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

FORM 10-Q

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

For the quarterly period ended June 30, 2016

☐ **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.)

216 16th Street, Suite #1350
Denver, CO 80202
(Address of Principal Executive Offices)

(210) 999-5400
(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 August 24, 2016, 17,159,094 shares of the registrant's common stock were issued and outstanding.

Lilis Energy, Inc.

INDEX

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, the risk factors discussed in Part I, Item 1A of our Form 10-K for the year ended December 31, 2015 and the following factors:

- *our estimates regarding operating results, future revenues, capital requirements and the need for additional financing;*
- *our ability to successfully integrate our acquisition of Brushy Resources, Inc. ("Brushy") and realize anticipated benefits from such acquisition;*
- *availability of capital on an economic basis, or at all, to fund our capital or operating needs;*
- *our level of debt, which could adversely affect our ability to raise additional capital, limit our ability to react to economic changes and make it more difficult to meet our obligations under our debt;*
- *restrictions imposed on us under Brushy's credit agreement or other debt instruments that limit our discretion in operating our business;*
- *certain events of default which have occurred under debt facilities and previously been waived;*
- *potential default under our secured obligations, material debt agreements or agreements with our investors;*
- *failure to meet requirements or covenants under our debt instruments, which could lead to foreclosure of significant core assets;*
- *failure to fund our authorization for expenditures from other operators for key projects which will reduce or eliminate our interest in the wells/asset;*
- *our history of losses and our ability to continue as a going concern;*
- *inability to address our negative working capital position in a timely manner;*
- *the inability of management to effectively implement our strategies and business plans;*
- *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 further 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 (including water) and equipment;*
- *the timing and amount of future production of oil and natural gas;*
- *the timing and success of our drilling and completion 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 further write-down or impairments;*
- *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;*
- *availability of funds under our credit agreement;*
- *increases in interest rates or our cost of borrowing;*
- *deterioration in general or regional 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 our large inventory of undeveloped acreage we currently hold on a timely basis;*
- *constraints, interruptions or other issues affecting the Denver-Julesburg Basin or Permian Basin, including with respect to transportation, marketing, processing, curtailment of production, natural disasters, and adverse weather conditions;*
- *deterioration in general or regional 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 our large inventory of undeveloped acreage we currently hold on a timely basis;*
- *constraints, interruptions or other issues affecting the Permian or Denver-Julesburg Basins, including with respect to transportation, marketing, processing, curtailment of production, natural disasters, and adverse weather conditions;*
- *technique risks inherent in drilling in existing or emerging unconventional shale plays using horizontal drilling and complex completion techniques;*
- *delays, denials or other problems relating to our receipt of operational consents, approvals and permits from governmental entities and other parties;*
- *unanticipated recovery or production problems, including cratering, explosions, blow-outs, fires and uncontrollable flows of oil, natural gas or well fluids;*
- *environmental liabilities;*
- *operating hazards and uninsured risks;*
- *data protection and cyber-security threats;*
- *loss of senior management or technical personnel;*
- *litigation and the outcome of other contingencies, including legal proceedings;*
- *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;*
- *anticipated trends in our business;*
- *effectiveness of our disclosure controls and procedures and internal controls over financial reporting;*
- *changes in generally accepted accounting principles in the United States 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, 2015 and other SEC filings, available free of charge at the SEC's website (www.sec.gov).

LILIS ENERGY, INC.
Condensed Consolidated Balance Sheets

	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash	$ 6,489,129	$ 110,022
Restricted cash	8,287	3,777
Accounts receivable (net of allowance of $280,000 and $80,000, respectively)	1,067,624	951,645
Prepaid expenses	372,061	75,233
Total current assets	7,937,101	1,140,677
Oil and gas properties (full cost method), at cost:		
Evaluated properties	59,527,700	50,096,063
Unevaluated acreage, excluded from amortization	20,625,201	-
Total oil and gas properties, cost	80,152,901	50,096,063
Less accumulated depreciation, depletion, amortization, and impairment	(50,108,797)	(49,573,439)
Total oil and gas properties at cost, net	30,044,104	522,624
Other assets:		
Office equipment net of accumulated depreciation of $157,510 and $137,149, respectively.	65,839	44,386
Restricted cash, deposits and other	575,109	2,000,406
Total other assets	640,948	2,044,792
Total Assets	$ 38,622,153	$ 3,708,093

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

LILIS ENERGY, INC.
Condensed Consolidated Balance Sheets

	June 30, 2016 (Unaudited)	December 31, 2015
Liabilities, Redeemable Preferred Stock and Stockholders' Equity (Deficiency)		
Current liabilities:		
Dividends accrued on preferred stock	$ 206,667	$ 720,000
Accrued expenses for drilling activity	-	535,938
Accounts payable	6,820,208	1,331,963
Accrued expenses	2,759,040	2,955,419
Revenue payable	1,347,871	-
Term loan - Independent Bank	5,379,211	-
Current asset retirement obligations	155,468	-
Convertible notes – net of discount	1,165,151	673,739
Convertible notes – related parties, net of discount	185,778	1,054,552
Term loan – Heartland, net of discount	-	2,492,069
Convertible debentures, net of discount	-	6,846,465
Derivative liability – conversion feature	-	5,511
Total current liabilities	18,019,394	16,615,656
Long term liabilities:		
Other long-term liabilities	19,428	-
Note payable – SOS Ventures	1,000,000	-
Asset retirement obligation-non-current	837,660	207,953
Warrant liability	279,815	55,655
Total long-term liabilities	2,136,903	263,608
Total liabilities	20,156,297	16,879,264
Commitments and contingencies		
Conditionally redeemable 6% preferred stock, $0.0001 par value: 7,000 shares authorized; 2,000 shares issued and outstanding with a liquidation preference of $2,180,000 as of June 30, 2016	$ 1,950,428	$ 1,172,517
Stockholders' equity (deficiency)		
Series A Preferred stock, $0.0001 par value; stated rate $1,000:10,000,000 shares authorized; no shares issued and outstanding at June 30, 2016 and 7,500 shares issued and outstanding at December 31, 2015.	-	6,794,000
Series B Preferred stock, $0.0001 par value; stated rate $10,000:20,000 shares authorized; 17,900 shares issued and outstanding and no shares issued and outstanding at December 31, 2015 with a liquidation preference of $17,923,867 as of June 30, 2016.	16,604,213	-
Series B Preferred stock subscribed 2,100 shares subscribed at June 30, 2016 and no shares subscribed at December 31, 2015.	(2,100,000)	-
Common stock, $0.0001 par value: 100,000,000 shares authorized; 15,588,594 shares issued and outstanding as of June 30, 2016 and 2,786,276 issued and outstanding as of December 31, 2015.	1,558	278
Additional paid in capital	206,190,005	159,771,692
Accumulated deficit	(204,180,348)	(180,909,658)
Total stockholders' equity (deficiency)	16,515,428	(14,343,688)
Total Liabilities, Redeemable Preferred Stock and Stockholders' Equity (Deficiency)	$ 38,622,153	$ 3,708,093

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

LILIS ENERGY, INC.
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue:				
Oil sales	$ 742,499	$ 136,776	$ 778,735	$ 226,161
Gas sales	240,373	26,253	243,454	48,196
Operating fees	7,225	8,888	9,625	15,720
Total revenue	990,097	171,917	1,031,814	290,077
Costs and expenses:				
Production costs	328,167	66,824	365,392	87,216
Production taxes	52,288	4,406	54,216	15,220
General and administrative	3,504,669	3,051,214	5,168,644	5,404,092
Depreciation, depletion, accretion and amortization	538,944	191,068	561,829	434,648
Impairment of evaluated oil and gas properties	-	504,897	-	5,966,909
Total costs and expenses	4,424,068	3,818,409	6,150,081	11,908,085
Loss from operations	(3,433,971)	(3,646,492)	(5,118,267)	(11,618,008)
Other income (expenses):				
Other income	246,818	785	245,354	793
Inducement expense	(5,126,903)	-	(5,126,903)	-
Change in fair value of derivative liability – conversion feature	11,834	(161,806)	(37,084)	(273,897)
Change in fair value of warrant liability	(41,362)	(217,250)	(60,160)	(266,212)
Change in fair value of conditionally redeemable 6% preferred stock	(453,971)	74,305	(777,911)	120,191
Interest expense	(2,268,660)	(553,522)	(3,602,663)	(775,132)
Total other expenses	(7,632,244)	(857,488)	(9,359,367)	(1,194,257)
Net loss	(11,066,215)	(4,503,980)	(14,477,634)	(12,812,265)
Dividends on redeemable preferred stock	(30,000)	(30,000)	(60,000)	(60,000)
Dividend Series A Convertible Preferred Stock	(136,813)	(150,000)	(286,813)	(300,000)
Loss on extinguishment of Series A Convertible Preferred Stock	(540,000)	-	(540,000)	-
Deemed dividend Series B Convertible Preferred Stock	(7,906,243)	-	(7,906,243)	-
Net loss attributable to common shareholders	$ (19,679,271)	$ (4,683,980)	$ (23,270,690)	$ (13,172,265)
Net loss per common share basic and diluted	$ (4.99)	$ (1.73)	$ (6.78)	$ (4.87)
Weighted average shares outstanding:				
Basic and diluted	3,946,573	2,712,607	3,431,122	2,705,754

LILIS ENERGY, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
Six Months Ended June 30, 2016

	Series A Preferred Stock		Series B Preferred Stock		Series B Preferred Stock Subscribed		Common Stock		Additional Paid-In	Accumulated	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	Total
Balance, December 31, 2015	**7,500**	**$ 6,794,000**	**-**	**$ -**			**2,786,276**	**$ 278**	**159,771,692**	**(180,909,658)**	**(14,343,688)**
Common stock issued for officer and board compensation	-	-	-	-			130,834	13	204,987	-	205,000
Stock based compensation for issuance of stock options	-	-	-	-			-	-	1,731,383	-	1,731,383
Stock based compensation for issuance of restricted stock	-	-	-	-			-	-	9,900	-	9,900
Cashless warrant exercise	-	-	-	-			250,520	25	(25)	-	-
Warrants exercised for cash	-	-	-	-			130,187	13	143,192	-	143,205
Fair value of warrants issued for bridge term loan	-	-	-	-			-	-	1,478,790	-	1,478,790
Common stock issued for convertible debentures and accrued interest	-	-	-	-			1,369,293	137	8,723,777	-	8,723,914
Common stock issued to Brushy Shareholders in connection with the merger	-	-	-	-			5,785,121	578	6,941,565	-	6,942,143
Warrants issued to SOS in connection with the Merger	-	-	-	-			-	-	169,609	-	169,609
Common stock issued for Series A Preferred Stock and accrued dividends	(7,500)	(6,794,000)	-	-			1,500,000	150	8,220,663	(540,000)	886,813
Common stock issued for convertible notes and accrued interest	-	-	-	-			3,636,363	364	7,601,343	-	7,601,707
Series B Preferred Stock issued for cash	-	-	17,900	18,194,501			-	-	-	-	18,194,501
Series B Preferred Stock subscription receivable	-	-	-	-	2,100	(2,100,000)	-	-	-	-	(2,100,000)
Warrants issued for Series B Preferred Stock offering fees	-	-	-	(1,590,288)			-	-	1,590,288	-	-
Warrants re-priced to induce conversion	-	-	-	-			-	-	1,445,905	-	1,445,905
Warrants re-priced to induce cash warrant exercise	-	-	-	-			-	-	277,360	-	277,360
Dividend Preferred stockholders	-	-	-	-			-	-	-	(60,000)	(60,000)
Dividend Series A Convertible Preferred stock	-	-	-	-			-	-	-	(286,813)	(286,813)

Deemed dividend Series B Convertible Preferred stock	-	-	-	-			-	-	7,879,576	(7,906,243)	(26,667)
Net loss	-	-	-	-			-	-	-	(14,477,634)	(14,477,634)
Balance, June 30, 2016	-	$ -	17,900	$ 16,604,213	2,100	$ (2,100,000)	15,588,594	$ 1,558	$ 206,190,005	$ (204,180,348)	$ 16,515,428

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

LILIS ENERGY, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30	
	2016	2015
Cash flows from operating activities:		
Net loss	$ (14,477,634)	$ (12,812,265)
Adjustments to reconcile net loss to net cash used in operating activities:		
Equity instruments issued for services and compensation	1,946,283	2,638,110
Inducement expense	5,126,903	-
Bad debt expense	200,000	-
Amortization of deferred financing cost	220,020	51,507
Gain on extinguishment of debt	(250,000)	-
Change in fair value of executive bonus	(222,508)	-
Change in fair value of convertible debentures conversion derivative liability	37,084	273,897
Change in fair value of warrant liability	60,160	266,212
Change in fair value of conditionally redeemable 6% Preferred Stock	777,911	(120,191)
Depreciation, depletion, amortization and accretion of asset retirement obligation	561,829	434,648
Impairment of evaluated oil and gas properties	-	5,966,909
Accretion of debt discount	2,276,248	15,276
Changes in operating assets and liabilities:		
Accounts receivable	209,264	(80,712)
Restricted cash	29,539	(69,803)
Prepaid assets	(218,432)	(47,784)
Accounts payable and other accrued expenses	1,971,437	701,821)
Net cash used in operating activities	(1,751,896)	(2,782,375)
Cash flows from investing activities:		-
Cash consideration advanced to Brushy – Merger consideration	(1,258,105)	-
Cash held at Brushy	705,881	-
Drilling capital expenditures	(1,917,574)	(73,081)
Net cash used in investing activities	(2,469,798)	(73,081)
Cash flows from financing activities:		
Net proceeds from issuance of Series B Preferred Stock	16,094,501	-
Net proceeds from issuance of convertible notes	2,863,095	-
Proceeds from warrant exercise	143,205	-
Dividend payments on preferred stock	-	(180,000)
Debt issuance costs		(266,308)
Proceeds from issuance of term loan	-	250,000
Proceeds from issuance of debt	-	3,000,000
Repayment of debt	(8,500,000)	(250,000)
Net cash provided by financing activities	10,600,801	2,553,692
Increase (decrease) in cash	6,379,107	(301,764)
Cash at beginning of period	110,022	509,628
CASH AT END OF THE PERIOD	$ 6,489,129	$ 207,864

Supplemental disclosure:				
Cash paid for interest	$	216,507	$	147,680
Cash paid for income taxes		-		-
Supplemental Non-cash transactions:				
Common stock issued for Brushy's common stock	$	6,942,143	$	-
Common stock issued for Series A Preferred Stock and accrued dividends	$	8,220,813	$	-
Loss on extinguishment of Series A Preferred Stock	$	540,000	$	-
Common stock issued for convertible debentures and accrued interest	$	8,723,913	$	-
Common stock issued for convertible notes and accrued interest	$	7,601,707	$	-
Warrants issued for fees associated with Series B Preferred Stock issuance	$	1,590,288	$	-
Warrants issued with Series B Preferred Stock issuance and recorded as a deemed dividend	$	7,879,576	$	-
Asset retirement established on newly drilled wells	$	2,273	$	-
Series B Preferred stock subscribed	$	2,100,000	$	-
Fair value of warrants issued as debt discount	$	1,478,790	$	56,250
Assets acquired and liabilities assumed through Brushy Merger:				
Cash	$	705,881	$	-
Accounts receivable	$	525,243	$	-
Prepaid assets	$	78,396	$	-
Oil and gas properties - Evaluated	$	7,511,790	$	-
Oil and gas properties - Unevaluated	$	20,625,201	$	-
Office equipment	$	41,814	$	-
Restricted cash, deposits and other	$	358,752	$	-
Accounts payable	$	4,366,580	$	-
Accrued expenses	$	1,348,687	$	-
Revenue payable	$	982,063	$	-
Term loan – Independent Bank	$	11,379,211	$	-
Asset retirement obligations	$	776,792	$	-
Note payable – SOS Ventures	$	1,000,000	$	-
SOS warrant liability	$	164,000	$	-
Other liabilities	$	19,428	$	-

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

LILIS ENERGY, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2016
(UNAUDITED)

NOTE 1 – ORGANIZATION

On June 23, 2016, Lilis Energy, Inc. ("Lilis", "Lilis Energy", "we", "our", and the "Company") completed the merger transaction contemplated by the Agreement and Plan of Merger dated as of December 29, 2015, as amended (the "Merger Agreement") by and among Lilis, Brushy Resources, Inc., a Delaware corporation ("Brushy") and Lilis Merger Sub, Inc., a Delaware corporation, a wholly-owned subsidiary of Lilis ("Merger Sub"). Pursuant to the terms of the Merger Agreement, at the effective time (the "Effective Time"), Merger Sub merged with and into Brushy (the "Merger"), with Brushy continuing as the surviving corporation and becoming a wholly-owned subsidiary of Lilis. The results of operations of Brushy are included with those of Lilis from June 23, 2016 through June 30, 2016. See Note 4 — Merger with Brushy and Related Transactions for additional information.

