristol Investment Fund, Ltd., effective as of August 29, 2014, and that certain General Release by T.R. Winston & Company, LLC, on behalf of the holders of Lilis's outstanding 8% Senior Secured Convertible Debentures (the "Debentures"), effective as of August 28, 2014, substantially in the forms attached hereto as Exhibit C and Exhibit D respectively (together, the "Third-Party Releases" and, together with the Assignment, the Transfer Documents, the Preferred Stock and the performance of Lilis's obligations hereunder, the "Settlement Consideration"), all outstanding obligations under the Credit Agreements and the Promissory Notes shall be deemed discharged and paid in full, and the Credit Agreements, the Promissory Notes and the Mortgages shall be deemed terminated, released and discharged.

2. Release and Termination.

(a) By Lilis Energy, Inc. Without further action necessary by any party, upon execution of this Agreement by all parties, Lilis shall unconditionally and irrevocably release and forever discharge the Hexagon Parties, and all of their respective present and former officers, directors, principals, managers, members, employees, equity holders, agents and representatives, as well as their respective successors and assigns, from any and all claims (whether known or unknown, absolute or contingent, liquidated or unliquidated, matured or unmatured, foreseeable or unforeseeable, previously existing, presently existing or hereafter discovered, at law, equity, or otherwise, whether arising by statute, common law, in contract, in tort, or otherwise, of any kind, character or nature whatsoever), causes of action, damages, costs, losses, liens, and expenses which Lilis may have against the Hexagon Parties as of the effective date hereof (collectively, the "Lilis Released Claims"). This release is specifically intended to operate and be applicable even if it is alleged, charged, or proven that all or some of the Released Claims were solely and completely caused by any acts or omissions, whether negligent, grossly negligent, intentional, or otherwise, of or by the Hexagon Parties. This release and Lilis's performance of its continuing obligations hereunder are subject to the performance by the Hexagon Parties of all its obligations under this Agreement.

(b) By the Hexagon Parties. Without further action necessary by any party, upon Hexagon's receipt of the Settlement Consideration, the Hexagon Parties shall unconditionally and irrevocably release and forever discharge Lilis and its present and former officers, directors, principals, managers, members, employees, equity holders, agents and representatives, as well as their respective successors and assigns (together, the "Lilis Parties"), from any and all claims (whether known or unknown, absolute or contingent, liquidated or unliquidated, matured or unmatured, foreseeable or unforeseeable, previously existing, presently existing or hereafter discovered, at law, equity, or otherwise, whether arising by statute, common law, in contract, in tort, or otherwise, of any kind, character or nature whatsoever), causes of action, damages, costs, losses, liens, and expenses which the Hexagon Parties may have against the Lilis Parties, as of the effective date hereof, arising from or relating to any transactions or proposed transactions, including loans and extensions of credit, between the Hexagon Parties and Lilis (collectively, the "Hexagon Released Claims"). This release is not intended to apply to, and expressly does not apply to, any right to indemnification or advancement that Conway J. Schatz may have against Lilis arising from or relating to his service on the Board of Directors of Lilis. This release is specifically intended to operate and be applicable even if it is alleged, charged, or proven that all or some of the Released Claims were solely and completely caused by any acts or omissions, whether negligent, grossly negligent, intentional, or otherwise, of or by the Lilis Parties. This release and the Hexagon Parties' agreement to accept the Settlement Consideration is subject to the performance by Lilis of all of its obligations under this Agreement.

(c) Except as required by law, each of the parties hereby irrevocably covenants to refrain from, directly or indirectly, asserting any Released Claim, or commencing, instituting, encouraging, or causing to be commenced, or assisting any third party in the commencement of, any action, proceeding, disclosure, arbitration, audit, hearing, investigation, or suit (whether civil, criminal, administrative, investigative, or informal) of any kind against the other party based on or related to the Lilis Released Claims or the Hexagon Released Claims.

3. Mortgage Termination. Without limiting the generality of Section 2 hereof, Hexagon hereby agrees that upon receipt of the Settlement Consideration, Hexagon shall automatically be deemed to authorize Lilis to file Uniform Commercial Code termination statements and any other release documents necessary to evidence the release of the Mortgages.

4. Specific Covenants of Hexagon. The Hexagon Parties hereby agree as follows:

(a) The Hexagon Parties will not, for a period commencing on the date hereof and ending on February 29, 2016 (the "Release Date"), offer, pledge, sell, contract to sell, grant any option or contract to purchase, purchase any option or contract to sell, or otherwise dispose of, directly or indirectly, any shares of common stock, par value $0.0001 per share, of Lilis ("Common Stock") or any securities convertible into, exercisable for, or exchangeable for Common Stock.

