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 March 31, 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 June 16, 2014, 27,728,827 shares of the registrant's common stock were issued and outstanding.

Lilis Energy, Inc.

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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; 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;*
- *potential default of our settlement agreement with our term loan instruments;*
- *failure to fund our authorization for expenditures from other operators for key projects which will reduce our interest in the wells*
- *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 negatively affecting 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)

	March 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash	$ 2,856,033	$ 165,365
Restricted cash	507,260	504,623
Accounts receivable (net of allowance of $50,000 at March 31, 2014 and December 31, 2013, respectively)	375,030	467,337
Prepaid assets	179,477	195,716
Commodity price derivative receivable	-	6,679
Total current assets	3,917,800	1,339,720
Oil and gas properties (full cost method), at cost:		
Evaluated properties	68,265,711	68,213,467
Unevaluated acreage, excluded from amortization	18,957,997	18,663,569
Wells in progress, excluded from amortization	6,366,010	1,145,794
Total oil and gas properties, at cost	93,589,718	88,022,830
Less accumulated depreciation, depletion, amortization, and impairment	(45,818,716)	(45,457,637)
Total oil and gas properties, net	47,771,002	42,565,193
Other assets:		
Office equipment, net	85,171	91,161
Deferred financing costs, net	100,243	294,699
Restricted cash and deposits	215,541	215,541
Total other assets	400,955	601,401
Total assets	$ 52,089,757	$ 44,506,314

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

LILIS ENERGY, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	March 31, 2014	December 31, 2013
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 6,728,678	$ 1,932,618
Accrued expenses	1,376,829	1,439,956
Short term loans payable	10,482,840	10,662,904
Convertible notes payable, net of discount	6,396,648	-
Total current liabilities	24,984,995	14,035,478
Long term liabilities:		
Asset retirement obligation	1,125,750	1,104,952
Term loans payable	8,083,623	8,111,436
Convertible notes payable, net of discount	-	14,586,618
Convertible notes conversion derivative liability	-	1,150,000
Total long-term liabilities	9,209,373	24,953,006
Total liabilities	34,194,368	38,988,484
Commitments and contingencies – Notes 2, 8, 9,11, and 12		
Shareholders' equity:		
Preferred stock, 10,000,000 authorized, none issued and outstanding	-	-
Common stock, $0.0001 par value:100,000,000 shares authorized; 27,551,467 and 19,671,901 shares issued and outstanding as of March 31, 2014 and December 31, 2013, respectively	2,756	1,967
Additional paid in capital	143,878,985	121,451,232
Accumulated deficit	(125,986,352)	(115,935,369)
Total shareholders' equity	17,895,389	5,517,830
Total liabilities and shareholders' equity	$ 52,089,757	$ 44,506,314

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

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

	Three months ended March 31,	
	2014	**2013**
Revenues:		
Oil sales	$ 700,087	$ 1,127,333
Gas sales	87,667	106,397
Operating fees	34,727	48,503
Realized gain on commodity price derivatives	11,143	19,890
Total revenues	833,624	1,302,123
Costs and expenses:		
Production costs	416,323	303,847
Production taxes	93,680	115,994
General and administrative	2,958,416	984,259
Depreciation, depletion and amortization	388,635	689,654
Total costs and expenses	3,857,054	2,093,754
Loss from operations	(3,023,429)	(791,631)
Other Income (expenses):		
Other income	53	251
Inducement expense	(6,661,275)	-
Convertible notes conversion derivative gain (loss)	1,150,000	(20,000)
Interest expense	(1,516,331)	(1,636,159)
Total other expenses	(7,027,553)	(1,655,908)
Net loss	$ (10,050,982)	$ (2,447,539)
Net loss per common share (basic and diluted)	$ (0.40)	$ (0.13)
Weighted average shares outstanding (basic and diluted)	25,087,037	18,438,905

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

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

	Three months ended March 31,	
	2014	**2013**
Cash flows from operating activities:		
Net loss	$ (10,050,983)	$ (2,447,539)
Adjustments to reconcile net loss to net cash used in operating activities:		
Debt 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	444,787	250,846
Amortization of deferred financing costs	194,456	177,246
Change in fair value of convertible notes conversion derivative	(1,150,000)	20,000
Accretion of debt discount	661,900	563,571
Depreciation, depletion, amortization and accretion of asset retirement obligation	388,635	689,654
Changes in operating assets and liabilities:		
Accounts receivable	92,307	307,841
Restricted cash	(2,637)	(88,054)
Other assets	431,809	(66,831)
Accounts payable and other accrued expenses	(458,581)	(580,466)
Net cash provided by (cash used) operating activities	(1,952,630)	(903,700)
Cash flows from investing activities:		
Acquisition of undeveloped acreage	(305,000)	(7,061)
Drilling capital expenditures	(14,494)	(21,462)
Sale of oil and gas properties	-	640,000
Additions to oil and gas properties	(49,201)	-
Additions to office equipment	(768)	(23,276)
Investments in operating bonds	-	(105)
Net cash provided by (cash used) in investing activities	(369,463)	588,096
Cash flows from financing activities:		
Proceeds from issuance of common stock	5,327,687	-
Repayment of debt	(314,926)	(177,375)
Net cash provided by (cash used) financing activities	5,012,761	(177,375)
Change in cash and cash equivalents	2,690,668	(492,979)
Cash and cash equivalents at beginning of period	165,365	970,035
Cash and cash equivalents at end of period	$ 2,856,033	$ 477,056
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 long-term debt	$ 8,744,836	$ -

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

LILIS ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2013
(UNAUDITED)

NOTE 1 – ORGANIZATION

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

The Company is an independent oil and gas exploration and production company focused on the Denver-Julesburg Basin ("DJ Basin") where it holds 107,000 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 March 31, 2014, the Company had $18.57 million outstanding under its term loans with Hexagon, LLC ("Hexagon") and $6.40 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. Subsequent to March 31, 2014, as discussed below, the maturity date under the Debentures was extended to January 15, 2015 and the maturity dates under each of the term loans was extended to August 15, 2014.

Since March 31, 2014, the Company has consummated the following transactions: (i) on May 19, 2014, the Company received extensions from both Hexagon and the remaining Debenture holders of the maturity dates under the Company's term loans and outstanding Convertible Debentures, respectively, from May 16, 2014 to August 15, 2014; (ii) on May 30, 2014, the Company and Hexagon entered into an agreement providing for the settlement of all amounts outstanding under the term loans, in exchange for two cash payments of $5.0 million each to be made by the Company to Hexagon which are due May 30, 2014 and June 30, 2014, as well as the issuance to Hexagon of a two-year $6.0 million unsecured 8% note and 943,208 shares of unregistered Common Stock. As of June 1, 2014, the Company paid the first $5.00 million to Hexagon; (iii) on May 30, 2014 the Company consummated a private placement to accredited investors of 8% Convertible Preferred Stock and three-year warrants to purchase Common Stock equal to 50% of the number of shares issuable upon full conversion of the Preferred Stock for gross proceeds of $7.50 million; (iv) on June 6, 2014, the holders of the remaining Debentures agreed to further extend the maturity date under the Debentures from August 15, 2014 to January 15, 2015; and (v) on June 6, 2014, TR Winston executed a commitment to purchase or effect the purchase by third parties of an additional $15 million in Preferred Stock, which transaction is to be consummated within ninety (90) days. The consummation of these transactions has been partially reflected in the Company's balance sheet via the classification of certain portions of the Hexagon term loans and Debentures as long-term debt. (See Note 12 -Subsequent Events.)

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

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.

Reclassification

Certain amounts in the 2013 consolidated financial statements have been reclassified to conform to the March 31, 2014 consolidated financial statement presentation. Such reclassifications had no effect on net loss.

Use of Estimates

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

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

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash consists of severance and ad valorem tax proceeds which are payable to various tax authorities. As of March 31, 2014 and December 31, 2013, the restricted cash balance was $0.51 million and $0.50 million, respectively.

Accounts Receivable

The Company records actual and estimated oil and gas revenue receivable from third parties at its net revenue interest. The Company also reflects costs incurred on behalf of joint interest partners in accounts receivable. Management periodically reviews accounts receivable amounts for collectability and records an allowance for uncollectible receivables under the specific identification method. The Company recorded allowances for uncollectible receivables of $50,000 at March 31, 2014 and December 31, 2013. Allowances for doubtful accounts are based primarily on joint interest billings for expenses related to oil and natural gas wells. Receivables derived from sales of certain oil and gas production are collateral for our term loans and debentures. (See Note 7-Fair Value of Financial Instruments.)

During the three months ended March 31, 2014 and year ended December 31, 2013, the Company did not write off any accounts receivable.

Oil and Gas Properties

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

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

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

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

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

The Company did not recognize impairment charges for the three months ended March 31, 2014 or 2013.

Wells in Progress

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

As of March 31, 2014, the Company has $6.37 million in wells in progress compared to $1.15 million in wells in progress as of December 31, 2013. (See Note 5 – Wells in Progress.)

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 March 31, 2014, a total of 14,950,264 and 3,198,324 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

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

NOTE 4 – OIL AND GAS PROPERTIES

In January 2014, the Company secured an additional interest in their properties within Weld County, Colorado for $0.3 million. These properties are located in the Northern Wattenberg.

NOTE 5 – WELLS IN PROGRESS

As of March 31, 2014, the Company has $6.37 million in wells in progress compared to $1.15 million as of December 31, 2013. The Company incurred wells-in-progress within their properties in Weld County, CO within the Northern and Southern Wattenberg Field areas. As of March 31, 2014, one of the four wells is performing completion techniques and was in production as of April 2014. The remaining three wells in wells-in –progress started completion techniques in May 2014.

NOTE 6 - DERIVATIVES

The Company periodically enters into various commodity derivative financial instruments intended to hedge against exposure to market fluctuations of oil prices. The Company maintained a commodity swap during the first month of 2014, but as of March 31, 2014, the Company did not maintain any active commodity swaps.

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

	For the three months Ended March 31,	
	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. Swaps which are unsettled as of a balance sheet date are carried at fair market value, either as an asset or liability. Unrealized gains and losses result from mark-to-market changes in the fair value of these derivatives between balance sheet dates. (See Note 7 - Fair Value of Financial Instruments.)

NOTE 7 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

- Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Other inputs that are directly or indirectly observable in the 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, 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.

January 2014 Private Placement

In January 2014, the Company entered into and closed a series of subscription agreements with accredited investors, pursuant to which the Company issued an aggregate of 2,959,125 units, with each unit consisting of (i) one share of the Company's common stock, par value $0.0001 (the "Common Stock") and (ii) one three-year warrant to purchase one share of Common Stock, at an exercise price equal to $2.50 per share (together, the "Units"), for a purchase price of $2.00 per Unit, for aggregate gross proceeds of $5,918,250 (the "January Private Placement"). The Company's officers and directors have agreed to purchase an additional $1,425,000 of Units subject to receipt of shareholder approval as required by NASDAQ's continued listing requirements. The warrants are not exercisable for six months following the closing of the January Private Placement and must be registered before exercising. The Company valued the warrants within the unit, utilizing a Black Scholes Model using a volatility calculation of 65%, and 3 year term, which resulted in an increase in paid in capital of $1.69 million for the period ended March 31, 2014.

Executive Compensation

In September, 2013, we announced the appointment of Abraham ("Avi") Mirman as our new president. In connection with Mr. Mirman's appointment, the Company entered an employment agreement with Mr. Mirman (the "Mirman Agreement"). The Mirman Agreement provides for an incentive bonus package that, depending upon the relative performance of the Company's common stock compared to the performance of stocks of certain peer group companies as measured from Mr. Mirman's initial date of employment through December 31, 2014, may result in a cash bonus payment to Mr. Mirman of up to 3.0 times his base salary. The incentive bonus is recorded as a liability and will be valued every quarter. The Company engaged a third party to complete a valuation of this conversion liability. As of March 31, 2014, the Company recorded an additional expense of $0.05 million, for the three months ended, which resulted in a total liability of $0.20 million. (See Note 11-Share Based and Other Compensation.)

Derivative Instruments

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

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

In evaluating counterparty credit risk, the Company assessed the possibility of whether the counterparty to the derivative would default by failing to make any contractually required payments. The Company considered that the counterparty is of substantial credit quality and has the financial resources and willingness to meet its potential repayment obligations associated with the derivative transactions. As of March 31, 2014, the Company did not have any derivative instruments. (See Note 6-Derivitives.)

Asset Retirement Obligation

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

Convertible Debentures Conversion Derivative Liability

In February 2011, the Company issued in a private placement $8.40 million aggregate principal amount of three year 8% Senior Secured Convertible Debentures ("Debentures") with a group of accredited investors. During the year ended December 31, 2012, the Company issued an additional $5.00 million of Debentures, resulting in a total of $13.40 million of Debentures outstanding as of December 31, 2012. Through December 31, 2013, the Company issued an additional $2.20 million of supplemental convertible debentures. As of December 31, 2013 the Company had a total debenture amount of $15.58 million. On January 31, 2014, the "Company entered into a Debenture Conversion Agreement (the "Agreement") between the Company and all of the holders of the Debentures. Pursuant to the terms of the Agreement, $9 million converted at a price of $2.00 per share of the Company's 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 (the "Warrants"), equal to the number of Common Stock issued pursuant to the Debenture holder's conversion elections. As of March 31, 2014, the remaining Debentures are convertible at any time at the holders' option into shares of our 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.

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

March 31, 2014:

	Level 1	Level 2	Level 3	Total
Liability				
Executive employment agreement compensation	$ -	$ -	$ (200)	$ (200)
Total liability, at fair value	$ -	$ -	$ (200)	$ (200)

December 31, 2013:

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

The following table provides a summary of changes in fair value of the Company's Level 3 financial assets and liabilities as of March 31, 2014 (in thousands):

Beginning balance, December 31, 2013	$ (1,295)
Executive compensation liability	(55)
Convertible debentures conversion derivative gain	1,150
Ending balance, March 31, 2014	$ (200)

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 months ended March 31, 2014 or 2013.

NOTE 8 – LOAN AGREEMENTS

Term Loans

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

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

On May 19, 2014, the Company received an extension from Hexagon of the maturity date under its term loans, from May 16, 2014 to August 15, 2014.

On May 30, 2014, the Company entered into a Settlement Agreement (the "Settlement Agreement") with Hexagon, which provides for the settlement of all amounts outstanding under the Term Loans. In connection with the execution of the Settlement Agreement, the Company made initial cash payment of $5.0 million. The Settlement Agreement requires the Company to make an additional cash payment of $5.0 million (the "Second Cash Payment") by June 30, 2014, and at that time issue to Hexagon (i) a two-year $6.0 million unsecured note (the "Replacement Note"), bearing interest at an annual rate of 8%, requiring principal and interest payments of $90,000 per month, and (ii) 943,208 shares of unregistered common stock (the "Shares"). The parties have also agreed that if the Second Cash Payment is not made by June 30, 2014, an additional $1.0 million in principal will be added to the Replacement Note, and if the Replacement Note is not retired by December 31, 2014, the Company will issue an additional 1.0 million shares of its common stock to Hexagon. Finally, Hexagon will not, until the earlier of June 30, 2014 or the date the Company achieves sustained average trading volume in excess of 100,000 shares per day for at least ten consecutive trading days, sell or otherwise transfer for value any shares of the Company's common stock or any securities convertible into the Company's common stock, and thereafter until December 31, 2014, Hexagon will not sell or otherwise transfer for value more than 10,000 shares per week of the Company's common stock or any securities convertible into the Company's common stock. Under the Settlement Agreement, Hexagon will release its security interest under the Term Loans once the Company has delivered the Second Cash Payment, the Replacement Note and the Shares. (See Note 12- Subsequent Events.)

The Company is subject to certain non-financial covenants with respect to the Hexagon loan agreements. As March 31, 2014, the Company was in compliance with all covenants under the facilities.

As of March 31, 2014, the total amount outstanding on the three loan agreements was $18.57 million.

As a result of the Hexagon Settlement Agreement, the term notes are being carried on the balance sheet as of March 31, 2014 as follows (in thousands):

	As of March 31, 2014
Total Term Notes	$ 18,565
Short term notes payable	(10,482)
Long term notes payable	$ 8,083

Annual debt maturities as of March 31, 2014 (in thousands):

Year 1	$ 16,879
Year 2	8,083
Thereafter	-
Total	$ 24,962

Convertible Debentures Payable

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

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

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

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

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

On September 8, 2012, the Company issued 50,000 shares, valued at $0.23 million, to TR Winston for acting as a placement agent of the Supplemental Debentures. The Company is amortizing the $0.23 million over the life of the loan as deferred financing costs. The Company amortized $0.03 million and $0.03 million of deferred financing costs into interest expense during the three months ended March 31, 2014 and 2013, and has $0.02 million of deferred financing costs to be amortized through May 2014.

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

In April 2013, we received approval from our existing secured debt and convertible debenture holders to issue up to $5.00 million of additional convertible debentures with terms substantially identical to our existing convertible debentures. As of November 8, 2013 we have issued $2.20 million of such convertible debt, inclusive of $2.21 million that had been issued as of December 31, 2013. Two officers of the Company participated in the additional convertible debentures for a combined total of $0.43 million. Proceeds from the issuance of this convertible debt have been used toward the development of certain specific properties, and to a lesser extent, general corporate purposes. The recent commitments were subject to certain yield enhancements, including a 25% carried interest in certain properties scheduled to be developed with the proceeds. During the year ended December 31, 2013, the Company paid TR Winston $0.04 million as acting placement agent for the additional $2.20 million of supplemental debentures. The Company amortized $.02 million for the three months ended March 31, 2014, and has $0.01 million of deferred financing costs to be amortized through May 2014.

We periodically engage a third party valuation firm to complete a valuation of the conversion feature associated with the Debentures, and with respect to March 31, 2014, the Supplemental Debentures. This valuation resulted in an estimated derivative liability as of March 31, 20134 and December 31, 2013 of $0 million and $1.15 million, respectively. (See Note 7-Fair Value of Financial Instruments.)

During the three months ended March 31, 2014 and 2013, the Company amortized $0.66 million and $0.56 million, respectively, of debt discounts.

On January 31, 2014, the Company entered into a Debenture Conversion Agreement (the "Conversion Agreement") with all of the holders of the Debentures. Under the terms of the Conversion Agreement, $9.0 million of the approximately $15.6 million in Debentures outstanding as of January 30, 2014 immediately converted to common stock at a price of $2.00 per common share. As additional inducement for the conversions, the Company issued warrants to the converting Debenture holders to purchase one share of Common Stock, at an exercise price equal to $2.50 per share (the "Warrants"), for each share of Common Stock issued upon conversion of the Debentures. Utilizing a Lattice model, with a 3 year life and 65% volatility, the Company recorded an inducement expense of $6.61 million, for the three months ended March 31, 2014, for the warrants issued to induce the convertible debentures to convert their debt to common stock and a warrant. T.R. Winston acted as the investment banker for the Conversion agreement and was compensation 8% of the $9.0 million which was payable in common stock and valued at a market rate of $3.05 per share. During the three months ended March 31, 2104, the Company valued the compensation at $0.69 million.

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

On May 19, 2014, the holders of the Debentures agreed to extend the maturity date of the Debentures until August 15, 2014, and waived their right to declare an event of default in connection with the May 16, 2014 maturity date under the Debentures. On June 6, 2014, the holders of the remaining Debentures agreed to further extend the maturity date under the Debentures from August 15, 2014 to January 15, 2015. (See Note 12-Subsequent Events.)

As of March 31, 2014 and December 31, 2013, the convertible debt is recorded as follows (in thousands):

	As of March 31, 2014	As of December 31, 2013
Convertible debentures	$ 6,728	$ 15,580
Debt discount	(332)	(993)
Total convertible debentures, net	$ 6,396	$ 14,587

Because they mature on January 15, 2015, the Debentures are being carried on the balance sheet as of March 31, 2014 as a current liability.

Interest Expense

For the three months ended March 31, 2014 and 2013, the Company incurred interest expense of approximately $1.52 million and $1.64 million, respectively, of which approximately $1.05 million and $1.00 million, respectively, were non-cash interest expense and amortization of the deferred financing costs, accretion of the convertible debentures payable discount, and convertible debentures interest paid in common stock.

NOTE 9 - COMMITMENTS and CONTINGENCIES

Environmental and Governmental Regulation

At March 31, 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 March 31, 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 have been stayed. At this stage, we cannot express an opinion as to the probable outcome of this matter.

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

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

NOTE 10 - SHAREHOLDERS' EQUITY

Common Stock

As December 31, 2013, the Company had 100,000,000 shares of common stock and 10,000,000 shares of preferred stock authorized, of which 27,551,467 shares of common stock were issued and outstanding. No preferred shares were issued or outstanding.

During the three months ended March 31, 2014, the Company issued 7,863,166 shares of common stock, including 4,500,000 common stock shares to 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, and 129,150 shares of common stock as restricted stock grants to employees, board members, or consultants. (See Note 11- Share Based and Other Compensation.)

Investment Banking Agreement

During the year ended December 31, 2013, the Company was party to a one-year, non-exclusive investment banking agreement with TR Winston, pursuant to which the Company issued to TR Winston 100,000 common shares, and 900,000 common stock purchase warrants. All warrants have a term of three years and a strike price of $4.25 per share. The investment banking agreement also provided for additional commissions and compensation in the event that TR Winston arranged a successful equity or debt financing during the term of the agreement. The 900,000 warrants were valued at $0.26 million and the 100,000 common shares were valued at $0.16 million. Both equity instruments are classified as prepaid assets and amortized over the life of the agreement. During the three months ended March 31, 2014, $0.11 million was included in general and administrative expense as amortization of the value of these grants.

January 2014 Private Placement

In January 2014, the Company entered into and closed a series of subscription agreements with accredited investors, pursuant to which the Company issued an aggregate of 2,959,125 units, with each unit consisting of (i) one share of the Company's common stock, par value $0.0001 (the "Common Stock") and (ii) one three-year warrant to purchase one share of Common Stock, at an exercise price equal to $2.50 per share (together, the "Units"), for a purchase price of $2.00 per Unit, for aggregate gross proceeds of $5,918,250 (the "January Private Placement"). The Company's officers and directors have agreed to purchase an additional $1,425,000 of Units subject to receipt of shareholder approval as required by NASDAQ's continued listing requirements. The warrants are not exercisable for six months following the closing of the January Private Placement. Since the warrants are unregistered, they are being carried as a liability. As of March 31, 2014, the Company calculated the value of the warrants within the January Private Placement as $1.69 million, once the shares become registered; the value will be transferred to pay in capital. T.R Winston and John Carris Investments acted as the placement agents and was compensated 8% for the completion of the private placement. Their fees were paid in 288,840 warrants with an assumed strike price of $2.16 per share, volatility of 65%, which resulted in a value of $0.24 million. The fees were an offset against paid in capital.

Convertible Debenture Interest

During the three months ended March 31, 2014, the Company issued 74,064 shares for payment of yearly interest expense on the convertible debentures valued at $0.15 million.

Debenture Conversion Agreement

On January 31, 2014, the Company entered into a Debenture Conversion Agreement (the "Conversion Agreement") with all of the holders of the Debentures. Under the terms of the Conversion Agreement, $9.0 million of the approximately $15.6 million in Debentures outstanding as of January 30, 2014 immediately converted to common stock at a price of $2.00 per common share. As additional inducement for the conversions, the Company issued warrants to the converting Debenture holders to purchase one share of Common Stock, at an exercise price equal to $2.50 per share (the "Warrants"), for each share of Common Stock issued upon conversion of the Debentures. Utilizing a Lattice model, with a 3 year life and 65% volatility, the Company recorded an inducement expense of $6.61 million, for the three months ended March 31, 2014, for the warrants issued to induce the convertible debentures to convert their debt to common stock and a warrant. T.R. Winston acted as the investment banker for the Conversion agreement and was compensation 8% of the $9.0 million which was payable in common stock and valued at a market rate of $3.05 per share. During the three months ended March 31, 2104, the Company valued the compensation at $0.69 million.

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

Warrants

A summary of warrant activity for the three months ended March 31, 2014 is presented below:

	Warrants	Weighted-Average Exercise Price
Outstanding at December 31, 2013	6,773,913	$ 5.24
Granted-January private placement	3,012,500	2.5
Granted-debenture conversion agreement	4,500,011	2.5
Granted-other	663,840	2.88
Exercised, forfeited, or expired	-	-
Outstanding at March 31, 2014	14,950,264	$ 3.76

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 stock which vest on a monthly basis until December 31, 2014. During the three months ended March 31, 2014, the Company recognized a total expense of $0.46 million for the consulting agreement.

The aggregate intrinsic value associated with outstanding warrants as of March 31, 2014 and 2013 was $56.18 million and $40.12 million, respectively , as the strike price of all warrants exceeded the market price for common stock, based on the Company's closing common stock price of $3.76 and $1.73, respectively. The weighted average remaining contract life as of March 31, 2014 was 1.31 years, and 2.31 years as of December 31, 2013.