The Company is an independent oil and gas exploration and production company, which historically, was focused on the Denver-Julesburg Basin ("DJ Basin") where it currently holds approximately 7,600 net acres located in Wyoming, Colorado and Nebraska. As a result of the completion of the Merger, the Company's operating activities are additionally focused on the Permian Basin, with operations in the Delaware Basin in Texas and New Mexico, where it holds approximately 3,800 net acres. Lilis drills for, operates and produces oil and natural gas wells through the Company's land holdings.

On June 23, 2016, the Company effected a 1-for-10 reverse stock split of its Common Stock (the "Reverse Split"). The accompanying condensed consolidated financial statements and these notes to the condensed consolidated financial statements give retroactive effect to the Reverse Split for all periods presented. For additional information on the Reverse Split see Note 4 – Merger with Brushy and Related Transactions.

NOTE 2 – LIQUIDITY AND GOING CONCERN

The Company's financial statements for the three and six months ended June 30, 2016 have been prepared on a going concern basis. The Company has reported net operating losses during the three and six months ended June 30, 2016 and for the past five years. This history of operating losses, along with the recent decrease in commodity prices, and short-term debt obligations may adversely affect the Company's ability to access the capital it needs to continue operations on terms acceptable to the Company when such capital is needed. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to successfully accomplish its business plan, integrate the Merger and eventually secure other sources of financing and attain profitable operations. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts of liabilities, that might result from this uncertainty. As of August 24, 2016, the Company's cash balance was approximately $5 million.

Recent Developments and Managements Plan

On June 15, 2016, the Company entered into a securities purchase agreement (the "Series B Purchase Agreement") for $20 million shares of its Series B 6% Convertible Preferred Stock (the "Series B Preferred Stock") and warrants to purchase up to 9,090,909 shares of its common stock, par value $0.0001 ("Common Stock") at an exercise price of $2.50 (the "Series B Preferred Offering"). See Note 4 — Merger with Brushy and Related Transactions for additional information.

On June 23, 2016, the Company completed its Merger with Brushy. In connection with the Merger, the Company converted approximately $6.85 million of its 8% Convertible Debentures (the "Debentures") and $7.5 million in its outstanding Series A Preferred Stock ("Series A Preferred Stock") into Common Stock at a conversion price of $5.00. Additionally, in a series of transactions from December 29, 2015 through May 6, 2016, the Company issued approximately $5.8 million in 12% Convertible Subordinated Notes (the "Convertible Notes") of which approximately $4.0 million was converted to Common Stock at $1.10 on June 23, 2016, in connection with the consummation of the Merger. As part of the Convertible Notes transactions, the Company issued warrants to purchase up to approximately 2.3 million shares of Common Stock with exercise prices of $0.10 and $2.50.

In connection with the Merger, the Company used a portion of the proceeds received through the transactions above to pay-down its term loan with Heartland Bank at a discount of $250,000. The Company also assumed certain liabilities of Brushy in an aggregate amount of $18.6 million. The proceeds from the Series B Preferred Offering were subsequently used to pay-down $6.0 million of Brushy's outstanding loan with its senior Lender, Independent Bank resulting in a remaining aggregate outstanding balance of $5.4 million due on December 15, 2016. Additionally, Lilis paid SOSV Investments, LLC ("SOS"), Brushy's former subordinated lender, a cash payment of $500,000, issued a subordinated unsecured promissory note in the amount of $1.0 million, due June 30, 2019 (the "SOS Note"), and a warrant to purchase up to 200,000 shares of Common at an exercise price of $25.00 (the "SOS Warrant") as partial consideration in exchange for the extinguishment of $20.5 million of Brushy's subordinated debt. The additional consideration paid to SOS was recorded as additional Merger consideration.

The Company had also paid deposits and operating expenses of Brushy toward completion of the Merger of approximately $2.5 million, which is recorded as additional Merger consideration.

For a complete description of the transactions referred to above and the Company's outstanding indebtedness see Note 4 — Merger with Brushy and Related Transactions and Note 7 — Loan Agreements.

During the year ended December 31, 2015, the Company entered into eight joint operating agreements ("JOAs") to participate as a non-operator in the drilling of eight wells in the DJ Basin (the "Noble Wells"), which due to capital constraints, were temporarily shut-in. In May 2016, the Company renegotiated the ability to fund its share of the outstanding drilling operations in the amount of approximately $1.68 million, the outstanding balance of which the Company paid in June 2016, using the proceeds from the transactions described above. As a result, the Company regained compliance under each of the JOAs. The oil and gas production and associated revenue for these eight wells in a total amount of $861,000 from inception through June 30, 2016, have been recorded and earned in the quarter ended June 30, 2016.

As a result of the completion of the Merger and regaining compliance with the JOAs, as of August 24, 2016, the Company was producing approximately 650 BOE a day from 35 economically producing wells. However, even after giving effect to the Merger and regaining compliance with the JOAs, due to the decline in commodity prices combined with the Company's resulting short-term outstanding indebtedness, the cash generated from the Company's production activity is not sufficient to pay its operating costs and the Company does not currently have sufficient cash to continue operations in the ordinary course without raising additional capital. The Company continues to pursue additional sources of financing but there can be no assurance that such financing will be completed on terms favorable to the Company, if at all.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Basis of Presentation

The condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial statements and with Form 10-Q and Article 10 of Regulation S-X of the United States Securities and Exchange Commission. Accordingly, the financial statements do not contain all information and footnotes required by U.S. GAAP for annual financial statements. In the opinion of the Company's management, the accompanying unaudited condensed financial statements contain all the adjustments necessary (consisting only of normal recurring accruals) to present the financial position of the Company as of June 30, 2016 and the results of operations and cash flows for the periods presented. The results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the operating results for the full fiscal year for any future period.

These condensed financial statements should be read in conjunction with the financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. The Company's accounting policies are described in the Notes to Financial Statements in its Annual Report on Form 10-K for the year ended December 31, 2015, and updated, as necessary, in this Quarterly Report on Form 10-Q.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires the Company to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Management evaluates estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic and commodity price environment. Although actual results may differ from these estimates under different assumptions or conditions, the Company believes that its estimates are reasonable.

The most significant financial estimates are associated with the Company's estimated volumes of proved oil and natural gas reserves, asset retirement obligations, assessments of impairment imbedded in the carrying value of undeveloped acreage and undeveloped properties, fair value of financial instruments, including derivative liabilities, depreciation and accretion, income taxes and contingencies, in addition to valuing the assets acquired and liabilities assumed in the Merger

Oil and Gas Producing Activities

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

The Company accounts for its unproven long-lived assets in accordance with Accounting Standards Codification ("ASC") Topic 360-10-05, *Accounting for the Impairment or Disposal of Long-Lived Assets*. ASC Topic 360-10-05 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the historical cost carrying value of an asset may no longer be appropriate.

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 the 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 the sum of the present value, discounted at 10%, of estimated future net revenues from proved oil and gas reserves and 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. During the three and six months ended June 30, 2016 no impairment was recorded. During the three and six months ended June 30, 2015, the Company incurred impairment on its oil and gas properties of approximately $505,000 and $5.97 million, respectively.

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.

Accrued Expense

Accrued liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide service to other entities in the future as a result of past transactions or events. Below is the break-out of the accrued expense account as of June 30, 2016 and December 31, 2015.

	June 30, 2016	December 31, 2015
Penalties due stakeholders – assumed in Merger	$ 738,320	$ -
Ad Valorem and production taxes	483,818	357,618
Accrued professional fees	531,500	90,825
Accrued executive compensation	412,500	720,414
Board of director fees	260,869	-
Lease operating expense	166,282	177,847
Accrued interest	89,883	1,239,210
Other payables	75,868	369,505
	$ 2,759,040	$ 2,955,419

Asset Retirement Obligations

The Company's activities are subject to various laws and regulations, including legal and contractual obligations to reclaim, remediate, or otherwise restore properties at the time the asset is permanently removed from service. Calculation of an asset retirement obligation ("ARO") requires estimates about several future events, including the life of the asset, the costs to remove the asset from service, and inflation factors. The ARO is initially estimated based upon discounted cash flows over the life of the asset and is accreted to full value over time using the Company's credit adjusted risk-free interest rate. Estimates are periodically reviewed and adjusted to reflect changes.

The present value of a liability for the ARO is initially recorded when it is incurred if a reasonable estimate of fair value can be made. This is typically done when a well is completed or an asset is placed in service. When the ARO is initially recorded, the Company capitalizes the cost (the asset retirement cost or "ARC") by increasing the carrying value of the related asset. ARCs related to wells are capitalized to the full cost pool and are subject to depletion. Over time, the liability increases for the change in its present value (accretion of ARO), while the net capitalized cost decreases over the useful life of the asset as depletion expense is recognized. In addition, ARCs are included in the ceiling test calculation for valuing the full cost pool.

The fair value of the Company’s asset retirement obligation liability is calculated at the point of inception by taking into account (i) 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; (ii) the economic lives of its properties, which are based on estimates from reserve engineers; (iii) the inflation rate; and (iv) 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. The Company has accreted approximately $3,000 and $6,000 for the three and six months ended June 30, 2016, respectively, and approximately $5,000 and $9,000 for the three and six months ended June 30, 2015, respectively.

Changes to the asset retirement obligation were as follows, (in thousands):

	June 30, 2016	December 31, 2015
Balance, beginning of period	$ 208	$ 200
Additions	779	-
Disposition	-	-
Revisions	-	(2)
Accretion	6	10
	993	208
Less: Current portion for cash flows expected to be incurred within one year	(155)	-
Long-term portion, end of period	$ 838	$ 208

Expected timing of asset retirement obligations:

Year Ending June 30,	
2016	$ 155
2017	-
2018	24
2019	-
2020	87
Thereafter	727
Total	$ 993

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.

Impairment of Long-lived Assets

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

Net Loss per Common Share

Earnings (losses) per share are computed based on the weighted average number of common shares outstanding during the period presented. Diluted earnings 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 shares issuable upon the conversion of debt or preferred stock, and exercise of warrants and options, are excluded from the calculation when their effect would be anti-dilutive. As of June 30, 2016 and June 30, 2015 shares underlying restricted stock units, options, warrants, preferred stock and Debentures have been excluded from the diluted share calculations as they were anti-dilutive as a result of net losses incurred.

The Company had the following Common Stock equivalents at June 30, 2016 and June 30, 2015:

	June 30, 2016	June 30, 2015
Stock Options	3,318,333	615,000
Restricted Stock Units (employees/directors)	159,583	191,400
Series A Preferred Stock	-	311,203
Series B Preferred Stock	18,181,818	-
Warrants to Purchase Common Stock	13,720,747	1,568,533
Convertible Notes	1,648,268	-
Convertible Debentures	-	342,323
	37,028,749	3,028,459

Recently Issued Accounting Pronouncements

In April 2016, the FASB issued ASU No. 2016-10, "*Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing*" (topic 606). In March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross verses Net)" (topic 606). These amendments provide additional clarification and implementation guidance on the previously issued ASU 2014-09, "Revenue from Contracts with Customers". The amendments in ASU 2016-10 provide clarifying guidance on materiality of performance obligations; evaluating distinct performance obligations; treatment of shipping and handling costs; and determining whether an entity's promise to grant a license provides a customer with either a right to use an entity's intellectual property or a right to access an entity's intellectual property. The amendments in ASU 2016-08 clarify how an entity should identify the specified good or service for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements. The adoption of ASU 2016-10 and ASU 2016-08 is to coincide with an entity's adoption of ASU 2014-09, which we intend to adopt for interim and annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact of the new standard.

In May 2016, the FASB issued ASU No. 2016-12, "*Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients"*, which narrowly amended the revenue recognition guidance regarding collectability, noncash consideration, presentation of sales tax and transition and is effective during the same period as ASU 2014-09. The Company is currently evaluating the impact of the new standard.

In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*. This ASU amends the principal versus agent guidance in ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which was issued in May 2014 ("ASU 2014-09"). Further, in April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. This ASU also amends ASU 2014-09 and is related to the identification of performance obligations and accounting for licenses. The effective date and transition requirements for both of these amendments to ASU 2014-09 are the same as those of ASU 2014-09, which was deferred for one year by ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. That is, the guidance under these standards is to be applied using a full retrospective method or a modified retrospective method, as outlined in the guidance, and is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted only for annual periods, and interim period within those annual periods, beginning after December 15, 2016. The Company is currently evaluating the provisions of each of these standards and assessing their impact on the Company's condensed consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The main provisions of ASU No. 2016-02 require management to recognize lease assets and lease liabilities for all leases. ASU 2016-02 retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous leases guidance. The result of retaining a distinction between finance leases and operating leases is that under the lessee accounting model, the effect of leases in the statement of comprehensive income and the statement of cash flows is largely unchanged from previous GAAP. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently assessing the impact of this ASU on the Company's consolidated financial statements.

The FASB issued ASU 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. This ASU will simplify the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for annual and interim periods beginning in 2017 with early adoption permitted. The Company is evaluating the impact of the adoption of this ASU on its financial statements.

Management does not believe that these or any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying condensed financial statements.

NOTE 4 – MERGER WITH BRUSHY RESOURCES, INC. AND RELATED TRANSACTIONS

As described in Note 1 above, on June 23, 2016, the Company completed its Merger with Brushy. The results of the Company's operations since the closing date of the Merger are included in its consolidated statement of operations. The Merger was effected through the issuance of approximately 5.785 million shares of Common Stock in exchange for all outstanding shares of Brushy common stock using a ratio of 0.4550916 shares of Lilis Common Stock for each share of Brushy common stock and the assumption of Brushy's liabilities, including approximately $11.4 million of outstanding debt with Independent Bank and approximately $7.2 million of accounts payable, accrued expenses and asset retirement obligations, Brushy's senior lender. In connection with the closing of the Merger, Lilis paid-down $6.0 million of the principal amount outstanding on the loan, made a cash payment of $500,000 to SOS and issued SOS a Note of $1 million, along with a warrant to purchase 200,000 shares of Common Stock. For a complete description of the liabilities assumed by the Company in connection with the Merger see Note 7 -Loan Agreements-Independent Bank and Promissory Note.

In connection with the Merger, Lilis incurred Merger-related costs of approximately $3.22 million to date, including (i) $3.05 million of consulting, investment, advisory, legal and other Merger-related fees, and (ii) $169,000 of value in conjunction with the warrants issued to SOS recorded additional Merger consideration.

Allocation of Purchase Price - The Merger has been accounted for as a business combination, using the acquisition method. The following table represents the preliminary allocation of the total purchase price of Brushy to the assets and liabilities assumed based on the fair value on the closing date of the Merger.

The following table sets forth our preliminary purchase price allocation:

	(in thousands, except number of shares and stock price)	
Shares of Lilis Common Stock issued to Brushy shareholders		5,785,119
Lilis Common Stock closing price on June 23, 2016		$ 1.20
Fair value of Common Stock issued		$ 6,942
Cash consideration paid to SOS		500
SOS Note		1,000
Fair value of SOS warrant		170
Warrant liability – repricing derivative		164
Advance to Brushy pre-merger		2,508
Total purchase price		11,284
Plus: liabilities assumed by Lilis		
Current Liabilities		
Account payable and accrued expenses	$ 5,650	
Accrued expenses – penalties assumed with Merger	738	
Term loan - Independent Bank	11,379	
		17,767
Long-Term Debt		19
Asset Retirement Obligation		777
Amount attributable to liabilities assumed		18,563
		$ 29,847
Fair Value of Brushy Assets		
Current Assets:		
Cash	$ 706	
Other current assets	603	
		$ 1,309
Oil and Gas Properties:		
Evaluated properties	7,512	
Unevaluated properties	20,625	
		28,137
Other assets		
Other Property Plant & Equipment	42	
Other assets	359	
		401
Total Asset Value		$ 29,847

The fair value measurements of oil and natural gas properties and asset retirement obligations are based on inputs that are not observable in the market and therefore represent Level 3 inputs. The fair values of oil and natural gas properties and asset retirement obligations were measured using valuation techniques that convert future cash flows to a single discounted amount. Significant inputs to the valuation of oil and natural gas properties included estimates of: (i) recoverable reserves; (ii) production rates; (iii) future operating and development costs; (iv) future commodity prices; and (v) a market-based weighted average cost of capital rate. These inputs required significant judgments and estimates by management at the time of the valuation and are the most sensitive and may be subject to change.