(b) Upon receipt of the Settlement Consideration, Hexagon shall return to Lilis the original Promissory Notes marked "paid in full."

5. Representations and Warranties.

(a) Lilis hereby represents and warrants to Hexagon that (i) Lilis has the corporate power and authority, and the legal right, to execute, deliver and perform this Agreement including execution and delivery of the Assignment and the Transfer Documents, (ii) Lilis has taken all necessary corporate action to authorize the execution, delivery and performance of this Agreement including execution and delivery of the Assignment and the Transfer Documents, (iii) no consent or authorization of, filing with, notice to or other act by, or in respect of, any governmental authority or any other person is required to be obtained by Lilis in connection with this Agreement or the execution, delivery, performance, validity or enforceability of this Agreement, except consents, authorizations, filings and notices which have been obtained or made and are in full force and effect; (iv) as of the date hereof Lilis is not a debtor or a co-debtor in a bankruptcy or insolvency proceeding, Lilis does not intend to file a petition for relief under the U.S. Bankruptcy Code or any other federal or state insolvency laws providing relief for debtors ("Insolvency Laws"), nor to the knowledge of Lilis, are any of Lilis's creditors threatening to file an involuntary petition under any Insolvency Law with respect to Lilis as a debtor; and (v) the terms and conditions of this Agreement, including the Settlement Consideration, (A) are fair and reasonable; (B) are valid, binding and enforceable obligations of Lilis except as limited by Insolvency Laws; and (C) constitute reasonably equivalent value and fair consideration for the releases and other consideration granted by Hexagon.

(b) Hexagon hereby represents and warrants to Lilis that (i) Hexagon has the corporate power and authority, and the legal right, to execute, deliver and perform this Agreement, (ii) Hexagon has taken all necessary corporate action to authorize the execution, delivery and performance of this Agreement, (iii) no consent or authorization of, filing with, notice to or other act by, or in respect of, any governmental authority or any other person is required to be obtained by Hexagon in connection with this Agreement or the execution, delivery, performance, validity or enforceability of this Agreement, except consents, authorizations, filings and notices which have been obtained or made and are in full force and effect, (iv) the terms and conditions of this Agreement are valid, binding and enforceable obligations of Hexagon except as limited by Insolvency Laws, and (v) neither Hexagon nor any of its affiliates have assigned, conveyed or otherwise transferred any of its interest under the Credit Agreements, the Promissory Notes, the Mortgages or any other documents related thereto to any third party.

6. Representations and Warranties of Lilis Related to Preferred Stock.

Lilis hereby represents and warrants to Hexagon as follows:

(a) Lilis is a corporation duly organized, validly existing and in good standing under the laws of the State of Nevada. All corporate action on the part of Lilis, its directors and its stockholders necessary for the authorization, issuance and delivery of the Preferred Stock to Hexagon hereunder shall have been obtained and will be effective prior to the issuance thereof.

(b) All consents, approvals, or authorizations of, or registrations, qualifications, designations, declarations, or filings with, any third parties or governmental authority, required on the part of Lilis in connection with the issuance of the Preferred Stock to Hexagon hereunder shall have been obtained and will be effective prior to the issuance thereof.

(c) The authorized capital of Lilis consists, immediately prior to the issuance of the Preferred Stock hereunder, of the following:

(i) 100,000,000 shares of common stock, $0.0001 par value per share (the "Common Stock"), of which 27,582,317 are issued and outstanding immediately prior to the issuance of the Preferred Stock.

(ii) 10,000,000 shares of preferred stock, $0.0001 par value per share (the "Preferred Shares"), 20,000 of which have been designated as Series A Convertible Preferred Stock, of which 7,000 are issued and outstanding immediately prior to the issuance of the Preferred Stock; and 2,000 of which have been designated as Preferred Stock, none of which are issued and outstanding immediately prior to the issuance of the Preferred Stock to Hexagon under this Agreement. The rights, privileges and preferences of the Preferred Stock are as stated in the Articles of Incorporation of the Company and certificates of designations executed in connection therewith (collectively, the "Charter") and as provided by the general corporation law of Nevada. When issued in compliance with the provisions of this Agreement and the Charter, the Preferred Stock will be validly issued, fully paid and nonassessable, and will be free of any liens or encumbrances other than liens and encumbrances created by or imposed upon Hexagon; provided, however, that the Preferred Stock may be subject to restrictions on transfer under state and/or federal securities laws or as otherwise required by such laws at the time a transfer is proposed. Lilis has obtained valid waivers of any rights by other parties to purchase any of the Preferred Stock issued to Hexagon hereunder.