NOTE 11 - SHARE BASED AND OTHER COMPENSATION

Share-Based Compensation

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

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

During the three months ended March 31, 2014, the Company granted 129,150 shares of restricted common stock to employees, directors and consultants.

The Company recognized a stock compensation expense of approximately $0.08 million and a credit of $0.01 million for cancelled shares, respectively, for the three months ended March 31, 2014.

Stock Options

A summary of stock options activity for three months ended March 31, 2014 is presented below:

	Stock Options
Outstanding at December 31, 2013	3,800,000
Granted	-
Exercised, forfeited, or expired	-
Outstanding at March 31, 2014	3,800,000

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

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

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

Mr. Mirman was also granted options to purchase up to 2,000,000 shares of the Company's common stock, 666,667 of which become exercisable if the Company has a reported share price of $7.50 per share for at least 20 Trading Days during the Term of the Agreement and the average daily production of hydrocarbons of the Company equals or exceeds 2,500 barrels of oil equivalent per day (as determined in accordance with the SEC guideline under which six (6) Mcf of natural gas equals one (1) Bbl of oil) during any three calendar month period, and 666,667 and 666,666 of which become exercisable upon the same daily production condition and reported share prices of $10.00 per share and $12.50 per share, respectively.

The Company received independent valuations of the i) option to purchase 600,000 shares of common stock; ii) the incentive bonus; and iii) the options to purchase 2,000,000 shares. The option to purchase 600,000 shares was valued at $0.61 million and is being amortized over the life of the Mirman Agreement, which expires on December 31, 2014. During the three months ended March 31, 2014, the Company recorded an additional expense for the incentive bonus of $0.05 million for a total valued of $0.20 million, and is recorded as a liability. This liability will be revalued at each balance sheet date. The options to purchase 2,000,000 shares were valued at $0.05 million and are being amortized over the life of the Mirman Agreement.

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

In connection with execution of an amended independent agreement, each director also agreed to receive 31,250 shares of restricted common stock in lieu of a portion of their cash salaries, to vest on April 15, 2014.

A summary of restricted stock grant activity for the period ended March 31, 2014 is presented below:

	Shares
Balance outstanding at December 31, 2013	2,024,375
Granted	112,750
Vested	(55,209)
Expired/ cancelled	(12,084)
Balance outstanding at March 31, 2014	2,069,832

As of March 31, 2014, total unrecognized compensation cost related to unvested stock grants was approximately $0.21 million as of March 31, 2014. The cost at March 31, 2014 is expected to be recognized over a weighted-average remaining service period of 3 years.

Separation Agreement

In April 2014, the Company entered into a separation agreement with the W. Phillip Marcum, the Chief Executive Officer until April 16, 2014. The company provided Mr. Marcum with one year of severance compensation, to be paid through normal payroll practices. Furthermore, he received the immediate vesting of 200,000 options to purchase stock and the conversion of the remaining amount of the 2013 compensation into $0.15 million cash from 93,780 shares of stock. (See Note 12-Subsequent Events.)

Employment Agreement

In April 2014, in connection with the appointment of Robert A. (Bob) Bell as our new President and Chief Operating Officer, the Company entered an employment agreement with Mr. Bell, which provides for the issuance of 100,000 shares of common stock, of which 1/3 vest immediately and the balance over three years, subject to certain conditions. In addition, Mr. Bell will receive an equity incentive bonus consisting of a non-statutory stock option to purchase up to 1,500,000 shares of common stock subject to Mr. Bell's continued employment and the Company's achievement of certain pre-defined production thresholds. (See Note 12-Subsequent Events.)

Other Compensation

We sponsor a 401(k) savings plan. All regular full-time employees are eligible to participate. We make contributions to match employee contributions up to 5% of compensation deferred into the plan. The Company made cash contributions of $0.01 million for the three months ended March 31, 2014

NOTE 12- SUBSEQUENT EVENTS

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

Separation Agreement

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

Hexagon Settlement

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

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

Debentures Extension

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

May Private Placement

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

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

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

Financial Condition and Liquidity

As of March 31, 2014, the Company had $18.57 million outstanding under its term loans with Hexagon, LLC ("Hexagon") and $6.73 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 the first three months of 2014, the Company consummated the following transactions: (i) on January 22, 2014, the Company closed a $7.50 million private placement of units consisting of one share of Common Stock and one three-year warrant to purchase one share of Common Stock for aggregate gross proceeds of $5,918,250, plus an additional $1,425,000 in proceeds committed by certain officers and directors of the Company, which we expect to be funded upon our receipt of the required shareholder approval; (ii) on January 31, 2014, the Company entered into a Debenture Conversion Agreement, under which $9.0 million in Debentures was immediately converted to Common Stock at a price of $2.00 per common share. In addition, (i) on May 19, 2014, the Company received extensions from both Hexagon and the remaining Debenture holders of the maturity dates under the Company's term loans and Debentures, respectively, from May 16, 2014 to August 15, 2014; (ii) on May 30, 2014, the Company and Hexagon entered into an agreement providing for the settlement of all amounts outstanding under the term loans, in exchange for two cash payments of $5.0 million each to be made by the Company to Hexagon on May 30,2014 and June 30, 2014; as well as the issuance to Hexagon of a two-year $6.0 million unsecured 8% note and 943,208 shares of unregistered Common Stock; (iii) on May 30, 2014 the Company consummated a private placement to accredited investors of 8% Convertible Preferred Stock and three-year warrants to purchase Common Stock equal to 50% of the number of shares issuable upon full conversion of the Preferred Stock for gross proceeds of $7.50 million; (iv) on June 6, 2014, the holders of the remaining Debentures agreed to further extend the maturity date under the Debentures from August 15, 2014 to January 15, 2015; and (v) on June 6, 2014, TR Winston executed a commitment to purchase or effect the purchase by third parties of an additional $15 million in Preferred Stock, which transaction is to be consummated within ninety (90) days. The consummation of these transactions has been partially reflected in the Company's balance sheet via the classification of certain portions of the Hexagon term loans and Debentures as long-term debt.

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

Cash Flows

Cash used in operating activities during the three months ended March 31, 2014 was $1.95 million. Cash used in operating activities offset by the cash used in investing activities and cash used in financing activities by $2.69 million, and resulted in a corresponding increase in cash.

The following table compares cash flow items during the three months ended March 31, 2014 and 2013 (in thousands):

	Three months ended March 31,	
	2014	**2013**
Cash provided by (used in):		
Operating activities	$ (1,952)	$ (904)
Investing activities	(369)	588
Financing activities	5,012	(177)
Net change in cash	$ 2,691	$ (493)

During the three months ended March 31, 2014, net used in operating activities was $1.95 million, compared to cash used in operating activities of $0.90 million during the three months ended March 31, 2014, an increase of cash used in operating activities of $1.05 million. The primary changes in operating cash during the three months ended March 31, 2014 were $10.05 million of net loss, $0.43 million increase in cash for other assets, increase in cash for accounts payable and other accrued expenses of $4.74 million, and an increase of cash of $0.09 million for accounts receivable, and offset by a decrease of $0.01 million for restricted cash. The cash flows from operating activities were adjusted for non-cash charges of $0.39 million of depreciation, depletion, amortization and accretion expenses, $ 0.66 million of debt discount accretion, $0.19 million of amortization of deferred financing costs, common stock issued for financing costs for both the private placement of issuance of common stock and convertible debentures of $0.69 million, common stock issued for interest of $0.15 million, $6.61 million issuance of a warrant to purchase common stock recorded as a debt inducement for the conversion of convertible debentures, $0.44 million for issuance of stock for services and compensation, and offset by a decrease in cash for non-cash change in fair value of convertible debentures conversion option of $1.15 million. Operating cash was increased by $0.09 million of cash provided by a decrease in accounts receivable, cash provided by other assets of $0.43 million, which was offset by cash used in restricted cash and accounts payable and other accrued expenses of $0.01 million and $0.46 million, respectively.

During the three month ended March 31, 2014, net cash used in investing activities was $0.37 million, compared to net cash provided by investing activity of $0.59 million during the three months ended March 31, 2013, a decrease of cash used in investing activities of $0.22 million. The primary changes in investing cash during the three months ended March 31, 2014 were a decrease in cash of $0.32 million of drilling expenditures, $0.05 million in expenditures related to additions to oil and gas properties, and $0.01 million in expenditures related to office equipment.

During the three months ended March 31, 2014, net cash provided by financing activities was $5.01 million, compared to net cash used in financing activities of $0.18 million during the three months ended March 31, 2013, an increase of $5.19 million. The changes in financing cash during the three months ended March 31, 2014 were primarily due to proceeds from the January 2014 Private Placement of $7.5 million which was offset by $1.43 million from participating management and directors which are subject to receipt of shareholder approval as required by NASDAQ's continued listing requirements. The $7.5 million was further reduced by fees associated with financing paid which resulted in proceeds of $5.33 million from the January 2014 Private Placement. The proceeds from the January 2014 Private Placement were partially offset by net repayments of debt of $0.31 million.

Capital Resources

The Company will require additional capital to fund its current capital obligations, capital budget plans, to help fund its ongoing G&A and to provide additional capital to generally improve its working capital position. We anticipate that such additional funding will be provided by a combination of capital raising activities, including the selling of additional debt and/or equity securities, the selling of certain un-evaluated and evaluated properties and by the development of certain undeveloped properties via arrangements with joint venture partners. If we are not successful in obtaining sufficient cash resources to fund the aforementioned capital requirements, we may be required to curtail our expenditures, restructure our operations, sell assets on terms which may not be deemed favorable and/or curtail other aspects of our operations, 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 year ended December 31, 2014, the Company was provided three JV authorizations for expenditures cash calls totaling $5.05 million by the operator of three horizontal wells in the North Wattenberg field. Per the terms of the JOA, if the Company does not generate enough capital from equity or debt raises, and then the Company may be placed in non-pay status with the operator per a Notice of Default. Should this occur, after thirty days without cure, the operator may forward the Company a Notice of Non-Consent and will be imposed up to a 300% penalty to buy-back working interest in the new drill wells.

Results of Operations

Three months ended March 31, 2014 compared to three months ended March 31, 2013

The following table compares operating data for the three months ended March 31, 2014 to March 31, 2013:

	Three months ended March 31,	
	2014	**2013**
Revenues:		
Oil sales	$ 700,087	$ 1,127,333
Gas sales	87,667	106,397
Operating fees	34,727	48,503
Realized gain on commodity price derivatives	11,143	19,890
Total revenues	833,624	1,302,123
Costs and expenses:		
Production costs	416,323	303,847
Production taxes	93,680	115,994
General and administrative	2,958,416	984,259
Depreciation, depletion and amortization	388,635	689,654
Total costs and expenses	3,857,054	2,093,754
Loss from operations	(3,023,429)	(791,631)
Other Income (expenses):		
Other income	53	251
Inducement expense	(6,661,275)	-
Convertible notes conversion derivative gain (loss)	1,150,000	(20,000)
Interest expense	(1,516,331)	(1,636,159)
Total other expenses	(7,027,553)	(1,655,908)
Net loss	$ (10,050,982)	$ (2,447,539)

Total revenues

Total revenues were $0.83 million for the three months ended March 31, 2014, compared to $1.30 million for the three months ended March 31, 2013, a decrease of $0.47 million, or 36%. The decrease in revenues was due primarily to a decrease in production volumes. During the three months ended March 2014 and 2013, production amounts were 10,288 and 18,215 BOE, respectively, a decrease of 7,927 BOE, or 44%. 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 workover/production rigs in the area. The effect of this production decrease was partially offset by an increase in the overall average price per BOE to $76.58 in 2014 from $67.73 in 2013, an increase of $8.85 or 13%.

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

	For the Three Months Ended March 31,	
	2014	2013
Product		
Oil (Bbl.)	8,455	13,458
Oil (Bbls)-average price (1)	$ 82.80	$ 83.77
Natural Gas (MCF)-volume	10,997	24,215
Natural Gas (MCF)-average price (2)	$ 7.97	$ 4.39
Barrels of oil equivalent (BOE)	10,288	18,215
Average daily net production (BOE)	114	202
Average Price per BOE (1)	$ 76.58	$ 67.73

(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)	$ 76.58	$ 67.73
Production costs per BOE	40.47	16.68
Production taxes per BOE	9.11	6.37
Depreciation, depletion, and amortization per BOE	37.78	37.86
Total operating costs per BOE	$ 87.36	$ 60.91
Gross margin per BOE	$ (10.78)	$ 6.82
Gross margin percentage	-14%	10.07%

(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 March 31, 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 three months ended March 31, 2014, compared to realize gains of $0.02 million during the three months ended March 31, 2013, a decrease in realized gains/losses of $0.01 million or 50%.

Production costs

Production costs were $0.42 million during the three months ended March 31, 2014, compared to $0.30 million for the three months ended March 31, 2013, an increase of $0.12 million, or 40%. 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 $40.47 for the three months ended March 31, 2014 from $16.68 in 2013, an increase of $23.79 per BOE, or 143%, primarily as a result of reduced volumes of BOE in 2013 and high well work frequency. During the three months ended March 31, 2014, work-over rigs had limited availability due to high Industry activity within the operating area of the Company. As a result, idled wells for routine well maintenance or other repairs were off-line longer than anticipated, which substantially decreased our production.

Production taxes

Production taxes were $0.09 million for the three months ended March 31, 2014, compared to $0.12 million for the three months ended March 31, 2013, a decrease of $0.03 million, or 25%. 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 which production is derived. Production taxes per BOE increased to $9.11 during the three months ended March 31, 2014 from $6.37 in 2013, an increase of $2.74 or 43%. During the three months ended March 31, 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.

General and administrative

General and administrative expenses were $2.96 million during the three months ended March 31, 2014, compared to $0.98 million during the three months ended March 31, 2013, an increase of $1.98 million, or 202%. Non-cash general and administrative items for the three months ended March 31, 2014 were $1.69 million compared to $0.36 million during the three months ending March 31, 2013, an increase of $1.33 million, or 369%. 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 Private Placement; and non-cash compensation to a third party is $0.4 million. Cash general and administrative expenses were $1.27 million during the three months ended March 31 2014, compared to $0.62 million during the three months ended March 31, 2013, an increase of $0.65 million, or 104%. The increase in cash general and administrative expenses was largely due to $0.18 million of due diligence cost incurred in connection with a potential acquisition, as well as additional legal and other contract professional services expenses, increase of staffing and partially offset of and other expenses.

Depreciation, depletion, and amortization

Depreciation, depletion, and amortization were $0.39 million during the three months ended March 31, 2014, compared to $0.70 million during the three months ended March 31, 2013, a decrease of $0.31 million, or 44%. 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 10,288 from 18,215 for the three months ended March 31, 2014 and 2013, respectively, a decrease of 7,927, or 44%. The decrease in depletion was based on a lower depletion base. Depreciation, depletion, and amortization per BOE decreased to $37.78 from $37.86, respectively, for the three months ended March 31, 2014 and 2013, a decrease of $0.08, or 1%. During the three months ended March 31, 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 $6.66million during the three months ended March 31, 2014, compared to $0 during the three months ended March 31, 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 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 (the "Warrants"), for each share of Common Stock issued upon conversion of the Debentures. The Company used Lattice model to value the warrants, utilizing a volatility of 65%, and a life of 3 years, which arrived at a fair value of $6.61 million for the Warrants.

Interest Expense

For the three months ended March 31, 2014 and 2013, the Company incurred interest expense of approximately $1.52 million and $1.64 million, respectively, of which approximately $1.05 million and $1.00 million, respectively, were non-cash interest expense and amortization of the deferred financing costs, accretion of the convertible debentures payable discount, and convertible debentures interest paid in common stock. The decrease in interest expense was primarily attributable to a decrease in the interest rate on the Company's term loans from 15% to 10% that occurred effective April 1, 2013, but partially offset by an increase in the Company's convertible debentures.

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 $28.0 million for the remainder of 2014. The budget is allocated toward the exploitation of two unconventional reservoirs located in the Wattenberg field within the DJ Basin that will apply horizontal drilling in the Niobrara shale and Codell formations. This 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 Private Placement, $15.0 million, commitment to purchase or effect the purchase with Preferred Stock from TR. Winston, and an additional $7.50 million, from the May Private Placement, some of the proceeds from these transactions were applied to the payment and servicing of our term debt.

The execution of, and results from, our capital budget are contingent on various factors, including, but not limited to, the sourcing of capital, market conditions, oilfield services and equipment availability, commodity prices and drilling/ production results. Results from the wells identified in the capital budget may lead to additional adjustments to the capital budget. Other factors that could impact our level of activity and capital expenditure budget include, but are not limited to, a reduction or increase in service and material costs, the formation of joint ventures with other exploration and production companies, the divestiture of non-strategic assets,. We do not anticipate any significant expansion of our current DJ Basin acreage position in the near term; however, we are targeting attractive Wattenberg acquisitions.

Overview of Our Business, Strategy, and Plan of Operations

We have acquired and developed a producing base of oil and natural gas proved reserves, as well as a portfolio of exploration and other undeveloped assets with conventional and non-conventional reservoir opportunities, with an emphasis on those with multiple producing horizons, in particular the Muddy "J" conventional reservoirs and the Niobrara shale and Codell resource plays. We believe these assets offer the possibility of repeatable year-over-year success and significant and cost-effective production and reserve growth. Our acquisition, development and exploration pursuits are principally directed at oil and natural gas properties in the DJ Basin in Colorado, Nebraska, and Wyoming. Since early 2010, we have acquired and/or developed 25 producing wells. As of December 31, 2013 we owned interests in approximately 123,000 gross (107,000 net) leasehold acres, of which 111,000 gross (88,000 net) acres are classified as undeveloped acreage and all of which are located in Colorado, Wyoming and Nebraska within the DJ Basin. We are primarily focused on our North and South Wattenberg Field, assets which include attractive unconventional reservoir drilling opportunities in mature development areas that offer low risk Niobrara and Codell formation productive potential. We also believe that our conventional reservoir development potential in our Silo-East, Hanson and Wilke/Lukassen well areas will yield competitive results. We expect to pursue an aggressive multi-well program.

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

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

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

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

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

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

Currently, our inventory of developed and undeveloped acreage includes approximately 12,000 net acres that are held by production, approximately 25,000 net acres, 60,000, 4,000, 4,000 and 2,000 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 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 G&A flexibility.

Marketing and Pricing

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

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

- changes in global supply and demand for oil and natural gas;
- the actions of the Organization of Petroleum Exporting Countries, or OPEC;
- the price and quantity of imports of foreign oil and natural gas;
- acts of war or terrorism;
- political conditions and events, including embargoes, affecting oil-producing activity;
- the level of global oil and natural gas exploration and production activity;
- the level of global oil and natural gas inventories;
- weather conditions;
- technological advances affecting energy consumption; and
- 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 have the following contractual obligations and commitments as of March 31, 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	$ 18,566	$ 10,483	$ 8,083	$ -	$ -
Interest on secured debt	1,392	1,392	-	-	-
Convertible debentures	6,728	6,728	-	-	-
Interest on convertible debentures	403	403	-	-	-
Operating leases & Other	44	44	-	-	-
Total contractual cash obligations	$ 27,133	$ 19,050	$ 8,083	$ -	$ -

Critical Accounting Policies and Estimates

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

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

Use of Estimates

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

Oil and Natural Gas Reserves

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

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

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

Oil and Natural Gas Properties—Full Cost Method of Accounting

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

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

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

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

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

Revenue Recognition

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

Share Based Compensation

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

Derivative Instruments

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not Applicable

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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, Chief Financial Officer, and our Interim Chief Financial Officer, an assessment, including testing of the effectiveness of our internal control over financial reporting as of March 31, 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 March 31, 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 March 31, 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.

Because of the material weaknesses described above, management has concluded that we did not maintain effective internal control over financial reporting as of March 31, 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.

Management believes through the implementation of the foregoing initiative, 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 Board of Directors or the Company's management.

Also on May 16, 2014, the Board of Directors of the Company appointed Eric Ulwelling, who was the Company's Chief Accounting Officer and Controller, to the position of Interim Chief Financial Officer. This event has caused a change in our internal control over financial reporting during the quarter-ended March 31, 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 have been stayed. At this stage, we cannot express an opinion as to the probable outcome of this matter.

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

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

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 three months of 2014.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not Applicable

Item 5. Other Information.

The Company filed an Amended Certificate of Designations, Preferences and Rights of Series A 8% Convertible Preferred Stock (the "Certificate of Designations") on June 12, 2014 with the Secretary of State of the State of Nevada, which was effective upon filing. A copy of the Certificate of Designations is attached hereto as Exhibit 3.1 and incorporated herein by reference.

Item 6. Exhibits.

Exhibit Number	Exhibit Description
3.1	Amendment to Certificate of Designations dated June 12, 2014.
4.1	Five Year Warrant to Market Development Consulting Group dated January 17, 2014.
4.2	Five Year Warrant (Anniversary Warrant) to Market Development Consulting Group dated January 17, 2014.
10.1	Letter Agreement dated May 19, 2014 with holders of the 8% Senior Secured Convertible Debentures.
10.2	Amendment to Debentures dated June 6, 2014.
10.3	Separation Agreement with W. Phillip Marcum dated April 24, 2014.
10.4	Employment Agreement with Robert A. Bell dated May 1, 2014.
10.5	Termination of Investment Banking Agreement with T.R. Winston dated as of March 19, 2013.
10.6	Transaction Fee Agreement with T.R. Winston dated as of March 28, 2014.
10.7	Amendment to Transaction Fee Agreement with T.R. Winston dated as of April 29, 2014.
10.8	Engagement Agreement for Financial Advisory Services with MLV & Co. LLC dated as of February 21, 2014.
10.9	Letter Agreement with T.R. Winston dated as of June 6, 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 Acting 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
32.2	Certification of the Acting 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

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)	June 16, 2014
/s/ Eric Ulwelling Eric Ulwelling	Acting Chief Financial Officer and Chief Accounting Officer (Principal Financial Officer)	June 16, 2014

EXHIBIT INDEX

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Exhibit 3.1

AMENDMENT TO
CERTIFICATE OF DESIGNATION OF PREFERENCES,
RIGHTS AND LIMITATIONS
OF
SERIES A 8% CONVERTIBLE PREFERRED STOCK

This Amendment ("**Amendment**"), made as of June 12, 2014, by and between Lilis Energy, Inc., a Nevada corporation (the "**Company**"), and each holder executing a signature page hereto (the "**Holders**"), amends that certain Certificate of Designation of Preferences, Rights and Limitations of Series A 8% Convertible Preferred Stock, dated as of May 30, 2014 (the "**Certificate of Designations**").

Recitals

WHEREAS, the Company filed the Certificate of Designations on May 30, 2014, and on the same day issued to the Holders a total of 7,500 shares of its Series A 8% Convertible Preferred Stock (the "**Preferred Stock**");

WHEREAS, on June 6, 2014, the Company was notified by NASDAQ OMX ("**NASDAQ**") of NASDAQ's determination that certain aspects of Section 3(a) of the Certificate of Designations could cause the offering of the Preferred Stock to be deemed a below-market offering under the NASDAQ listing rules;

WHEREAS, the Company and the Holders now wish to amend the Certificate of Designation in order to clarify Section 3(a) so that the offering of the Preferred Stock is not deemed by NASDAQ to be a below-market offering;

WHEREAS, pursuant to Section 4 of the Certificate of Designations, any amendment to the Certificate of Designations must be approved by the holders of a majority of the then outstanding shares of the Preferred Stock; and

WHEREAS, the Holders hold at least a majority of the outstanding shares of the Preferred Stock as of the date hereof.

NOW THEREFORE, in consideration of the promises and mutual covenants and obligations herein set forth and for other good and valuable consideration, the receipt, sufficiency and adequacy of which is hereby acknowledged, accepted and agreed to, the parties hereto, intending to be legally bound, hereby agree as follows:

Agreement

1. Dividends. The Company and the Holders hereby agree to replace Section 3(a) in its entirety with the following:

"Dividends in Cash or in Kind. Holders shall be entitled to receive, and the Corporation shall pay, cumulative dividends at the rate per share (as a percentage of the Stated Value per share) of 8% per annum (subject to increase pursuant to Section 10(b)), payable quarterly on January 1, April 1, July 1 and October 1, beginning on the first such date after the Original Issue Date and on each Conversion Date (with respect only to Preferred Stock then being converted) (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, or at the Corporation's option, in duly authorized, validly issued, fully paid and non-assessable shares of Common Stock as set forth in this Section 3(a), or a combination thereof (the dollar amount to be paid in shares of Common Stock, the "Dividend Share Amount"). The form of dividend payments to each Holder shall be determined in the following order of priority: (i) if funds are legally available for the payment of dividends and the Equity Conditions have not been met during the 20 consecutive Trading Days immediately prior to the applicable Dividend Payment Date (the "Dividend Notice Period"), in cash only, (ii) if funds are legally available for the payment of dividends, the Equity Conditions have been met during the Dividend Notice Period, and the Dividend Conversion Rate on the Dividend Payment Date is equal to or greater than $2.35, at the sole election of the Corporation, in cash or shares of Common Stock which shall be valued at the Dividend Conversion Rate or a combination thereof, (iii) if funds are not legally available for the payment of dividends, the Equity Conditions have been met during the Dividend Notice Period, and the Dividend Conversion Rate on the Dividend Payment Date is equal to or greater than $2.35, in shares of Common Stock which shall be valued at the Dividend Conversion Rate, (iv) if funds are not legally available for the payment of dividends, the Equity Condition relating to an effective Conversion Shares registration statement has been waived by such Holder, and the Dividend Conversion Rate on the Dividend Payment Date is equal to or greater than $2.35, as to such Holder only, in unregistered shares of Common Stock which shall be valued at the Dividend Conversion Rate, and (v) if funds are not legally available for the payment of dividends and the Equity Conditions have not been met during the Dividend Notice Period, or if the Dividend Conversion Rate on the Dividend Payment Date is less than $2.35, then, at the election of such Holder, such dividends shall accrue to the next Dividend Payment Date or shall be accreted to, and increase, the outstanding Stated Value. If no such election is made, such dividends shall accrue to the next Dividend Payment Date. The Holders shall have the same rights and remedies with respect to the delivery of any such shares as if such shares were being issued pursuant to Section 6."