The results of operations attributable to Brushy are included in the Company's consolidated statement of operations beginning on June 24, 2016. Revenues of approximately $70,000 and pre-tax net loss of approximately $129,000 from Brushy were generated from June 24, 2016 to June 30, 2016.

Pro forma Financial Information - The following pro forma condensed combined financial information was derived from the historical financial statements of Lilis and Brushy and gives effect to the Merger as if it had occurred on January 1, 2015. The below information reflects pro forma adjustments based on available information and certain assumptions that we believe are reasonable, including (i) Lilis's Common Stock issued to convert Brushy's outstanding shares of common stock as of the closing date of the Merger, (ii) adjustments to conform Brushy's historical policy of accounting for its oil and natural gas properties from the successful efforts method to the full cost method of accounting, (iii) depletion of Brushy's fair-valued proved oil and gas properties, and (iv) the estimated tax impacts of the pro forma adjustments. Additionally, pro forma earnings for the three and six months ended June 30, 2016 were adjusted to exclude $6.8 million and $7.4 million, respectively, of Merger-related costs, which includes an inducement expense of $5.1 million for both periods presented incurred by Lilis and $582,000 and $746,000, respectively, incurred by Brushy. The pro forma results of operations do not include any cost savings or other synergies that may result from the Merger or any estimated costs that have been or will be incurred by Lilis to integrate the Brushy assets. The pro forma condensed combined financial information has been included for comparative purposes and is not necessarily indicative of the results that might have actually occurred had the Merger taken place on January 1, 2015; furthermore, the financial information is not intended to be a projection of future results.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(in thousands, except per share amounts)				
Revenue	$ 1,808	$ 568	$ 2,630	$ 1,297
Net loss	$ (5,843)	$ (6,522)	$ (10,511)	$ (14,305)
Net loss per common share basic and diluted	$ (1.48)	$ (2.40)	$ (3.06)	$ (5.29)
Weighted average shares outstanding:				
Basic and diluted	3,946,573	2,712,607	3,431,122	2,705,754

Debenture Conversion

On June 23, 2016, pursuant to the terms of the Debenture Conversion Agreement, dated as of December 29, 2015, the Company's remaining outstanding 8% Convertible Debentures converted automatically upon consummation of the Merger at $5.00 per share, resulting in the issuance of 1,369,293 shares of Common Stock. In exchange for the reduction in conversion price, all accrued but unpaid interest was forfeited. The modification of such conversion rate resulted in an immaterial gain. The convertible debentures and associated derivative liability was then reclassified to additional paid in capital.

Series A Preferred Stock Conversion

On June 23, 2016, upon consummation of the Merger, each outstanding share of Series A Preferred Stock automatically converted into Common Stock at a conversion price of $5.00 resulting in the issuance of 1,500,000 shares of Common Stock. In exchange for the reduction in conversion price, all accrued but unpaid dividends were forfeited. The modification of such conversion rate resulted in a $540,000 loss on extinguishment.

Convertible Notes Transactions and Conversion

In a series of transactions from December 29, 2015 to May 6, 2016, the Company issued an aggregate of approximately $5.8 million Convertible Notes maturing on June 30, 2016 and April 1, 2017, at a conversion price of $5.00 and warrants to purchase an aggregate of approximately 2.3 million shares of Common Stock with an exercise price of $2.50 for warrants issued between December 2015 and March 2016 and $0.10 for the warrants issued in May 2016. Subsequently, as an inducement to participate in the May Convertible Notes offering, warrants to purchase up to 620,000 shares of Common Stock issued between December 2015 and March 2016 were amended and restated to reduce the exercise price to $0.10. As such, the Company recorded in other income (expense) an inducement expense of $1.72 million. The proceeds from this financing were used to pay a $2.0 million refundable deposit in connection with the Merger, to fund certain operating expenses of Brushy in an aggregate amount of $508,000, to fund approximately $1.3 million of interest payments to Heartland and to fund approximately $2.0 million in working capital and accounts payables reductions.

In connection with the closing of the Merger, on June 23, 2016, certain holders of Convertible Notes in an aggregate principal amount of approximately $4.0 million entered into a Conversion Agreement with the Company (the "Note Conversion Agreement"). The terms of the Note Conversion Agreement provided that the Convertible Notes were automatically converted into Common Stock upon the closing of the Merger. Pursuant to the terms of the Note Conversion Agreement, in exchange for immediate conversion upon closing, the conversion price was reduced to $1.10, which resulted in the issuance of 3,636,363 shares of Common Stock. The modification of such conversion rate resulted in a $3.4 million inducement charge recorded in other expense. Holders of these Convertible Notes waived and forfeited any and all rights to receive accrued but unpaid interest. For a more detailed description of the terms of the Convertible Notes see Note 7 -Loan Agreements-Convertible Notes. T.R. Winston & Company, LLC ("TRW") also received an advisory fee in connection with the Convertible Notes transactions of $350,000, which was subsequently reinvested into the Series B Preferred Offering for 350 shares of Series B Preferred Stock and the related warrants to purchase 159,091 shares of Common Stock at an exercise price of $2.50.

Series B Preferred Stock Issuance

On June 15, 2016, the Company entered into the Series B Purchase Agreement with accredited investors, pursuant to which the Company issued an aggregate of $20 million of Series B Preferred Stock with a conversion price of $1.10 and warrants to purchase 9,090,909 shares of Common Stock at an exercise price of $2.50. The warrants are immediately exercisable from the issuance date, for a period of two years, subject to certain conditions. The Company also issued to TRW and KES 7 Capital Inc. ("KES7") warrants to purchase 452,724 and 820,000 shares of common stock respectively, in addition to a cash fee of $500,000 to TRW, $150,000 of which was subsequently reinvested in the Series B Preferred Offering for 150 shares of Series B Preferred Stock and the related warrants to purchase 68,182 shares of Common Stock at an exercise price of $2.50 and $900,000 to KES7, in addition to certain fees and expenses associated with the transaction. The Company used and expects to continue to use the proceeds of the Series B Preferred Stock offering for acquisition costs incurred in connection with the Merger, debt repayment, drilling and development costs and general corporate purposes. For a more detailed description of terms of the Series B Preferred Stock see Note 10 - Shareholders' Equity.

NOTE 5 - OIL AND GAS ASSETS

On June 23, 2016, the Company completed its Merger with Brushy, as described above. As a result of the Merger, the Company acquired 19 producing properties valued at $7.5 million and 3,458 net acres in the Permian Basin, unevaluated properties valued at $20.6 million

During the year ended December 31, 2015, the Company entered into the JOAs. The Company has an average of 3.41% working interest in each of the Noble Wells. However, due to capital constraints, the Company was placed in non-consent status and the wells were temporarily shut-in. In May 2016, the Company renegotiated the ability to fund its share of the outstanding drilling operations in the amount of approximately $1.68 million. It paid a $300,000 deposit immediately and paid the balance in June 2016, which enabled the Company to regain compliance under each of the JOAs.

Depreciation, depletion and amortization expenses related to the proved properties were approximately $365,000 and $388,000 for three and six months ended June 30, 2016, respectively, as compared to approximately $184,000 and $416,000 for the three and six months ended June 30, 2015, respectively.

NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

The Company's interest rate Term Loan, Debentures and Convertible Notes are measured using Level 3 inputs.

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.

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.

The Company has no such derivative instruments at June 30, 2016 and December 31, 2015.

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, 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; the economic lives of its properties, which are based on estimates from reserve engineers; the inflation rate; and 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.

Impairment

The Company estimates the expected undiscounted future cash flows of its oil and natural gas properties and compares such amounts to the carrying amount of the oil and natural gas properties to determine if the carrying amount is recoverable. If the carrying amount exceeds the estimated undiscounted future cash flows, the Company will adjust the carrying amount of the oil and natural gas properties to fair value. The factors used to determine fair value are subject to management's judgment and expertise and include, but are not limited to, recent sales prices of comparable properties, the present value of future cash flows, net of estimated operating and development costs using estimates or proved reserves, future commodity pricing, future production estimates, anticipated capital expenditures and various discount rates commensurate with the risk and current market conditions associated with realizing the expected cash flows projected. These assumptions represent Level 3 inputs. The Company did not have an impairment during the three and six months ended June 30, 2016. Impairment of oil and gas assets for the three and six months ended June 30, 2015 was approximately $505,000 and $5.97 million, respectively.

Executive Compensation

Effective as of June 23, 2016, the Company and each of Abraham Mirman, Ronald D. Ormand, Michael Pawelek, Kevin Nanke, Edward Shaw, Ariella Fuchs and Joe Pawelek entered into a new employment agreement, which replaced any prior employment agreements with the Company or Brushy in the entirety. Each employment agreement provides for the executive to receive a cash incentive bonus if certain production thresholds are achieved by the Company. The Company has not yet met these production thresholds within the required measurement period for that term under the new employment agreements or the prior employment agreements in effect prior to June 23, 2016. As such, at June 30, 2016, the incentive bonus liability had no value.

For a complete description of the terms of each employment agreement see Note 9—Related Party Transactions.

Change in Warrant Liability

On September 2, 2014, the Company entered into a Consulting Agreement with Bristol Capital, LLC ("Bristol"), pursuant to which the Company issued to Bristol a warrant to purchase up to 100,000 shares of Common Stock at an exercise price of $20.00 per share (or, in the alternative, 100,000 options, but in no case both). The agreement has a price protection feature that will automatically reduce the exercise price if the Company enters into another consulting agreement pursuant to which warrants are issued with a lower exercise price.

On June 30, 2016, the Company revalued the warrants/options using the following variables: (i) warrants to purchase up to 100,000 shares of Common Stock; (ii) stock price of $2.00; (iii) exercise price of $20.00; (iv) expected life of 3.2 years; (v) volatility of 150%; risk free rate of 0.8% for a total value of approximately $94,000, which adjusted the change in fair value valuation of the derivative by approximately $36,000 and $50,000 for the three and six months ended June 30, 2016, respectively.

On January 8, 2015, the Company entered into the Credit Agreement (as defined below). In connection with the Credit Agreement, the Company issued to Heartland a warrant to purchase up to 22,500 shares of Common Stock at an adjusted exercise price of $4.26 with the initial advance, which contains an anti-dilution feature that reduces the exercise price and adjusts the share amount if the Company enters into another agreement pursuant to which warrants are issued with a lower exercise price. During the three and six months ended June 30, 2016, the Company issued the Convertible Notes with a conversion price of $5.00, which was subsequently reduced to $1.10 and warrants with an exercise price of $0.10.

On June 30, 2016, the Company revalued the warrants using the following variables: (i) 22,500 warrants issued; (ii) stock price of $2.00; (iii) adjusted exercise price of $4.26; (iv) expected life of 3.5 years; (v) volatility of 150%; (vi) risk free rate of 0.8% for a total value of approximately $22,000, which adjusted the fair value valuation of the derivative by approximately $6,000 and $13,000 for the three and six months ended June 30, 2016, respectively.

Pursuant to the Merger Agreement and as a condition to the Fourth Amendment (defined below), the Company was required to make a cash payment of $500,000, issue the SOS Note and the SOS Warrant. The SOS Warrant contains a price protection feature that will automatically reduce the exercise price if the Company enters into another agreement pursuant to which warrants are issued with a lower exercise price after June 23, 2016.

On June 30, 2016, the Company evaluated the SOS Warrant using the following variables: (i) 200,000 warrants issued; (ii) stock price of $25.00; (iii) expected life of 2.0 years; (iv) volatility of 150%; (vi) risk free rate of 0.6% for a total value of approximately $164,000. This initial value was recorded as additional Merger consideration.

Debentures Conversion Derivative Liability

As of June 30, 2016, the Company had no outstanding 8% Convertible Debentures, the remaining balance of which was converted into Common Stock in connection with the consummation of the Merger at $5.00.

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

June 30, 2016:

	Level 1	Level 2	Level 3	Total
Liability				
Warrant liabilities	$ -	$ -	$ (280,000)	$ (280,000)
Total liability, at fair value	$ -	$ -	$ (280,000)	$ (280,000)

December 31, 2015:

	Level 1	Level 2	Level 3	Total
Liability				
Executive employment agreements	$ -	$ -	$ (223,000)	$ (223,000)
Warrant liabilities	-	-	(56,000)	(56,000)
Convertible debenture conversion derivative liability	-	-	(6,000)	(6,000)
Total liability, at fair value	$ -	$ -	$ (285,000)	$ (285,000)

The following table provides a summary of changes in fair value of the Company's Level 3 financial assets and liabilities as of June 30, 2016 and 2015:

	Conversion derivative liability	Bristol/ Heartland/SOS warrant liability	Incentive bonus	Total
Balance at January 1, 2016	$ (6,000)	$ (56,000)	$ (223,000)	$ (285,000)
Additional liability	-	(164,000)	-	(164,000)
Change in fair value of liability	(37,000)	(60,000)	223,000	126,000
Converted to equity	43,000	-	-	43,000
Balance at June 30, 2016	$ -	$ (280,000)	$ -	$ (280,000)

	Conversion derivative liability	Bristol/ Heartland warrant liability	Incentive bonus	Total
Balance at January 1, 2015	$ 1,249,000	$ 394,000	$ 40,000	$ 1,683,000
Additional liability	-	56,000	149,000	205,000
Change in fair value of liability	274,000	266,000	42,000	582,000
Balance at June 30, 2015	$ 1,523,000	$ 716,000	$ 231,000	$ 2,470,000

The Company did not have any transfers of assets or liabilities between Level 1, Level 2 or Level 3 of the fair value measurement hierarchy during the three and six months ended June 30, 2016 and June 30, 2015.

NOTE 7 - LOAN AGREEMENTS

Credit Agreements - Current

	As of June 30, 2016	As of December 31, 2015
Term loan – Independent Bank	$ 5,379,000	$ -
Term loan – Heartland, net of deferred financing costs	$ -	$ 2,492,000

Independent Bank and Promissory Note

On June 22, 2016, in connection with the completion of the Merger, the Company, Brushy and Independent Bank (the "Lender"), Brushy's senior secured lender, entered into an amendment to Brushy's forbearance agreement with the Lender (the "Fourth Amendment"), which, among other things, provided for a pay-down of approximately $6.0 million of the principal amount outstanding on the loan (the "Loan"), plus fees and other expenses incurred in connection with the Loan, in exchange for an extension of the maturity date through December 15, 2016, at an interest rate of 6.5%, payable monthly. Additionally, the Company agreed to (i) guaranty the approximately $5.4 million aggregate principal amount of the Loan, (ii) grant a lien in favor of the Lender on all of the Company's real and personal property, (iii) restrict the incurrence of additional debt and (iv) maintain certain deposit accounts with various restrictions with the Lender.

Heartland Bank

On January 8, 2015, the Company entered into the Credit Agreement with Heartland Bank (the "Credit Agreement"), as administrative agent and the Lenders party thereto. The Credit Agreement provided for a three-year senior secured term loan in an initial aggregate principal amount of $3,000,000, or the Term Loan. On December 29, 2015, after a default on an interest payment and in connection with the Merger, the Company entered into the Forbearance Agreement with Heartland (the "Heartland Forbearance Agreement"). The Heartland Forbearance Agreement, restricted Heartland from exercising any of its remedies until April 30, 2016, which was subject to certain conditions, including a requirement for the Company to make a monthly interest payment to Heartland.