(d) There is no claim, action, suit, proceeding, arbitration, complaint, charge or investigation pending or, to Lilis's knowledge, currently threatened in writing that questions the right of Lilis to issue the Preferred Stock to Hexagon hereunder.

7. Transfer of Collateral Provisions.

(a) Terms. Capitalized terms used in this Section 7 and not defined herein shall have the meaning given them in the Assignment.

(b) Lilis Obligations. Lilis shall be entitled to all credits and proceeds of production from and accruing to the Assets received by either Hexagon, Grandhaven or Lilis, attributable to periods prior to the Effective Time, and Lilis shall be responsible for all costs, expenses and disbursements that are attributable to ownership and operation of the Assets for periods prior to the Effective Time.

(c) Hexagon Obligations. Grandhaven shall be entitled to all credits and proceeds of production from and accruing to the Assets, received by either Grandhaven or Lilis, attributable to periods after the Effective Time, and Grandhaven shall be responsible for all costs, expenses and disbursements attributable to ownership and operation of the Assets for periods after the Effective Time.

(d) Indemnification as to Assets.

(i) Lilis Indemnity. Lilis shall fully protect, indemnify, and defend Grandhaven, and all of its present and former officers, directors, principals, managers, members, equity holders, agents and/or employees and hold them harmless from any and all claims, losses, damages, demands, suits, causes of action, and liabilities (including reasonable attorneys' fees, costs of litigation and/or investigation and other costs associated therewith) (collectively referred to hereafter as "Claims") of every kind, including, without limitation, those relating to injury or death of any person or persons whomsoever, compliance with express or implied terms of leases or other agreements pertaining to the Assets and/or damage to or loss of property (real or personal) or resource, of any kind, arising out of or connected, directly or indirectly, with the ownership or operation of the Assets (or any part thereof) accruing at or before the Effective Time.

(ii) Grandhaven Indemnity. Grandhaven shall fully protect, indemnify, and defend Lilis, and all of its present and former officers, directors, principals, managers, members, equity holders, agents and/or employees and hold them harmless from any and all Claims of every kind, including, without limitation, those relating to injury or death of any person or persons whomsoever, compliance with express or implied terms of leases or other agreements pertaining to the Assets and/or damage to or loss of property (real or personal) or resource, of any kind, arising out of or connected, directly or indirectly, with the ownership or operation of the Assets (or any part thereof) accruing after the Effective Time.

(e) Asset Claims or Litigation. Lilis represents and warrants to Grandhaven that there are no claims, legal actions, suits, arbitrations, governmental investigations, condemnation proceedings or, to the best of Lilis's knowledge, other legal or administrative proceedings, or any orders, decrees or judgments in progress, pending or in effect, or to the best of Lilis's knowledge threatened, against or relating to the Assets or the transactions contemplated by this Agreement.

(f) Letters in Lieu. On or before Friday, September 5, 2014, Lilis shall prepare, execute and deliver to Grandhaven letters in lieu of transfer orders addressed to each purchaser of production from the Assets, in form acceptable to Grandhaven in its reasonable discretion, directing all purchasers of production to make payment to Grandhaven of proceeds attributable to production from the Assets after the Effective Time.

(g) Records. On or before Friday, September 5, 2014 Lilis shall make available for pick up by Grandhaven originals or copies of all of the Records, including without limitation a list of current vendors, LOS data, and all well files including logs, completion reports (including fracs), drilling reports, DST's, mud logs and workover reports. By such date Lilis also shall provide to Grandhaven all accounting records (including expense/revenue decks with owner names and addresses and a complete list of landowners with addresses and Tax ID numbers) in appropriate electronic format sufficient to allow Grandhaven to assume expenditure, joint interest billing and royalty payment functions, as currently conducted by Lilis.