2. Binding Effect. The terms of this Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns.

3. Reaffirmation of Terms. All terms of the Certificate of Designations, as previously amended, shall, except as amended hereby, remain in full force and effect, and are hereby ratified and confirmed.

9. Governing Law. This Amendment shall be governed by and construed and enforced in accordance with the internal laws of the State of Nevada, without regard for principles of conflict of laws thereof.

10. Counterparts. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[*Signature page follows*]

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment effective as of the date first set forth above.

COMPANY

Lilis Energy, Inc.

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

HOLDERS:

By: _____

Name: _____

Title: _____

Exhibit 4.1

THIS WARRANT AND THE UNDERLYING SHARES OF COMMON STOCK HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER SECURITIES LAWS, HAVE BEEN TAKEN FOR INVESTMENT, AND MAY NOT BE SOLD OR TRANSFERRED OR OFFERED FOR SALE OR TRANSFER UNLESS A REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND OTHER APPLICABLE SECURITIES LAWS WITH RESPECT TO SUCH SECURITIES IS THEN IN EFFECT, OR IN THE OPINION OF COUNSEL TO THE ISSUER OF THESE SECURITIES, SUCH REGISTRATION UNDER THE SECURITIES ACT AND OTHER APPLICABLE SECURITIES LAWS IS NOT REQUIRED.

Date: January 17, 2014

WARRANT FOR THE PURCHASE OF SHARES OF

COMMON STOCK OF LILIS ENERGY, INC.

THIS IS TO CERTIFY that, for value received, David E. Castaneda and his successors and assigns (collectively, the "Holder" or "Holders"), are entitled to purchase, subject to the terms and conditions hereinafter set forth, One Hundred Thousand (100,000) shares of Lilis Energy, Inc., a Nevada corporation (the "Company") common stock, $0.0001 par value per share (the "Common Stock"), and to receive certificates for the Common Stock so purchased. The exercise price of this Warrant is $2.00 (two dollars and zero cents) per share (the "Exercise Price"). This Warrant is issued in connection with the Management Consulting Agreement between Holder and the Company dated January 17, 2014 (the "Consulting Agreement").

1. **Exercise Period.** This Warrant is fully vested and exercisable by the Holders until 5:00 p.m., New York, New York time, five (5) years from the date of this Warrant (the "Exercise Period"). This Warrant will terminate automatically and immediately upon the expiration of the Exercise Period.

2. **Exercise of Warrant; Cashless Exercise**.

(a) Exercise. This Warrant may be exercised, in whole or in part, at any time and from time to time during the Exercise Period. Such exercise shall be accomplished by tender to the Company of an amount equal to the Exercise Price multiplied by the number of underlying shares being purchased (the "Purchase Price"), either (a) in cash, by wire transfer or by certified check or bank cashier's check, payable to the order of the Company, or (b) by surrendering such number of shares of Common Stock received upon exercise of this Warrant with an aggregate Fair Market Value (as defined below) equal to the Purchase Price (as described in the following paragraph, a "Cashless Exercise"), together with presentation and surrender to the Company of this Warrant with an executed subscription agreement in substantially the form attached hereto as Exhibit A (the "Subscription"). Upon receipt of the foregoing, the Company will deliver to the Holders, as promptly as possible, a certificate or certificates representing the shares of Common Stock so purchased, registered in the name of the Holders or its transferee (as permitted under Section 3 below). With respect to any exercise of this Warrant, the Holders will for all purposes be deemed to have become the holder of record of the number of shares of Common Stock purchased hereunder on the date the Subscription has been properly executed and delivered to the Company and payment of the Purchase Price has been received by the Company (the "Exercise Date"), irrespective of the date of delivery of the certificate evidencing such shares of the Common Stock, except that, if the date of such receipt is a date on which the stock transfer books of the Company are closed, such person will be deemed to have become the holder of such shares at the close of business on the next succeeding date on which the stock transfer books are open. Fractional shares of Common Stock will not be issued upon the exercise of this Warrant. In lieu of any fractional shares that would have been issued but for the immediately preceding sentence, the Holders will be entitled to receive cash equal to the current Fair Market Value (as defined below) of such fraction of a share of Common Stock on the trading day immediately preceding the Exercise Date. In the event this Warrant is exercised in part, the Company shall issue a new Warrant to the Holders covering the aggregate number of shares of Common Stock as to which this Warrant remains exercisable for.

(b) Cashless Exercise. If the Holders elect to conduct a Cashless Exercise, the Company shall cause to be delivered to the Holder a certificate or certificates representing the number of shares of Common Stock computed using the following formula:

$$X = \frac{Y\,(A-B)}{A}$$

Where:

X = the number of shares of Common Stock to be issued to Holder;

Y = the portion of this Warrant (in number of shares of Common Stock) being exercised by Holder (at the date of such calculation);

A = the Fair Market Value (as defined below) of one share of Common Stock on the Exercise Date, calculated by taking the average Fair Market Value over the last 10 trading days (not including the Exercise Date); and

B = Exercise Price (as adjusted to the date of such calculation).

(c) Definition of Fair Market Value. For purposes of this Warrant, "Fair Market Value" shall mean: (i) if the principal trading market for such securities is a national securities exchange including The Nasdaq Stock Market or the Over-the-Counter Bulletin Board (or a similar system then in use), the last reported sales price on the principal market on the trading day immediately prior to such Exercise Date; or (ii) if clause (i) is not applicable, and if bid and ask prices for shares of Common Stock are reported by the principal trading market or the Pink Sheets, the average of the high bid and low ask prices so reported for the trading day immediately prior to such Exercise Date. Notwithstanding the foregoing, if there is no last reported sales price or bid and ask prices, as the case may be, for the day in question, then Fair Market Value shall be determined as of the latest day prior to such day for which such last reported sales price or bid and ask prices, as the case may be, are available, unless such securities have not been traded on an exchange or in the over-the-counter market for 30 or more days immediately prior to the day in question, in which case the Fair Market Price shall be determined in good faith by, and reflected in a formal resolution of, the board of directors of the Company.

(d) Limitations on Exercise. Notwithstanding anything to the contrary contained herein, the number of shares that may be acquired by the Holder upon any exercise of this Warrant (or otherwise in respect hereof) shall be limited to the extent necessary to insure that, following such exercise (or other issuance), the total number of shares of Common Stock then beneficially owned by such Holder and its affiliates and any other persons whose beneficial ownership of Common Stock would be aggregated with the Holder's for purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (the "Exchange Act"), does not exceed 4.999% of the total number of issued and outstanding shares of Common Stock (including for such purpose the shares of Common Stock issuable to the Holder upon exercise of this Warrant and other derivative securities). For such purposes, beneficial ownership shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. This provision shall not restrict the number of shares of Common Stock which a Holder may receive or beneficially own in order to determine the amount of securities or other consideration that such Holder may receive in the event of a Fundamental Transaction as contemplated in Section 4(e) of this Warrant. This restriction may not be waived or amended by agreement of the parties.

3. **Recording, Transferability, Exchange and Obligations to Issue Common Stock.**

(a) Registration of Warrant. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the "Warrant Register"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary from the transferee and transferor.

(b) Registration of Transfers. The Company shall register the transfer of any portion of this Warrant in the Warrant Register, upon surrender of this Warrant, with the Form of Assignment attached hereto as Exhibit B duly completed and signed, to the Company at its address specified herein. As a condition to the transfer, the Company may request a legal opinion as contemplated by the legend. Upon any such registration or transfer, a new Warrant to purchase Common Stock, in substantially the form of this Warrant (any such new Warrant, a "New Warrant"), evidencing the portion of this Warrant so transferred shall be issued to the transferee and a New Warrant evidencing the remaining portion of this Warrant not so transferred, if any, shall be issued to the transferring Holder. The acceptance of the New Warrant by the transferee thereof shall be deemed the acceptance by such transferee of all of the rights and obligations of a holder of a Warrant.

(c) Exchange of Warrant. This Warrant is exchangeable upon its surrender by the Holders to the Company for new Warrants of like tenor and date representing in the aggregate the right to purchase the number of shares purchasable hereunder, each of such new Warrants to represent the right to purchase such number of shares as may be designated by the Holders at the time of such surrender (not to exceed the aggregate number of shares underlying this Warrant).

(d) Obligation to Deliver Common Stock. The Company's obligations to issue and deliver Common Stock in accordance with the terms hereof are absolute and unconditional, irrespective of any action or inaction by the Holder to enforce the same, any waiver or consent with respect to any provision hereof, the recovery of any judgment against any person or any action to enforce the same, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder or any other person of any obligation to the Company or any violation or alleged violation of law by the Holder or any other person, and irrespective of any other circumstance which might otherwise limit such obligation of the Company to the Holder in connection with the issuance of Common Stock. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Company's failure to timely deliver certificates representing shares of Common Stock upon exercise of this Warrant as required pursuant to the terms hereof.

4. **Adjustments to Exercise Price and Number of Shares Subject to Warrant.** The Exercise Price and the number of shares of Common Stock purchasable upon the exercise of this Warrant are subject to adjustment from time to time upon the occurrence of any of the events specified in this Section 4. For the purpose of this Section 4, "Common Stock" means shares now or hereafter authorized of any class of common stock of the Company, however designated, that has the right to participate in any distribution of the assets or earnings of the Company without limit as to per share amount (excluding, and subject to any prior rights of, any class or series of preferred stock).

(a) In case the Company shall (i) pay a dividend or make a distribution in shares of Common Stock to holders of shares of Common Stock, (ii) subdivide its outstanding shares of Common Stock into a greater number of shares, (iii) combine its outstanding shares of Common Stock into a smaller number of shares, or (iv) issue by reclassification of its shares of Common Stock other securities of the Company, then the Exercise Price in effect at the time of the record date for such dividend or on the effective date of such subdivision, combination or reclassification, and/or the number and kind of securities issuable on such date, shall be proportionately adjusted so that the Holders of this Warrant thereafter exercised shall be entitled to receive the aggregate number and kind of shares of Common Stock (or such other securities other than Common Stock) of the Company, at the same aggregate Exercise Price, that, if such Warrant had been exercised immediately prior to such date, the Holders would have owned upon such exercise and been entitled to receive by virtue of such dividend, distribution, subdivision, combination or reclassification. Such adjustment shall be made successively whenever any event listed above shall occur.

(b) In case the Company shall fix a record date for the making of a distribution to all holders of Common Stock (including any such distribution made in connection with a consolidation or merger in which the Company is the surviving corporation) of cash, evidences of indebtedness or assets, or subscription rights or warrants, the Exercise Price to be in effect after such record date shall be determined by multiplying the Exercise Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the Fair Market Value per share of Common Stock on such record date, less the amount of cash so to be distributed or the Fair Market Value (as determined in good faith by, and reflected in a formal resolution of, the board of directors of the Company) of the portion of the assets or evidences of indebtedness so to be distributed, or of such subscription rights or warrants, applicable to one share of Common Stock, and the denominator of which shall be the Fair Market Value per share of Common Stock. Such adjustment shall be made successively whenever such a record date is fixed; and in the event that such distribution is not so made, the Exercise Price shall again be adjusted to be the Exercise Price which would then be in effect if such record date had not been fixed.

(c) In the case the Company shall sell or grant any option to purchase or sells or grants any right to reprice, or otherwise disposes of or issues (or announces any sale, grant or any option to purchase or other disposition) any Common Stock or Common Stock Equivalent (as defined below) entitling any person to acquire shares of Common Stock at an effective price per share that is lower than the then Exercise Price (such lower price, the "Base Exercise Price" and such issuances, collectively, a "Dilutive Issuance") (if the holder of the Common Stock or Common Stock Equivalents so issued shall at any time, whether by operation of purchase price adjustments, reset provisions, floating conversion, exercise or exchange prices or otherwise, or due to warrants, options or rights per share which are issued in connection with such issuance, be entitled to receive shares of Common Stock at an effective price per share that is lower than the Exercise Price, such issuance shall be deemed to have occurred for less than the Exercise Price on such date of the Dilutive Issuance), then the Exercise Price shall be reduced to equal the Base Exercise Price. If the Company enters into a Variable Rate Transaction (as defined below), the Company shall be deemed to have issued Common Stock or Common Stock Equivalents at the lowest possible price at which such securities may be converted or exercised. Notwithstanding the foregoing, no adjustment will be made under this Section 4(c) in respect of an Exempt Issuance (as defined below).

"Common Stock Equivalent" means any securities of the Company which 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.

"Variable Rate Transaction" means a transaction in which the Company (a) issues or sells any debt or equity securities that are convertible into, exchangeable or exercisable for, or include the right to receive, additional shares of Common Stock either (i) at a conversion price, exercise price or exchange rate or other price that is based upon, and/or varies with, the trading prices of or quotations for the shares of Common Stock at any time after the initial issuance of such debt or equity securities or (ii) except for standard anti-dilution adjustments similar to those in this Warrant, with a conversion, exercise or exchange price that is subject to being reset at some future date after the initial issuance of such debt or equity security or upon the occurrence of specified or contingent events directly or indirectly related to the business of the Company or the market for the Common Stock or (b) enters into any agreement, including, but not limited to, an equity line of credit, whereby the Company may sell securities at a future determined price.

"Exempt Issuance" means the issuance of (a) shares of Common Stock or options as compensation to employees, officers or directors of the Company which issuance is approved by a majority of the non-employee members of the Board of Directors of the Company or a majority of the members of a committee of non-employee directors established for such purpose, (b) securities upon the exercise or exchange of or conversion of any securities exercisable or exchangeable for or convertible into shares of Common Stock issued and outstanding as of the date of this Warrant, and/or securities issued as interest pursuant to any securities outstanding as of the date hereof, issued hereunder or issued in connection with an Exempt Issuance, provided that such securities have not been amended since the date of this Warrant to increase the number of such securities or to decrease the exercise price, exchange price or conversion price of such securities, (c) securities issued to vendors or the landlord of the Company's corporate headquarters which issuance is approved by a majority of the disinterested directors of the Company, and (d) securities issued pursuant to acquisitions or strategic transactions approved by a majority of the disinterested directors of the Company, provided that any such issuance shall only be to a person (or to the equityholders of a person) which is, itself or through its subsidiaries, an operating company or an owner of an asset in a business synergistic with the business of the Company and shall provide to the Company additional benefits in addition to the investment of funds, but shall not include a transaction in which the Company is issuing securities primarily for the purpose of raising capital or to an entity whose primary business is investing in securities.

(d) Notwithstanding any provision herein to the contrary, no adjustment in the Exercise Price shall be required unless such adjustment would require an increase or decrease of at least 1% in the Exercise Price; provided, however, that any adjustments which by reason of this Section 4(d) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 4 shall be made to the nearest cent or the nearest one-hundredth of a share, as the case may be.

(e) In the event that at any time, as a result of an adjustment made pursuant to Section 4(a) above, the Holders of any Warrant thereafter exercised shall become entitled to receive any shares of capital stock of the Company other than shares of Common Stock, thereafter the number of such other shares so receivable upon exercise of any Warrant shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the shares of Common Stock contained in this Section 4, and the other provisions of this Warrant shall apply on like terms to any such other shares.

(f) Fundamental Transactions. If, at any time while this Warrant is outstanding, (i) the Company effects any merger or consolidation of the Company with or into another company, (ii) the Company effects any sale of all or substantially all of its assets in one or a series of related transactions, (iii) any tender offer or exchange offer (whether by the Company or another company or person) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property, or (iv) the Company effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (in any such case, a "Fundamental Transaction"), then the Holder shall have the right thereafter to receive, upon exercise in full of this Warrant, the same amount and kind of securities, cash or property as it would have been entitled to receive upon the occurrence of such Fundamental Transaction if it had been, immediately prior to such Fundamental Transaction, the holder of the number of Common Stock then issuable upon exercise in full of this Warrant (the "Alternate Consideration"). For purposes of any such exercise, the determination of the Exercise Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. At the Holder's option and request, any successor to the Company or surviving entity in such Fundamental Transaction shall issue to the Holder a new warrant substantially in the form of this Warrant and consistent with the foregoing provisions and evidencing the Holder's right to purchase the Alternate Consideration for the aggregate Exercise Price upon exercise thereof. Any such successor or surviving entity shall be deemed to be required to comply with the provisions of this Section 4(f) and shall insure that this Warrant (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction.

(g) In case any event shall occur as to which the other provisions of this Section 4 are not strictly applicable but the failure to make any adjustment would not fairly protect the purchase rights represented by this Warrant in accordance with the essential intent and principles hereof, then, in each such case, the Company shall effect such adjustment, on a basis consistent with the essential intent and principles established in this Section 4, as may be necessary to preserve, without dilution, the purchase rights represented by this Warrant.

(h) Upon the occurrence of each adjustment pursuant to this Section 4, the Company at its expense will promptly compute such adjustment in accordance with the terms of this Warrant and prepare a certificate setting forth such adjustment, including a statement of the adjusted Exercise Price and adjusted number or type of Common Stock or other securities issuable upon exercise of this Warrant (as applicable), describing the transactions giving rise to such adjustments and showing in detail the facts upon which such adjustment is based. Upon written request, the Company will promptly deliver a copy of each such certificate to the Holder and to the Company's Transfer Agent.

5. **No Registration Rights.** Neither this Warrant nor the shares of Common Stock underlying this Warrant have been registered under the Securities Act of 1933, as amended (the "Securities Act"). When exercised, the stock certificates shall bear the following legend unless all of the shares may be publicly sold under Rule 144(b)(1) of the Securities Act (or successor rule).

"The securities represented by this certificate have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), and may not be offered for sale or sold except pursuant to (i) an effective registration statement under the Securities Act, or (ii) an opinion of counsel, if such opinion and counsel shall be reasonably satisfactory to counsel to the issuer, that an exemption from registration under the Securities Act is available."

The Company may elect to file a registration statement with the SEC, registering the resale of the Common Stock issued or issuable upon exercise of the Warrant under the Securities Act (the "Registration Statement"); however it is under no obligation to do so.

6. **Reservation of Common Stock.** The Company covenants that it will at all times reserve and keep available out of the aggregate of its authorized but unissued and otherwise unreserved Common Stock, solely for the purpose of enabling it to issue Common Stock upon exercise of this Warrant as herein provided, the number of shares of Common Stock which are then issuable and deliverable upon the exercise in full of this Warrant, free from preemptive rights or any other contingent purchase rights of persons other than the Holder (taking into account the adjustments and restrictions of Section 4). The Company covenants that all Common Stock so issuable and deliverable shall, upon issuance and the payment of the applicable Exercise Price in accordance with the terms hereof, be duly and validly authorized, issued and fully paid and nonassessable.

7. **Replacement of Warrant.** If this Warrant is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation hereof, or in lieu of and substitution for this Warrant, a New Warrant, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction and customary and reasonable indemnity (which may include a surety bond), if requested. Applicants for a New Warrant under such circumstances shall also comply with such other reasonable regulations and procedures and pay such other reasonable third-party costs as the Company may prescribe. If a New Warrant is requested as a result of a mutilation of this Warrant, then the Holder shall deliver such mutilated Warrant to the Company as a condition precedent to the Company's obligation to issue the New Warrant.

8. **Charges, Taxes and Expenses**. Issuance and delivery of certificates for shares of Common Stock upon exercise of this Warrant shall be made without charge to the Holder for any issue or transfer tax, withholding tax, transfer agent fee or other incidental tax or expense in respect of the issuance of such certificates, all of which taxes and expenses shall be paid by the Company; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the registration of any certificates for Common Stock or Warrants in a name other than that of the Holder. The Holder shall be responsible for all other tax liability that may arise as a result of holding or transferring this Warrant or receiving Common Stock upon exercise hereof.

9. **Notices to Holders.** In the event of (a) any fixing by the Company of a record date with respect to the holders of any class of securities of the Company for the purpose of determining which of such holders are entitled to dividends or other distributions, or any rights to subscribe for, purchase or otherwise acquire any shares of capital stock of any class or any other securities or property, or to receive any other right, (b) any capital reorganization of the Company, or reclassification or recapitalization of the capital stock of the Company or any transfer of all or substantially all of the assets or business of the Company to, or consolidation or merger of the Company with or into, any other entity or person, or (c) any voluntary or involuntary dissolution or winding up of the Company, then and in each such event the Company will give the Holders a written notice specifying, as the case may be (i) the record date for the purpose of such dividend, distribution, or right, and stating the amount and character of such dividend, distribution, or right; or (ii) the date on which any such reorganization, reclassification, recapitalization, transfer, consolidation, merger, conveyance, dissolution, liquidation, or winding up is to take place and the time, if any is to be fixed, as of which the holders of record of Common Stock (or such capital stock or securities receivable upon the exercise of this Warrant) shall be entitled to exchange their shares of Common Stock (or such other stock securities) for securities or other property deliverable upon such event. Any such notice shall be given at least ten (10) days prior to the earliest date therein specified.

10. **No Rights as a Stockholder**. This Warrant does not entitle the Holders to any voting rights or other rights as a stockholder of the Company, nor to any other rights whatsoever except the rights herein set forth; provided, however, that the Company shall not close any merger agreement in which it is not the surviving entity, or sell all or substantially all of its assets unless the Company shall have first provided the Holders with at least ten (10) days' prior written notice.

11. **Additional Covenants of the Company.**

(a) If upon issuance of any shares for which this Warrant is exercisable, the Common Stock is listed for trading or trades on any national securities exchange including The Nasdaq Stock Market, the Company shall, at its expense, promptly obtain and maintain the listing or qualifications for trading of such shares.

(b) The Company shall comply with the reporting requirements of Section 13 of the Exchange Act for so long as and to the extent that such requirements apply to the Company.

(c) The Company shall not, by amendment of its Articles of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issuance 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. Without limiting the generality of the foregoing, the Company (i) will at all times reserve and keep available, solely for issuance and delivery upon exercise of this Warrant, shares of Common Stock issuable from time to time upon exercise of this Warrant, (ii) will not increase the par value of any shares of Common Stock issuable upon exercise of this Warrant above the amount payable therefor upon such exercise, and (c) will take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable stock.

12. **Successors and Assigns.** This Warrant shall be binding upon and inure to the benefit of the Company, the Holders and their respective successors and permitted assigns.

13. **Severability.** Every provision of this Warrant is intended to be severable. If any term or provision hereof is illegal or invalid for any reason whatsoever, such illegality or invalidity shall not affect the remainder of this Warrant.

14. **Governing Law.** This Warrant shall be governed by and construed in accordance with the laws of the state where the Company is incorporated as of the time of construction without giving effect to the principles of choice of laws thereof.

15. **Attorneys' Fees.** In any action or proceeding brought to enforce any provision of this Warrant, the prevailing party shall be entitled to recover reasonable attorneys' fees in addition to its costs and expenses and any other available remedies.

16. **Good Faith.** The Company will at all times act in good faith assist in the carrying out of all terms and obligations set forth in this Warrant, and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the holder of this Warrant against such impairment.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its duly authorized officer as of the date first set forth above.

LILIS ENERGY, INC.

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

EXHIBIT A (cont'd)

Warrant Exhibit A

SUBSCRIPTION FORM

The undersigned hereby irrevocably subscribes for _____ shares of the Common Stock (the "Stock") of Lilis Energy, Inc. (the "Company") pursuant to and in accordance with the terms and conditions of the attached Warrant (the "Warrant"), and hereby makes payment of $_____ therefore by [tendering cash, wire transferring or delivering a certified check or bank cashier's check, payable to the order of the Company] [surrendering _____ shares of Common Stock received upon exercise of the Warrant, which shares have an aggregate Fair Market Value equal to such payment as required in Section 2 of the Warrant]. The undersigned requests that a certificate for the Stock be issued in the name of the undersigned and be delivered to the undersigned at the address stated below. If the Stock is not all of the shares purchasable pursuant to the Warrant, the undersigned requests that a new Warrant of like tenor for the balance of the remaining shares purchasable thereunder be delivered to the undersigned at the address stated below.