Following the First Amendment entered into on March 1, 2016, on May 4, 2016, as a result of a default on the required March 1, April 1 and May 1 interest payments pursuant to the Forbearance Agreement, the Company entered into a second amendment to the Forbearance Agreement (the "Second Amendment"). Pursuant to the Second Amendment, the limit on the amount of New Subordinated Debt the Company had been permitted to raise was eliminated and the Forbearance Expiration Date was extended to May 31, 2016. As consideration for the forgoing, the Company paid Heartland the overdue interest owed pursuant to the Term Loan and interest due through May 31, 2016 in the approximate amount of $87,000 and reimbursement of a portion of Heartland's fees and expenses in an approximate amount of $53,000. During the three and six months ended June 30, 2016, the Company amortized approximately $193,000 and $220,000 of deferred financing, respectively. This amount is recorded as a component of non-cash interest expense.

In connection with the consummation of the Merger, on June 22, 2016, the Company repaid the entire balance of its outstanding indebtedness with Heartland at a discount of $250,000 (recognized as a gain in other income (expense), resulting in the elimination of $2.75 million in senior secured debt and the extinguishment of Heartland's security interest in the assets of the Company.

Convertible Notes

Current - (rounded to the nearest thousands):

June 30, 2016:

	Related Party	Non Related Party
Convertible notes, net - January 1, 2016	$ 1,055,000	$ 674,000
Borrowings	1,250,000	1,613,000
Warrants issued as debt discount	(646,000)	(833,000)
Accretion of debt discount	1,177,000	1,061,000
Converted to equity	(2,650,000)	(1,350,000)
Convertible notes, net- June 30, 2016	$ 186,000	$ 1,165,000

	Related Party	Non Related Party
Convertible notes	$ 400,000	$ 1,413,000
Unamortized debt discount	(214,000)	(248,000)
Convertible notes, net	$ 186,000	$ 1,165,000

December 31, 2015:

	Related Party	Non Related Party
Convertible notes	$ 1,800,000	$ 1,150,000
Unamortized debt discount	(745,000)	(476,000)
Convertible notes, net	$ 1,055,000	$ 674,000

During the three and six months ended June 30, 2016, the Company amortized approximately $1.45 million and $2.24 million of convertible debt discount, respectively. This amount is recorded as a component of non-cash interest expense.

In a series of transactions from December 29, 2015 to May 6, 2016, the Company issued an aggregate of approximately $5.8 million in Convertible Notes maturing on June 30, 2016 and April 1, 2017 at a conversion price of $5.00 and warrants to purchase an aggregate of approximately 2.3 million shares of Common Stock with an exercise price of $2.50 for warrants issued between December 2015 and March 2016 and $0.10 for the warrants issued in May 2016. Subsequently, warrants to purchase 620,000 shares of Common Stock issued between December 2015 and March 2016 were amended and restated to reduce the exercise price to $0.10 in exchange for additional consideration in the form of participation in the May Convertible Notes offering. The proceeds from this financing were used to pay a $2 million refundable deposit in connection with the Merger, to fund certain operating expenses of Brushy in an aggregate amount of approximately $508,000, to fund approximately $1.3 million of interest payments to Heartland and to fund approximately $2.0 million in working capital and accounts payables reductions.

In connection with the closing of the Merger, on June 23, 2016, certain holders of Convertible Notes in an aggregate principal amount of approximately $4.0 million entered into the Note Conversion Agreement. The terms of the Note Conversion Agreement provided that the Convertible Notes were automatically converted into Common Stock upon the closing of the Merger. Pursuant to the terms of the Conversion Agreement, the conversion price was reduced to $1.10, which resulted in the issuance of 3,636,363 shares of Common Stock. Holders of these Convertible Notes waived and forfeited any and all rights to receive accrued but unpaid interest. The Company accounted for the reduction in the conversion price as an inducement expense and recognized $3.4 million in other income (expense).

The Convertible Notes bear interest at a rate of 12% per annum, payable at maturity. The Convertible Notes and accrued but unpaid interest thereon is convertible in whole or in part from time to time at the option of the holders thereof into shares of our Common Stock at a conversion price of $5.00. The Convertible Notes may be prepaid in whole or in part (but with payment of accrued interest to the date of prepayment) at any time at a premium of 103% for the first 120 days and a premium of 105% thereafter, so long as no Senior Debt is outstanding. The Convertible Notes contain customary events of default, which, if uncured, entitle each noteholder to accelerate the due date of the unpaid principal amount of, and all accrued and unpaid interest, subject to certain subordination provisions.

On August 3, 2016, the Company entered into an amendment with the remaining holders of approximately $1.8 million in Convertible Notes. For more information on the amendment, see Note 12 — Subsequent Events.

Debentures

On June 23, 2016, pursuant to the terms of the Debenture Conversion Agreement, dated as of December 29, 2015, the Company's remaining outstanding 8% Convertible Debentures converted automatically upon consummation of the Merger at $5.00 per share, resulting in the issuance of 1,369,293 shares of Common Stock. In exchange for the reduction in conversion price, all accrued but unpaid interest was forfeited. The modification of such conversion rate resulted in an immaterial gain. The Convertible Debentures and associated derivative liability was then reclassified to additional paid in capital.

Note Payable – SOS Ventures

Pursuant to the Merger Agreement and as a condition of the Fourth Amendment, the Company was required to make a cash payment of $500,000, the issuance of the SOS Note and the SOS Warrant.

	As of June 30, 2016
Note payable – SOS due after one year (1)	$ 1,000,000

(1) The SOS Note matures on June 30, 2019 and has an interest rate of 6.0% due at maturity.

Interest Expense

Interest expense for the three and six months ended June 30, 2016 was approximately $2.27 million and $3.60 million, respectively, as compared to the three and six months ended June 30, 2015 of approximately $553,000 and $775,000, respectively. The non-cash interest expense during the three and six months ended June 30, 2016 was approximately $2.1 million and $3.38 million, respectively, as compared to approximately $425,000 and $597,000 for the three and six months ended June 30, 2015. The non-cash interest expenses consisted of non-cash interest expense and amortization of the deferred financing costs, accretion of the Debentures payable discount, and Debentures interest paid in Common Stock.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Environmental and Governmental Regulation

At June 30, 2016, there were no known environmental or regulatory matters which are reasonably expected to result in a material liability to the Company. Many aspects of the oil and gas industry are extensively regulated by federal, state, and local governments in all areas in which the Company has operations. Regulations govern such things as drilling permits, environmental protection and air emissions/pollution control, spacing of wells, the unitization and pooling of properties, reports concerning operations, land use, and various other matters including taxation. Oil and gas industry legislation and administrative regulations are periodically changed for a variety of political, economic, and other reasons. As of June 30, 2016, 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. The Company does not believe that there is any litigation pending that could have, individually or in the aggregate, a material adverse effect on its results of operations or financial condition.

NOTE 9 - RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2016 and 2015, the Company has engaged in the following transactions with related parties:

Six Months Ended June 30, 2016

Series B Preferred Stock Private Placement

On June 15, 2016, the Company entered into the Series B Purchase Agreement with certain institutional and accredited investors (the "Purchasers") in connection with the Series B Offering.

In connection with the Series B Offering, the Company issued to the Purchasers warrants to purchase approximately 9.1 million shares of Common Stock. The warrants have an exercise price of $2.50 per share, and are immediately exercisable from the issuance date, for a period of two years, subject to certain conditions.

The Company also entered into a registration rights agreement (the "Registration Rights Agreement") whereby the Company agreed to register, on behalf of the Purchasers, the shares of Common Stock issuable upon conversion of the Series B Preferred Stock and the shares of Common Stock underlying the warrants. Pursuant to the terms of the Registration Rights Agreement, the Company must file a registration statement within one hundred twenty days of the closing and is required to obtain the effectiveness of such registration statement within one hundred and twenty calendar days following June 15, 2016 (or, in the event of a review by the Commission, the one hundred and eighty days).

On June 6, 2016, as subsequently amended, the Company entered into a Transaction Fee Agreement with TRW, a more than 5% stockholder of the Company, in connection with the Series B Preferred Offering to act as co-broker dealers along with KES7, and as administrative agent. TRW received a cash fee of $500,000 and broker warrants to purchase up to 452,724 shares of Common Stock, at an exercise price of $1.30, exercisable on or after September 17, 2016, for a period of two years. Of the cash fee paid to TRW, $150,000 was reinvested into the Series B Preferred Offering in exchange for 150 shares of Series B Preferred Stock and the related warrants to purchase 68,182 shares of Common Stock at an exercise price of $2.50. These fees were recorded as a reduction to equity.

Certain other Purchasers in the Offering include related parties of the Company, such as Abraham Mirman, the Company's Chief Executive Officer and a director, through the Bralina Group, LLC for which Mr. Mirman holds shared voting and dispositive power ($1.65 million); Ronald D. Ormand, the Company's Executive Chairman of the Board through Perugia Investments LP for which Mr. Ormand holds sole voting and dispositive power ($1.0 million), Kevin Nanke, the Company's Chief Financial Officer, through KKN Holdings LLC, for which Mr. Nanke holds sole voting and dispositive power ($200,000), R. Glenn Dawson, a director of the Company ($125,000), Pierre Caland through Wallington Investment Holdings, Ltd. a more than 5% shareholder of our Company ($250,000) and Bryan Ezralow through various entities beneficially owned by him ($1.3 million).

Debenture Conversion Agreement

On December 29, 2015, the Company entered into the Debenture Conversion Agreement with all of the remaining holders of the Debentures. The terms of the Debenture Conversion Agreement provided that the entire amount of approximately $6.85 million in outstanding Debentures automatically converted into Common Stock upon the closing of the Merger, provided that we obtain the requisite stockholder approval as required by the Nasdaq Marketplace Rules, which was obtained on May 23, 2016.

On June 23, 2016, pursuant to the terms of the Debenture Conversion Agreement, dated as of December 29, 2015, the Company's remaining outstanding 8% Convertible Debentures converted automatically upon consummation of the Merger at $5.00 per share, resulting in the issuance of 1,369,293 shares of Common Stock. In exchange for the reduction in conversion price, all accrued but unpaid interest was forfeited. The modification of such conversion rate resulted in an immaterial gain. The Convertible Debentures and associated derivative liability was then reclassified to additional paid in capital.

Certain parties to the Debenture Conversion Agreement include related parties of the Company, such as the Steven B. Dunn and Laura Dunn Revocable Trust dated 10/28/10, of which its respective Debenture amount converted was approximately $1.02 million, Bryan Ezralow through EZ Colony Partners, LLC of which his respective Debenture amount converted was approximately $1.54 million and Pierre Caland through Wallington Investment Holdings, Ltd., of which its respective Debenture amount converted was approximately $2.09 million. Each of the Steven B. Dunn and Laura Dunn Revocable Trust dated 10/28/10 and Wallington Investment Holdings, Ltd. were a more than 5% shareholder of the Company on the date of conversion.

Series A Preferred Stock

On May 30, 2014, the Company entered into a securities purchase agreement with accredited investors, pursuant to which it issued an aggregate of $7.5 million in Series A Preferred Stock with a conversion price of $24.10 and warrants to purchase up to 155,602 shares of Common Stock.

On June 23, 2016, after the receipt of requisite stockholder approval and in connection with the consummation of the Merger, all outstanding shares of Series A Preferred Stock were converted into Common Stock at a reduced conversion price of $5.00 a share, resulting in the issuance of 1,500,000 shares of Common Stock. In exchange for the reduction in conversion price from $24.10 per share to $5.00 per share, all accrued but unpaid dividends were forfeited.

Several of the Company's officers, directors and affiliates were investors in the Series A Preferred Stock and converted their shares at $5.00 including Abraham Mirman ($250,000), Ronald D. Ormand (through Perugia Investments ($500,000), Nuno Brandolini ($100,000), General Merrill McPeak ($250,000), TRW ($779,000) and Pierre Caland through Wallington Investment Holdings, Ltd. ($125,000).

Convertible Notes

In a series of transactions from December 29, 2015 to May 6, 2016, the Company issued an aggregate of approximately $5.8 million in Convertible Notes maturing on June 30, 2016 and April 1, 2017 at a conversion price of $5.00 and warrants to purchase an aggregate of approximately 2.3 million shares of Common Stock with an exercise price of $2.50 for warrants issued between December 2015 and March 2016 and $0.10 for the warrants issued in May 2016. The Purchasers include certain related parties of us, including Abraham Mirman, the Chief Executive Officer and a director of the Company ($750,000), the Bruin Trust (the "Bruin Trust"), an irrevocable trust managed by an independent trustee and whose beneficiaries include the adult children of Ronald D. Ormand, Executive Chairman of the Board ($1.15 million), General Merrill McPeak, a director of the Company ($250,000), Nuno Brandolini, a director of the Company ($250,000), Glenn Dawson, a director of the Company ($50,000), Kevin Nanke, the Chief Executive Officer of the Company ($100,000, which was reinvested instead of a cash bonus payment due to Mr. Nanke pursuant to his prior executive employment agreement), Pierre Caland through Wallington Investment Holdings, Ltd. ($300,000), who held more than 5% of the Company's Common Stock prior to the Merger and TRW ($400,000).

Subsequently, warrants to purchase up to 620,000 shares of Common Stock issued in connection with the Convertible Notes between December 2015 and March 2016 were amended and restated to reduce the exercise price to $0.10 in exchange for additional consideration given to the Company in the form of participation in the May Convertible Notes offering. Of those warrants, a total of 80,000 warrants were exercised. Additionally, during the three months ended June 30, 2016, in exchange for several offers to immediately exercise a portion of each investor's outstanding warrants issued between 2013 and 2014, the Company reduced the exercise price on warrants to purchase a total of 416,454 shares of Common Stock ranging from $42.50 to $25.00 per share to $0.10 per share, of which a total of 315,990 were subsequently exercised, resulting in the issuance of an aggregate amount of 300,706 shares of Common Stock due to certain cashless exercises. TRW net exercised warrants to purchase 80,000 shares of Common Stock at a reset exercise price of $0.10, resulting in the issuance of 75,820 shares.

In connection with the closing of the Merger, on June 23, 2016, certain holders of Convertible Notes in an aggregate principal amount of approximately $4.0 million entered into the Note Conversion Agreement. The terms of the Note Conversion Agreement provided that the Notes were automatically converted into Common Stock upon the closing of the Merger. Pursuant to the terms of the Conversion Agreement, the conversion price was reduced to $1.10, which resulted in the issuance of 3,636,363 shares of Common Stock. Holders of these Convertible Notes waived and forfeited any and all rights to receive accrued but unpaid interest. The Company accounted for the reduction in the conversion price as an inducement expense and recognized $3.4 million in other income (expense). For a more detailed description of the terms of the Convertible Notes see Note 7 — Loan Agreements — Convertible Notes. Each of the Company's officers and directors who were purchasers of the Convertible Notes and Pierre Caland through Wallington Investments, Ltd., were signatories to the Note Conversion Agreement and converted their outstanding amounts in full.

T.R. Winston also received an advisory fee on the Convertible Notes in the amount of $350,000, which was subsequently reinvested in full into the Series B Preferred Offering for 350 shares of Series B Preferred Stock and related warrants to purchase up to 159,091 shares of Common Stock.

SOS Ventures

In connection with the Merger, SOS, Brushy's former subordinated lender, and currently a more than 5% stockholder of the Company, agreed to extinguish approximately $20.5 million of its outstanding debt in exchange for Brushy's divestiture of its properties to SOS in the Giddings Field, the SOS Note and the SOS Warrant, which was completed on June 23, 2016.

Employment Agreements with Officers

On July 5, 2016, the Company entered into new employment agreements with each of its executive officers (each an "Executive"), effective as of the Effective Time, subject to certain exceptions. The initial term of the agreements is scheduled to end on December 31, 2017, and the agreement will renew automatically for additional one-year periods beginning on December 31, 2017, unless either party gives notice of non-renewal at least 180 days before the end of the then-current term. The agreement replaces in its entirety each Executive's prior employment agreement with Brushy or us, as applicable.

Under each employment agreement, the Executive will be entitled to a lump sum severance payment equal to 12 months of base salary and 12 months of COBRA premiums upon a termination by the Company without cause or a termination by him for good reason. Upon a termination by the Company without cause or a termination by the Executive for good reason within 12 months following a change in control, he will be entitled to a lump sum severance payment equal to 24 months of base salary and 24 months of COBRA premiums. Upon a termination due to disability, the Executive will be entitled to a lump sum severance payment equal to six months of COBRA premiums. All severance payments under the Executives' employment agreements are subject to each Executive's execution and non-revocation of a release of claims against the Company. The severance payments are also subject to reduction in order to avoid an excise tax associated with Section 280G of the Internal Revenue Code, but only if that reduction would result in the Executive receiving a greater net after tax benefit as a result of the reduction.