(h) Transfer of Operations. As to the wells included in the Assets located in Nebraska and Wyoming, Grandhaven's designated operator will coordinate with Lilis to accomplish the designated operator's takeover of operations as soon as reasonably possible after the execution of this Agreement. As to the two wells located in Colorado, Grandhaven will cause its designated operator to use reasonable efforts to make all filings with the COGCC as necessary to take over operations on such wells, and will coordinate with Lilis to accomplish the designated operator's takeover of operations as soon as such filings are completed. With respect to each well, from the Effective Time until Grandhaven's designated operator has taken over the operation of such well, as evidenced by written confirmation delivered to Lilis, (i) Lilis shall continue to operate such wells for the benefit of Grandhaven, (ii) Grandhaven will compensate Lilis at a rate of $800 per month per well, prorated for the period of time during which Lilis operates such well, and (iii) Lilis shall have the right to net the amounts due pursuant to (ii) above, as well as all costs, expenses and disbursements for which Grandhaven is responsible pursuant to Section 7(c) above, from the proceeds of production from such well. Notwithstanding the foregoing, in no event shall Lilis continue to operate any well for the benefit of Grandhaven for more than thirty (30) days after the Effective Time unless otherwise agreed in writing by Grandhaven and Lilis.

(i) Governmental Assignment Forms. On or before Friday, September 5, 2014, Lilis shall prepare, and Lilis and Hexagon shall execute and deliver assignments on appropriate forms of all Federal and State leases included in the Assets, in sufficient counterparts to facilitate filing with the applicable governmental authority.

(j) Survival. The provisions of this Section 7 shall survive the execution and delivery of the Assignment.

8. Further Assurances. Lilis and Hexagon each agree that, from time to time after the date hereof, upon the reasonable request of the other party, it shall cooperate with the other party in executing and delivering any and all such further instruments and documents and take such further action as may be necessary to carry out the intent of this Agreement and the terms hereof.

9. Severability. If any term or other provision of this Agreement is invalid, illegal, or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner adverse to any party. Upon such determination that any term or other provision is invalid, illegal, or incapable of being enforced, the parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the extent possible.

10. GOVERNING LAW. ALL ISSUES AND QUESTIONS CONCERNING THE CONSTRUCTION, VALIDITY, ENFORCEMENT AND INTERPRETATION OF THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF COLORADO, WITHOUT GIVING EFFECT TO ANY CHOICE OF LAW OR CONFLICT OF LAW RULES OR PROVISIONS (WHETHER OF THE STATE OF COLORADO OR ANY OTHER JURISDICTION) THAT WOULD CAUSE THE APPLICATION OF THE LAWS OF ANY JURISDICTION OTHER THAN THE STATE OF COLORADO.

11. Submission to Jurisdiction. Each of the Hexagon Parties, on the one hand, and Lilis, on the other hand, submits to the jurisdiction of any state or federal court sitting in the City and County of Denver, in any action or proceeding arising out of or relating to this Agreement and agrees that all claims in respect of the action or proceeding may be heard and determined in any such court. Each of the Hexagon Parties and Lilis waives any defense of inconvenient forum to the maintenance of any action or proceeding so brought and waives any bond, surety, or other security that might be required of the other party with respect thereto.

12. Indemnification.

(a) If after receipt of the Collateral, Hexagon is for any reason compelled to surrender such Collateral to any person or entity, because transfer of such Collateral to Hexagon is determined to be void or voidable as a preference, impermissible setoff, or diversion of trust funds, or for any other reason, this Agreement will continue in full force and effect and Lilis will be liable to, and will indemnify, save and hold Hexagon, its officers, directors, attorneys, and employees harmless of and from the value of such Collateral surrendered. The provisions of this Section 12(a) will be and remain effective notwithstanding any contrary action which may have been taken by Hexagon in reliance on receipt of such Collateral, and any such contrary action so taken will be without prejudice to Hexagon's rights under this Agreement and will be deemed to have been conditioned upon transfer of such Collateral becoming final, indefeasible and irrevocable.

(b) Lilis will indemnify, defend, save and hold harmless the Hexagon Parties, and their respective present and former officers, directors, principals, managers, equity holders, attorneys, and employees, of, from and against all claims, demands, liabilities, judgments, losses, damages, costs and expenses, joint or several (including all accounting fees and attorneys' fees reasonably incurred), made by a third party against the other party or parties, or any such indemnified party, in connection with the Credit Agreements, the Promissory Notes, the Mortgages or this Agreement.

(c) In no event shall the Hexagon Parties or Lilis be liable to any other party or parties for any consequential, incidental, indirect, punitive, special or similar damages of any nature whatsoever, even if such party has been advised of the possibility of such damages occurring.