In connection with the issuance of the Stock, I hereby represent to the Company that I am (i) acquiring the Stock for my own account for investment and not with a view to, or for resale in connection with, a distribution of the shares within the meaning of the Securities Act of 1933, as amended (the "Securities Act") and (ii) an "accredited investor" within the meaning of Rule 501 under the Securities Act.

I understand that if at this time the Stock has not been registered under the Securities Act, I must hold such Stock indefinitely unless the Stock is subsequently registered and qualified under the Securities Act or is exempt from such registration and qualification. I shall make no transfer or disposition of the Stock unless (a) such transfer or disposition can be made without registration under the Securities Act by reason of a specific exemption from such registration and such qualification, or (b) a registration statement has been filed pursuant to the Securities Act and has been declared effective with respect to such disposition. I agree that each certificate representing the Stock delivered to me shall bear substantially the same as set forth on the front page of the Warrant.

I further agree that the Company may place stop transfer orders with its transfer agent same effect as the above legend. The legend and stop transfer notice referred to above shall be removed only upon my furnishing to the Company an opinion of counsel (reasonably satisfactory to the Company) to the effect that such legend may be removed.

Date:_____

Signed: _____
Print Name:_____
Address:_____

EXHIBIT A (cont'd)

Warrant Exhibit B

ASSIGNMENT

For Value Received _____ hereby sells, assigns and transfers to _____ the Warrant attached hereto and the rights represented thereby to purchase _____ shares of Common Stock in accordance with the terms and conditions hereof, and does hereby irrevocably constitute and appoint _____ as attorney to transfer such Warrant on the books of the Company with full power of substitution.

Dated:_____
Please print or typewrite
name and address of
assignor:

Signed: _____
Please insert Social Security
or other Tax Identification
Number of Assignor:

Dated:_____
Please print or typewrite
name and address of
assignee:

Signed: _____
Please insert Social Security
or other Tax Identification
Number of Assignee:

Exhibit 4.2

THIS WARRANT AND THE UNDERLYING SHARES OF COMMON STOCK HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER SECURITIES LAWS, HAVE BEEN TAKEN FOR INVESTMENT, AND MAY NOT BE SOLD OR TRANSFERRED OR OFFERED FOR SALE OR TRANSFER UNLESS A REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND OTHER APPLICABLE SECURITIES LAWS WITH RESPECT TO SUCH SECURITIES IS THEN IN EFFECT, OR IN THE OPINION OF COUNSEL TO THE ISSUER OF THESE SECURITIES, SUCH REGISTRATION UNDER THE SECURITIES ACT AND OTHER APPLICABLE SECURITIES LAWS IS NOT REQUIRED.

Date: January 17, 2014

WARRANT FOR THE PURCHASE OF SHARES OF

COMMON STOCK OF LILIS ENERGY, INC.

THIS IS TO CERTIFY that, for value received, David E. Castaneda and his successors and assigns (collectively, the "Holder" or "Holders"), are entitled to purchase, subject to the terms and conditions hereinafter set forth, Two Hundred and Fifty Thousand (250,000) shares of Lilis Energy, Inc., a Nevada corporation (the "Company") common stock, $0.0001 par value per share (the "Common Stock"), and to receive certificates for the Common Stock so purchased. The exercise price of this Warrant is $2.33 (two dollar and thirty three cents) per share (the "Exercise Price"). This Warrant is issued in connection with the Management Consulting Agreement between Holder and the Company dated January 17, 2013 (the "Consulting Agreement").

1. **Exercise Period.** This Warrant is fully vested and exercisable by the Holders until 5:00 p.m., New York, New York time, five (5) years from the date of this Warrant (the "Exercise Period"). This Warrant will terminate automatically and immediately upon the expiration of the Exercise Period.

2. **Exercise of Warrant; Cashless Exercise**.

(a) Exercise. This Warrant may be exercised, in whole or in part, at any time and from time to time during the Exercise Period. Such exercise shall be accomplished by tender to the Company of an amount equal to the Exercise Price multiplied by the number of underlying shares being purchased (the "Purchase Price"), either (a) in cash, by wire transfer or by certified check or bank cashier's check, payable to the order of the Company, or (b) by surrendering such number of shares of Common Stock received upon exercise of this Warrant with an aggregate Fair Market Value (as defined below) equal to the Purchase Price (as described in the following paragraph, a "Cashless Exercise"), together with presentation and surrender to the Company of this Warrant with an executed subscription agreement in substantially the form attached hereto as Exhibit A (the "Subscription"). Upon receipt of the foregoing, the Company will deliver to the Holders, as promptly as possible, a certificate or certificates representing the shares of Common Stock so purchased, registered in the name of the Holders or its transferee (as permitted under Section 3 below). With respect to any exercise of this Warrant, the Holders will for all purposes be deemed to have become the holder of record of the number of shares of Common Stock purchased hereunder on the date the Subscription has been properly executed and delivered to the Company and payment of the Purchase Price has been received by the Company (the "Exercise Date"), irrespective of the date of delivery of the certificate evidencing such shares of the Common Stock, except that, if the date of such receipt is a date on which the stock transfer books of the Company are closed, such person will be deemed to have become the holder of such shares at the close of business on the next succeeding date on which the stock transfer books are open. Fractional shares of Common Stock will not be issued upon the exercise of this Warrant. In lieu of any fractional shares that would have been issued but for the immediately preceding sentence, the Holders will be entitled to receive cash equal to the current Fair Market Value (as defined below) of such fraction of a share of Common Stock on the trading day immediately preceding the Exercise Date. In the event this Warrant is exercised in part, the Company shall issue a new Warrant to the Holders covering the aggregate number of shares of Common Stock as to which this Warrant remains exercisable for.

(b) Cashless Exercise. If the Holders elect to conduct a Cashless Exercise, the Company shall cause to be delivered to the Holder a certificate or certificates representing the number of shares of Common Stock computed using the following formula:

$$X = \frac{Y (A-B)}{A}$$

Where:

X = the number of shares of Common Stock to be issued to Holder;

Y = the portion of this Warrant (in number of shares of Common Stock) being exercised by Holder (at the date of such calculation);

A = the Fair Market Value (as defined below) of one share of Common Stock on the Exercise Date, calculated by taking the average Fair Market Value over the last 10 trading days (not including the Exercise Date); and

B = Exercise Price (as adjusted to the date of such calculation).

(c) Definition of Fair Market Value. For purposes of this Warrant, "Fair Market Value" shall mean: (i) if the principal trading market for such securities is a national securities exchange including The Nasdaq Stock Market or the Over-the-Counter Bulletin Board (or a similar system then in use), the last reported sales price on the principal market on the trading day immediately prior to such Exercise Date; or (ii) if clause (i) is not applicable, and if bid and ask prices for shares of Common Stock are reported by the principal trading market or the Pink Sheets, the average of the high bid and low ask prices so reported for the trading day immediately prior to such Exercise Date. Notwithstanding the foregoing, if there is no last reported sales price or bid and ask prices, as the case may be, for the day in question, then Fair Market Value shall be determined as of the latest day prior to such day for which such last reported sales price or bid and ask prices, as the case may be, are available, unless such securities have not been traded on an exchange or in the over-the-counter market for 30 or more days immediately prior to the day in question, in which case the Fair Market Price shall be determined in good faith by, and reflected in a formal resolution of, the board of directors of the Company.

(d) Limitations on Exercise. Notwithstanding anything to the contrary contained herein, the number of shares that may be acquired by the Holder upon any exercise of this Warrant (or otherwise in respect hereof) shall be limited to the extent necessary to insure that, following such exercise (or other issuance), the total number of shares of Common Stock then beneficially owned by such Holder and its affiliates and any other persons whose beneficial ownership of Common Stock would be aggregated with the Holder's for purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (the "Exchange Act"), does not exceed 4.999% of the total number of issued and outstanding shares of Common Stock (including for such purpose the shares of Common Stock issuable to the Holder upon exercise of this Warrant and other derivative securities). For such purposes, beneficial ownership shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. This provision shall not restrict the number of shares of Common Stock which a Holder may receive or beneficially own in order to determine the amount of securities or other consideration that such Holder may receive in the event of a Fundamental Transaction as contemplated in Section 4(e) of this Warrant. This restriction may not be waived or amended by agreement of the parties.

3. **Recording, Transferability, Exchange and Obligations to Issue Common Stock.**

(a) Registration of Warrant. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the "Warrant Register"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary from the transferee and transferor.

(b) Registration of Transfers. The Company shall register the transfer of any portion of this Warrant in the Warrant Register, upon surrender of this Warrant, with the Form of Assignment attached hereto as Exhibit B duly completed and signed, to the Company at its address specified herein. As a condition to the transfer, the Company may request a legal opinion as contemplated by the legend. Upon any such registration or transfer, a new Warrant to purchase Common Stock, in substantially the form of this Warrant (any such new Warrant, a "New Warrant"), evidencing the portion of this Warrant so transferred shall be issued to the transferee and a New Warrant evidencing the remaining portion of this Warrant not so transferred, if any, shall be issued to the transferring Holder. The acceptance of the New Warrant by the transferee thereof shall be deemed the acceptance by such transferee of all of the rights and obligations of a holder of a Warrant.

(c) Exchange of Warrant. This Warrant is exchangeable upon its surrender by the Holders to the Company for new Warrants of like tenor and date representing in the aggregate the right to purchase the number of shares purchasable hereunder, each of such new Warrants to represent the right to purchase such number of shares as may be designated by the Holders at the time of such surrender (not to exceed the aggregate number of shares underlying this Warrant).

(d) Obligation to Deliver Common Stock. The Company's obligations to issue and deliver Common Stock in accordance with the terms hereof are absolute and unconditional, irrespective of any action or inaction by the Holder to enforce the same, any waiver or consent with respect to any provision hereof, the recovery of any judgment against any person or any action to enforce the same, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder or any other person of any obligation to the Company or any violation or alleged violation of law by the Holder or any other person, and irrespective of any other circumstance which might otherwise limit such obligation of the Company to the Holder in connection with the issuance of Common Stock. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Company's failure to timely deliver certificates representing shares of Common Stock upon exercise of this Warrant as required pursuant to the terms hereof.

4. **Adjustments to Exercise Price and Number of Shares Subject to Warrant.** The Exercise Price and the number of shares of Common Stock purchasable upon the exercise of this Warrant are subject to adjustment from time to time upon the occurrence of any of the events specified in this Section 4. For the purpose of this Section 4, "Common Stock" means shares now or hereafter authorized of any class of common stock of the Company, however designated, that has the right to participate in any distribution of the assets or earnings of the Company without limit as to per share amount (excluding, and subject to any prior rights of, any class or series of preferred stock).

(a) In case the Company shall (i) pay a dividend or make a distribution in shares of Common Stock to holders of shares of Common Stock, (ii) subdivide its outstanding shares of Common Stock into a greater number of shares, (iii) combine its outstanding shares of Common Stock into a smaller number of shares, or (iv) issue by reclassification of its shares of Common Stock other securities of the Company, then the Exercise Price in effect at the time of the record date for such dividend or on the effective date of such subdivision, combination or reclassification, and/or the number and kind of securities issuable on such date, shall be proportionately adjusted so that the Holders of this Warrant thereafter exercised shall be entitled to receive the aggregate number and kind of shares of Common Stock (or such other securities other than Common Stock) of the Company, at the same aggregate Exercise Price, that, if such Warrant had been exercised immediately prior to such date, the Holders would have owned upon such exercise and been entitled to receive by virtue of such dividend, distribution, subdivision, combination or reclassification. Such adjustment shall be made successively whenever any event listed above shall occur.

(b) In case the Company shall fix a record date for the making of a distribution to all holders of Common Stock (including any such distribution made in connection with a consolidation or merger in which the Company is the surviving corporation) of cash, evidences of indebtedness or assets, or subscription rights or warrants, the Exercise Price to be in effect after such record date shall be determined by multiplying the Exercise Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the Fair Market Value per share of Common Stock on such record date, less the amount of cash so to be distributed or the Fair Market Value (as determined in good faith by, and reflected in a formal resolution of, the board of directors of the Company) of the portion of the assets or evidences of indebtedness so to be distributed, or of such subscription rights or warrants, applicable to one share of Common Stock, and the denominator of which shall be the Fair Market Value per share of Common Stock. Such adjustment shall be made successively whenever such a record date is fixed; and in the event that such distribution is not so made, the Exercise Price shall again be adjusted to be the Exercise Price which would then be in effect if such record date had not been fixed.

(c) Notwithstanding any provision herein to the contrary, no adjustment in the Exercise Price shall be required unless such adjustment would require an increase or decrease of at least 1% in the Exercise Price; provided, however, that any adjustments which by reason of this Section 4(c) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 4 shall be made to the nearest cent or the nearest one-hundredth of a share, as the case may be.

(d) In the event that at any time, as a result of an adjustment made pursuant to Section 4(a) above, the Holders of any Warrant thereafter exercised shall become entitled to receive any shares of capital stock of the Company other than shares of Common Stock, thereafter the number of such other shares so receivable upon exercise of any Warrant shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the shares of Common Stock contained in this Section 4, and the other provisions of this Warrant shall apply on like terms to any such other shares.

(e) Fundamental Transactions. If, at any time while this Warrant is outstanding, (i) the Company effects any merger or consolidation of the Company with or into another company, (ii) the Company effects any sale of all or substantially all of its assets in one or a series of related transactions, (iii) any tender offer or exchange offer (whether by the Company or another company or person) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property, or (iv) the Company effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (in any such case, a "Fundamental Transaction"), then the Holder shall have the right thereafter to receive, upon exercise in full of this Warrant, the same amount and kind of securities, cash or property as it would have been entitled to receive upon the occurrence of such Fundamental Transaction if it had been, immediately prior to such Fundamental Transaction, the holder of the number of Common Stock then issuable upon exercise in full of this Warrant (the "Alternate Consideration"). For purposes of any such exercise, the determination of the Exercise Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. At the Holder's option and request, any successor to the Company or surviving entity in such Fundamental Transaction shall issue to the Holder a new warrant substantially in the form of this Warrant and consistent with the foregoing provisions and evidencing the Holder's right to purchase the Alternate Consideration for the aggregate Exercise Price upon exercise thereof. Any such successor or surviving entity shall be deemed to be required to comply with the provisions of this Section 4(e) and shall insure that this Warrant (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction.

(f) In case any event shall occur as to which the other provisions of this Section 4 are not strictly applicable but the failure to make any adjustment would not fairly protect the purchase rights represented by this Warrant in accordance with the essential intent and principles hereof, then, in each such case, the Company shall effect such adjustment, on a basis consistent with the essential intent and principles established in this Section 4, as may be necessary to preserve, without dilution, the purchase rights represented by this Warrant.

(g) Upon the occurrence of each adjustment pursuant to this Section 4, the Company at its expense will promptly compute such adjustment in accordance with the terms of this Warrant and prepare a certificate setting forth such adjustment, including a statement of the adjusted Exercise Price and adjusted number or type of Common Stock or other securities issuable upon exercise of this Warrant (as applicable), describing the transactions giving rise to such adjustments and showing in detail the facts upon which such adjustment is based. Upon written request, the Company will promptly deliver a copy of each such certificate to the Holder and to the Company's Transfer Agent.

5. **No Registration Rights.** Neither this Warrant nor the shares of Common Stock underlying this Warrant have been registered under the Securities Act of 1933, as amended (the "Securities Act"). When exercised, the stock certificates shall bear the following legend unless all of the shares may be publicly sold under Rule 144(b)(1) of the Securities Act (or successor rule).

"The securities represented by this certificate have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), and may not be offered for sale or sold except pursuant to (i) an effective registration statement under the Securities Act, or (ii) an opinion of counsel, if such opinion and counsel shall be reasonably satisfactory to counsel to the issuer, that an exemption from registration under the Securities Act is available."

The Company may elect to file a registration statement with the SEC, registering the resale of the Common Stock issued or issuable upon exercise of the Warrant under the Securities Act (the "Registration Statement"); however it is under no obligation to do so.

6. **Reservation of Common Stock.** The Company covenants that it will at all times reserve and keep available out of the aggregate of its authorized but unissued and otherwise unreserved Common Stock, solely for the purpose of enabling it to issue Common Stock upon exercise of this Warrant as herein provided, the number of shares of Common Stock which are then issuable and deliverable upon the exercise in full of this Warrant, free from preemptive rights or any other contingent purchase rights of persons other than the Holder (taking into account the adjustments and restrictions of Section 4). The Company covenants that all Common Stock so issuable and deliverable shall, upon issuance and the payment of the applicable Exercise Price in accordance with the terms hereof, be duly and validly authorized, issued and fully paid and nonassessable.

7. **Replacement of Warrant.** If this Warrant is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation hereof, or in lieu of and substitution for this Warrant, a New Warrant, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction and customary and reasonable indemnity (which may include a surety bond), if requested. Applicants for a New Warrant under such circumstances shall also comply with such other reasonable regulations and procedures and pay such other reasonable third-party costs as the Company may prescribe. If a New Warrant is requested as a result of a mutilation of this Warrant, then the Holder shall deliver such mutilated Warrant to the Company as a condition precedent to the Company's obligation to issue the New Warrant.

8. **Charges, Taxes and Expenses**. Issuance and delivery of certificates for shares of Common Stock upon exercise of this Warrant shall be made without charge to the Holder for any issue or transfer tax, withholding tax, transfer agent fee or other incidental tax or expense in respect of the issuance of such certificates, all of which taxes and expenses shall be paid by the Company; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the registration of any certificates for Common Stock or Warrants in a name other than that of the Holder. The Holder shall be responsible for all other tax liability that may arise as a result of holding or transferring this Warrant or receiving Common Stock upon exercise hereof.

9. **Notices to Holders.** In the event of (a) any fixing by the Company of a record date with respect to the holders of any class of securities of the Company for the purpose of determining which of such holders are entitled to dividends or other distributions, or any rights to subscribe for, purchase or otherwise acquire any shares of capital stock of any class or any other securities or property, or to receive any other right, (b) any capital reorganization of the Company, or reclassification or recapitalization of the capital stock of the Company or any transfer of all or substantially all of the assets or business of the Company to, or consolidation or merger of the Company with or into, any other entity or person, or (c) any voluntary or involuntary dissolution or winding up of the Company, then and in each such event the Company will give the Holders a written notice specifying, as the case may be (i) the record date for the purpose of such dividend, distribution, or right, and stating the amount and character of such dividend, distribution, or right; or (ii) the date on which any such reorganization, reclassification, recapitalization, transfer, consolidation, merger, conveyance, dissolution, liquidation, or winding up is to take place and the time, if any is to be fixed, as of which the holders of record of Common Stock (or such capital stock or securities receivable upon the exercise of this Warrant) shall be entitled to exchange their shares of Common Stock (or such other stock securities) for securities or other property deliverable upon such event. Any such notice shall be given at least ten (10) days prior to the earliest date therein specified.

10. **No Rights as a Stockholder**. This Warrant does not entitle the Holders to any voting rights or other rights as a stockholder of the Company, nor to any other rights whatsoever except the rights herein set forth; provided, however, that the Company shall not close any merger agreement in which it is not the surviving entity, or sell all or substantially all of its assets unless the Company shall have first provided the Holders with at least ten (10) days' prior written notice.

11. **Additional Covenants of the Company.**

(a) If upon issuance of any shares for which this Warrant is exercisable, the Common Stock is listed for trading or trades on any national securities exchange including The Nasdaq Stock Market, the Company shall, at its expense, promptly obtain and maintain the listing or qualifications for trading of such shares.

(b) The Company shall comply with the reporting requirements of Section 13 of the Exchange Act for so long as and to the extent that such requirements apply to the Company.

(c) The Company shall not, by amendment of its Articles of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issuance 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. Without limiting the generality of the foregoing, the Company (i) will at all times reserve and keep available, solely for issuance and delivery upon exercise of this Warrant, shares of Common Stock issuable from time to time upon exercise of this Warrant, (ii) will not increase the par value of any shares of Common Stock issuable upon exercise of this Warrant above the amount payable therefor upon such exercise, and (c) will take all such actions as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable stock.

12. **Successors and Assigns.** This Warrant shall be binding upon and inure to the benefit of the Company, the Holders and their respective successors and permitted assigns.

13. **Severability.** Every provision of this Warrant is intended to be severable. If any term or provision hereof is illegal or invalid for any reason whatsoever, such illegality or invalidity shall not affect the remainder of this Warrant.

14. **Governing Law.** This Warrant shall be governed by and construed in accordance with the laws of the state where the Company is incorporated as of the time of construction without giving effect to the principles of choice of laws thereof.

15. **Attorneys' Fees.** In any action or proceeding brought to enforce any provision of this Warrant, the prevailing party shall be entitled to recover reasonable attorneys' fees in addition to its costs and expenses and any other available remedies.

16. **Good Faith.** The Company will at all times act in good faith assist in the carrying out of all terms and obligations set forth in this Warrant, and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the holder of this Warrant against such impairment.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its duly authorized officer as of the date first set forth above.

LILIS ENERGY, INC.

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

EXHIBIT A (cont'd)

Warrant Exhibit A

SUBSCRIPTION FORM

The undersigned hereby irrevocably subscribes for _____ shares of the Common Stock (the "Stock") of Lilis Energy, Inc. (the "Company") pursuant to and in accordance with the terms and conditions of the attached Warrant (the "Warrant"), and hereby makes payment of $_____ therefore by [tendering cash, wire transferring or delivering a certified check or bank cashier's check, payable to the order of the Company] [surrendering _____ shares of Common Stock received upon exercise of the Warrant, which shares have an aggregate Fair Market Value equal to such payment as required in Section 2 of the Warrant]. The undersigned requests that a certificate for the Stock be issued in the name of the undersigned and be delivered to the undersigned at the address stated below. If the Stock is not all of the shares purchasable pursuant to the Warrant, the undersigned requests that a new Warrant of like tenor for the balance of the remaining shares purchasable thereunder be delivered to the undersigned at the address stated below.

In connection with the issuance of the Stock, I hereby represent to the Company that I am (i) acquiring the Stock for my own account for investment and not with a view to, or for resale in connection with, a distribution of the shares within the meaning of the Securities Act of 1933, as amended (the "Securities Act") and (ii) an "accredited investor" within the meaning of Rule 501 under the Securities Act.

I understand that if at this time the Stock has not been registered under the Securities Act, I must hold such Stock indefinitely unless the Stock is subsequently registered and qualified under the Securities Act or is exempt from such registration and qualification. I shall make no transfer or disposition of the Stock unless (a) such transfer or disposition can be made without registration under the Securities Act by reason of a specific exemption from such registration and such qualification, or (b) a registration statement has been filed pursuant to the Securities Act and has been declared effective with respect to such disposition. I agree that each certificate representing the Stock delivered to me shall bear substantially the same as set forth on the front page of the Warrant.

I further agree that the Company may place stop transfer orders with its transfer agent same effect as the above legend. The legend and stop transfer notice referred to above shall be removed only upon my furnishing to the Company an opinion of counsel (reasonably satisfactory to the Company) to the effect that such legend may be removed.

Date:_____

Signed: _____
Print Name:_____
Address:_____

EXHIBIT A (cont'd)

Warrant Exhibit B

ASSIGNMENT

For Value Received _____ hereby sells, assigns and transfers to _____ the Warrant attached hereto and the rights represented thereby to purchase _____ shares of Common Stock in accordance with the terms and conditions hereof, and does hereby irrevocably constitute and appoint _____ as attorney to transfer such Warrant on the books of the Company with full power of substitution.

Dated:_____
Please print or typewrite
name and address of
assignor:

Signed: _____
Please insert Social Security
or other Tax Identification
Number of Assignor:

Dated:_____
Please print or typewrite
name and address of
assignee:

Signed: _____
Please insert Social Security
or other Tax Identification
Number of Assignee:

Exhibit 10.1

T.R. Winston & Company,
1999 Avenue of the Stars #2550
Los Angeles, CA 90067

May 19, 2014

Lilis Energy, Inc.
1900 Grant Street, Suite #720
Denver, CO 80203

Re: Extension of Maturity of 8% Senior Secured Debentures

The undersigned agree, severally and not jointly, to extend the maturity date of all of the 8% Senior Secured Convertible Debentures (the "Debentures") of Lilis Energy, Inc. ("Lilis") held by the undersigned, from May 16, 2014 until August 15, 2014, contingent upon the extension by Hexagon, LLC of the maturity date of all of Lilis's debt outstanding as of the date hereof under the three loan agreements between Lilis and Hexagon (the "Term Loans") through the same date. The undersigned also waive any right the undersigned may have to declare an event of default in connection with the May 16, 2014 maturity date under the Debentures, again contingent upon Hexagon's extension of the Term Loans.