All payments to the Executives under each of their employment agreements will be subject to clawback in the event required by applicable law. Further, each Executive is subject to non-competition, non-solicitation, anti-raiding, and confidentiality provisions under the employment agreement.

Employment Agreement with Abraham Mirman, Chief Executive Officer of the Company

Pursuant to Mr. Mirman's employment agreement he will serve as Chief Executive Officer with a base salary of $350,000 for the first year of the agreement, $375,000 for the second year of the agreement, and $425,000 for the third year of the agreement, which will be reviewed on an annual basis. Mr. Mirman is entitled to a bonus under the agreement equal to $175,000, payable in cash on our first regular payroll date following the Effective Date. Mr. Mirman will be eligible to receive a cash bonus equal to a percentage of his base salary (ranging from 0% to 500%) depending on the level of achievement of certain BOE per day, EBITDAX, as defined in each of the employment agreements ("EBITDAX") and cash on hand performance measures during the first year of the agreement. Mr. Mirman will also be eligible to receive awards of equity and non-equity compensation and to participate in our annual and long-term incentive plans, in each case as determined by the Board in its discretion. On June 24, 2016, Mr. Mirman received a grant of stock options under the Company's 2016 Omnibus Incentive Plan to purchase 1,250,000 shares of common stock with an exercise price of $1.34. This option vests over two years, with 34% vesting on the date of the grant, 33% vesting on the first anniversary of the date of the grant and 33% vesting on the second anniversary of the date of the grant, subject to continued service through each vesting date.

Employment Agreement with Ronald Ormand, Executive Chairman of the Company

Pursuant to Mr. Ormand's employment agreement, which was effective as of July 11, 2016, his base salary is $300,000 for the first year of the agreement, $350,000 for the second year of the agreement, and $400,000 for the third year of the agreement, which will be reviewed on an annual basis. Mr. Ormand will be eligible to receive a cash bonus equal to a percentage of his base salary (ranging from 0% to 500%) depending on the level of achievement of certain BOE per day, EBITDAX and cash on hand performance measures during the first year of the agreement. Mr. Ormand will also be eligible to receive awards of equity and non-equity compensation and to participate in our annual and long-term incentive plans, in each case as determined by the Board in its discretion. On July 7, 2016, Mr. Ormand received a grant of restricted stock under our 2016 Omnibus Incentive Plan to purchase 1.25 million shares of restricted Common Stock. The restricted Common Stock vests over two years, with 34% vesting on the date of the grant, 33% vesting on the first anniversary of the date of the grant and 33% vesting on the second anniversary of the date of the grant, subject to continued service through each vesting date.

Employment Agreement with Michael Pawelek, President of the Company

Mr. Pawelek's initial base salary under his employment agreement under which he will serve as President of the Company is $307,000, which will be reviewed on an annual basis. Mr. Pawelek will be eligible to receive a cash bonus equal to a percentage of his base salary (ranging from 0% to 500%) depending on the level of achievement of certain BOE per day, EBITDAX and cash on hand performance measures during the first year of the agreement. Mr. Pawelek will also be eligible to receive awards of equity and non-equity compensation and to participate in our annual and long-term incentive plans, in each case as determined by the Board in its discretion. On June 24, 2016, Mr. Pawelek received a grant of stock options under the Company's 2016 Omnibus Incentive Plan to purchase 375,000 shares of common stock with an exercise price of $1.34. This option vests over two years, with 34% vesting on the date of the grant, 33% vesting on the first anniversary of the date of the grant and 33% vesting on the second anniversary of the date of the grant, subject to continued service through each vesting date.

Employment Agreement with Kevin Nanke, Chief Financial Officer of the Company.

Mr. Nanke's initial base salary under the agreement, under which he will serve as Chief Financial Officer is $275,000, which will be reviewed on an annual basis. Mr. Nanke is entitled to a bonus equal to $125,000, payable in cash on our first regular payroll following June 24, 2016. Mr. Nanke will be eligible to receive a cash bonus equal to a percentage of his base salary (ranging from 0% to 500%) depending on the level of achievement of certain BOE per day, EBITDAX and cash on hand performance measures during the first year of the agreement. Mr. Nanke will also be eligible to receive awards of equity and non-equity compensation and to participate in our annual and long-term incentive plans, in each case as determined by the Board in its discretion. On June 24, 2016, Mr. Nanke received a grant of stock options under the Company's 2016 Omnibus Incentive Plan to purchase 625,000 shares of common stock with an exercise price of $1.34. This option vests over two years, with 34% vesting on the date of the grant, 33% vesting on the first anniversary of the date of the grant and 33% vesting on the second anniversary of the date of the grant, subject to continued service through each vesting date.

Additionally, pursuant to Mr. Nanke's former employment agreement with the Company, dated as of March 18, 2016, he was entitled to receive a performance bonus of $100,000 if the Company were to achieve certain compliance goals set forth therein. In May 2016, the Board approved the reinvestment by Mr. Nanke of his performance bonus in the amount of $100,000 into the May Offering, pursuant to the same terms as the May Offering.

Employment Agreement with Edward Shaw, Executive Vice President and Chief Operating Officer of the Company

Mr. Shaw's initial base salary under his employment agreement under which he will serve as Executive Vice President - Chief Operating Officer is $267,000, which will be reviewed on an annual basis. Mr. Shaw will be eligible to receive a cash bonus equal to a percentage of his base salary (ranging from 0% to 500%) depending on the level of achievement of certain BOE per day, EBITDAX and cash on hand performance measures during the first year of the agreement. Mr. Shaw will also be eligible to receive awards of equity and non-equity compensation and to participate in our annual and long-term incentive plans, in each case as determined by the Board in its discretion. On June 24, 2016, Mr. Shaw received a grant of stock options under the Company's 2016 Omnibus Incentive Plan to purchase 375,000 shares of common stock with an exercise price of $1.34. This option vests over two years, with 34% vesting on the date of the grant, 33% vesting on the first anniversary of the date of the grant and 33% vesting on the second anniversary of the date of the grant, subject to continued service through each vesting date.

Employment Agreement with Ariella Fuchs, General Counsel and Secretary of the Company

Ms. Fuchs' initial base salary under the employment agreement, under which she will serve as General Counsel and Secretary is $250,000, which will be reviewed on an annual basis. Ms. Fuchs is entitled to a bonus equal to $112,500, payable in cash on our first regular payroll date following the Effective Date. Ms. Fuchs will be eligible to receive a cash bonus equal to a percentage of her base salary (ranging from 0% to 500%) depending on the level of achievement of certain BOE per day, EBITDAX and cash on hand performance measures during the first year of the agreement. Ms. Fuchs will also be eligible to receive awards of equity and non-equity compensation and to participate in our annual and long-term incentive plans, in each case as determined by the Board in its discretion. On June 24, 2016, Ms. Fuchs received a grant of stock options under our 2016 Omnibus Incentive Plan to purchase 375,000 shares of common stock with an exercise price of $1.34. This option vests over two years, with 34% vesting on the date of the grant, 33% vesting on the first anniversary of the date of the grant and 33% vesting on the second anniversary of the date of the grant, subject to continued service through each vesting date.

Quarter Ended June 30, 2015

On March 20, 2014, the Company entered into an Engagement Agreement (the "Engagement Agreement") with MLV & Co. LLC ("MLV"), pursuant to which MLV acted as the Company's exclusive financial advisor. Ronald D. Ormand, a member of the Company's board of directors since February 2015 and the current Executive Chairman of the Company, was previously the Managing Director and Head of the Energy Investment Banking Group at MLV. The Engagement Agreement provided for a fee of $25,000 to be paid monthly to MLV, subject to certain adjustments and other specific fee arrangements in connection with the nature of financial services being provided. The Company expensed $75,000 and $175,000 for the three and six months ended June 30, 2015, respectively. On May 27, 2015, MLV agreed to take $150,000 of its accrued fees in the Company's Common Stock and was issued 75,000 shares in lieu of payment. The closing share price on May 27, 2015 was $1.56. The term of Engagement Agreement expired on October 31, 2015.

Additionally, MLV had been involved in certain initial discussions relating to the Merger for which they did not receive a fee.

NOTE 10 - SHAREHOLDERS' EQUITY

May 2014 Private Placement - Series A 8% Convertible Preferred Stock

On June 23, 2016, in connection with the consummation of Merger, each share of Series A Preferred Stock converted into Common Stock at a reduced conversion price of $5.00 a share, resulting in the issuance of an aggregate of 1,500,000 shares of Common Stock. In exchange for the reduction in conversion price from $24.10 per share to $5.00 per share, all accrued but unpaid dividends were forfeited.

Conditionally Redeemable 6% Preferred Stock

In August 2014, the Company designated 2,000 shares of its authorized preferred stock as Conditionally Redeemable 6% Preferred Stock, or the Redeemable Preferred. All 2,000 shares of Redeemable Preferred were issued in September 2014, pursuant to the Settlement Agreement with Hexagon. The Redeemable Preferred has the same par value and stated value characteristics as the Series A Preferred Stock, yet the Conditionally Redeemable 6% Preferred Stock is not convertible into Common Stock or any other securities of the Company. Except as otherwise required by law, holders of the Redeemable Preferred shall not be entitled to voting rights.

The Redeemable Preferred Stock bears a 6% dividend per annum, payable quarterly, and is redeemable at face value (plus any accrued and unpaid dividends) at any time at the Company's option, or at the Holders option upon the Company's achievement of certain production and reserves thresholds. These thresholds include, the Company's annualized gross production average for 90 consecutive days at 2,500 BOE per day or higher or the Company's PV-10 value of its producing developed properties filed with the Securities and Exchange Commission exceeds $50 million. As of June 30, 2016, the Company has accrued a cumulative dividend of $180,000 The total outstanding Redeemable Preferred was valued at approximately $1.95 million at June 30, 2016.

Series B 6% Convertible Preferred Stock

On June 15, 2016, the Company entered into the Series B Purchase Agreement for the private placement of 20,000 shares of its Series B Preferred Stock, along with detachable warrants to purchase up to 9,090,909 shares of Common Stock, at an exercise price of $2.50 per share, for aggregate gross proceeds of $20 million. At June 30, 2016, proceeds of approximately $2.1 million were still outstanding and were recorded as a subscription receivable as a reduction to the Series B Preferred proceeds. Subsequent to June 30, 2016, the Company received an additional $1.65 million in proceeds with the additional $450,000 committed still outstanding but expected to be funded in full during the third quarter.

Each share of Series B Preferred Stock is convertible, at the option of the holder, subject to adjustment under certain circumstances into shares of Common Stock of the Company at a conversion price of $2.50. Except as otherwise required by law, holders of the Series B Preferred Stock shall not be entitled to voting rights. The Series B Preferred Stock is convertible at any time, subject to certain conditions, at the option of the holders, or at the Company's discretion when the Company's Common Stock trades above $10.00 (subject to any reverse or forward stock splits and the like) for ten consecutive days. In addition, the Company has the right to redeem the shares of Series B Preferred Stock, along with any accrued and unpaid dividends, at any time, subject to certain conditions as set forth in the Certificate of Designation. The holders of the Series B Preferred Stock are entitled to receive a dividend payable (subject to certain conditions as set forth in the Certificate of Designation), in cash or shares of Common Stock of the Company, at the election of the Company, at a rate of 6% per annum.

The Series B Preferred Stock is classified as equity based on the following criteria: i) the redemption of the instrument at the control of the Company; ii) the instrument is convertible into a fixed amount of shares at a conversion price of $1.10; iii) the instrument is closely related to the underlying Company's Common Stock; iv) the conversion option is indexed to the Company's stock; v) the conversion option cannot be settled in cash and only can be redeemed at the discretion of the Company; vi) and the Series B Preferred Stock is not considered convertible debt.

In connection with the issuance of the Series B Preferred Stock, the Company also issued a warrant for 50% of the amount of shares of Common Stock into which the Series B Preferred Stock is convertible.

In connection with issuance of the Series B Preferred Stock, the shares of the Series B Preferred Stock and related warrants were valued using the relative fair value method. The Company determined the transaction created a beneficial conversion feature of $7.9 million, which was expensed immediately and was calculated by taking the net proceeds of approximately $15.2 million and valuing the warrants as of June 2016, utilizing a Black Scholes option pricing model. The inputs for the pricing model are: $1.20 market price per share; exercise price of $2.50 per share; expected life of 2 years; volatility of 238%; and risk free rate of 0.78%.

Warrants

Below is a summary of warrant activity for the three months ended June 30, 2016:

	Warrants	Weighted-Average Exercise Price
Outstanding at January 1, 2016	**2,478,316**	**$ 14.80**
Warrants issued with Series B Preferred Stock	10,318,182	1.12
Warrants issued with Convertible Notes	1,145,238	.85
Warrant issued to SOS Ventures	200,000	25.00
Exercised, forfeited or expired	(420,989)	(35.67)
Outstanding at June 30, 2016	**13,720,747**	**$ 3.09**

The aggregate intrinsic value associated with outstanding warrants was $11.4 million using a Common Stock closing price of $2 at June 30, 2016. The weighted average remaining contract life as of June 30, 2016 was 2.03 years.

During the six months ended June 30, 2016, the Company issued approximately 11.66 million warrants to purchase shares of Common Stock to Purchasers of the Convertible Notes, Purchasers of Series B Preferred Stock and placement agent fees in connection with the Series B Preferred Stock Offering. The Company also issued a warrant to purchase 200,000 shares of Common Stock to Brushy's subordinated lender in exchange for extinguishment of certain debt owed by Brushy. The warrants issued in connection with the Series B Preferred Stock Offering were valued using the following variables: (i) approximately 9.09 million warrants; (ii) stock price of $1.30; (iii) exercise price of $2.50; (iv) expected life of 2 years; (v) volatility of 238%; (vi) risk free rate of 0.78% for a total value of approximately $9.4million. This amount was used to calculate the deemed dividend described in Note 10 - Stockholders' Equity. The warrants issued to the placement agents in connection with the Series B Preferred Stock Offering were valued using the following variables: (i) approximately 1.27 million warrants; (ii) stock price of $1.20; (iii) exercise price of $1.2; (iv) expected life of 3 years; (v) volatility of 238%; (vi) risk free rate of 0.92% for a total value of approximately $1.59 million. This amount was recorded as an adjustment to the offering proceeds and an offset to additional paid in capital. As of June 30, 2016, there was no unearned compensation related to warrants issued as of that date.

In connection with the May Financing, in exchange for additional consideration in the form of participation in the May Convertible Notes offering, certain Purchasers received amended and restated warrants to purchase approximately 620,000 shares of Common Stock, which reduced the exercise price of the warrants issued to these Purchasers in each of the prior two Convertible Notes issuances from $2.50 to $0.10, 80,000 of which were subsequently exercised. Additionally, during the three months ended June 30, 2016, in exchange for several offers to immediately exercise a portion of each investor's outstanding warrants issued between 2013 and 2014, the Company reduced the exercise price on warrants to purchase a total of 416,454 shares of Common Stock ranging from $42.50 to $25.00 per share to $0.10 per share, of which a total of 315,990 were subsequently exercised, resulting in the issuance of an aggregate amount of 300,706 shares of Common Stock due to certain cashless exercises. The Company accounted for the reduction in the exercise price as an inducement expense and recognized $1.72 million in other income (expense).

NOTE 11 - SHARE BASED AND OTHER COMPENSATION

Share-Based Compensation

On April 20, 2016, the Company's Board and the Compensation Committee of the Board approved the Company's 2016 Omnibus Incentive Plan (the "2016 Plan"). The number of shares of Common Stock authorized for issuance under the 2016 Plan is 5.0 million.

During the six months ended June 30, 2016, the Company granted 120,000 shares of restricted Common Stock to certain non-employee directors in connection with each of their appointment anniversaries pursuant to each director's non-employee director award agreement and as Board fees for the quarter ended December 31, 2015, paid in stock in lieu of cash. During the six months ended June 30, 2016, the Company also issued (i) 10,000 restricted stock units and options to purchase 45,000 shares of Common Stock under the 2016 Plan to a newly appointed director pursuant to his non-employee director award. Additionally, during the six months ended June 30, 2016, the Company granted options to purchase a total of 3,000,000 shares of Common Stock to management and employees under the 2016 Plan.