(d) The provisions of this Section 12 will survive the termination of this Agreement.

13. Waiver of Jury Trial. The parties hereto acknowledge and agree that there may be a constitutional right to a jury trial in connection with any claim, dispute or lawsuit arising between or among them, but that such right may be waived. Accordingly, the parties agree that, notwithstanding such constitutional right, in this commercial matter the parties believe and agree that it shall be in their best interests to waive such right, and, accordingly, hereby waive such right to a jury trial, and further agree that the best forum for hearing any claim, dispute, or lawsuit, if any, arising in connection with this Settlement Agreement or the relationship between the parties hereto, in each case whether now existing or hereafter arising, or whether sounding in contract or tort or otherwise, shall be a court of competent jurisdiction sitting without a jury.

14. Miscellaneous. This Agreement, including the exhibits hereto: (a) contain the entire agreement among the parties, (b) may not be amended nor may any rights hereunder or thereunder be waived except by an instrument in writing signed by the party sought to be charged with such amendment or waiver, (c) will be binding upon and will inure to the benefit of the parties and their respective personal representatives, successors and assigns, (d) may be executed in any number of counterparts and by different parties on separate counterparts, each of which will be deemed an original, but all of which, when taken together, shall be deemed to constitute one agreement, and (e) signatures delivered by facsimile, pdf or other electronic means shall constitute original signatures.

15. Confidentiality. Hexagon and Lilis agree to keep the terms of this Agreement and the Releases executed in connection herewith confidential and shall not publicly disclose such terms without the prior consent of the other party, except as disclosure may be required by applicable securities laws. Lilis further agrees, to the extent possible in compliance with applicable securities laws, to not disclose the terms of the Releases in its required filings under securities laws.

[REMAINDER OF THE PAGE IS INTENTIONALLY BLANK.]

IN WITNESS WHEREOF, the parties have caused this Settlement Agreement to be duly executed and effective as of the date first set forth above.

LILIS ENERGY, INC., a Nevada corporation

By: /s/ Abraham Mirman
Name: Abraham Mirman
Title: Chief Executive Officer

THE HEXAGON PARTIES

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

By: /s/ Scott Reiman
Name: Scott Reiman
Title: President

Labyrinth Enterprises LLC, a Colorado
limited liability company

By: /s/ Scott Reiman
Name: Scott Reiman
Title: President

The Reiman Foundation

By: /s/ Scott Reiman
Name: Scott Reiman
Title: President

/s/ Scott Reiman
Scott J. Reiman

For purposes of Section 7 only:

Grandhaven Energy, LLC, a Wisconsin
limited liability company
By: Hexagon, Inc., its Manager

By: /s/ Scott Reiman
Name: Scott Reiman
Title: President

/s/ Conway Schatz
Conway Schatz

Exhibit A

Form of Assignment, Bill of Sale and Conveyance

Exhibit B

Form of Certificate of Designations

Exhibit C

Form of Bristol Release

Exhibit D

Form of T.R. Winston Release

Exhibit 10.11

CONSULTING AGREEMENT

This Consulting Agreement (the "Agreement") is made as of this 2nd day of September 2014 by and between Bristol Capital, LLC, a Delaware limited liability company with principal offices at 1100 Glendon Avenue, Suite 850, Los Angeles, California 90024 ("Consultant") and Lilis Energy, Inc., a Nevada corporation with its principal place of business at 1900 Grant Street, Suite #720, Denver, Colorado 80203 (the "Company").

WHEREAS, Consultant has substantial expertise that may be useful to the Company, which the Company desires to obtain; and

WHEREAS, the Company desires Consultant to provide certain consulting services to the Company and Consultant is agreeable to performing such services for the Company;

NOW, THEREFORE, in consideration of the mutual covenants hereinafter stated, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. APPOINTMENT.

The Company hereby engages Consultant and Consultant agrees to render services to the Company as a consultant upon the terms and conditions hereinafter set forth.

2. TERM.

The term of this Agreement shall commence on the date of this Agreement as set forth above and shall terminate on the third year anniversary of the date of this Agreement, unless terminated or extended in accordance with a valid provision contained herein or by a subsequent agreement between the parties.

3. SERVICES.

During the term of this Agreement, Consultant shall assist the Company in general corporate activities including but not limited to strategic planning; management and business operations; introductions to further its business goals; provide advice and services related to the Company's growth initiatives; any other consulting or advisory services which the Company reasonably requests that Consultant provide to the Company. Consulting Services rendered pursuant to this Agreement shall be rendered to the President or Chief Executive Officer of the Company, or to the Board of Directors of the Company. The sole compensation for such services shall be as set forth in Section 5 hereof.