Very truly yours,

EZ Colony Partners, LLC, a Delaware limited liability company

/s/ Bryan Ezralow
Name: Bryan Ezralow as Trustee of the Bryan Ezralow 1994 Trust
Title: Managing General Partner

Jonathan & Nancy Glaser Family Trust
DTD 12/16/1998 Jonathan M. Glaser and Nancy E. Glaser TTEES

/s/ Jonathan Glaser
Name: Jonathan Glaser
Title: Trustee

Wallington Investment Holdings, Ltd.

/s/ Michael Khoury
Name: Michael Khoury
Title: Director

Steven B. Dunn and Laura Dunn Revocable Trust
DTD 10/28/10, Steven B. Dunn & Laura Dunn TTEES

/s/ Steven B. Dunn
Name: Steven B. Dunn
Title: Trustee

G. Tyler Runnels and Jasmine N. Runnels TTEES The Runnels Family Trust DTD 1-11-2000

/s/ G. Tyler Runnels
Name: G. Tyler Runnels
Title: Trustee

EMSE, LLC,
a Delaware limited liability company

/s/ Marc Ezralow

Name: Marc Ezralow
Title: Manager

ACCEPTED AND AGREED

this 19th day of May, 2014

LILIS ENERGY, INC.

By: _____
Abraham Mirman
Its: Chief Executive Officer

Exhibit 10.2

SECOND AMENDMENT TO
8% SENIOR SECURED CONVERTIBLE DEBENTURES DUE AUGUST 15, 2014

This Amendment ("**Amendment**"), made as of June 6, 2014, by and between Lilis Energy, Inc. f/k/a Recovery Energy, Inc., a Nevada corporation (the "**Company**"), and each holder executing a signature page hereto (the "**Holders**"), amends that certain Securities Purchase Agreement, dated as of February 2, 2011, as amended, between the Company and certain of the Holders as well as additional parties identified as holders on the signature pages thereto (the "**Original Purchase Agreement**"); that certain Securities Purchase Agreement, dated as of March 19, 2012, as amended, between the Company and certain of the Holders as well as additional parties identified as holders on the signature pages thereto (the "**Second Purchase Agreement**"); that certain Securities Purchase Agreement, dated as of June 18, 2013, as amended, between the Company and certain of the Holders as well as additional parties identified as holders on the signature pages thereto (the "**Third Purchase Agreement**" and together with the Original Purchase Agreement and the Second Purchase Agreement, the "**Purchase Agreements**"); those certain 8% Senior Secured Convertible Debentures due May 16, 2014, as amended, issued pursuant to the Original Purchase Agreement (the "**Original Debentures**"); those certain 8% Senior Secured Convertible Debentures due May 16, 2014, issued pursuant to the Second Purchase Agreement (the "**Second Debentures**"); and those certain 8% Senior Secured Convertible Debentures due May 16, 2014 issued pursuant to the Third Purchase Agreement (the "**Third Debentures**" and together with the Original Debentures and the Second Debentures, the "**Debentures**").

Recitals

WHEREAS, the Company issued the Original Debentures pursuant to the Original Purchase Agreement, the Second Debentures pursuant to the Second Purchase Agreement, and the Third Debentures pursuant to the Third Purchase Agreement;

WHEREAS, on January 31, 2014, the Company and the holders of the Debentures, including the Holders, entered into a Conversion Agreement in the form attached hereto as **Exhibit A** (the "**Conversion Agreement**"), pursuant to which they converted a portion of the Debentures;

WHEREAS, on May 19, 2014, the Company and the Holders agreed to extend the maturity date of the Debentures from May 16, 2014 to August 15, 2014; and

WHEREAS, the Company and the Holders now wish to amend the Debentures to extend the maturity date from May 16, 2014 to January 15, 2015 and to make other changes.

NOW THEREFORE, in consideration of the promises and mutual covenants and obligations herein set forth and for other good and valuable consideration, the receipt, sufficiency and adequacy of which is hereby acknowledged, accepted and agreed to, the parties hereto, intending to be legally bound, hereby agree as follows:

Agreement

1. Maturity Date. The Company and each Holder hereby agree to extend the Maturity Date (as defined in the Debentures) of the Debentures held by such Holder from August 15, 2014 to January 15, 2015.

2. Event of Default. The Company and each Holder hereby agree to amend Section 8(a)(iii) to read as follows:

> iii. a default or event of default (subject to any grace or cure period provided in the applicable agreement, document or instrument) shall occur under (A) any of the Transaction Documents or (B) any other material agreement, lease, document or instrument to which the Company or any Subsidiary is obligated (and not covered by clause (vi) below), including, but not limited to, any failure of the Company to meet its obligations under that certain Settlement Agreement, by and among the Company, Hexagon, LLC, Labyrinth Enterprises LLC, The Reiman Foundation and Scott J. Reiman, dated as of May 30, 2014, without regard to any notice or cure periods contained therein;

3. Obligations of the Holders Several and Not Joint. The Company and each Holder hereby acknowledge and agree that the obligations of each Holder that is a party hereto pertains only to the Debentures held by such Holder, that the failure of one or more Holder to execute this Agreement shall not affect the obligations of the Holders who do execute this Agreement, and that no Holder shall be responsible in any way for the performance or non-performance of the obligations of any other Holder hereunder.

4. Waiver. Each of the Company and each Holder hereby waives any actual or alleged breach of the terms of the Debentures or the Purchase Agreements that may have occurred prior to the date of this Amendment. In addition, the parties hereby agree that any default by the Company under the Credit Agreements between the Company and Hexagon, LLC (f/k/a Hexagon Investments, LLC)("**Hexagon**"), dated as of January 29, 2010, March 25, 2010, and April 14, 2010, as each has been or may be amended, or the promissory notes or other agreements between the Company and Hexagon with respect thereto, shall not constitute an Event of Default under the Debentures, so long as there is an effective agreement in place between the Company and Hexagon pursuant to which Hexagon agrees to forebear from enforcing its rights thereunder.

5. Authority. Each Holder hereby represents and warrants that it is a party to one or both of the Purchase Agreements and has full power and authority to enter into this Amendment on the terms set forth herein.

6. Further Assurances. Holders shall from time to time execute such additional instruments and documents, take such additional actions, and give such further assurances as are or may be reasonable or necessary to implement this Amendment.

7. Binding Effect. The terms of this Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns.

8. Reaffirmation of Debenture Terms. All terms of the Purchase Agreements, as previously amended, shall, except as amended hereby, remain in full force and effect, and are hereby ratified and confirmed.

9. Governing Law. This Amendment shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard for principles of conflict of laws thereof.

10. Counterparts. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[*Signature page follows*]

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment effective as of the date first set forth above.

COMPANY

Lilis Energy, Inc.

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

HOLDERS

EZ Colony Partners, LLC, a Delaware limited liability company

/s/ Bryan Ezralow

Name: Bryan Ezralow as Trustee of the Bryan Ezralow 1994 Trust
Title: Managing General Partner

Jonathan & Nancy Glaser Family Trust
DTD 12/16/1998 Jonathan M. Glaser and Nancy E. Glaser TTEES

/s/ Jonathan Glaser

Name: Jonathan Glaser
Title: Trustee

Wallington Investment Holdings, Ltd.

/s/ Michael Khoury

Name: Michael Khoury
Title: Director

Steven B. Dunn and Laura Dunn Revocable Trust
DTD 10/28/10, Steven B. Dunn & Laura Dunn TTEES

/s/ Steven B. Dunn

Name: Steven B. Dunn
Title: Trustee

G. Tyler Runnels and Jasmine N. Runnels TTEES The Runnels Family Trust DTD 1-11-2000

/s/ G. Tyler Runnels

Name: G. Tyler Runnels
Title: Trustee

EMSE, LLC,
a Delaware limited liability company

/s/ Marc Ezralow

Name: Marc Ezralow
Title: Manager

Exhibit 10.3

SEPARATION AGREEMENT

This Separation Agreement (this "Agreement") is effective as of the 24th day of April, 2014, by and between Lilis Energy, Inc. ("Lilis" or the "Company") and W. Phillip Marcum ("Marcum"). As used herein, "Parties" means, collectively, Lilis and Marcum, and "Party" means either Lilis or Marcum.

RECITALS

WHEREAS, Lilis and Marcum are parties to that Employment Agreement dated June 25, 2013 (the "Employment Agreement");

WHEREAS, Lilis and Marcum agree that, on April 18, 2014 (the "Separation Date"), Marcum resigned for Good Reason (as defined in the Employment Agreement) from his positions as officer and employee of Lilis and any of its subsidiaries, including his positions of Chairman and CEO, and on the Board of Directors of Lilis;

WHEREAS, as a result of such resignation, Marcum has the right to severance pay under the Employment Agreement and to accelerated vesting of the 200,000 stock options granted pursuant to the Stock Option Award Agreement dated as of June 25, 2013 between the Company and Marcum (the "Stock Option Agreement") and Section 4.3 of the Employment Agreement (the "Stock Options"); and

WHEREAS, in exchange for the consideration provided herein, Marcum has agreed to (a) release all claims that Marcum 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 Chairman and/or CEO, and (b) refrain from competition with the Company and abide by certain other restrictive covenants, 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 Marcum, the Parties agree as follows:

1. Resignation. Effective as of the Separation Date, in conjunction with various management changes at the Company which would materially alter his job description, Marcum resigned for Good Reason (as defined in the Employment Agreement), and Lilis accepted such resignation, from all his positions as officer and employee of Lilis and any of its subsidiaries, including his positions of Chairman and CEO and on the Board of Directors of Lilis.

2. Consideration.

   (a) Pursuant to the Employment Agreement,

      i. Lilis will pay Marcum fifty-two (52) weeks of continued base salary, at the rate in effect as of the Separation Date ($220,000), less all applicable state and federal tax withholdings and other lawful deductions, the first installment of which will be payable on the Company's first regular payroll date following the date on which this agreement becomes fully enforceable pursuant to Section 7(g), and to continue on the Company's regular payroll schedule until fully paid out, provided that the first installment payment shall include all amounts that would otherwise have been paid to Marcum during the period beginning on the date of this agreement and ending on the first payment date as if no delay had been imposed, and

      ii. The Stock Options shall vest immediately upon execution of this Agreement, and shall remain exercisable for the term set forth in the Stock Option Agreement.

   (b) In addition, the Parties agree that

      i. Lilis will pay Marcum $150,000 in accrued base salary for his service in 2013 (the "Accrued Salary"), less all applicable state and federal tax withholdings and other lawful deductions, in exchange for Marcum's forfeiture of the 93,750 shares of restricted common stock of the Company that was issued to Marcum in June 2013 in lieu of such base salary, in a lump sum no later than June 30, 2014, unless otherwise agreed by Lilis and Marcum, and

      ii. Marcum shall 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, and shall be entitled to receive a bonus in the amount of no less than the greater of 25% of Marcum's base salary or 50% of the highest bonus so paid, it being understood that this provision shall not be triggered by or apply to any bonuses paid to non-executive employees. Any bonus payable to Marcum pursuant to this Section 2(b) shall be payable to Marcum at the same time as it is paid to other senior executives.

iii. Lilis will pay Marcum's reasonable out-of-pocket legal fees to one counsel of his choosing in connection with this Agreement and the transactions contemplated hereby.

3. Other Business and Activities. From and after the Separation Date, subject to the limitations contained in Section 9, Marcum shall be free to pursue any other business and activities in any industry. It is expressly acknowledged and agreed that, except as set forth in Section 9, Marcum shall hereafter have no duty to present any potential transactions to Lilis or to disclose any other business information to which he may be privy.

4. Relinquishment of Rights. It is expressly acknowledged and agreed that, subject to the actual receipt by Marcum of the consideration to be delivered pursuant to Section 2 above and in exchange for such consideration, Marcum and the Company shall each relinquish, waive, and forfeit (a) all rights he or it may have under the Employment Agreement and (b) any and all rights or claims he or it may have to any other salary, bonus or other compensation or otherwise.

5. General Release.

(a) Marcum, 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 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 from the date Marcum became a director of Lilis through the date of execution of this Agreement, except as set forth in subparagraphs (b) and Section 6 below (the "Released Claims").

(b) The Released Claims include but are not limited to those which arise out of, relate to, or are based upon: (i) Marcum'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 and claims under any severance plan, except as provided in this Agreement, (iv) any 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 Marcum 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) state and federal common law, including but not limited to claims for breach of contract, defamation, or emotional distress, (vii) taxes, penalties, or interest assessed against vested or unvested compensation paid, provided, or granted to Marcum 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, 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.

6. Indemnity; Continuing Obligations; Setoff.

(a) Indemnity. The Parties specifically agree that notwithstanding anything herein to the contrary, nothing in this Agreement alters, modifies or amends Marcum's rights to indemnification as set out in Lilis's Certificate of Incorporation or Bylaws or the Nevada Corporation Law. The Company further agrees that if Marcum is made a party or is threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding") by reason of the fact that Marcum was a trustee, director or officer of the Company or any predecessor to the Company or any of their affiliates or served at the request of the Company, any predecessor to the Company or any of their affiliates as a trustee, director, officer, member, employee or agent of another corporation or a partnership, joint venture, limited liability company, trust or other enterprise, including, without limitation, service with respect to employee benefit plans, whether or not the basis of such Proceeding is alleged action in an official capacity as a trustee, director, officer, member, employee or agent while serving as a trustee, director, officer, member, employee or agent, Marcum shall be indemnified and held harmless by the Company to the fullest extent authorized by Nevada law, as the same exists or may hereafter be amended, against all Expenses incurred or suffered by Marcum in connection therewith, and such indemnification shall inure to the benefit of his heirs, executors and administrators.

(b) Expenses. As used in this Section 6, the term "Expenses" shall include, without limitation, damages, losses, judgments, liabilities, fines, penalties, excise taxes, settlements, and costs, attorneys' fees, accountants' fees, and disbursements and costs of attachment or similar bonds, investigations, and any expenses of establishing a right to indemnification under this Agreement.

(c) Enforcement. If a claim or request under this Section 6 is not paid by the Company or on its behalf, within 30 days after a written claim or request has been received by the Company, Marcum may at any time thereafter bring suit against the Company to recover the unpaid amount of the claim or request and if successful in whole or in part, Marcum shall be entitled to be paid also the expenses of prosecuting such suit. All obligations for indemnification hereunder shall be subject to, and paid in accordance with, applicable Nevada law.

(d) Advances of Expenses. Expenses incurred by Marcum in connection with any Proceeding shall be paid by the Company in advance upon request of Marcum that the Company pay such Expenses, but only in the event that Marcum shall have delivered in writing to the Company (i) an undertaking to reimburse the Company for Expenses with respect to which Marcum is not entitled to indemnification and (ii) a statement of his good faith belief that the standard of conduct necessary for indemnification by the Company has been met.

(e) Continuing Obligations. The Parties specifically agree that notwithstanding anything herein to the contrary, nothing in this Agreement alters, modifies or amends Marcum's obligations under that certain Subscription Agreement dated January 22, 2014, between Lilis and Marcum (the "Subscription Agreement"). Furthermore, the Parties specifically agree that Marcum shall be liable for any and all tax obligations in connection with compensation paid to him by Lilis under this Agreement and/or the Employment Agreement or under any other arrangement between Marcum and the Company, and that Marcum shall indemnify Lilis for any failure to withhold the full amount of any withholding tax obligations that may arise as a result of the payment or deemed payment of such amounts; provided that such indemnification obligation shall be capped at an amount equal to the withholding tax that was not withheld and shall not include any additional penalties or interest that may be assessed against Lilis.

(f) Setoff. Marcum shall be entitled to set off the Accrued Salary against any amounts payable by Marcum to Lilis, including to Marcum's obligations pursuant to the Subscription Agreement.

7. Representations and Warranties. Each of Marcum 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) Marcum 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 Marcum 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) Marcum admits, acknowledges, and agrees that, other than the consideration set forth in this Agreement, Marcum 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 Marcum under the terms of Marcum's employment or otherwise. Lilis admits, acknowledges, and agrees that, other than the duties set forth in this Agreement, Marcum has fully performed all his duties and obligations to Lilis, under the Employment Agreement or otherwise.

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

(g) Marcum understands that this Agreement waives and releases any claims Marcum may have under the Age Discrimination in Employment Act. Marcum may revoke this Agreement for 7 calendar days following its execution, and this Agreement shall not become enforceable and effective against Marcum or Lilis until 7 calendar days after such execution. If Marcum chooses to revoke this Agreement, Marcum must provide written notice to Lilis within 7 calendar days of Marcum's execution of this Agreement. If Marcum does not revoke within the 7-day period, the right to revoke is lost.

8. Non-Disparagement.

(a) Marcum 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.

(b) Lilis agrees not to make to any person any statement that disparages Marcum or reflects negatively upon Marcum, including, without limitation, statements regarding Marcum's financial condition, business practices, performance while at Lilis or otherwise.

9. Non-Compete; Non-Solicitation. During the one year period commencing on the date of this Agreement, subject to Lilis continuing payments of the Consideration under Section 2 hereof, Marcum shall not, directly or indirectly through another person or entity, except on behalf of the Company or an affiliate of the Company:

(a) engage in any investment or business opportunity in the oil and gas exploration and production industry in the Denver-Julesburg Basin in Colorado, Nebraska or Wyoming that would reasonably be considered by Lilis to be related to or competitive with the business of Lilis;

(b) disclose any information regarding the Company or its business to the extent such information is not generally available to the public;

(c) induce or attempt to induce any employees of the Company or any affiliate of the Company to leave the employ of the Company or such affiliate, or in any way interfere with the relationship between the Company (or such affiliate) and its employees; or

(d) solicit any person who is or was an employee or consultant of the Company or any affiliate of the Company until three months after such individual's employment or consulting relationship with the Company or such affiliate has been terminated.

The Parties recognize that the performance of the obligations under this Section 9 by Marcum is special, unique and extraordinary in character, and that in the event of a violation, contravention, breach or threatened breach by Marcum of the terms and conditions of this Section 9, the Company shall be entitled to seek the specific performance thereof by Marcum. The right of the Company to specific performance is in addition to any and all other remedies available to it and will not prevent the Company from pursuing, either consecutively or concurrently, any and all other legal or equitable remedies available to it, including the recovery of monetary damages.

Notwithstanding anything in this Section 9 to the contrary, the Parties further recognize that Marcum is currently a director and/or officer of two other public companies, which may or may not be considered competitive to Lilis, and Lilis agrees that Marcum's continued services to those public companies will not be deemed a violation of this Section 9.

10. Waiver of Jury Trial. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT HE OR IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY RELATING TO THIS AGREEMENT, WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY. EACH PARTY HERETO (A) CERTIFIES THAT NO AGENT, ATTORNEY, REPRESENTATIVE OR ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT SEEK TO ENFORCE THE FOREGOING WAIVER IN THE EVENT OF LITIGATION, AND (B) ACKNOWLEDGES THAT HE OR IT AND THE OTHER PARTY HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

11. 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 Marcum 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 Marcum 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 Marcum'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 Marcum's "separation from service," or (ii) Marcum'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.

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

13. 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.

14. 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.

15. Entire Agreement. This Agreement and the Stock Option Agreement contain the Parties' entire agreement regarding the subject matter of this Agreement and supersedes all prior agreements and understandings between them regarding such subject matter (except as reserved 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.

16. Notice. 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 Marcum,

_____

_____

_____

With a copy to:

Kegler, Brown, Hill & Ritter Co., L.P.A.
Attention: Paul R. Hess, Esq.
65 East State Street, Suite 1800
Columbus, Ohio 43215

If to Lilis,

Lilis Energy, Inc.
Attention: A. Bradley Gabbard
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.

17. 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.

18. 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.

19. 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 Denver, Colorado.

20. 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.

[*Signature page follows.*]

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

MARCUM:

/s/ W. Phillip Marcum
Name: W. Phillip Marcum

LILIS:

Lilis Energy, Inc., a Nevada corporation

By: A. Bradley Gabbard
Its: Chief Financial Officer
Name: A. Bradley Gabbard

Exhibit 10.4

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("***Agreement***") is made by and between Lilis Energy, Inc., a Nevada corporation (the "***Company***"), and Robert A. Bell, an individual ("***Executive***"), effective as of May 1, 2014 (the "***Effective Date***").

ARTICLE I
DEFINITIONS

In addition to the terms defined in the body of this Agreement, for purposes of this Agreement, the following capitalized words shall have the meanings indicated below:

1.1 "**BOE**" shall mean barrels of oil equivalent per day as determined in accordance with the SEC guidelines, under which six (6) thousand cubic feet of natural gas equals one (1) barrel of oil.

1.2 "**Board**" shall mean the Board of Directors of the Company.

1.3 "**Cause**" shall mean a determination in good faith by the Board that Executive (a) has, in the performance of Executive's duties with respect to the Company or any of its affiliates, engaged in reckless or willful misconduct or has violated the law, (b) has refused without proper legal reason to perform Executive's duties and responsibilities to the Company or any of its affiliates, recognizing and acknowledging Executives involvement with Peak Operator LLC which continues after written notice from the Company to perform such duties and responsibilities (for the purposes of this clause, the phrase "proper legal reason" shall include the Executive's death or disability, and the Executive's delivery of a Notice of Termination for Good Reason where the assertion by the Executive of termination of employment for Good Reason is for an event that constitutes Good Reason under the terms of this Agreement), (c) has breached any material provision of this Agreement (d) has been convicted of (or pleaded no contest to) a felony (other than a crime involving the operation of a motor vehicle not involving a serious injury or death to an individual), that, the Executive shall have 30 days from the date on which the Executive receives the Company's Notice of Termination for Cause under clause (a), (b) and (c) to remedy any such occurrence otherwise constituting Cause under such clause.

For purposes of this definition, no act or failure to act by Executive shall be deemed "willful" unless done, or omitted to be done, by Executive not in good faith and without reasonable belief that Executive's action or omission was in the best interest of the Company.

In connection with a determination of "Cause," a majority of the Board shall make such determination at a meeting of the Board called and held for such purpose (after reasonable notice to Executive and an opportunity for Executive, together with his counsel, to be heard before the Board).

1.4 "**Code**" shall mean the Internal Revenue Code of 1986, as amended.

1.5 "**Date of Termination**" shall mean the date specified in the Notice of Termination relating to termination of Executive's employment with the Company, subject to adjustment as provided in Section 3.3.

1.6 "**Good Reason**" shall mean the occurrence of any of the following events:

(a) a material diminution in Executive's Base Salary, as it may be modified as provided for herein;

(b) a material diminution in Executive's authority, duties, or responsibilities as an officer, or the Board fails to nominate or re-nominate Executive for election to the Board; or

(c) the involuntary relocation of the geographic location of Executive's principal place of employment by more than 25 miles from the location of Executive's principal place of employment as of the Effective Date which is Oxnard, CA(c)a breach by the Company of a material provision of this Agreement.

Notwithstanding the foregoing provisions of this Section 1.6 or any other provision in this Agreement to the contrary, any assertion by Executive of a termination of employment for "Good Reason" shall not be effective unless all of the following conditions are satisfied: (i) the condition described in Section 1.6(a), (b), or (c), giving rise to Executive's termination of employment must have arisen without Executive's consent; and (ii) in the case of the conditions described in Section 1.6(a), (b), or (c), (A) Executive must provide written notice to the Company of such condition in accordance with Section 8.1 within 45 days of Executive gaining knowledge of the initial existence of the condition, (B) the condition specified in such notice must remain uncorrected for 30 days after receipt of such notice by the Company and (C) the date of Executive's termination of employment must occur within 30 days after the expiration of the cure period set forth in (B) above. This definition of "Good Reason" shall be construed and administered in accordance with the requirements of Treasury Regulation Section 1.409A-1(n)(2).

1.7 "**Notice of Termination**" shall mean a written notice delivered by the Company or the Executive to the other party indicating the specific termination provision in this Agreement relied upon for termination of Executive's employment and the Date of Termination that sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated.

1.8 "**SEC**" shall mean the Securities and Exchange Commission.

1.9 "**Service Period**" shall mean the period extending from the Effective Date until the Date of Termination.

ARTICLE II
EMPLOYMENT AND DUTIES

2.1 **Employment; Effective Date**. The Company agrees to employ Executive, and Executive agrees to be employed by the Company, pursuant to the terms of this Agreement beginning as of April 14 , 2014 and continuing for the period of time set forth in Article III of this Agreement, subject to the terms and conditions of this Agreement.

2.2 **Positions**. From and after the Effective Date, Executive shall serve in the positions of President and Chief Operating Officer ("COO") of the Company reporting directly to the Chief Executive Officer ("CEO") or in such other position or positions as the parties mutually may agree and The Company agrees that Executive shall also remain on the Board per the terms herein.

2.3 **Duties and Services**. Executive agrees to serve in the positions referred to in Section 2.2 hereof and to perform diligently and to the best of Executive's abilities the usual and customary duties and services appertaining to such positions, as well as such additional duties and services appropriate to such positions which the Company and Executive mutually may agree upon from time to time. The Company agrees that the Executive may remain in his current position as President and CEO of the privately held Peak Operator LLC, and such involvement shall not in itself be considered a breach of this Agreement or a for Cause basis for termination of Executive's employment.