During the six months ended June 30, 2016, certain of the Company's employees, directors and consultants forfeited 26,412 restricted stock units and 335,000 options to purchase Common Stock previously granted in connection with various terminations and forfeitures.

As a result, as of June 30, 2016, the Company had 159,583 restricted stock units, and 3,318,333 options to purchase shares of Common Stock outstanding to employees and directors. Options issued to employees vest in equal installments over specified time periods during the service period or upon achievement of certain performance based operating thresholds.

The Company requires that employees and directors pay the tax on equity grants in order to issue the shares and there is currently no cashless exercise option. As of June 30, 2016, 128,750 restricted stock units have been granted, but have not been issued.

Compensation Costs

	Three Months Ended June 30, 2016**			Three Months Ended As of June 30, 2015		
	Stock Options	Restricted Stock	Total	Stock Options	Restricted Stock	Total
Stock-based compensation expensed*	$ 1,539,000	$ 39,000	$ 1,578,000	$ 1,168,000	$ 283,000	$ 1,451,000

	Six Months Ended June 30, 2016**			Six Months Ended As of June 30, 2015		
(Dollar amounts in thousands)	Stock Options	Restricted Stock	Total	Stock Options	Restricted Stock	Total
Stock-based compensation expensed*	$ 1,731,000	$ 10,000	$ 1,741,000	$ 1,723,000	$ 341,000	$ 2,064,000

* Only includes directors and employees for which the options vest over time instead of based upon performance criteria for which the performance criteria has not been met as of June 30, 2016 and 2015.

** As of June 30, 2016, the Company has unamortized stock-based compensation costs for stock options of approximately $3.05 million and $120,000 for restricted stock. The Company has a weighted average amortization period remaining for stock options of 1.99 years and 0.87 years for restricted stock.

Restricted Stock Units

A summary of restricted stock unit grant activity pursuant to the 2012 EIP and the 2016 Plan for the six months ended June 30, 2016 is presented below:

	Number of Shares	Weighted Average Grant Date Price
Outstanding at January 1, 2016	**186,900**	**$ 12.29**
Granted	10,000	1.80
Vested and issued	(10,834)	(18.75)
Forfeited	(26,483)	(16.15)
Outstanding at June 30, 2016	**159,583**	**$ 10.56**

Stock Options

A summary of stock options activity for the six months ended June 30, 2016 pursuant to the Company's equity incentive plans is presented below:

			Stock Options Outstanding and Exercisable	
	Number of Options	Weighted Average Exercise Price	Number of Options Vested/ Exercisable	Weighted Average Remaining Contractual Life (Years)
Outstanding at January 1, 2016	608,333	$ 14.60		
Granted	3,045,000	1.35		
Exercised	-	-		
Forfeited or cancelled	(335,000)	(10.18)		
Outstanding at June 30, 2016	3,318,333	$ 1.27	1,258,334	8.94

The aggregate intrinsic value associated with outstanding options was $2.0 million using a Common Stock closing price of $2 at June 30, 2016. On June 24, 2016, the Company granted options to purchase a total of 3,000,000 shares of Common Stock to management and employees, of which one-third vested immediately and balance will vest evenly over two years valued using the following variables: (i) 3,000,000 options; (ii) stock price of $1.34; (iii) exercise price of $1.34; (iv) expected life of 5 years; (v) volatility of 197%; (vi) risk free rate of 1.08% for a total value of approximately $3.91 million of which approximately $1.32 million was expensed immediately and the remaining balance will be expensed over the vesting period. On January 13, 2016, the Company granted 20,000 stock options to a non-employee director, which vest in equal installments over three years and were valued using the following variables: (i) 20,000 options; (ii) stock price of $.18; (iii) exercise price of $0.18; (iv) expected life of 7 years; (v) volatility of 192.13%; (vi) risk free rate of 1.85% for a total value of approximately $36,000 which the amount is amortized over the vesting period.

NOTE 12 – SUBSEQUENT EVENTS

On July 7, 2016, in connection with the closing of the Merger, all of the Company's current directors, with the exception of Mr. Mirman, received a restricted stock grant pursuant to the Company's 2016 Plan, resulting in the issuance of 1,570,500 shares, which vest in equal installments with one-third vesting immediately and two-thirds on each anniversary of the grant. Additionally, on July 25, 2016, the Board reassessed non-employee director compensation under the 2016 Plan and determined to maintain the current compensation package granted to each non-employee director pursuant to the 2016 Plan that was in effect under the prior plan, with adjustments to the share amounts to reflect the Reverse Split, pursuant to which, 10,000 shares of restricted Common Stock and options to purchase 45,000 shares of Common Stock were granted to a new non-employee director on that date.

On July 25, 2016, the Company entered into a security and control agreement and related mortgages pursuant to which the Company granted Independent Bank a senior security interest in substantially all of its assets as additional security for repayment of the Loan, pursuant to the terms of the Fourth Amendment to the Forbearance Agreement.

On August 3, 2016, the Company entered into the first amendment to the Notes with the remaining holders of approximately $1.8 million of Convertible Notes. Pursuant to the first amendment: (i) the maturity date was changed to January 2, 2017, (ii) the conversion price was adjusted to $1.10 and (iii) the coupon was increased to 15% per annum. All accrued and unpaid interest on the Convertible Notes may also be convertible in certain circumstances at the conversion price. Additionally, if the aggregate principal amount outstanding on the Convertible Notes is not either converted by the holder or repaid in full on or before the maturity date, the Company will pay a 25% premium on the maturity date. In exchange for the holders' willingness to enter into the first amendment, the Company issued to the holders warrants to purchase up to approximately 1.7 million shares of Common Stock. The warrants have an exercise price of $2.50 per share, and are immediately exercisable from the issuance date for a period of three years, subject to certain circumstances.

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, 2015, as well as the unaudited condensed 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, 2015.

General

We are an upstream independent oil and gas company engaged in the acquisition, drilling and production of oil and natural gas properties and prospects.

On June 23, 2016, we completed the merger transaction contemplated by the Agreement and Plan of Merger dated as of December 29, 2015, as amended (the "Merger Agreement") by and among us, Brushy Resources, Inc., a Delaware corporation ("Brushy") and Lilis Merger Sub, Inc., a Delaware corporation, a wholly-owned subsidiary of ours ("Merger Sub"). Pursuant to the terms of the Merger Agreement, at the effective time (the "Effective Time"), Merger Sub merged with and into Brushy (the "Merger"), with Brushy continuing as the surviving corporation and becoming a wholly-owned subsidiary of ours.

Additionally, in connection with the Merger on June 23, 2016, we effected a 1-for-10 reverse stock split (the "Reverse Split"). As a result of the Reverse Split, every ten shares of issued and outstanding Common Stock were automatically converted into one newly issued and outstanding share of Common Stock, without any change in the par value per share. However, the number of authorized shares of Common Stock remained unchanged.

Prior to our Merger with Brushy, our operating activities were focused only on the DJ Basin in Colorado, Wyoming and Nebraska. 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. As of June 30, 2016, we owned interests in 16 economically producing wells and approximately 7,600 net leasehold acres. As a result of the completion of the Merger, our operating activities are additionally focused on the Permian Basin, with operations in the Delaware Basin in Texas and New Mexico where we owned interests in 19 economically producing wells and approximately 3,500 leasehold acres. Our acquisition, development and exploration pursuits are principally directed at oil and natural gas properties in North America.

We generate the vast majority of our revenues from the sale of oil for our producing wells. The prices of oil and natural gas are critical factors to our success. The volatility in the prices of oil and natural gas could be detrimental to our results of operations. Our business requires substantial capital to acquire producing properties and develop our non-producing properties. As the price of oil declines causing our revenues to decrease, we generate less cash to acquire new properties or develop our existing properties and the price decline may also make it more difficult for us to obtain any debt or equity financing to supplement our cash on hand.

The results of operations of Brushy are included with those of ours from June 23, 2016 through June 30, 2016. However, any discussion and analysis below with respect to Brushy's impact on our results of operations and financial condition is very limited, as the Merger with Brushy was recently completed on June 23, 2016 and this section generally covers information for prior periods. Additionally, all discussion related to historical representations of Common Stock unless otherwise noted, give retroactive effect to the Reverse Split for all periods presented.

Our financial statements for the three and six months ended June 30, 2016 have been prepared on a going concern basis. We have incurred net operating losses for the three and six months ended June 30, 2016 and for the past five years. This history of operating losses, along with the recent decrease in commodity prices, may adversely affect our ability to access capital we need to continue operations. These factors raise substantial doubt about our ability to continue as a going concern. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts of liabilities, that might result from this uncertainty.

We will need to raise additional funds to finance continuing operations. However, we may not be successful in doing so. Without sufficient additional financing, it would be unlikely for us to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to successfully accomplish our business and development plan and eventually secure other sources of financing and attain profitable operations. We continue to pursue additional sources of financing but there can be no assurance that such financing will be completed on terms favorable to the Company, if at all.

Results of Operations

The following table compares operating data for the three months ended June 30, 2016 to June 30, 2015:

	Three Months Ended June 30,	
	2016	**2015**
Revenue:		
Oil sales	$ 742,499	$ 136,776
Gas sales	240,373	26,253
Operating fees	7,225	8,888
Total revenue	990,097	171,917
Costs and expenses:		
Production costs	328,167	66,824
Production taxes	52,288	4,406
General and administrative	3,504,669	3,051,214
Depreciation, depletion, accretion and amortization	538,944	191,068
Impairment of evaluated oil and gas properties	-	504,897
Total costs and expenses	4,424,068	3,818,409
Loss from operations	(3,433,971)	(3,646,492)
Other income (expenses):		
Other (expense) income	246,818	785
Inducement expense	(5,126,903)	
Change in fair value of convertible debentures conversion derivative liability	11,834	(161,806)
Change in fair value of warrant liability	(41,362)	(217,250)
Change in fair value of conditionally redeemable 6% preferred stock	(453,971)	74,305
Interest expense	(2,268,660)	(553,522)
Total other income (expenses)	(7,632,244)	(857,488)
Net loss	$ (11,066,215)	$ (4,503,980)

Total revenue

Total revenue was approximately $990,000 for the three months ended June 30, 2016, compared to approximately $172,000 for the three months ended June 30, 2015, representing an increase of approximately $818,000 or 476%. The increase in revenue was primarily attributable to us regaining compliance with the JOAs (defined below) and having the ability to recognize the revenue attributable to those eight wells (the "Noble Wells") in the second quarter of 2016.

This increase has been off-set by the 35% decrease in realized price per BOE from $40.06 for the three months ended June 30, 2015 to $25.88 for the three months ended June 30, 2016. During the three months ended June 30, 2016 and 2015, oil and gas production amounts were 37,972 and 4,070 BOE, respectively, representing an increase of 33,902 BOE, or 833%.

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

	For the Three Months Ended June 30,	
	2016	**2015**
Product		
Oil (Bbl.)	21,448	2,875
Oil (Bbls)-average price (1)	$ 34.62	$ 47.57
Natural Gas (MCF)-volume	99,143	7,168
Natural Gas (MCF)-average price (2)	$ 2.42	$ 3.66
Barrels of oil equivalent (BOE)	37,972	4,070
Average daily net production (BOE)	417	45
Average Price per BOE (1)	$ 25. 88	$ 40.06

(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)	$ 25.88	$ 40.06
Production costs per BOE	$ 8.64	$ 16.42
Production taxes per BOE	$ 1.38	$ 1.08
Depreciation, depletion, and amortization per BOE	$ 14.19	$ 46.96
Total operating costs per BOE	$ 24.21	$ 64.46
Gross margin per BOE	$ 1.67	$ (24.40)
Gross margin percentage	6.4%	(60.9)%

Production Costs

Production costs were approximately $328,000 for the three months ended June 30, 2016, compared to approximately $67,000 for the three months ended June 30, 2015, an increase of approximately $261,000, or 390%. Production costs per BOE decreased to $8.64 for the three months ended June 30, 2016 from $16.42 during the three months ended June 30, 2015, a decrease of $7.78 per BOE, or 47%. The decrease was primarily due to the addition of production associated with the Noble Wells.

Production Taxes

Production taxes were approximately $52,000 for the three months ended June 30, 2016, compared to approximately $4,000 for the for the three months ended June 30, 2015, an increase of approximately $48,000 or 1,200%. Currently, ad valorem, severance and conservation taxes range from 1% to 13% based on the state and county from which production is derived. Production taxes per BOE increased to $1.38 during the three months ended June 30, 2016 from $1.08 during the three months ended June 30, 2015, an increase of $0.30 or 28%.

General and Administrative Expenses

General and administrative expenses were approximately $3.50 million during the three months ended June 30, 2016, compared to approximately $3.05 million during the three months ended June 30, 2015, an increase of approximately $450,000, or 14.8%. Included in general and administrative expenses for the three months ended June 30, 2016, were approximately $1.58 million of stock-based compensation expense compared to approximately $1.45 million of stock-based compensation expenses during the three months ended June 30, 2015. The decrease in stock-based compensation expense compared to the increase in general and administrative expenses was offset by significant professional costs associated with the Merger.

Depreciation, Depletion, and Amortization

Depreciation, depletion, and amortization was approximately $539,000 during the three months ended June 30, 2016, compared to approximately $191,000 during the three months ended June 30, 2015, an increase of approximately $348,000, or 182%. The increase in depreciation, depletion and amortization was primarily due to the addition of in the Noble Wells in the second quarter of 2016 with associated high production rates. During the three months ended June 30, 2016 and 2015, oil and gas production amounts were 37,972 and 4,070 BOE, respectively, representing an increase of 33,902 BOE, or 833%. Depreciation, depletion, and amortization per BOE decreased to $14.19 from $46.96, respectively, for the three months ended June 30, 2016 and 2015, representing a decrease of $32.77, or 70%.

Inducement Expense

During the three months ended June 30, 2016, an inducement expense of approximately $5.1 million was incurred as a result of debt and equity restructuring in connection with the Merger. There was no inducement expense in the three months ended June 30, 2015.

Impairment of Evaluated Oil and Gas Properties

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 sum of the present value, discounted at 10%, of estimated future net revenues from proved oil and gas reserves and 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.

During the three months ended June 30, 2016, no impairment was recorded. During the three months ended June 30, 2015, we incurred impairment on our oil and gas properties of approximately $505,000.

Interest Expense

For the three months ended June 30, 2016 and 2015, we incurred interest expense of approximately $2.3 million and $554,000, respectively. Non-cash interest of approximately $1.25 million and $425,000, respectively, were comprised of amortization of the deferred financing costs and accretion of the Company's 8% Convertible Debentures (the "Debentures") payable and Convertible Note discounts.

Change in Bristol/Heartland warrant liability

The warrants issued to both Bristol Capital, LLC ("Bristol") and Heartland have an anti-dilution feature that will automatically reduce the exercise price if the Company enters into another consulting agreement (in the case of Bristol) or any agreement (in the case of Heartland) pursuant to which warrants are issued at a lower exercise price than $25.00 per share. The aggregate change in fair value of this warrant provision was $41,000 and $217,000 for the three months ended June 30, 2016 and 2015, respectively.

Pursuant to the Merger Agreement and as a condition to the Fourth Amendment (defined below), the Company was required to make a cash payment of $500,000, issue the SOS Note and the SOS Warrant (each as defined below). The SOS Warrant contains a price protection feature that will automatically reduce the exercise price if the Company enters into another agreement pursuant to which warrants are issued with a lower exercise price after June 23, 2016.

On June 30, 2016, the Company evaluated the SOS Warrant using the following variables: (i) 200,000 warrants issued; (ii) stock price of $25.00; (iii) expected life of 2.0 years; (iv) volatility of 150%; (vi) risk free rate of 0.6% for a total value of approximately $164,000. This initial value was recorded as additional Merger consideration.

For the three months ended June 30, 2016 and 2015 we incurred a change in the fair value of the warrant liability attributed to the warrant issued to Heartland of approximately $41,000 and $217,000, respectively.