4. DUTIES OF THE COMPANY.

The Company shall provide Consultant, on a regular and timely basis, with all approved data and information about it, its subsidiaries, its management, its products and services and its operations as shall be reasonably requested by Consultant, and shall advise Consultant of any facts which would materially affect the accuracy of any data and information previously supplied pursuant to this paragraph. The Company shall promptly, at Consultant's written request, supply Consultant with full and complete copies of all financial reports, all filings with all federal and state securities agencies; with all data and information supplied by any financial analyst, and with all brochures or other sales materials relating to its products or services.

5. COMPENSATION.

Upon the execution of this Agreement, Company agrees to pay Consultant the following as consideration for the services rendered under this Agreement, which shall be deemed earned as of the date of this Agreement:

(a) The Company shall issue to Consultant or its designees (i) a warrant (the "Warrant") to purchase 1,000,000 shares of common stock of the Company (the "Warrant Shares") at a price per share of $2.00 (the "Warrant Exercise Price"), exercisable for a period of five (5) years, subject to the restrictions in Section 5(c) below, and (ii) an option (the "Option") to purchase 1,000,000 shares of common stock of the Company (the "Option Shares") at a price per share of $2.00 (the "Option Exercise Price") exercisable for a period of five (5) years, subject to termination and the restrictions set forth in Section 5(b) through (d) below. The Warrant Exercise Price and Option Exercise Price shall be adjusted upon the Company's issuance of securities to any third party providing consulting services to the Company (other than Consultant or its affiliates) at a price per share that is lower than the Warrant Exercise Price or Option Exercise Price (the "Lower Price") to equal such Lower Price.

(b) The Warrant Shares shall be included in the next registration statement to be filed by the Company (the "Registration Statement"), provided such Registration Statement is not filed on Form S-8. In consideration of Consultant's agreement to engage in various efforts on behalf of the Company, the Company hereby agrees to exercise "best efforts" to effectuate the effectiveness of the Registration Statement as soon practicable following the filing of such Registration Statement. The Option shall automatically terminate on the date that the Registration Statement is declared effective. Notwithstanding the foregoing, if the Company determines in its best judgment that it should not include the Warrant Shares in the next Registration Statement due to the request of underwriters or placement agents in connection with a Company financing, the Company may delay the inclusion of the Warrant Shares, in which case the Option shall remain in full force and effect.

(c) If the Company elects to file a registration statement on Form S-8 prior to filing the Registration Statement referred to in Section 5(c) above (the "S-8 Registration Statement"), the Company shall include the Option Shares in the S-8 Registration Statement and the Warrant shall automatically terminate on the date that such S-8 Registration Statement is declared effective.

(d) In the event that the Company fails to file any registration statement within six (6) months following the execution of this Agreement, Consultant may elect to terminate either the Warrant or the Option and retain either the Warrant or the Option, but in any case may only retain one or the other. In no event will Consultant have the right to exercise, in whole or in part, the Warrant and Option for a number of shares in excess of 1,000,000. The Company shall instruct its counsel to issue a legal opinion to Consultant providing that the Warrant Shares or Option Shares (as applicable) may be sold pursuant to Rule 144 starting on the sixth month anniversary of the date of this Agreement, or otherwise on the earliest date (which may be later than the six month anniversary date) on which the Holder and Company meet the requirements to permit the Warrant Shares or Option Shares to be sold under Rule 144 (the "144 Opinion"). The Company shall be responsible for all costs associated with obtaining and delivering the 144 Opinion.

(e) In the event that Consultant exercises its Warrant or Option following the effectiveness of either the Registration Statement referred to in Section 5(b) above or the S-8 Registration Statement referred to in Section 5(c) above (the "Exercise"), the Company shall within three (3) business days of such Exercise execute a written request to its transfer agent to issue and deliver to Consultant, or its agent, a common stock certificate for the number of freely tradable shares of the Company's common stock that Consultant is entitled to pursuant to the Exercise, which shall bear no restrictive legend.

6. BENEFICIAL OWNERSHIP OF SHARES.

Consultant's beneficial ownership of common stock of the Company shall not exceed 9.9% of the outstanding shares of the Company's common stock; as such, the Warrant or Option, as applicable, shall not be exercisable for a number of shares in excess of that which would put Consultant's beneficial ownership in excess of that threshold. For purposes of this paragraph, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended, and Regulations 13D-G thereunder. Consultant may waive the limitations set forth herein by sixty-one (61) days written notice to the Company.