2.4 **Other Interests**. Executive agrees, during the period of Executive's employment by the Company, to devote such of Executive's business time, energy and best efforts as are necessary to carry out his responsibilities with respect to the business and affairs of the Company and its affiliates; provided, however, that the Company acknowledges and agrees that Executive may continue to devote an adequate amount of Executive's business time, energy and best efforts to the business and affairs of Peak Operator LLC in his current role as President and CEO to the extent that such efforts do not conflict with or compromise Executive's efforts on behalf of the Company in any material respect or otherwise constitute a violation of this Agreement. In addition, the parties acknowledge and agree that Executive may (a) engage in and manage Executive's passive personal investments, (b) engage in charitable and civic activities, and (c) engage in such other activities that the Company and Executive mutually agree to; provided, however, that such activities shall be permitted so long as such activities do not conflict with the business and affairs of the Company or interfere with the performance of Executive's duties hereunder.

ARTICLE III
TERM AND TERMINATION OF EMPLOYMENT

3.1 **Term**. Subject to the remaining terms of this Article III, this Agreement shall be for an initial term that begins on the Effective Date and continues in effect through the third anniversary of the Effective Date (the "***Initial Term***") and, unless terminated sooner as herein provided, shall continue on a year to year basis after the third anniversary of the Effective Date (each a "***Renewal Term***" and together with the Initial Term, the "***Term***"). If the Company or Executive elects not to renew this Agreement for a Renewal Term, the Company or Executive must give a Notice of Termination to the other party at least 180 days before the expiration of the then-current Initial Term or Renewal Term, as applicable. In the event that one party provides the other with a Notice of Termination pursuant to this Section 3.1, no further automatic extensions will occur and this Agreement shall terminate at the end of the then-existing Initial Term or Renewal Term, as applicable and such termination shall not result in any entitlement to compensation pursuant to Article VI hereof or otherwise.

3.2 **Company's Right to Terminate**. Notwithstanding the provisions of Section 3.1, the Company may terminate Executive's employment under this Agreement at any time for any of the following reasons by providing Executive with a Notice of Termination:

(a) upon Executive being unable to perform Executive's duties or fulfill Executive's obligations under this Agreement by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than six months as determined by the Company and certified in writing by a competent medical physician jointly selected by the Executive (or Executive's legally authorized representative) and the Board ("***Disability***"); or

(b) Executive's death; or

(c) for Cause; or

(d) for any other reason whatsoever or for no reason at all, in the sole discretion of the Company.

3.3 **Executive's Right to Terminate**. Notwithstanding the provisions of Section 3.1, Executive shall have the right to terminate Executive's employment under this Agreement for:

(a) Good Reason; or

(b) for any other reason whatsoever or no reason at all, in the sole discretion of Executive, by providing the Company with a Notice of Termination.

In the case of a termination of employment by Executive pursuant to this Section 3.3, the Date of Termination specified in the Notice of Termination shall not be less than 15 nor more than 60 days, from the date such Notice of Termination is given, and the Company may require a Date of Termination earlier than that specified in the Notice of Termination (and, if such earlier Date of Termination is so required, it shall not change the basis for Executive's termination nor be construed or interpreted as a termination of employment pursuant to Section 3.1 or Section 3.2).

3.4 **Deemed Resignations**. Unless otherwise agreed to in writing by the Company and Executive prior to the termination of Executive's employment, any termination of Executive's employment shall constitute an automatic resignation of Executive as an officer of the Company and each affiliate of the Company.

3.5 **Meaning of Termination of Employment**. For all purposes of this Agreement, Executive shall be considered to have terminated employment with the Company when Executive incurs a "separation from service" with the Company within the meaning of Section 409A(a)(2)(A)(i) of the Code and applicable administrative guidance issued thereunder.

ARTICLE IV
COMPENSATION AND BENEFITS

4.1 **Base Salary**. During the Service Period, Executive shall receive an initial minimum, annualized base salary of $240,000.00 (as the same may be adjusted from time to time in accordance with this Section 4.1, the "***Base Salary***"). Executive's annualized Base Salary shall be reviewed periodically by the Board (or a committee thereof) as the Executive's duties and responsibilities are expanded, and shall be increased to reflect such expanded duties and responsibilities. Such increases shall become effective as of any date determined by the Board (or a committee thereof).

4.2 **Stock Grant and Signing Bonus**. As of the Effective Date, Executive shall be granted 100,000 shares of the Company's common stock (the "***Stock Bonus***") pursuant to the Company's 2012 Equity Incentive Plan (the "***Plan***"). Executive shall also be paid a cash signing bonus of $100,000. 33,333 shares of the Stock Bonus shall be fully vested upon grant and shall not be subject to forfeiture. The remaining 66,667 shares shall vest in equal one-third increments on each anniversary of the Effective Date during the Initial Term. Executive shall remit to the Company the withholding amount in cash or shares as contemplated in the Award Agreement. The Company shall obtain all necessary approvals such that the Stock Bonus shall be exempt from Section 16(b) of the Securities Exchange Act of 1934, as amended ("***Section 16(b)***"). The Board of Directors can vote to accelerate vesting of the shares herein at any time at their sole discretion.

4.3 **Option Bonus**. Subject to the conditions and performance goals set forth below, the Company hereby grants, pursuant to the Plan, to the Executive on the Effective Date a non-statutory option (the "***Option Bonus***") to purchase up to 1,500,000 shares of the common stock of the Company at a strike price equal to the closing share price for the Company's common stock as reported on the national exchange on which the Company's share price is reported at the close of trading on the Effective Date (which is agreed to be $• per share on the Effective Date), which shall become exercisable as follows:

(a) Executive's option to purchase up to 333,334 shares of Company common stock shall vest and become exercisable upon the first anniversary of the Effective Date.

(b) Executive's option to purchase up to 333,333 shares of Company common stock shall vest and become exercisable upon the second anniversary of the Effective Date.

(c) Executive's option to purchase up to 333,333 shares of Company common stock shall vest and become exercisable upon the third anniversary of the Effective Date.

(d) Executive's option to purchase the other 500,000 shares of Company common stock shall become exercisable on the earliest date during the Service Period following which the Company's annualized gross production average for a consecutive 90-day period is equal to or exceeds 2,500 BOE per day,

The Option Bonus shall be the subject of a separate award agreement, shall have a term of five years from the date the Option Bonus becomes exercisable, and shall provide for accelerated vesting and exercisability upon the occurrence of a Change in Control (as defined in the Plan) or as otherwise determined by the Board. The Option Bonus shall be granted under the Plan, provided that Executive's option to purchase up to 750,000 shares of Company common stock shall be granted subject to receipt of the required stockholder approval of an increase in shares available for grant under the Plan. The Company shall use its reasonable best efforts to obtain such increase in shares available under the Plan, and shall use its reasonable best efforts to file a proxy statement to effectuate such increase by no later than June 1, 2014. In the event the Company has proposed such an increase to stockholders at least three times without obtaining the requisite approval, then upon the occurrence of a vesting event as set forth above (including the occurrence of a Change in Control, to the extent such Change in Control results in an acceleration of vesting under the Plan), if there are insufficient shares under the Plan to accommodate the vesting or exercise of any part of the option, the Company shall redeem the option to the extent of such deficiency for a price equal to the aggregate grant date fair value of the options that would otherwise vest upon the occurrence of such vesting event, calculated using the Black Scholes valuation model. The determination as to whether and when the conditions to exercisability of all or any portion of the Option have been satisfied shall be determined by the Board in good faith. The Company shall obtain all necessary approvals such that the Options shall be exempt from Section 16(b). To the extent the conditions to vesting have not occurred with respect to any of the foregoing thresholds, the portion of the Option that becomes exercisable at such thresholds shall be forfeited and of no further force and effect as of the Date of Termination. The Executive may employ a "cashless exercise" of any Option and the Company agrees to cooperate with Executive with such form of exercise of an Option.

4.4 **Cash Incentive Bonus**. Executive shall receive a lump-sum cash payment within **30** days following the date on which any of the following conditions are satisfied (the "***Incentive Bonus***"):

(a) Executive will be granted a **$250,000** cash bonus payable to the Executive on the earliest practicable date following the date on which the Company has determined that its annualized gross production average for a consecutive 90-day period is equal to or exceeds **5,000** BOE per day.

(b) Executive will be granted a **$500,000** cash bonus payable to the Executive on the earliest practicable date following the date on which the Company has determined that its annualized gross production average for a consecutive 90-day period is equal to or exceeds **7,500** BOE per day.

(c) Executive will be granted a **$1,000,000** cash bonus payable to the Executive on the earliest practicable date following the date on which the Company has determined that its annualized gross production average for a consecutive 90-day period is equal to or exceeds **10,000** BOE per day.

It is agreed and understood that each Incentive Bonus may be earned separately and awarded separately, and that more than one Incentive Bonus may be earned and paid in any calendar year.

4.5 **Continued Employment**. The vesting of the Option Bonus in Section 4.3 and the entitlement to the Incentive Bonus in Section 4.4 are subject to Executive's continued employment on the date of such event except as provided in Section 6.1(e)(iii).

4.6 **Benefits**. During the Service Period, Executive shall be entitled to receive all benefits of employment generally available to the Company's other executive employees when and as such benefits, if any, become available and Executive becomes eligible for them, including any sick leave, medical, dental, life and disability insurance benefits, long-term incentive plan, stock option plan, pension plan and/or profit-sharing plan. Notwithstanding the foregoing, the Company shall use its reasonable best efforts to institute a group term life policy and customary disability insurance coverage for the benefit of its executive officers.

4.7 **Vacation and Leave**. Executive shall be entitled to 25 paid vacation days each calendar year of the Term of the Agreement in accordance with the Company's policies on accrual and use applicable to executive officers as in effect from time to time. Executive shall also be entitled to all paid holidays given by the Company to its employees generally**.** If Executive is also employed by Peak Operator LLC the Executive will take vacation time coincident with Peak Operator LLC vacation time. If Executive terminates his employment with Peak Operator LLC for any reason, Executive shall be entitled to 30 days paid vacation days each calendar year of the Term of the Agreement in accordance with Company policy, effective in the calendar year next following the year of termination of Executive's employment with Peak Operator LLC.

4.8 **Expenses**.

(a) The Company shall promptly reimburse Executive for all reasonable out-of-pocket business expenses incurred by Executive in performing services hereunder, provided, in each case, that such expenses are incurred and accounted for in accordance with the policies and procedures established by the Company. Any such reimbursement of expenses shall be made by the Company to Executive within 30 days of receipt of supporting documentation reasonably satisfactory to the Company. In no event shall any reimbursement be made to Executive for such fees and expenses incurred after the date that is one year after the date of Executive's termination of employment with the Company.

(b) Executive shall also be provided with a Company credit card with business expenses reimbursable pursuant to subsection (a) above charged to such credit card to be paid directly by the Company. Executive shall promptly reimburse the Company for charges on such credit card which are not reimbursable pursuant to subsection (a).

(c) If Executive elects to maintain his current welfare plan coverage (including but not limited to medical, dental, vision, life insurance and disability plans), the Company shall reimburse Executive in an amount equal to the amount that would otherwise be paid by the Company on behalf of Executive for the benefits that the Company provides for all employees in general.

ARTICLE V
PROTECTION OF INFORMATION

5.1 **Disclosure to and Property of the Company**. For purposes of this Article V, the term "the Company" shall include the Company and any of its affiliates, and any reference to "employment" or similar terms shall include a director, manager and/or consulting relationship. All information, trade secrets, designs, ideas, concepts, improvements, product developments, discoveries and inventions, whether patentable or not, that are conceived, made, developed or acquired by Executive, individually or in conjunction with others, during the period of Executive's employment by the Company (whether during business hours or otherwise and whether on the Company's premises or otherwise) that relate to the Company's business, trade secrets, products or services (including, without limitation, all such information relating to corporate opportunities, product specification, compositions, manufacturing and distribution methods and processes, research, financial and sales data, pricing terms, evaluations, opinions, interpretations, acquisition prospects, the identity of customers or their requirements, the identity of key contacts within the customer's organizations or within the organization of acquisition prospects, or production, marketing and merchandising techniques, prospective names and marks) and all writings or materials of any type embodying any of such information, ideas, concepts, improvements, discoveries, inventions and other similar forms of expression (collectively, "***Confidential Information***") shall be retained for and, to the extent practicable, disclosed to the Company and are and shall be the sole and exclusive property of the Company. Moreover, all documents, videotapes, written presentations, brochures, drawings, memoranda, notes, records, files, correspondence, manuals, specifications, computer programs, E-mail, voice mail, electronic databases, maps, architectural renditions, models and all other writings or materials of any type embodying any of such information, ideas, concepts, improvements, discoveries, inventions and other similar forms of expression that are conceived, made, developed or acquired by Executive individually or in conjunction with others during the period of Executive's employment by the Company (whether during business hours or otherwise and whether on the Company's premises or otherwise) that relate to the Company's business, trade secrets, products or services (collectively, "***Work Product***") are and shall be the sole and exclusive property of the Company. Executive agrees to perform all actions reasonably requested by the Company to establish and confirm such exclusive ownership. Upon termination of Executive's employment by the Company, for any reason, Executive promptly shall deliver such Confidential Information and Work Product, and all copies thereof, to the Company. Notwithstanding the foregoing, Confidential Information does not include any information Executive obtains as a result of his participation in the activities of or ownership of Peak Operator LLC through his affiliation with common investors.

5.2 **No Unauthorized Use or Disclosure**. Executive agrees to use reasonable efforts to preserve and protect the confidentiality of all Confidential Information and of all Work Product containing Confidential Information of the Company and its affiliates. Executive agrees that Executive will not, at any time during or after Executive's employment with the Company, make any unauthorized disclosure of, and Executive shall not remove from the Company premises, Confidential Information or Work Product of the Company or its affiliates, or make any use thereof, except, in each case, in the carrying out of Executive's responsibilities hereunder. Executive shall use all reasonable efforts to obligate all persons or entities to whom any Confidential Information shall be disclosed by Executive hereunder to preserve and protect the confidentiality of such Confidential Information. Executive shall have no obligation hereunder to keep confidential any Confidential Information if and to the extent (i) such Confidential Information has become publicly available other than as a result of a breach of this Agreement by Executive or (ii) disclosure thereof is specifically required by law; provided, however, that in the event disclosure is required by applicable law, Executive shall provide the Company with prompt notice of such requirement prior to making any such disclosure, so that the Company may seek an appropriate protective order. At the request of the Company at any time, Executive agrees to deliver to the Company all Confidential Information that Executive may possess or control. Executive agrees that all Confidential Information of the Company (whether now or hereafter existing) conceived, discovered or made by Executive during the period of Executive's employment by the Company exclusively belongs to the Company (and not to Executive), and upon request by the Company for specified Confidential Information, Executive will promptly disclose such Confidential Information to the Company and perform all actions reasonably requested by the Company to establish and confirm such exclusive ownership. Affiliates of the Company shall be third party beneficiaries of Executive's obligations under this Article V. As a result of Executive's employment by the Company, Executive may also from time to time have access to, or knowledge of, confidential information or work product of third parties, such as customers, suppliers, partners, joint venturers, and the like, of the Company and its affiliates. Executive also agrees to use reasonable efforts to preserve and protect the confidentiality of such third party Confidential Information and Work Product.

5.3 **Ownership by the Company**. If, during Executive's employment by the Company, Executive creates any work of authorship fixed in any tangible medium of expression that is the subject matter of copyright (such as videotapes, written presentations, or acquisitions, computer programs, E-mail, voice mail, electronic databases, drawings, maps, architectural renditions, models, manuals, brochures, or the like) relating to the Company's business, products, or services, whether such work is created solely by Executive or jointly with others (whether during business hours or otherwise and whether on the Company's premises or otherwise), including any Work Product, the Company shall be deemed the author of such work if the work is prepared by Executive in the scope of Executive's employment; or, if the work relating to the Company's business, products, or services is not prepared by Executive within the scope of Executive's employment but is specially ordered by the Company as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, or as an instructional text, then the work shall be considered to be work made for hire and the Company shall be the author of the work. If the work relating to the Company's business, products, or services is neither prepared by Executive within the scope of Executive's employment nor a work specially ordered that is deemed to be a work made for hire during Executive's employment by the Company, then Executive hereby agrees to assign, and by these presents does assign, to the Company all of Executive's worldwide right, title, and interest in and to such work and all rights of copyright therein.

5.4 **Assistance by Executive**. During the period of Executive's employment by the Company, Executive shall assist the Company and its nominee, at any time, in the protection of the Company's or its affiliates' worldwide right, title and interest in and to Confidential Information and Work Product and the execution of all formal assignment documents requested by the Company or its nominee and the execution of all lawful oaths and applications for patents and registration of copyright in the United States and foreign countries. After Executive's employment with the Company terminates, at the request from time to time and expense of the Company or its affiliates, Executive shall reasonably assist the Company and its nominee, at reasonable times and for reasonable periods and for reasonable compensation, in the protection of the Company's or its affiliates' worldwide right, title and interest in and to Confidential Information and Work Product and the execution of all formal assignment documents requested by the Company or its nominee and the execution of all lawful oaths and applications for patents and registration of copyright in the United States and foreign countries.

5.5 **Remedies**. Executive acknowledges that money damages would not be a sufficient remedy for any breach of this Article V by Executive, and the Company shall be entitled to enforce the provisions of this Article V by specific performance and injunctive relief as remedies for such breach or any threatened breach. Such remedies shall not be deemed the exclusive remedies for a breach of this Article V but shall be in addition to all remedies available at law or in equity, including the recovery of damages from Executive and Executive's agents.

ARTICLE VI
EFFECT OF TERMINATION OF EMPLOYMENT ON COMPENSATION

6.1 **Effect of Termination of Employment on Compensation**.

(a) ***Benefit Obligation and Accrued Obligation Defined.*** For purposes of this Agreement, payment of the "***Benefit Obligation***" shall mean payment by the Company to Executive (or his designated beneficiary or legal representative, as applicable), in accordance with the terms of the applicable plan document, of all vested benefits to which Executive is entitled under the terms of the employee benefit plans and compensation arrangements in which Executive is a participant as of the Date of Termination. "***Accrued Obligation***" means the sum of (1) Executive's Base Salary through the Date of Termination, as in effect as of Executive's termination, (2) any accrued and unused vacation pay earned by Executive as of the Date of Termination under the Company's policies then in effect, (3) any then-earned but unpaid Incentive Bonus as of the Date of Termination, and (4) any incurred but unreimbursed expenses as of the Date of Termination for which Executive is entitled to reimbursement in accordance with Section 4.9(a), in each case, to the extent not theretofore paid.

(b) ***Disability; Death***. If during the Term Executive's employment is terminated pursuant to Section 3.2(a) or Section 3.2(b) hereof, then the Executive (or his designated beneficiary or legal representative, if applicable) shall receive the following benefits and compensation from the Company:

(i) the Company shall pay the Executive the Accrued Obligation within 30 days following the date of the Executive's Date of Termination; and

(ii) the Company shall pay Executive the Benefit Obligation at the times specified in and in accordance with the terms of the applicable employee benefit plans and compensation arrangements.

Notwithstanding the foregoing, neither Executive, nor his estate, shall be permitted to specify the taxable year in which a payment described in this Section 6.1(b) shall be paid.

(c) ***By the Company for Cause.*** If during the Term the Executive's employment is terminated by the Company pursuant to Section 3.2(c) hereof, the Company shall pay to the Executive the Accrued Obligation within 30 days following the Date of Termination. Following such payment, the Company shall have no further obligations to the Executive other than as may be required by law or the terms of an employee benefit plan of the Company. The Company shall pay the Executive the Benefit Obligation at the times specified in and in accordance with the terms of the applicable employee benefit plans and compensation arrangements.

(d) ***By the Executive Without Good Reason***. If during the Term the Executive terminates his employment for any reason other than Good Reason, the Company shall pay to the Executive the Accrued Obligation within 30 days following the Date of Termination. Following such payment, the Company shall have no further obligations to the Executive other than as may be required by law or the terms of an employee benefit plan of the Company. The Company shall pay the Executive the Benefit Obligation at the times specified in and in accordance with the terms of the applicable employee benefit plans and compensation arrangements. The Executive shall not have breached this Agreement if he terminates his employment for any reason.

(e) ***By the Company Without Cause or by the Executive for Good Reason.*** If during the Term, the Executive's employment is terminated by the Company other than for Cause, death or Disability or if the Executive terminates his employment for Good Reason, then, the Executive shall receive the following benefits and compensation from the Company:

(i) the Company shall pay the Executive the Accrued Obligation within 30 days following the date of the Executive's Date of Termination;

(ii) the Company shall pay Executive a lump-sum payment consisting of (A) one and one-half (1.5) times Executive's Base Salary at the time of termination, payable on the 60th day following Executive's Date of Termination and (B) any Incentive Bonus for which the performance threshold was initially met prior to the Date of Termination, with such amount paid when and if the Incentive Bonus would have been paid if Executive's employment with the Company had not terminated;

(iii) the Company will cause all un-exercisable Options to become exercisable and remain exercisable until the sooner of (1) the expiration of the term of the Options or (2) two years following the Date of Termination;

(iv) the Company shall pay Executive the Benefit Obligation at the times specified in and in accordance with the terms of the applicable employee benefit plans and compensation arrangements; and

(v) during the eighteen-month period following Executive's Date of Termination, the Company shall allow Executive and his eligible dependents to continue to be covered by all medical, vision and dental benefit plans maintained by the Company under which Executive was covered immediately prior to Executive's Date of Termination at the same active employee premium cost as a similarly situated active employee.

Notwithstanding the foregoing, neither Executive, nor his estate, shall be permitted to specify the taxable year in which a payment described in this Section 6.1(e) shall be paid. The Company shall not have breached this Agreement if it terminates this Agreement for any reason, or no reason.

(f) ***General Release of Claims.*** Payments to and benefits for Executive under this Article VI (other than Accrued Obligations and Benefit Obligations) are contingent upon Executive's execution of a release, substantially in the form attached hereto as Exhibit A, within 50 days of Executive's Date of Termination that is not revoked by Executive during any applicable revocation period provided in such release (which shall release and discharge the Company and its affiliates, and their officers, directors, managers, employees and agents from any and all claims or causes of action of any kind or character, including but not limited to all claims or causes of action arising out of Executive's employment with the Company or its affiliates or the termination of such employment).

(g) ***No Duty to Mitigate Losses.*** Executive shall have no duty to find new employment following the termination of his employment under circumstances which require the Company to pay any amount to Executive pursuant to this Article VI. Any salary or remuneration received by Executive from a third party for the provision of personal services (whether by employment or by functioning as an independent contractor) following the termination of his employment shall not reduce the Company's obligation to make a payment to Executive (or the amount of such payment) pursuant to the terms of any such Section.

ARTICLE VII
NON-COMPETITION AGREEMENT

7.1 **Definitions**. As used in this Article VII, the following terms shall have the following meanings:

(a) "***Business***" means any endeavor in which the Company, including its affiliates, is engaged during Executive's period of employment with the Company.

(b) "***Competing Business***" means any business, individual, partnership, firm, corporation or other entity which wholly or in any significant part engages in any business competing with the Company in the Restricted Area. In no event will the Company or any of its subsidiaries or Peak Operator LLC be deemed a Competing Business.

(c) "***Governmental Authority***" means any governmental, quasi-governmental, state, county, city or other political subdivision of the United States or any other country, or any agency, court or instrumentality, foreign or domestic, or statutory or regulatory body thereof.

(d) "***Legal Requirement***" means any law, statute, code, ordinance, order, rule, regulation, judgment, decree, injunction, franchise, permit, certificate, license, authorization, or other directional requirement (including, without limitation, any of the foregoing that relates to environmental standards or controls, energy regulations and occupational, safety and health standards or controls including those arising under environmental laws) of any Governmental Authority.

(e) "***Prohibited Period***" means the period during which Executive is employed by the Company hereunder and a period of one year following Executive's Date of Termination.

(f) "***Restricted Area***" means any county in which the Company or its subsidiaries currently or during the Term engages in the Business other than in California**.**

7.2 **Non-Competition; Non-Solicitation**. Executive and the Company agree to the non-competition and non-solicitation provisions of this Article 7 (i) in consideration for the Confidential Information provided by the Company to Executive pursuant to Article V of this Agreement; (ii) as part of the consideration for the compensation and benefits to be paid to Executive hereunder; (iii) to protect the trade secrets and confidential information of the Company or its affiliates disclosed or entrusted to Executive by the Company or its affiliates or created or developed by Executive for the Company or its affiliates, the business goodwill of the Company or its affiliates developed through the efforts of Executive and/or the business opportunities disclosed or entrusted to Executive by the Company or its affiliates; and (iv) as an additional incentive for the Company to enter into this Agreement.