Change in Derivative Liability of Debentures

During the quarter ended June 30, 2016, the remaining amount of the Debentures was converted into equity, which eliminated all derivative liability associated therewith. For the three months ended June 30, 2015, we incurred a change in the fair value of the derivative liability related to the Debentures of approximately $(12,000) before the liability was converted to equity.

Change in Derivative Liability of Conditionally Redeemable 6% Preferred Stock

In August 2014, the Company designated 2,000 shares of its authorized preferred stock as Conditionally Redeemable 6% Preferred Stock, or the Redeemable Preferred. All 2,000 shares of Redeemable Preferred were issued in September 2014, pursuant to the Settlement Agreement with Hexagon. The Redeemable Preferred has the same par value and stated value characteristics as the Series A 8% Preferred Stock (the "Series A Preferred Stock"), yet the Conditionally Redeemable 6% Preferred Stock is not convertible into Common Stock or any other securities of the Company. Except as otherwise required by law, holders of the Redeemable Preferred shall not be entitled to voting rights.

The Redeemable Preferred Stock bears a 6% dividend per annum, payable quarterly, and is redeemable at face value (plus any accrued and unpaid dividends) at any time at the Company's option, or at the Holders option upon the Company's achievement of certain production and reserves thresholds. These thresholds include, the Company's annualized gross production average for 90 consecutive days at 2,500 BOE per day or higher or the Company's PV-10 value of its producing developed properties filed with the Securities and Exchange Commission exceeds $50 million. As of June 30, 2016, the Company has accrued a cumulative dividend of approximately $180,000. The total outstanding Redeemable Preferred was valued at approximately $1.95 million at June 30, 2016.

For the three months ended June 30, 2016 and 2015, we incurred a change in the fair value of the derivative liability related to the Redeemable Preferred of approximately $454,000 and $(74,000), respectively. The increase in the obligation is primarily due to the company moving closer to meeting the certain thresholds described above.

The following table compares operating data for the six months ended June 30, 2016 to June 30, 2015:

	Six Months Ended June 30,	
	2016	**2015**
Revenue:		
Oil sales	$ 778,735	$ 226,161
Gas sales	243,454	48,196
Operating fees	9,625	15,720
Total revenue	1,031,814	290,077
Costs and expenses:		
Production costs	365,392	87,216
Production taxes	54,216	15,220
General and administrative	5,168,644	5,404,092
Depreciation, depletion, accretion and amortization	561,829	434,648
Impairment of evaluated oil and gas properties	-	5,966,909
Total costs and expenses	6,150,081	11,908,085
Loss from operations	(5,118,267)	(11,618,008)
Other income (expenses):		
Other (expense) income	245,354	793
Inducement expense	(5,126,903)	-
Change in fair value of convertible debentures conversion derivative liability	(37,084)	(273,897)
Change in fair value of warrant liability	(60,160)	(266,212)
Change in fair value of conditionally redeemable 6% preferred stock	(777,911)	120,191
Interest expense	(3,602,663)	(775,132)
Total other income (expenses)	(9,359,367)	(1,194,257)
Net loss	$ (14,477,634)	$ (12,812,265)

Total revenue

Total revenue was approximately $1,032,000 for the six months ended June 30, 2016, compared to approximately $290,000 for the six months ended June 30, 2015, representing an increase of approximately $742,000, or 256%. The increase in revenue was primarily attributable to us regaining compliance with the JOAs (defined below) and having the ability to recognize the revenue attributable to the Noble Wells in the second quarter of 2016.

This increase has been off-set by the 32% decrease in realized price per BOE from $37.67 for the six months ended June 30, 2015 to $25.72 for the six months ended June 30, 2016. During the six months ended June 30, 2016 and 2015, oil and gas production amounts were 39,748 and 7,283 BOE, respectively, representing an increase of 32,465 BOE, or 446%.

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

	For the Six Months Ended June 30,	
	2016	2015
Product		
Oil (Bbl.)	22,819	4,810
Oil (Bbls)-average price (1)	$ 34.13	$ 47.01
Natural Gas (MCF)-volume	101,575	14,841
Natural Gas (MCF)-average price (2)	$ 2.40	$ 3.24
Barrels of oil equivalent (BOE)	39,748	7,283
Average daily net production (BOE)	218	40
Average Price per BOE (1)	$ 25.72	$ 37.67

(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)	$ 25.72	$ 37.67
Production costs per BOE	$ 9.19	$ 11.98
Production taxes per BOE	$ 1.36	$ 2.09
Depreciation, depletion, and amortization per BOE	$ 14.13	$ 59.68
Total operating costs per BOE	$ 24.68	$ 73.75
Gross margin per BOE	$ 1.04	$ (36.08)
Gross margin percentage	4.0%	(95.8)%

Production Costs

Production costs were approximately $365,000 for the six months ended June 30, 2016, compared to approximately $87,000 for the six months ended June 30, 2015, an increase of approximately $278,000, or 319%. Production costs per BOE decreased to $9.19 for the six months ended June 30, 2016 from $11.98 in the six months ended June 30, 2015, a decrease of $2.79 per BOE, or 23%. The increase in revenue was primarily attributable to us regaining compliance with the JOAs (defined below) and having the ability to recognize the revenue attributable to the Noble Wells in the second quarter of 2016.

Production Taxes

Production taxes were approximately $54,000 for the six months ended June 30, 2016, compared to approximately $15,000 for the for the six months ended June 30, 2015, an increase of approximately $39,000 or 260%. Currently, ad valorem, severance and conservation taxes range from 1% to 13% based on the state and county from which production is derived. Production taxes per BOE decreased to $1.36 during the six months ended June 30, 2016 from $2.09 during the six months ended June 30, 2015, a decrease of $0.73 or 35%.

General and Administrative Expenses

General and administrative expenses were approximately $5.17 million during the six months ended June 30, 2016, compared to approximately $5.4 million during the three months ended June 30, 2015, a decrease of approximately $235,000, or 4%. Included in general and administrative expenses for the six months ended June 30, 2016, were approximately $1.74 million of stock-based compensation expense compared to approximately $2.06 million of stock-based compensation expenses during the six months ended June 30, 2015 The decrease in stock based compensation was offset by the additional professional fees associated with the Merger during the six months ended June 30, 2016.

Depreciation, Depletion, and Amortization

Depreciation, depletion, and amortization was approximately $562,000 during the six months ended June 30, 2016, compared to approximately $435,000 during the six months ended June 30, 2015, an increase of approximately $127,000, or 29%. The increase in depreciation, depletion and amortization was primarily due to the addition of in the Noble Wells in the second quarter of 2016 with associated high production rates. During the six months ended June 30, 2016 and 2015, oil and gas production amounts were 39,748 and 7,283 BOE, respectively, representing an increase of 32,465 BOE, or 446%. Depreciation, depletion, and amortization per BOE decreased to $14.13 from $59.68, respectively, for the six months ended June 30, 2016 and 2015, representing a decrease of $45.55, or 76%.

Inducement expense

During the six months ended June 30, 2016 inducement expense of approximately $5.1 million was incurred as a result of debt and equity restructuring in connection with the Merger. There was no inducement expense in the six months ended June 30, 2015.

Impairment of Evaluated Oil and Gas Properties

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 sum of the present value, discounted at 10%, of estimated future net revenues from proved oil and gas reserves and 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.

During the six months ended June 30, 2016, no impairment was recorded. During the six months ended June 30, 2015, we incurred impairment on our oil and gas properties of approximately $5.97 million.

Interest Expense

For the six months ended June 30, 2016 and 2015, we incurred interest expense of approximately $3.6 million and $775,000, respectively. Non-cash interest of approximately $3.4 million and $597,000, respectively, were comprised of deferred financing costs, accretion of the Debentures payable, convertible note discounts and interest on non-converted notes.

Change in Bristol/Heartland warrant liability

The warrants issued to both Bristol and Heartland have an anti-dilution feature that will automatically reduce the exercise price if the Company enters into another consulting agreement (in the case of Bristol) or any agreement (in the case of Heartland) pursuant to which warrants are issued at a lower exercise price than $25.00 per share. The aggregate change in fair value of this warrant provision was $60,000 and $266,000 for the six months ended June 30, 2016 and 2015, respectively.

Change in Derivative Liability of Debentures

During the quarter ended June 30, 2016, the remaining amount of the Debentures was converted into equity, which eliminated all derivative liability associated therewith. For the six months ended June 30, 2016 and 2015, we incurred a change in the fair value of the derivative liability related to the Debentures of approximately $37,000 and $274,000 respectively before the liability was converted to equity.

Change in Derivative Liability of Conditionally Redeemable 6% Preferred Stock

In August 2014, the Company designated 2,000 shares of its authorized preferred stock as Conditionally Redeemable 6% Preferred Stock, or the Redeemable Preferred. All 2,000 shares of Redeemable Preferred were issued in September 2014, pursuant to the Settlement Agreement with Hexagon. The Redeemable Preferred has the same par value and stated value characteristics as the Series A Preferred Stock, yet the Conditionally Redeemable 6% Preferred Stock is not convertible into Common Stock or any other securities of the Company. Except as otherwise required by law, holders of the Redeemable Preferred shall not be entitled to voting rights.

The Redeemable Preferred Stock bears a 6% dividend per annum, payable quarterly, and is redeemable at face value (plus any accrued and unpaid dividends) at any time at the Company's option, or at the Holders option upon the Company's achievement of certain production and reserves thresholds. These thresholds include, the Company's annualized gross production average for 90 consecutive days at 2,500 BOE per day or higher or the Company's PV-10 value of its producing developed properties filed with the Securities and Exchange Commission exceeds $50 million. As of June 30, 2016, the Company has accrued a cumulative dividend of approximately $180,000. The total outstanding Redeemable Preferred was valued at approximately $1.95 million at June 30, 2016.

For the six months ended June 30, 2016 and 2015, we incurred a change in the fair value of the derivative liability related to the Redeemable Preferred of approximately $778,000 and $(121,000), respectively. The increase in the obligation is primarily due to the company moving closer to meeting the certain thresholds described above.

Liquidity and Capital Resources

The financial statements for the three and six months ended June 30, 2016 have been prepared on a going concern basis. We reported net operating losses during the three and six months ended June 30, 2016 and for the past five years. This history of operating losses, along with the recent decrease in commodity prices, and short-term debt obligations may adversely affect our ability to access the capital we need to continue operations on terms acceptable to us when such capital is needed. These factors raise substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to successfully accomplish our business plan, integrate the Merger and eventually secure other sources of financing and attain profitable operations. We continue to pursue additional sources of financing but there can be no assurance that such financing will be completed on terms favorable to the Company, if at all. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts of liabilities, that might result from this uncertainty. As of August 24, 2016, our cash balance was approximately $5 million.

Information about our financial position as of June 30, 2016 compared to December 31, 2015 is presented in the following table (in thousands):

	June 30, 2016	December 31, 2015
Financial Position Summary		
Cash and cash equivalents	$ 6,489	$ 110
Working capital (deficit)	$ (10,082)	$ (15,475)
Term loan	$ 5,379	$ 2,492
Stockholders' equity (deficiency)	$ 16,515	$ (14,344)

Merger with Brushy

We paid deposits and operating expenses of Brushy toward completion of the Merger of approximately $2.5 million, which is recorded as additional consideration. As of August 24, 2016, the Company's cash balance was approximately $5 million. The Company has historically financed its operations through the sale of debt and equity securities and borrowings under credit facilities with financial institutions.

In connection with the closing of the Merger, the Company entered into the following financing transactions:

Equity Financing and Short-Term Indebtedness

Series A Preferred Stock Conversion

On June 23, 2016, after receiving the requisite stockholder approval and upon consummation of the Merger, each outstanding share of our Series A Preferred Stock automatically converted into Common Stock at a conversion price of $5.00 resulting in the issuance of 1,500,000 shares of Common Stock. In exchange for the reduction in conversion price, all accrued but unpaid dividends were forfeited.

Series B 6% Preferred Stock

On June 15, 2016, we entered into a securities purchase agreement for gross proceeds of $20 million in the private placement of 20,000 shares of our Series B 6% Convertible Preferred Stock (the "Series B Preferred Stock") with a conversion price of $1.10 and warrants to purchase up to 9,090,909 shares of Common Stock at an exercise price of $2.50, exercisable immediately for a period of two years, subject to certain circumstances. At June 30, 2016, proceeds of approximately $2.1 million were still outstanding and were recorded as a subscription receivable as a reduction to the Series B Preferred proceeds. Subsequent to June 30, 2016, the Company received an additional $1.65 million in proceeds with the additional $450,000 committed still outstanding but expected to be funded in full during the third quarter. For a more detailed description of the terms of the Series B Preferred Stock see Note 9-Shareholders Equity.

In connection with the Series B Preferred Stock Offering, we also paid a cash fee of $500,000 and $900,000 to T.R. Winston & Company, LLC ("TRW") and KES 7 Capital Inc. ("KES 7"), respectively, who acted as co-placement agents and TRW as administrative agent. Each of TRW and KES 7 also received fee warrants to purchase up to 452,724 and 820,000 shares of Common Stock, respectively, at an exercise price of $1.30, exercisable on or after September 17, 2016, for a period of two years. Of the cash fee paid to TRW, $150,000 was reinvested into the Series B Preferred Offering in exchange for 150 shares of Series B Preferred Stock and the related warrants to purchase 68,182 shares of Common Stock at an exercise price of $2.50.

Heartland Bank

On January 8, 2015, we entered into the Credit Agreement with Heartland Bank (the “Credit Agreement”), as administrative agent and the Lenders party thereto. The Credit Agreement provided for a three-year senior secured term loan in an initial aggregate principal amount of $3,000,000, or the Term Loan. On December 29, 2015, after a default on an interest payment and in connection with the Merger, we entered into the forbearance agreement with Heartland (the “Heartland Forbearance Agreement”). The Heartland Forbearance Agreement, restricted Heartland from exercising any of its remedies until April 30, 2016 which was subject to certain conditions, including a requirement for us to make a monthly interest payment to Heartland.

Following the First Amendment entered into on March 1, 2016, on May 4, 2016, as a result of a default on the required March 1, April 1 and May 1 interest payments pursuant to the Forbearance Agreement, we entered into a second amendment to the Heartland Forbearance Agreement (the “Second Amendment”). Pursuant to the Second Amendment, the limit on the amount of New Subordinated Debt we had been permitted to incur was eliminated and the Forbearance Expiration Date was extended to May 31, 2016. As consideration for the forgoing, we paid Heartland the overdue interest owed pursuant to the Term Loan and interest due through May 31, 2016 in the approximate amount of $87,000 and reimbursement of a portion of Heartland’s fees and expenses in an approximate amount of $53,000.

In connection with the consummation of the Merger, on June 22, 2016, we repaid the balance of our outstanding indebtedness with Heartland at a discount of $250,000, resulting in the elimination of $2.75 million in senior secured debt and the extinguishment of Heartland’s security interest in the assets of the Company.

Independent Bank and Promissory Note

On June 22, 2016, in connection with the completion of the Merger, we entered into an amendment with Brushy and its senior secured lender, Independent Bank (the “Lender”) to Brushy’s Forbearance Agreement with the Lender (the “Fourth Amendment”), which, among other things, provided for a pay-down of $6.0 million of the principal amount outstanding on the loan (the “Loan”), plus fees and other expenses incurred in connection with the Loan, in exchange for an extension of the maturity date through December 15, 2016, at an interest rate of 6.5%, payable monthly. Additionally, we agreed to (i) guaranty the approximately $5.4 million aggregate principal amount of the Loan, (ii) grant a lien in favor of the Lender on all of our real and personal property, (iii) restrict the incurrence of additional debt and (iv) maintain certain deposit accounts with various restrictions with the Lender.

As a condition of the Fourth Amendment and pursuant to the Merger Agreement, Brushy also completed the divestiture of certain of its assets in South Texas to its subordinated lender, SOS Ventures ("SOS") in exchange for the extinguishment of $20.5 million of subordinated debt, a cash payment of $500,000, the issuance of the SOS Note, and the issuance of the SOS Warrant.