7. COSTS AND EXPENSES.

Subject to the prior written approval of the Company, which approval shall not be unreasonably withheld, Consultant in providing the foregoing services shall not be responsible for any out-of-pocket costs, including, without limitation, travel, lodging, telephone, postage and Federal Express charges. Consultant shall provide the Company with a detailed accounting of monthly expenses related to the Agreement. Payment for these expenses shall be made to Consultant within 30 days after submission to the Company.

8. INDEMNIFICATION.

(a) The Company agrees to indemnify, defend, and shall hold harmless Consultant and/or any of its agents, officers, directors, employees, stockholders, representatives, affiliates, and to defend any action brought against said parties with respect to any claim, demand cause of action, debt or liability, including reasonable attorneys' fees to the extent that such action is based upon a claim that: (i) is true, (ii) would constitute a breach of any of the Company's representations, warranties, or agreements hereunder, or (iii) arises out of the negligence or willful misconduct of the Company, or any of the Company's content to be provided by the Company and does not violate any rights of third parties, including, without limitation, rights of publicity, privacy, patents, copyrights, trademarks, trade secrets, and/or licenses. The Company agrees that it will not prosecute any action or proceeding against Consultant and/or any of its agents, officers, directors, employees, stockholders, representatives, affiliates except where such claim is based solely on the gross negligence or willful misconduct of Consultant ("the Claim"), provided such Claim is made prior to the date that Consultant exercises the Warrant or Option (the "Exercise Date"). No Claim can be made after the Exercise Date.

(b) Consultant agrees to indemnify, defend, and shall hold harmless the Company, its directors, employees and agents, and defend any action brought against same with respect to any claim, demand, cause of action, or liability, including reasonable attorneys' fees, to the extent that such an action arises out of the gross negligence or willful misconduct of Consultant.

(c) Notice. In claiming indemnification hereunder, the indemnified party shall promptly provide the indemnifying party with written notice of any claim, which the indemnified party believes falls within the scope of the foregoing paragraphs. The indemnified party may, at its expense, assist in the defense if it so chooses, provided that the indemnifying party shall control such defense, and all negotiations relative to the settlement of any such claim. Any settlement intended to bind the indemnified party shall not be final without the indemnified party's written consent, which shall not be unreasonably withheld.

9. INDEPENDENT CONTRACTOR STATUS AND OTHER BUSINESS OPPORTUNITIES.

It is understood and agreed that Consultant will for all purposes hereof be deemed to be an independent contractor and will not, unless otherwise expressly authorized by the Company, have any authority to act for or represent the Company in any way, execute any transaction on behalf of the Company or otherwise be deemed an agent of the Company. No federal, state or local withholding deductions will be withheld from any amounts owed by the Company to Consultant hereunder unless otherwise required by law.

Consultant represents and warrants to the Company that its performance hereunder complies with all applicable laws, rules and regulations.

The doctrine of corporate opportunity shall not apply with respect to Consultant, and Consultant (which for purposes of this Section 9 shall include its affiliates, shareholders, directors, officers, employees and agents) may, without limitation, (i) engage in the same or similar activities or lines of business as the Company or its subsidiaries or develop or market any products or services that compete, directly or indirectly, with those of the Company and its subsidiaries, (ii) invest or own any interest publicly or privately in, or develop a business relationship with, any person engaged in the same or similar activities or lines of business as, or otherwise in competition with, the Company or its subsidiaries; (iii) do business with any current or former client or customer of the Company or its subsidiaries, or (iv) employ or otherwise engage a former officer or employee of the Company or its subsidiaries. Neither the Company nor any of its subsidiaries shall have any right by virtue of this Agreement in or to, or to be offered any opportunity to participate or invest in, any venture engaged in by Consultant or any right by virtue of this Agreement in or to any income or profits derived therefrom.

The Company acknowledges that a conflict of interests between the Company and Consultant may arise during the term of this Agreement. The Company expressly waives any and all claims against Consultant that arise out of or relate to any conflicts of interests between the Company and Consultant.

The Company acknowledges that Consultant may provide services to other consulting clients (the "Other Clients") and that Consultant may be subject to the terms of certain agreements with the Other Clients that have provisions concerning consulting, competition, confidentiality, and intellectual property.