(a) Subject to the exceptions set forth in Section 7.2(b) below, Executive expressly covenants and agrees that during the Prohibited Period (i) Executive will refrain from carrying on or engaging in, directly or indirectly, the Business in the Restricted Area and (ii) Executive will not, and Executive will cause Executive's affiliates not to, directly or indirectly, own, manage, operate, join, become an employee, partner, owner or member of (or an independent contractor to), control or participate in any business, individual, partnership, firm, corporation or other entity which engages in a Competing Business in the Restricted Area.

(b) Notwithstanding the restrictions contained in Section 7.2(a), Executive or any of Executive's affiliates may own an aggregate of not more than 1% of the outstanding stock of any class of any corporation engaged in the Business, if such stock is listed on a national securities exchange or regularly traded in the over-the-counter market by a member of a national securities exchange, without violating the provisions of Section 7.2(a), provided that neither Executive nor any of Executive's affiliates has the power, directly or indirectly, to control or direct the management or affairs of any such corporation and is not involved in the management of such corporation. For the avoidance of doubt, Peak Operator LLC shall not be deemed an affiliate of Executive.

(c) Executive further expressly covenants and agrees that during the Prohibited Period, Executive will not, and Executive will cause Executive's affiliates not to (i) engage or employ, or solicit or contact with a view to the engagement or employment of, any person who is an officer or employee of the Company or any of its affiliates or (ii) canvass, solicit, approach or entice away or cause to be canvassed, solicited, approached or enticed away from the Company or any of its affiliates any person who or which is a customer of any of such entities during the period during which Executive is employed by the Company. Notwithstanding the foregoing, the restrictions of clause (i) of this Section 7.2(c) shall not apply with respect to (A) an officer or employee of the Company or any of its affiliates whose employment has been involuntarily terminated by his or her employer (other than for cause), (B) an officer or employee of the Company or any of its affiliates who has voluntarily terminated employment with the Company and their respective affiliates and who has not been employed by any of such entities for at least one year, (C) an employee who is paid on an hourly basis, or (D) an officer or employee of the Company or any of its affiliates who responds to a general solicitation that is not specifically directed at officers and employees of the Company or any of their respective affiliates.

(d) Executive may seek the written consent of the Company to waive the provisions of this Article VII on a case-by-case basis. Such consent may be granted, or withheld in the Company's sole, unfettered discretion.

(e) Executive expressly recognizes that Executive is a high-level, executive employee who will be provided with access to trade secrets as part of Executive's employment and that the restrictive covenants set forth in this Section 7.2 are reasonable and necessary in light of Executive's executive position and access to the Company's trade secrets.

7.3 **Relief**. Executive and the Company agree and acknowledge that the limitations as to time, geographical area and scope of activity to be restrained as set forth in Section 7.2 hereof are reasonable and do not impose any greater restraint than is necessary to protect the legitimate business interests of the Company. Executive and the Company also acknowledge that money damages would not be sufficient remedy for any breach of this Article VII by Executive, and the Company or its affiliates shall be entitled to enforce the provisions of this Article VII by specific performance and injunctive relief as remedies for such breach or any threatened breach. Such remedies shall not be deemed the exclusive remedies for a breach of this Article VII but shall be in addition to all remedies available at law or in equity, including the recovery of damages from Executive and Executive's agents.

7.4 **Reasonableness; Enforcement**. Executive hereby represents to the Company that Executive has read and understands, and agrees to be bound by, the terms of this Article VII. Executive acknowledges that the geographic scope and duration of the covenants contained in this Article VII are the result of arm's-length bargaining and are fair and reasonable in light of (a) the nature and wide geographic scope of the operations of the Business, (b) Executive's level of control over and contact with the Business in all jurisdictions in which it is conducted, (c) the fact that the Business is conducted throughout the Restricted Area and (d) the amount of compensation, trade secrets and Confidential Information that Executive is receiving in connection with the performance of Executive's duties hereunder. It is the desire and intent of the parties that the provisions of this Article VII be enforced to the fullest extent permitted under applicable Legal Requirements, whether now or hereafter in effect and therefore, to the extent permitted by applicable Legal Requirements, Executive and the Company hereby waive any provision of applicable Legal Requirements that would render any provision of this Article VII invalid or unenforceable.

7.5 **Reformation**. The Company and Executive agree that the foregoing restrictions are reasonable under the circumstances and that any breach of the covenants contained in this Article VII would cause irreparable injury to the Company. Executive expressly represents that enforcement of the restrictive covenants set forth in this Article VII will not impose an undue hardship upon Executive or any person or entity affiliated with Executive. Executive understands that the foregoing restrictions may limit Executive's ability to engage in certain businesses anywhere in the Restricted Area during the Prohibited Period, but acknowledges that Executive will receive sufficiently high remuneration and other benefits from the Company to justify such restriction. Further, Executive acknowledges that Executive's skills are such that Executive can be gainfully employed in non-competitive employment, and that the agreement not to compete will not prevent Executive from earning a living. Nevertheless, if any of the aforesaid restrictions are found by a court of competent jurisdiction to be unreasonable, or overly broad as to geographic area or time, or otherwise unenforceable, the parties intend for the restrictions herein set forth to be modified by the court making such determination so as to be reasonable and enforceable and, as so modified, to be fully enforced. By agreeing to this contractual modification prospectively at this time, the Company and Executive intend to make this provision enforceable under the law or laws of all applicable jurisdictions so that the entire agreement not to compete and this Agreement as prospectively modified shall remain in full force and effect and shall not be rendered void or illegal. Such modification shall not affect the payments made to Executive under this Agreement.

ARTICLE VIII
MISCELLANEOUS

8 . 1 **Notices**. For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given (a) when received if delivered personally or by courier, (b) on the date receipt is acknowledged if delivered by certified mail, postage prepaid, return receipt requested or (c) one day after transmission if sent by facsimile transmission with confirmation of transmission, as follows:

If to Executive, addressed to:	Mr. Robert A. (Bob) Bell 2767 Avenida de Autlan Camarillo, CA 93010 (661) 829-9434 rbell@peakoperator.com
If to the Company, addressed to:	Lilis Energy, Inc. 1900 Grant Street, Suite #720 Denver, CO 80203 Attention: Chief Executive Officer
With a copy to:	Davis Graham & Stubbs LLP 1550 17th Street, Suite 500 Denver, CO 80202 Attention: Ronald R. Levine II, Esq.

or to such other address as either party may furnish to the other in writing in accordance herewith, except that notices or changes of address shall be effective only upon receipt.

8.2 **Applicable Law; Submission to Jurisdiction**.

(a) This Agreement is entered into under, and shall be governed for all purposes by, the laws of the State of Colorado, without regard to conflicts of laws principles thereof, excepting 8.2(b) below.

(b) With respect to any claim or dispute related to or arising under this Agreement, the parties hereto hereby consent to the exclusive jurisdiction, forum and venue of the state and federal courts located in the state in which the Company's principal executive offices are then located.

8.3 **Dispute Resolution**. Except as provided otherwise in Sections 5.5 and 7.3, all claims, demands, causes of action, disputes, controversies or other matters in question ("***Claims***") arising out of this Agreement or the Executive's service (or termination from service) with the Company, whether arising in contract, tort or otherwise and whether provided by statute, equity or common law, that the Company may have against the Executive or that the Executive may have against the Company, or its parents or subsidiaries, or against each of the foregoing entities' respective officers, directors, employees or agents in their capacity as such or otherwise, shall be settled in accordance with the procedures described in Section 8.3(a) and (b). Claims covered by this Section 8.3 include, without limitation, claims by the Executive for breach of this Agreement, wrongful termination, discrimination (based on age, race, sex, disability, national origin, sexual orientation, or any other factor), harassment and retaliation.

(a) *Agreement to Negotiate*. First, the parties shall attempt in good faith to resolve any Claims promptly by negotiations between the Executive and executives or directors of the Company or its affiliates who have authority to settle the Claims. Either party may give the other disputing party written notice of any Claim not resolved in the normal course of business. Within five days after the effective date of that notice, the Executive and such executives or directors of the Company shall agree upon a mutually acceptable time and place to meet and shall meet at that time and place, and thereafter as often as they reasonably deem necessary, to exchange relevant information and to attempt to resolve the Claim. The first of those meetings shall take place within 30 days of the date of the disputing party's notice. If the Claim has not been resolved within 60 days of the date of the disputing party's notice, or if the parties fail to agree on a time and place for an initial meeting within five days of that notice, either party may elect to undertake arbitration in accordance with Section 8.3(b).

(b) *Agreement to Arbitrate*. If a Claim is not resolved by negotiation pursuant to Section 8.3(a), such Claim must be resolved through arbitration regardless of whether the Claim involves claims that the Agreement is unlawful, unenforceable, void, or voidable or involves claims under statutory, civil or common law. Any arbitration shall be conducted in accordance with the then-current International Arbitration Rules of the American Arbitration Association ("***AAA***"). If a party refuses to honor its obligations under this Section 8.3(b), the other party may compel arbitration any federal or state court of competent jurisdiction. The arbitrator shall apply the substantive law of Colorado (excluding choice-of-law principles that might call for the application of some other jurisdiction's law) or federal law as applied by the United States Court of Appeals for the Tenth Circuit, or both as applicable to the Claims asserted. The arbitrator shall have exclusive authority to resolve any dispute relating to the interpretation, applicability or enforceability or formation of this Agreement (including this Section 8.3(b)), including any claim that all or part of the Agreement is void or voidable and any Claim that an issue is not subject to arbitration. The results of arbitration will be binding and conclusive on the parties hereto. Any arbitrator's award or finding or any judgment or verdict thereon will be final and un-appealable. The seat of arbitration shall be in Denver, Colorado and unless agreed otherwise by the parties, all hearings shall take place at the seat. Any and all of the arbitrator's orders, decisions and awards may be enforceable in, and judgment upon any award rendered by the arbitrator may be confirmed and entered by any federal or state court having jurisdiction. All evidentiary privileges under applicable state and federal law, including attorney-client, work product and party communication privileges, shall be preserved and protected. The decision of the arbitrator will be binding on all parties. Arbitrations will be conducted in such a manner that the final decision of the arbitrator will be made and provided to the Executive and the Company no later than 120 days after a matter is submitted to arbitration. All proceedings conducted pursuant to this agreement to arbitrate, including any order, decision or award of the arbitrators, shall be kept confidential by all parties. Each party shall pay its own attorneys fees and disbursements and other costs of arbitration. The parties to the arbitration shall split all of the arbitrator's fees equally. EXECUTIVE ACKNOWLEDGES THAT, BY SIGNING THIS AGREEMENT, EXECUTIVE IS WAIVING ANY RIGHT THAT EXECUTIVE MAY HAVE TO A JURY TRIAL OR A COURT TRIAL OF ANY SERVICE RELATED CLAIM ALLEGED BY EXECUTIVE. The venue per this section 8.3(b) will revert to the county and state in which the Company's principal executive offices are then located.

8.4 **Indemnification; Directors' and Officers' Liability Insurance**. During the Term and thereafter, the Company agrees to indemnify and hold Executive harmless, to the maximum extent permitted by law, against any and all damages, costs, liabilities, losses and expenses (including reasonable attorneys' fees) as a result of any claim or proceeding (whether civil, criminal, administrative or investigative), or any threatened claim or proceeding (whether civil, criminal, administrative or investigative), against Executive that arises out of or relates to Executive's service as an officer, director or employee, as the case may be, of the Company, or Executive's service in any such capacity or similar capacity with an affiliate or other entity at the request of the Company, and to promptly advance to Executive or Executive's heirs or representatives such expenses upon written request with appropriate documentation of such expense upon receipt of an undertaking by Executive or on Executive's behalf to repay such amount if it shall ultimately be determined that Executive is not entitled to be indemnified by the Company. The Company and Executive may also enter into an indemnification agreement providing the same terms and conditions as described in this Section 8.4. During the Term and thereafter, the Company also shall provide Executive with coverage under its current directors' and officers' liability policy to the same extent that it provides such coverage to its similarly-situated executives.

8.5 **Legal Fees and Expenses**. The Company shall reimburse Executive for up to $25,000 in legal fees and expenses that Executive incurs during calendar year 2014 in connection with negotiating and entering into this Agreement and any related agreements, with such amount paid promptly following Executive's documentation of such fees and expenses; provided that (a) Executive shall submit all documentation for such reimbursement to the Company not later than June 30, 2014 and (b) in no event shall any such reimbursement be paid to Executive later than July 31, 2014.

8.6 **No Waiver**. No failure by either party hereto at any time to give notice of any breach by the other party of, or to require compliance with, any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

8.7 **Severability**. If a court of competent jurisdiction determines that any provision of this Agreement is invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this Agreement, and all other provisions shall remain in full force and effect.

8.8 **Counterparts**. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same Agreement.

8.9 **Withholding of Taxes and Other Employee Deductions**. The Company may withhold from any benefits and payments made pursuant to this Agreement (whether actually or constructively made to Executive or treated as included in Executive's income under Section 409A of the Code) all federal, state, city and other applicable taxes and withholdings as may be required pursuant to any law or governmental regulation or ruling and all other customary deductions made with respect to the Company's employees generally.

8.10 **Excise Taxes**. Notwithstanding anything to the contrary in this Agreement, if Executive is a "disqualified individual" (as defined in Section 280G(c) of the Code), and the payments and benefits provided for under this Agreement, together with any other payments and benefits which Executive has the right to receive from the Company or any of its affiliates, would constitute a "parachute payment" (as defined in Section 280G(b)(2) of the Code), then the payments and benefits provided for under this Agreement shall be either (a) reduced (but not below zero) so that the present value of such total amounts and benefits received by Executive from the Company and its affiliates will be one dollar ($1.00) less than three times Executive's "base amount"(as defined in Section 280G(b)(3) of the Code) and so that no portion of such amounts and benefits received by Executive shall be subject to the excise tax imposed by Section 4999 of the Code or (b) paid in full, whichever produces the better net after-tax position to Executive (taking into account any applicable excise tax under Section 4999 of the Code and any other applicable taxes). The reduction of payments and benefits hereunder, if applicable, shall be made by reducing, first, payments or benefits to be paid in cash hereunder in the order in which such payment or benefit would be paid or provided (beginning with such payment or benefit that would be made last in time and continuing, to the extent necessary, through to such payment or benefit that would be made first in time) and, then, reducing any benefit to be provided in kind hereunder in a similar order. The determination as to whether any such reduction in the amount of the payments and benefits provided hereunder is necessary shall be made by the Company in good faith. If a reduced payment or benefit is made or provided and through error or otherwise that payment or benefit, when aggregated with other payments and benefits from the Company (or its affiliates) used in determining if a parachute payment exists, exceeds one dollar ($1.00) less than three times Executive's base amount, then Executive shall immediately repay such excess to the Company upon notification that an overpayment has been made.

8.11 **Headings**. The Section headings have been inserted for purposes of convenience and shall not be used for interpretive purposes.

8.12 **Gender and Plurals**. Wherever the context so requires, the masculine gender includes the feminine or neuter, and the singular number includes the plural and conversely.

8.13 **Affiliate**. As used in this Agreement, the term "affiliate" as used with respect to a particular person or entity shall mean any other person or entity which owns or controls, is owned or controlled by, or is under common ownership or control with, such particular person or entity.

8.14 **Successors**. This Agreement shall be binding upon and inure to the benefit of the Company and any successor of the Company. Except as provided in the preceding sentence, this Agreement, and the rights and obligations of the parties hereunder, are personal and neither this Agreement, nor any right, benefit or obligation of either party hereto, shall be subject to voluntary or involuntary assignment, alienation or transfer, whether by operation of law or otherwise, without the prior written consent of the other party. In addition, any payment owed to Executive hereunder after the date of Executive's death shall be paid to Executive's estate.

8.15 **Term**. Termination of this Agreement shall not affect any right or obligation of any party which is accrued or vested prior to such termination. Without limiting the scope of the preceding sentence, the provisions of Articles V, VI, VII and VIII shall survive any termination of the employment relationship and/or of this Agreement.

8.16 **Entire Agreement**. Except as provided in any signed written agreement contemporaneously or hereafter executed by the Company and Executive, this Agreement constitutes the entire agreement of the parties with regard to the subject matter hereof, and contains all the covenants, promises, representations, warranties and agreements between the parties with respect to employment of Executive by the Company. Without limiting the scope of the preceding sentence, all understandings and agreements preceding the date of execution of this Agreement and relating to the subject matter hereof are hereby null and void and of no further force and effect.

8.17 **Modification; Waiver**. Any modification to or waiver of this Agreement will be effective only if it is in writing and signed by the parties to this Agreement; provided that the Company may, with prospective or retroactive effect, amend this Agreement at any time (to the extent Executive is not adversely affected by such amendment), if determined to be necessary, appropriate or advisable in response to administrative guidance issued under Section 409A of the Code or to comply with the provisions of Section 409A of the Code.

8.18 **Compliance with Section 409A of the Code**. Each payment under this Agreement, including each payment in a series of installment payments, is intended to be a separate payment for purposes of Treas. Reg. § 1.409A-2(b), and is intended to be: (i) exempt from Section 409A of the Code, the regulations and other binding guidance promulgated thereunder ("***Section 409A***"), including, but not limited to, by compliance with the short-term deferral exemption as specified in Treas. Reg. § 1.409A-1(b)(4) and the involuntary separation pay exception within the meaning of Treas. Reg. § 1.409A-1(b)(9)(iii), or (ii) in compliance with Section 409A, including, but not limited to, being paid pursuant to a fixed schedule or specified date pursuant to Treas. Reg. § 1.409A-3(a) and the provisions of this Agreement will be administered, interpreted and construed accordingly. Notwithstanding the foregoing provisions of this Agreement, if the payment of any severance compensation or severance benefits under Article VII would be subject to additional taxes and interest under Section 409A because the timing of such payment is not delayed as provided in Section 409A(a)(2)(B)(i) of the Code, and Employee constitutes a specified employee within the meaning of Section 409A(a)(2)(B)(i) of the Code, then any such payments that Employee would otherwise be entitled to during the first six months following Employee's separation from service within the meaning of Section 409A(a)(2)(A)(i) of the Code shall be accumulated and paid on the date that is six months after Employee's separation from service (or if such payment date does not fall on a business day of the Company, the next following business day of the Company), or such earlier date upon which such amount can be paid under Section 409A without being subject to such additional taxes and interest. In no event shall the Company be liable to Executive for any tax, penalty, or interest levied on Executive as a result of the application of Code Section 409A to any payments or benefits provided to Executive by the Company, except to the extent that such tax, penalty or interest results from a breach of this Agreement by the Company.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on this • day of April, 2014.

LILIS ENERGY, INC.

By: /s/ A. Bradley Gabbard
Name: A. Bradley Gabbard
Title: CFO

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

EXECUTIVE

/s/ Robert A. Bell
Robert A. (Bob) Bell

Exhibit A

Form of Waiver and Release Agreement

Lilis Energy, Inc. has offered to pay me certain benefits (the "Benefits") pursuant to Section 6.1 of my employment agreement with Lilis Energy, Inc., dated as of April 14, 2014 (the "Employment Agreement"), and the release by the Company contained herein which were offered to me in exchange for my agreement, among other things, to waive all of my claims against and release Lilis Energy, Inc. and its predecessors, successors and assigns (collectively referred to as the "Company"), all of the affiliates (including parents and subsidiaries) of the Company (collectively referred to as the "Affiliates") and the Company's and Affiliates' directors and officers, employees and agents, insurers, employee benefit plans and the fiduciaries and agents of said plans (collectively, with the Company and Affiliates, referred to as the "Corporate Group") from any and all claims, demands, actions, liabilities and damages arising out of or relating in any way to my employment with or separation from the Company or the Affiliates; provided, however, that this Waiver and Release shall not apply to (1) any existing right I have to indemnification, contribution and a defense, (2) any directors and officers and general liability insurance coverage, (3) any rights I may have as a shareholder of the Company, (4) any rights I have to the Benefits, (5) rights to vested benefits under the Company's benefit plans, (6) any rights which cannot be waived or released as a matter of law; and any rights to any post-employment payments, rights or benefits pursuant to the Employment Agreement.

I understand that signing this Waiver and Release is an important legal act. I acknowledge that the Company has advised me in writing to consult an attorney before signing this Waiver and Release and has given me at least 21 days from the day I received a copy of this Waiver and Release to sign it.

In exchange for the payment to me of Benefits, I, among other things, (1) agree not to sue in any local, state and/or federal court regarding or relating in any way to my employment with or separation from the Company or the Affiliates, (2) knowingly and voluntarily waive all claims and release the Corporate Group from any and all claims, demands, actions, liabilities, and damages, whether known or unknown, arising out of or relating in any way to my employment with or separation from the Company or the Affiliates and (3) waive any rights that I may have under any of the Company's involuntary severance benefit plans, except to the extent that my rights are vested under the terms of employee benefit plans sponsored by the Company or the Affiliates and except with respect to such rights or claims as may arise after the date this Waiver and Release is executed. This Waiver and Release includes, but is not limited to, claims and causes of action under: Title VII of the Civil Rights Act of 1964, as amended ("Title VII"); the Age Discrimination in Employment Act of 1967, as amended, including the Older Workers Benefit Protection Act of 1990 ("ADEA"); the Civil Rights Act of 1866, as amended; the Civil Rights Act of 1991; the Americans with Disabilities Act of 1990 ("ADA"); the Energy Reorganization Act, as amended, 42 U.S.C. §§ 5851; the Workers Adjustment and Retraining Notification Act of 1988; the Sarbanes-Oxley Act of 2002; the Employee Retirement Income Security Act of 1974, as amended; the Family and Medical Leave Act of 1993; the Fair Labor Standards Act; the Occupational Safety and Health Act; claims in connection with workers' compensation or "whistle blower" statutes; and/or contract, tort, defamation, slander, wrongful termination or any other state or federal regulatory, statutory or common law. Further, I expressly represent that no promise or agreement which is not expressed in the Employment Agreement has been made to me in executing this Waiver and Release, and that I am relying on my own judgment in executing this Waiver and Release, and that I am not relying on any statement or representation of the Company, any of the Affiliates or any other member of the Corporate Group or any of their agents. I agree that this Waiver and Release is valid, fair, adequate and reasonable, is entered into with my full knowledge and consent, was not procured through fraud, duress or mistake and has not had the effect of misleading, misinforming or failing to inform me.

Notwithstanding the foregoing, nothing contained in this Waiver and Release is intended to prohibit or restrict me in any way from (1) bringing a lawsuit against the Company to enforce the Company's obligations under the Employment Agreement; (2) making any disclosure of information required by law; (3) 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 the Company's legal, compliance or human resources officers; (4) 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 (5) filing any claims that are not permitted to be waived or released under applicable law (although my ability to recover damages or other relief is still waived and released to the extent permitted by law).

In consideration of my releases to the Corporate Group, the Company and its Affiliates (1) agree not to sue me in any local, state and/or federal court regarding or relating in any way to my employment with or separation from the Company or the Affiliates and (2) knowingly and voluntarily waive all claims and release me from any and all claims, demands, actions, liabilities, and damages, whether known or unknown, arising out of or relating in any way to my employment with or separation from the Company or the Affiliates, except with respect to such rights or claims as may arise after the date this Waiver and Release is executed. This Waiver and Release includes, but is not limited to, claims and causes of action under contract, tort, defamation, slander, wrongful termination or any other state or federal regulatory, statutory or common law. Further, the Company represents that no promise or agreement which is not expressed in this Waiver and Release has been made to it in executing this Waiver and Release, and that the Company is relying on its own judgment in executing this Waiver and Release, and that it is not relying on any statement or representation of me or any of my agents. The Company agrees that this Waiver and Release is valid, fair, adequate and reasonable, is entered into with its full knowledge and consent, was not procured through fraud, duress or mistake and has not had the effect of misleading, misinforming or failing to inform the Company.

Should any of the provisions set forth in this Waiver and Release be determined to be invalid by a court, agency or other tribunal of competent jurisdiction, it is agreed that such determination shall not affect the enforceability of other provisions of this Waiver and Release. The Company and I both acknowledge that this Waiver and Release and the Employment Agreement set forth the entire understanding and agreement between me and the Company or any other member of the Corporate Group concerning the subject matter of this Waiver and Release and supersede any prior or contemporaneous oral and/or written agreements or representations, if any, between me and the Company or any other member of the Corporate Group. **I understand that for a period of 7 calendar days following the date that I sign this Waiver and Release, I may revoke my acceptance of the offer, provided that my written statement of revocation is received on or before that seventh day by [Name], Lilis Energy, Inc., 1900 Grant Street, Suite #720, Denver, CO 80203, in which case the Waiver and Release will not become effective. In the event I revoke my acceptance of this offer, the Company shall have no obligation to provide me Benefits. I understand that failure to revoke my acceptance of the offer within 7 calendar days from the date I sign this Waiver and Release will result in this Waiver and Release being permanent and irrevocable.**

The Company and I both acknowledge that we have read this Waiver and Release, have had an opportunity to ask questions and have it explained to us and that we both understand that this Waiver and Release will have the effect of knowingly and voluntarily waiving any action either of us might pursue, including breach of contract, personal injury, retaliation, discrimination on the basis of race, age, sex, national origin, or disability and any other claims arising prior to the date of this Waiver and Release. By execution of this document, neither the Company nor I waive or release or otherwise relinquish any legal rights either of us may have which are attributable to or arise out of acts, omissions, or events of either party or any other member of the Corporate Group which occur after the date of the execution of this Waiver and Release.

Executive's Printed Name	Company Representative
Executive's Signature	Company's Execution Date

Exhibit 10.5

Lilis Energy, Inc.
1900 Grant Street, Suite 720
Denver, CO 80203

March 19, 2014

T.R. Winston & Company, LLC
1999 Avenue of the Stars, Suite 2550
Los Angeles, California 90067
Attention: G. Tyler Runnels

Re: Formal Termination of Investment Banking Agreement

Dear Tyler:

Recovery Energy, Inc., now known as Lilis Energy, Inc. ("Lilis"), and T.R. Winston & Company, LLC ("TRW") are parties to that certain Investment Banking Agreement entered into as of May 10, 2013, and as may have been amended or modified by the parties from time to time (collectively, as amended and modified prior to the date hereof, the "Investment Banking Agreement"), pursuant to which Lilis retained TRW as Lilis's non-exclusive investment banker. Lilis and TRW are each, individually, a "Party" and collectively, the "Parties."

This letter agreement (this "Letter Agreement") sets forth the mutual desire of the Parties to terminate the Investment Banking Agreement. Now, therefor, in consideration of the mutual covenants contained in this Letter Agreement and other good and valuable consideration, the receipt and sufficiency of which the Parties acknowledge, the Parties agree as follows:

1. **Termination of Investment Banking Agreement**. The Parties hereby terminate the Investment Banking Agreement as of the Effective Date (defined below in TRW's signature block). In connection with termination of the Investment Banking Agreement, Lilis and TRW hereby agree that the financial obligations of Lilis have been satisfied in full and that any and all further compensation under the Investment Banking Agreement terminated as of the date hereof. Notwithstanding the foregoing, the termination of the Investment Banking Agreement shall not relieve Lilis of any financial obligations it may have related to the commissions and fees payable from Lilis to TRW that are contingent upon the shareholders of Lilis approving (i) the participation of certain directors and officers of Lilis in the private placement that closed on January 22, 2014 and (ii) the full conversion of Lilis's 8% senior secured convertible debentures. The parties further acknowledge that from and after the date hereof, neither Lilis nor TRW shall have any rights, obligations, or liabilities under or relating to the Investment Banking Agreement, except for Section 4 (Additional Covenants and Undertakings), Section 7 (Confidential Information), Section 8 (Ownership of Proprietary Information), and Section 9 (Indemnification) of the Investment Banking Agreement, which shall survive termination of the Investment Banking Agreement.

2. **Miscellaneous**.

a. Entire Agreement. This Letter Agreement constitutes the entire understanding between the Parties with respect to the subject matter of this Letter Agreement, superseding all negotiations, prior discussions, and prior agreements and understandings relating to such subject matter.

b. Binding Effect. The terms, covenants, and conditions of this Letter Agreement will extend to, bind, and inure to the benefit of the Parties and to their successors and assigns.

c. Amendment. No modifications or amendments to this Letter Agreement will be binding on the Parties unless and until such modifications or amendments are executed in writing by an authorized representative of each Party.

d. Counterparts. This Letter Agreement may be executed by the Parties in any number of counterparts, each of which shall be deemed an original instrument, but all of which together shall constitute but one and the same instrument. The exchange of copies of this Letter Agreement and of signature pages by facsimile or by electronic image scan transmission in pdf format constitutes effective execution and delivery of this Letter Agreement as to the Parties and may be used in lieu of the original Letter Agreement for all purposes.

If the terms and conditions of this Letter Agreement are acceptable to TRW, please indicate that acceptance by signing and returning one copy of this Letter Agreement to A. Bradley Gabbard of Lilis.

Sincerely,

LILIS ENERGY, INC.

By: /s/ A. Bradley Gabbard
Name: A. Bradley Gabbard
Title: Chief Financial Officer and Chief Operating Officer

TRW agrees to and accepts this Letter Agreement as of March 19, 2014 (the "Effective Date").

T.R. WINSTON & COMPANY, LLC

By: G. Tyler Runnels
Name: G. Tyler Runnels
Title: Chairman and CEO

Exhibit 10.6

THIS TRANSACTION FEE AGREEMENT (this "Agreement") is made as of the 28th day of March, 2014.

BETWEEN:

LILIS ENERGY SYSTEMS, INC.
1900 Grant Street, Suite 720
Denver, CO 80203

(the "Company")

OF THE FIRST PART

AND:

T.R. WINSTON & COMPANY, LLC
376 Main Street
Bedminster, New Jersey 07921

(the "Broker")

OF THE SECOND PART

W H E R E A S:

A. The Company will enter into a Securities Purchase Agreement (the "Purchase Agreement") with the purchasers to be identified on the signature pages of the Purchase Agreement (collectively, the "Investors") in connection with the placement of convertible preferred stock (the "Preferred Stock") and warrants of the Company to purchase a number of shares of common stock, par value $0.0001 per share, equal to 50% of the shares of common stock initially issuable upon conversion of the Preferred Stock (the "Investor Warrants") in the aggregate amount up to $20 million;

B. The Broker is a licensed broker-dealer with the Financial Industry Regulatory Authority;

C. The Broker introduced the Company to the Investors and assisted the Company in the transactions contemplated by the Purchase Agreement;

D. If the Company closes the transaction contemplated herein, the Company wishes to reward the Broker for its services in the manner hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants, promises, conditions, warranties and representations hereinafter set forth, the parties hereto agree as follows:

1. The Company agrees to compensate the Broker as follows: (i) five percent (5%) of the gross proceeds of the offering, payable at the Closing (as defined in the Purchase Agreement) and (ii) shall reimburse the agent for its legal fees and expenses equal to $25,000.

2. The Broker shall be entitled to a cash placement fee ("Tail Fee"), calculated in the manner provided for in Section 1 above, with respect to any subsequent public or private offering or other financing or capital-raising transaction of any kind ("Subsequent Financing") to the extent that such financing or capital is provided to the Company, all or in part, by Investors whom the Broker had introduced, directly or indirectly, to the Company, if such Subsequent Financing is consummated at any time with the 18-month period following the Closing of the transaction contemplated herein.

3. The parties hereto, and each of them, covenant and agree that each of them shall and will upon reasonable request by the other party, make, do, execute or cause to be made, done or executed all such further and other lawful acts, deeds, things, devices and assurances whatsoever for the better or more perfect and absolute performance of the terms and conditions of this Agreement.

4. By execution hereof, the Company acknowledges that the Broker does not provide investment advice or financial planning services. In that regard, the Broker is not registered as an investment adviser under the Investment Advisers Act of 1940, as amended, and cannot therefore provide any advice regarding the desirability or value of purchasing, selling, transacting in, investing in, or holding any security. Rather, the Broker's services will be limited to those properly provided by a licensed broker-dealer (T.R. Winston & Company, LLC is registered with the FINRA as an "Introducing Broker/Dealer" or "K" broker/ dealer in accordance with Section 15 of the Securities and Exchange Act of 1934, as amended.)

5. The Company hereby agrees to indemnify and hold harmless the Broker, its managers, members, agents and employees (collectively referred to as the Broker for purposes of this Section 4) from and against any and all claims, actions, suits, proceedings (including those of shareholders), damages, liabilities and expenses as incurred by any of them (including the fees and expenses of counsel) which are related to or arise out of any actions taken or omitted to be taken (including any untrue statements made or omitted to be made) by the Company or any actions taken or omitted to be taken by the Broker (except in the case of gross negligence or willful misconduct on the part of such Broker) in connection with the transactions contemplated by the Purchase Agreement or otherwise related to or arising out of the Broker's activities on behalf of the Company. The Company shall reimburse Broker for all expenses (including the fees and expenses of counsel) incurred by such Broker in connection with investigating, preparing or defending any such claim, action, suit or proceeding, including in connection with pending or threatened litigation to which Broker is a party, except in the case of gross negligence or willful misconduct on the part of such Broker.

6. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, administrators, successors and assigns.

7. This Agreement shall be enforced, governed by and construed in accordance with the laws of the State of New York applicable to agreements made and to be performed entirely within such State. In the event that any provision of this Agreement is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any provision hereof which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision hereof. The parties hereto hereby submit to the exclusive jurisdiction of the state courts or the United States Federal Courts located in New York with respect to any dispute arising under this Agreement or the transactions contemplated hereby. The party which does not prevail in any dispute arising under this Agreement shall be responsible for all fees and expenses, including attorneys' fees, incurred by the prevailing party in connection with such dispute.

8. This Agreement consists of a total of 3 pages. This Agreement may be signed in any number of counterparts and the combination of the same shall constitute a binding agreement. A signed copy of this Agreement received via facsimile shall be deemed an original signature of a party for purposes of making this Agreement a binding agreement.

IN WITNESS WHEREOF the parties hereto have hereunto executed this Agreement as of and from the day first above written.

LILIS ENERGY, INC.

By: /s/ A. Bradley Gabbard
Name: A. Bradley Gabbard
Title: Chief Operating Officer

T.R. WINSTON & COMPANY, LLC

By: /s/ G. Tyler Runnels
Name: G. Tyler Runnels
Title: Chairman & CEO

Exhibit 10.7

Lilis Energy, Inc.
1900 Grant Street, Suite 720
Denver, CO 80203

April 29, 2014

T.R. Winston & Company, LLC
1999 Avenue of the Stars, Suite 2550
Log Angeles, CA 90067
Attention: Tyler Runnels and Karen Ting

Re: Transaction Fee Agreement, dated March 28, 2014 (the "Agreement")

Dear Sir or Madam:

As discussed, this letter, when executed in the space indicated below, shall constitute our amendment to the above-referenced Transaction Fee Agreement between Lilis Energy, Inc. and T.R. Winston & Company, LLC.

In consideration of our mutual efforts to pursue the transactions contemplated by the Transaction Fee Agreement, we hereby agree that Section 1 of the letter shall be amended and restated in its entirety as follows:

1. The Company agrees to compensate the Broker as follows: (i) eight percent (8%) of the gross proceeds of the offering, payable at the Closing (as defined in the Purchase Agreement), (ii) one percent (1%) of the gross proceeds received by the Company at Closing, payable at Closing, for a non-accountable expense allowance, and (iii) shall reimburse the agent for its legal fees and expenses equal to $25,000.

The remaining terms and conditions of the Agreement shall continue in full force and effect.

If the foregoing meets your agreement, please execute a copy of this letter agreement in the space indicated below and return one original to the undersigned.

Lilis Energy, Inc.

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

Agreed and Accepted:

T.R. Winston & Company, LLC

By: /s/ G. Tyler Runnels
Name: G. Tyler Runnels
Title: Chairman & CEO

Exhibit 10.8

March 20, 2014

Lilis Energy, Inc.
Avi Mirman
1900 Grant Street, Suite 720
Denver, CO 80203

Re: Engagement Agreement for Financial Advisory Services

Dear Mr. Mirman:

MLV & Co. LLC ("**MLV**") is pleased to provide this Engagement Agreement (the "**Agreement**") to Lilis Energy, Inc. (the "**Company**"). The purpose of this Agreement is to set forth the terms and conditions under which MLV will act as the Company's exclusive financial advisor as set forth herein.

1. ***Engagement.*** The Company engages MLV **("Advisor"** or **"we"** or **"us"**) to act as the Company's exclusive financial advisor in connection with the following transactions:

    a. ***Fairness Opinion.*** You agree to engage MLV to provide, if requested by the Company, a fairness opinion (the "**Opinion**") for the Company in connection with the acquisition of Shoreline Energy Corp. (the "**Acquisition**"), which shall include, but not be limited to, determination of valuation ranges and potential pricing of the Acquisition.

    b. ***Debt Restructuring.*** You agree to retain MLV to assist the Company with the proposed restructuring of the Company's debt assuming consummation of the Acquisition of approximately $60,000,000 (the "**Debt Transaction**").

    c. ***Equity Transaction.*** You agree engage MLV to assist the Company with an equity financing ("**Equity Transaction**"); provided, that MLV's acceptance of such engagement shall be subject to the final determination of the type of equity financing.

    d. ***Financial Advisory Services in connection with Business Combination Transactions.*** You agree to engage MLV to provide financial advisory services and assist the Company with respect to the Acquisition (a "**Business Combination Transaction**").

Term. The initial term of the MLV's engagement hereunder shall extend for a period of six months (the **"Initial Term"**), commencing with the signing of this Agreement. If neither party has terminated the Agreement prior to the expiration of the Initial Term by written notice sent 30-days prior to the expiration of the Initial Term, the term of this Agreement shall extend for additional consecutive one-month periods (the "**Extended Term**"). The Initial Term and Extended Term is herein called the "Term". Notwithstanding the foregoing, this Agreement may be terminated by either party, with or without cause, on ten (10) days' written notice (which shall be given in accordance with the provisions of Section 7) during the Term.

2. ***Fees.***

a. A fee of twenty-five thousand dollars ($25,000) (the "**Advisory Fee**") per month for the first six months of the Term; provided, that upon payment of the Opinion Fee the obligation to make Advisory Fee payments shall cease. The initial Advisory Fee shall be payable by wire transfer, to an account designated by MLV, within three (3) business days of the effective date of this Agreement, and thereafter the Advisory Fee shall be payable by wire transfer on the first business day of each subsequent month. The Advisory Fee payments are non-refundable and will be credited toward any success fee paid to MLV pursuant to Section 3(c) and (d) below.

b. ***Fairness Opinion Fee.*** The Company shall pay MLV an amount equal to two hundred thousand dollars ($200,000) for issuance of the Opinion (the "**Opinion Fee**"). The Opinion Fee shall be payable by wire transfer, to an account designated by MLV, within three (3) business days of the delivery of the Opinion by MLV to the Company. For the avoidance of doubt, the Opinion Fee shall be payable to MLV irrespective of the conclusion reached in the Opinion rendered by MLV. The Opinion Fee is non-refundable and will be credited toward any success fee paid to MLV pursuant to Section 3(e) below.

c. ***Debt Restructuring Fee.*** If, during the Term of this Agreement the Company enters into a Debt Transaction with any party the Company shall pay to MLV a success fee equal to 1% of the total senior/first lien debt funded, and 3% of total subordinated/second lien/unsecured/mezzanine debt issued or incurred by the Company in the Debt Transaction, payable in cash (the "**Cash Fee**"). The obligation to pay the Cash Fee shall also apply to a Debt Transaction consummated within six (6) months of expiration or termination of this Agreement with a party or parties identified by MLV as a party contacted by MLV in connection with the Debt Restructuring and who has entered into a non-disclosure agreement with the Company in respect thereof (which list of parties shall be mutually agreed upon promptly following such expiration or termination). The Cash Fee shall be paid to MLV by wire transfer, to an account designated by MLV, on the closing date of the Debt Transaction.

d. ***Equity Fee.*** The fees payable to MLV in connection with an Equity Transaction shall be negotiated in good faith based on the type of Equity Transaction consummated and shall be in accordance with general industry standards for such transaction.

e. ***Business Combination Fee***. If, during the term of this Agreement and for a period of six (6) months from the expiration or termination of this Agreement, the Company enters into a Business Combination Transaction, the Company shall pay to MLV a success fee equal to three hundred and fifty thousand dollars $350,000, payable in cash (the "**Business Combination Fee**"). The Business Combination Fee shall be paid to MLV by wire transfer, to an account designated by MLV, on the closing date of the Business Combination Transaction.

f. ***Expenses.*** The Company shall reimburse MLV for all reasonable out-of-pocket expenses, including reasonable attorney's fees, incurred by MLV in performing its services hereunder up to an aggregate of $50,000 (the "**Capped Amount**") without prior approval of the Company. Any out-of-pocket expenses incurred by MLV above the Capped Amount shall be pre-approved by the Company in writing. These expenses (except attorney's fees which shall be billed upon the closing of the Debt Transaction) shall be billed monthly and MLV shall provide copies of receipts for such expenses.

3. ***Future Financings***. The Company hereby grants MLV the right to participate in any subsequent public or private equity financings that are commenced within twelve (12) months of the completion of a debt or equity financing hereunder on terms to be negotiated.

4. ***Indemnification and Contribution.*** Exhibit A is hereby incorporated into this Agreement by reference and made a part of this Agreement.

5. ***Termination.*** Section 3 (Fees), Section 4 (Future Financings), Section 5 (Indemnification and Contribution), Section 6 (Termination) and Section 8 (Miscellaneous) will survive any termination of our engagement under this Agreement.

6. ***Notices.*** Any notice provided for or permitted under this Agreement will be treated as having been given (a) when delivered personally, (b) when sent by commercial overnight courier with written verification of receipt, on the next business day after its delivery to the courier during normal business hours, or (c) when mailed postage prepaid by certified or registered mail, return receipt requested, on the fifth (5) business day after its date of posting. Notices shall be sent to the addresses set forth below, or at such other place of which the other party has been notified in accordance with the provisions of this Section:

If to MLV: MLV & Co. LLC
1251 Avenue of the Americas, 41st Floor
New York, NY 10020
Attention: Dean Colucci, President
Telephone: (212) 542-5870

If to Company: Lilis Energy, Inc.
1900 Grant Street, Suite 720
Denver, CO 80203

7. ***Miscellaneous.*** This Agreement will be governed by and construed in accordance with the laws of New York, without regard to its conflict of law principles. This Agreement embodies the entire agreement and understanding between you and us and supersedes all prior agreements and understandings relating to the subject matter of this Agreement. This Agreement may be executed in any number of counterparts. The invalidity or unenforceability of any provision of this Agreement will not affect the validity or enforceability of any other provisions of this Agreement, which will remain in full force and effect. This Agreement is solely for the benefit of you and us, and no other person (other than the Indemnified Persons set forth in Exhibit A hereto) will acquire or have any rights by virtue of this Agreement. This Agreement may not be amended without the written consent of each of the parties hereto.

MLV and the Company hereby irrevocably waive all right to trial by jury in any action, proceeding, or counterclaim (whether based upon contract, tort or otherwise) in connection with any dispute arising out of this Agreement or any matters contemplated by this Agreement. In addition, MLV and the Company each hereby irrevocably submits to the jurisdiction of the courts of the State of New York and the Federal courts of the United States of America located in the Borough of Manhattan, The City of New York in respect of the interpretation and enforcement of the terms of this Agreement, and hereby waives, and agrees not to assert, as a defense in any action, suit or proceeding for the interpretation or enforcement hereof, that it is not subject thereto or that such action, suit or proceeding may not be brought or is not maintainable in said courts or that the venue thereof may not be appropriate or that this Agreement may not be enforced in or by such courts, and MLV and the Company hereby irrevocably agrees that all claims with respect to such action or proceeding shall be heard and determined in such a New York State or Federal court.

We are delighted to accept this engagement and look forward to working with you on this assignment. Please confirm that the foregoing is in accordance with your understanding by signing and returning to us the enclosed duplicate of this Agreement.

You acknowledge that we are not an advisor as to legal, tax, accounting or regulatory matters in any jurisdiction. You should consult with your own advisors concerning such matters and are responsible for making your own independent investigation and appraisal of the transactions contemplated by this Agreement, and we have no responsibility or liability to you with respect to such matters.

[Remainder of the page intentionally left blank]

Sincerely,

MLV & Co. LLC

By: /s/ Dean Colucci
Name: Dean Colucci
Title: President

Agreed and accepted as of the date first above written.

Lilis Energy, Inc.

By: /s/ Avi Mirman
Name: Avi Mirman
Title: President

Exhibit A to Engagement Letter

The Company shall:

(a) indemnify MLV and hold it harmless against any and all losses, claims, damages or liabilities to which MLV may become subject arising in any manner out of or in connection with the rendering of services by MLV hereunder (including any services rendered prior to the date hereof) or the rendering of additional services by MLV as requested by the Company that are related to the services rendered hereunder, unless it is finally judicially determined that such losses, claims, damages or liabilities resulted from the gross negligence, willful misconduct of MLV or MLV's breach of any provision of this Agreement; and

(b) reimburse MLV promptly for any reasonable legal or other expenses reasonably incurred by it in connection with investigating, preparing to defend or defending, or providing evidence in or preparing to serve or serving as a witness with respect to, or otherwise relating to, any lawsuits, investigations, claims or other proceedings arising in any manner out of or in connection with the rendering of services by MLV hereunder or the rendering of additional services by MLV as requested by The Company that are related to the services rendered hereunder (including, without limitation, in connection with the enforcement of this Agreement and the indemnification obligations set forth herein); provided, however, that in the event a final judicial determination is made adverse to MLV to the effect specified at the conclusion of paragraph (a) above, MLV will remit to the Company any amounts reimbursed under this paragraph (b). MLV agrees that if a claim for whatever reason shall be brought or asserted against an Indemnified Person (as defined below), such Indemnified Person shall promptly notify the Company, and the Company shall be entitled to assume the defense thereof, including the employment of counsel and the payment of all reasonable fees and expenses.

The Company agrees that the indemnification and reimbursement commitments set forth in this Exhibit A shall apply regardless of whether the Company or MLV is a formal party to any such lawsuits, investigations, claims or other proceedings and that such commitments shall extend upon the terms set forth in this paragraph to any controlling person, affiliate, director, officer, employee or consultant of MLV (each, with MLV, an "**Indemnified Person**"). The Company further agrees that, without MLV's prior written consent, it will not enter into any settlement of a lawsuit, claim or other proceeding arising out of the transactions contemplated by this Agreement (whether or not MLV or any other Indemnified Person is an actual or potential party to such lawsuit, claim or proceeding) unless such settlement includes an explicit and unconditional release from the party bringing such lawsuit, claim or other proceeding of all Indemnified Persons. The Company shall not be required to indemnify any Indemnified Person for any amount paid or payable by such party in the settlement or compromise of any claim or action against such Indemnified Person without the Company's express prior written consent.

The Company further agrees that the Indemnified Persons are entitled to retain (at their own expense) a single separate counsel of their choice in connection with any of the matters in respect of which indemnification, reimbursement or contribution may be sought under this Agreement.

The Company and MLV agree that if any indemnification or reimbursement sought pursuant to this Exhibit A is judicially determined to be unavailable for a reason other than the gross negligence, willful misconduct or breach of contract of MLV, then, whether or not MLV is the Indemnified Person, the Company and MLV shall contribute to the losses, claims, damages, liabilities and expenses for which such indemnification or reimbursement is held unavailable (i) in such proportion as is appropriate to reflect the relative benefits to the Company on the one hand, and MLV on the other hand, in connection with the transactions to which such indemnification or reimbursement relates, or (ii) if the allocation provided by clause (i) above is judicially determined not to be permitted, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) but also the relative faults of the Company on the one hand, and MLV on the other hand, as well as any other equitable considerations; provided, however, that in no event shall the amount to be contributed by MLV pursuant to this paragraph exceed the amount of the fees actually received by MLV hereunder.

Exhibit 10.9

Lilis Energy, Inc.
1900 Grant Street, Suite #720
Denver, CO 80203

June 6, 2014

T.R. Winston & Company
1999 Avenue of the Stars #2550
Los Angeles, CA 90067

Re: Additional Investment in Series A 8% Convertible Preferred Stock

This letter agreement sets forth the agreement between Lilis Energy, Inc. (the "Company") and T.R. Winston & Company ("TRW") regarding investment by TRW in the Company's Series A 8% Convertible Preferred Stock (the "Preferred Stock"). The Company and TRW accordingly agree as follows:

1. The Company agrees, subject to final approval by its board of directors, to issue up to $15 million of additional Preferred Stock to TRW or their respective designees, on substantially the same terms and conditions set forth in that certain Securities Purchase Agreement, dated as of May 30, 2014, by and among the Company and the investors set forth therein (the "Purchase Agreement").

2. TRW agrees that it or its designees will purchase an additional $15 million of Preferred Stock on substantially the same terms and conditions set forth in the Purchase Agreement within ninety (90) days of the date hereof, in being understood that the proceeds of the sale of such Preferred Stock may be used by the Company to fund its working capital and for other general corporate purchases.

This letter agreement shall be construed in accordance with and governed by the laws of the State of Colorado, excluding its conflict of laws rules. This letter agreement may be executed in any number of counterparts each of which shall be considered an original. If the foregoing accurately sets forth our agreement, please so indicate by executing this letter in the space provided below.

Very truly yours

LILIS ENERGY, INC.

By: /s/ Abraham Mirman
Abraham Mirman
Its: Chief Executive Officer

ACCEPTED AND AGREED

this 6th day of June, 2014

T.R. Winston & Company

/s/ G. Tyler Runnels
Name: G. Tyler Runnels
Title: Chairman & CEO

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

June 16, 2104

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
Acting Chief Financial Officer

June 16, 2014

Exhibit 32.1

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 March 31, 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

June 16, 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 March 31, 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
Acting Chief Financial Officer

June 16, 2014