10. CONFIDENTIALITY.

The Company agrees that it will not disclose, and will not include in any public announcement, the name of the Consultant, unless expressly agreed to by the Consultant or unless and until such disclosure is required by law or applicable regulation, and then only to the extent of such requirement.

11. MISCELLANEOUS.

(a) Termination. Subsequent to and no less than 30 days after the execution of this Agreement, this Agreement may be terminated by the Company upon written notice to the other Party for any reason. The termination shall be effective within five (5) business days from the date of such notice. Termination of this Agreement shall cause Consultant to cease providing services under this Agreement; however, termination for any reason whatsoever shall not decrease or eliminate the compensatory obligations of the Company as outlined in Section 5 of this Agreement.

(b) Modification. This Agreement sets forth the entire understanding of the Parties with respect to the subject matter hereof. This Agreement may be amended only in writing signed by both Parties.

(c) Notices. Any notice required or permitted to be given hereunder shall be in writing and shall be mailed or otherwise delivered in person or by facsimile transmission at the address of such party set forth above or to such other address or facsimile telephone number as the party shall have furnished in writing to the other party.

(d) Waiver. Any waiver by either party of a breach of any provision of this Agreement shall not operate as or be construed to be a waiver of any other breach of that provision or of any breach of any other provision of this Consulting Agreement. The failure of a party to insist upon strict adherence to any term of this Agreement on one or more occasions will not be considered a waiver or deprive that party of the right thereafter to insist upon adherence to that term of any other term of this Agreement.

(e) Assignment. The Option Shares granted under this Agreement are assignable at the sole discretion of the Consultant.

(f) Severability. If any provision of this Agreement is invalid, illegal, or unenforceable, the balance of this Agreement shall remain in effect, and if any provision is inapplicable to any person or circumstance, it shall nevertheless remain applicable to all other persons and circumstances.

(g) Disagreements. Any dispute, disagreement, conflict of interpretation or claim arising out of or relating to this Agreement, or its enforcement, shall be governed by the laws of the State of California. The Consultant and the Company hereby irrevocably and unconditionally submit themselves and their property to the nonexclusive jurisdiction of federal and state courts of the State of California and any appellate court thereof, in any action or proceeding arising out of or relating to this Agreement, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agree that all claims in respect of any such action or proceeding may be heard and determined in California, or, to the extent permitted by law, in such federal court. Each of the parties hereto agree that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Each of the parties hereto irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in any court referred to above. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court. Each party to this Agreement irrevocably consents to service of process in the manner provided for notices above. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law. Each party hereto hereby waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in any legal proceeding directly or indirectly arising out of or relating to this agreement or the transactions contemplated hereby (whether based on contract, tort or any other theory). If either party shall commence an action or proceeding to enforce any provisions of this Agreement, then the prevailing party in such action or proceeding shall be reimbursed by the other party for its reasonable attorneys' fees and other costs and expenses including but not limited to court costs incurred with the investigation, preparation and prosecution of such action or proceeding.

(h) Each party may sign identical counterparts of this Agreement with the same effect as if both parties signed the same document. A copy of this Agreement signed by one party and delivered by facsimile or electronic transmission to the other party shall have the same effect as the delivery of an original of this Agreement containing the original signature of such party.

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, this Agreement has been executed by the Parties as of the date first above written.

LILIS ENERGY, INC.

/s/ Abraham Mirman

Name: Abraham Mirman
Title: Chief Executive Officer

BRISTOL CAPITAL, LLC

/s/ Paul Kessler

Name: Paul Kessler
Title: Manager

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Abraham Mirman, certify that:

1. I have reviewed this report on Form 10-Q of Lilis Energy, Inc. ("Registrant");
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 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 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 Registrant's board of directors (or persons performing the equivalent functions):
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

/s/ Abraham Mirman
Abraham Mirman
Chief Executive Officer

November 25, 2014

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Eric Ulwelling, certify that:

1. I have reviewed this report on Form 10-Q of Lilis Energy, Inc. ("Registrant");
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 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 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 Registrant's board of directors (or persons performing the equivalent functions):
   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

/s/ Eric Ulwelling
Eric Ulwelling
Chief Financial Officer

November 25, 2014

Exhibit 32.1

RTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Lilis Energy, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Abraham Mirman
Abraham Mirman
Chief Executive Officer

November 25, 2014

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Lilis Energy, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Eric Ulwelling
Eric Ulwelling
Chief Financial Officer

November 25, 2014