Convertible Notes

In a series of transactions from December 29, 2015 to May 6, 2016, we issued an aggregate of approximately $5.8 million in Convertible Notes maturing on June 30, 2016 and April 1, 2017 at a conversion price of $5.00 and warrants to purchase an aggregate of approximately 2.3 million shares of Common Stock with an exercise price of $2.50 for warrants issued between December and March and $0.10 for the warrants issued in May. Subsequently, warrants to purchase 620,000 shares of Common Stock issued between December and March were amended and restated to reduce the exercise price to $0.10 in exchange for additional consideration in the form of participation in the May Convertible Notes offering. The Company accounted for the reduction in the conversion price as an inducement expense and recognized $3.4 million in other income (expense).

The proceeds from this financing were used to pay a $2 million refundable deposit in connection with the Merger, to fund certain operating expenses of Brushy in an aggregate amount of approximately $508,000, to fund approximately $1.3 million of interest payments to Heartland and to fund approximately $2.0 million in working capital and accounts payables reductions.

In connection with the closing of the Merger, on June 23, 2016, certain holders of Convertible Notes in an aggregate principal amount of approximately $4.0 million entered into the Note Conversion Agreement. The terms of the Note Conversion Agreement provided that the Convertible Notes were automatically converted into Common Stock upon the closing of the Merger. Pursuant to the terms of the Notes Conversion Agreement, the conversion price was reduced to $1.10, which resulted in the issuance of 3,636,363 shares of Common Stock. Holders of these Convertible Notes waived and forfeited any and all rights to receive accrued but unpaid interest of approximately $198,000.

The Convertible Notes bear interest at a rate of 12% per annum, payable at maturity. The Convertible Notes and accrued but unpaid interest thereon are convertible in whole or in part from time to time at the option of the holders thereof into shares of our Common Stock at a conversion price of $5.00. The Convertible Notes may be prepaid in whole or in part (but with payment of accrued interest to the date of prepayment) at any time at a premium of 103% for the first 120 days and a premium of 105% thereafter, so long as no Senior Debt is outstanding. The Convertible Notes contain customary events of default, which, if uncured, entitle each noteholder to accelerate the due date of the unpaid principal amount of, and all accrued and unpaid interest, subject to certain subordination provisions.

On August 3, 2016, we entered into an amendment with the remaining holders of approximately $1.8 million in Convertible Notes. For more information on the amendment, see—Subsequent Events.

Debentures

On June 23, 2016, pursuant to the terms of the Debenture Conversion Agreement, dated as of December 29, 2015, the Company's remaining outstanding 8% Convertible Debentures converted automatically upon consummation of the Merger at $5.00 per share, resulting in the issuance of 1,369,293 shares of Common Stock. In exchange for the reduction in conversion price, all accrued but unpaid interest was forfeited. The modification of such conversion rate resulted in an immaterial gain. The Convertible Debentures and associated derivative liability was then reclassified to additional paid in capital.

Development and Production

During the year ended December 31, 2015, we entered into eight joint operating agreements ("JOAs") to participate as a non-operator in the drilling of the Noble Wells in the DJ Basin, which due to capital constraints, were temporarily shut-in. In May 2016, we renegotiated the ability to fund our share of the outstanding drilling operations in the amount of approximately $1.68 million, the outstanding balance of which we paid in June 2016, using the proceeds from the transactions described above. As a result, we regained compliance under each of the JOAs. The oil and gas production and associated revenue for these eight Noble Wells in a total amount of approximately $861,000 from inception through June 30, 2016 have been recorded and earned in the quarter ended June 30, 2016.

As a result of the completion of the Merger, as of August 24, 2016, the Company was producing approximately 650 BOE a day from 35 economically producing wells. However, even after giving effect to the Merger and regaining compliance with the JOAs, due to the decline in commodity prices combined with our resulting short-term outstanding indebtedness, the cash generated from our current production activity is not sufficient to pay our operating costs and we do not currently have sufficient cash to continue operations in the ordinary course.

If we are unable to increase production to more profitable levels or otherwise obtain significant capital, we will likely not be able to continue our current operations and would have to consider other alternatives to preserve value for our stockholders. These alternatives could include engaging in discussions to acquire other producing properties, selling or disposing of some or all of our assets or a liquidation of our business.

Cash Flows

Cash used in operating activities during the six months ended June 30, 2016 was approximately $1.75 million. Cash used in operating activities combined with the approximately $2.47 million used in investing activities offset by the approximately $10.6 million provided by financing activities, resulted in an increase in cash of approximately $6.38 million during the year.

During the six months ended June 30, 2016 compared to June 30, 2015, net cash used in operating activities was approximately $1.75 million, compared to approximately $2.78 million, respectively, a decrease of cash used in operating activities of approximately $1.03 million, or 37%. The primary changes in operating activities during the six months ended June 30, 2016 compared to same period during 2015, was the increase in oil and gas revenues, specifically the additional revenue earned from eight newly drilled wells and timing of payments.

During the six months ended June 30, 2016 compared to June 30, 2015, net cash used in investing activities was approximately $2.47 million, compared to $73,000, respectively, an increase of cash used in investing activities of approximately $1.74 million. During the six months ended June 30, 2016, we increased our cash consideration provided to Brushy in conjunction with the Merger of approximately $1.26 million, bringing the total amount paid to Brushy to approximately $2.5 million, offset by cash on hand at Brushy of approximately $706,000 and paid$1.92 million in drilling capital expenditures].

During the six months ended June 30, 2016, net cash provided by financing activities was approximately $10.6 million, compared to net cash provided by financing activities of approximately $2.55 million during the six months ended June 30, 2015, an increase of approximately $8.05 million, or 315%. During the six months ended June 30, 2016, we raised and collected approximately $16.1 million from the issuance of Series B Preferred Stock, raised approximately $2.86 million from addition convertible notes offset by the repayment of approximately $8.5 million in debt. During the six months ended June 30, 2015, we received approximately $2.75 million in net proceeds from the issuance of a term loan offset by $250,000 repayment in debt.

Off-Balance Sheet Arrangements

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

Recently Issued Accounting Pronouncements

For a discussion of recently issued accounting pronouncements see Note 3 — Summary of Significant Accounting Policies and Estimates.

Subsequent Events

On July 7, 2016, in connection with the closing of the Merger, all of our directors, with the exception of Mr. Mirman, received a restricted stock grant pursuant to our 2016 Omnibus Incentive Plan, resulting in the issuance of 1,570,500 shares, which vest in equal installments with one-third vesting immediately and two-thirds on each anniversary of the grant. Additionally, on July 25, 2016, the Board reassessed non-employee director compensation under the 2016 Plan and determined to maintain the current compensation package granted to each non-employee director pursuant to the 2016 Omnibus Incentive Plan that was in effect under the prior plan, with adjustments to the share amounts to reflect the Reverse Split, pursuant to which, 10,000 shares of restricted Common Stock and options to purchase 45,000 shares of Common Stock were granted to a new non-employee director on that date.

On July 25, 2016, we entered into a security and control agreement and related mortgages pursuant to which we granted Independent Bank a senior security interest in substantially all of our assets as additional security for repayment of the Loan, pursuant to the terms of the Fourth Amendment to the Forbearance Agreement.

On August 3, 2016, we entered into the first amendment to the Notes with the remaining holders of approximately $1.8 million of Convertible Notes. Pursuant to the first amendment: (i) the maturity date was changed to January 2, 2017, (ii) the conversion price was adjusted to $1.10 and (iii) the coupon was increased to 15% per annum. All accrued and unpaid interest on the Convertible Notes may also be convertible in certain circumstances at the conversion price. Additionally, if the aggregate principal amount outstanding on the Convertible Notes is not either converted by the holder or repaid in full on or before the maturity date, we will pay a 25% premium on the maturity date. In exchange for the holders' willingness to enter into the first amendment, we issued to the holders warrants to purchase up to approximately 1.7 million shares of Common Stock. The warrants have an exercise price of $2.50 per share, and are immediately exercisable from the issuance date for a period of three years, subject to certain circumstances.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not Applicable

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of June 30, 2016. Disclosure controls and procedures are controls and other procedures designed to ensure that information required to be disclosed by the Company in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (the "SEC") and include, without limitation, controls and procedures designed to ensure that information that the Company is required to disclose in such reports is accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of June 30, 2016, the Company's disclosure controls and procedures were not effective, due to the material weaknesses in internal controls over financial reporting described below.

Internal Controls over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 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 U.S. 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.

As of December 31, 2015, we assessed the effectiveness of our internal control over financial reporting based on the criteria for effective internal control over financial reporting conducted based on the Internal Control—Integrated Framework issued by COSO (2013) and SEC guidance on conducting such assessments. In connection with management's assessment of our internal control over financial reporting, we concluded that, as of December 31, 2015, our internal controls and procedures were not effective to detect the inappropriate application of U.S. GAAP as more fully described below.

The matters involving internal controls and procedures that our management considered to be material weaknesses under the standards of the Public Company Accounting Oversight Board were: (1) while we have implemented written policies and procedures for accounting and financial reporting with respect to the requirements and application of U.S. GAAP and SEC disclosure requirements, due to limited resources, we have not conducted a formal assessment of whether the policies that have been implemented address the specific risks of misstatement; accordingly, we could not conclude whether the control activities are designed effectively nor whether they operate effectively, and (2) we do not have a fully effective mechanism for monitoring the system of internal controls.

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. Management believes that the material weaknesses set forth above did not have a material adverse effect on our financial results for the year ended December 31, 2015.

We are committed to improving our financial organization. Our control weaknesses are largely a function of not having sufficient staff. In connection with the Merger with Brushy, while we have retained additional employees qualified to provide services in this area, we now have the additional task of integrating our reporting systems and oversight of combined financials. As resources become available, and we complete the Merger transition, we plan to augment our staff so that we can devote more effort to addressing our control deficiencies. Additionally, as financial resources become available, we have been engaging third-party consultants to assist with control activities.

We will continue to monitor and evaluate the effectiveness of our internal control over financial reporting on an ongoing basis and are committed to taking further action by implementing additional enhancements or improvements, or deploying additional human resources as may be deemed necessary.

Changes in Internal Control over Financial Reporting

Other than as described above, there were no changes in our internal control over financial reporting during our most recent fiscal quarter that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

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

In connection with the Series B Preferred Stock Offering, T.R. Winston & Company, LLC (TRW) and KES 7 Capital Inc. (KES 7), who acted as co-placement agents and TRW as administrative agent, each received fee warrants to purchase up to 452,724 and 820,000 shares of Common Stock, respectively, at an exercise price of $1.30, exercisable on or after September 17, 2016, for a period of two years.

Item 6. Exhibits.

Exhibit Number	Exhibit Description
2.1	Second Amendment to Agreement and Plan of Merger, dated as of May 4, 2016, among Lilis Energy, Inc., Lilis Merger Sub, Inc. and Brushy Resources, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 10, 2016).
2.2	Third Amendment to Agreement and Plan of Merger, dated as of June 22, 2016, among Lilis Energy, Inc., Lilis Merger Sub, Inc. and Brushy Resources, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on June 28, 2016).
3.1	Certificate of Designations of Preferences, Rights and Limitations of Series B 6% Convertible Preferred Stock, dated as of June 15, 2016 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 16, 2016).
3.2	Certificate of Change of Lilis Energy, Inc., dated as of June 21, 2016 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 28, 2016).
4.1†	Lilis Energy, Inc. 2016 Omnibus Incentive Plan and forms of agreement thereunder (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on June 28, 2016).
4.2	Form of Common Stock Purchase Warrant (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on June 16, 2016).
4.3	Common Stock Purchase Warrant issued to SOSV Investments, LLC on June 23, 2016.
10.1	Second Amendment to the Forbearance Agreement, dated as of May 4, 2016, between Lilis Energy, Inc. and Heartland Bank, as administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 10, 2016).
10.2	Form of Securities Purchase Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 16, 2016).
10.3	Form of Registration Rights Agreement (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 16, 2016).
10.4	Convertible Subordinated Promissory Note Conversion Agreement, dated as of June 23, 2016, between Lilis Energy, Inc. and the parties signatory thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 28, 2016).
10.5	Fourth Amendment to Forbearance Agreement, dated as of June 22, 2016, among Brushy Resources, Inc., ImPetro Resources, LLC, ImPetro Operating, LLC, and Independent Bank (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 28, 2016).
10.6†	Employment Agreement with Michael Pawelek, dated as of July 5, 2016 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 8, 2016).
10.7†	Employment Agreement with Edward Shaw, dated as of July 5, 2016 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on July 8, 2016).
10.8†	Employment Agreement with Abraham Mirman, dated as of July 5, 2016 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on July 8, 2016).
10.9†	Employment Agreement with Kevin Nanke, dated as of July 5, 2016 (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on July 8, 2016).
10.10†	Employment Agreement with Ariella Fuchs, dated as of July 5, 2016 (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on July 8, 2016).
10.11†	Employment Agreement with Ronald Ormand, dated as of July 5, 2016 (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed on July 8, 2016).
10.12	Transaction Fee Agreement, dated as of June 6, 2016, between Lilis Energy, Inc. and T.R. Winston & Company, LLC.
10.13	First Amendment to Transaction Fee Agreement, dated as of June 8, 2016, between Lilis Energy, Inc. and T.R. Winston & Company, LLC.
10.14	Guaranty Agreement, dated as of June 22, 2016, between Lilis Energy, Inc. and Independent Bank.
10.15	Escrow Deposit Agreement, dated as of May 26, 2016, by and among Lilis Energy, Inc., T.R. Winston & Company, LLC and Signature Bank.
10.16	Third Amendment to Forbearance Agreement, dated as of May 20, 2016, among Brushy Resources, Inc., ImPetro Resources, LLC, ImPetro Operating, LLC, and Independent Bank (incorporated by reference to Exhibit 10.1.03 to the Quarterly Report on Form 10-Q filed by Brushy Resources, Inc. on May 23, 2016).

31.1	Certifications Pursuant to Section 302 of Sarbanes Oxley Act of 2002.
31.2	Certifications Pursuant to Section 302 of Sarbanes Oxley Act of 2002.
32.1	Certifications Pursuant to Section 906 of Sarbanes Oxley Act of 2002.
32.2	Certifications Pursuant to Section 906 of Sarbanes Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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

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)	August 25, 2016
/s/ Kevin Nanke Kevin Nanke	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	August 25, 2016

EXHIBIT INDEX

Exhibit Number	Exhibit Description
2.1	Second Amendment to Agreement and Plan of Merger, dated as of May 4, 2016, among Lilis Energy, Inc., Lilis Merger Sub, Inc. and Brushy Resources, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 10, 2016).
2.2	Third Amendment to Agreement and Plan of Merger, dated as of June 22, 2016, among Lilis Energy, Inc., Lilis Merger Sub, Inc. and Brushy Resources, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on June 28, 2016).
3.1	Certificate of Designations of Preferences, Rights and Limitations of Series B 6% Convertible Preferred Stock, dated as of June 15, 2016 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 16, 2016).
3.2	Certificate of Change of Lilis Energy, Inc., dated as of June 21, 2016 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 28, 2016).
4.1†	Lilis Energy, Inc. 2016 Omnibus Incentive Plan and forms of agreement thereunder (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on June 28, 2016).
4.2	Form of Common Stock Purchase Warrant (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on June 16, 2016).
4.3	Common Stock Purchase Warrant issued to SOSV Investments, LLC on June 23, 2016.
10.1	Second Amendment to the Forbearance Agreement, dated as of May 4, 2016, between Lilis Energy, Inc. and Heartland Bank, as administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 10, 2016).
10.2	Form of Securities Purchase Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 16, 2016).
10.3	Form of Registration Rights Agreement (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 16, 2016).
10.4	Convertible Subordinated Promissory Note Conversion Agreement, dated as of June 23, 2016, between Lilis Energy, Inc. and the parties signatory thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 28, 2016).
10.5	Fourth Amendment to Forbearance Agreement, dated as of June 22, 2016, among Brushy Resources, Inc., ImPetro Resources, LLC, ImPetro Operating, LLC, and Independent Bank (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 28, 2016).
10.6†	Employment Agreement with Michael Pawelek, dated as of July 5, 2016 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 8, 2016).
10.7†	Employment Agreement with Edward Shaw, dated as of July 5, 2016 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on July 8, 2016).
10.8†	Employment Agreement with Abraham Mirman, dated as of July 5, 2016 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on July 8, 2016).
10.9†	Employment Agreement with Kevin Nanke, dated as of July 5, 2016 (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on July 8, 2016).
10.10†	Employment Agreement with Ariella Fuchs, dated as of July 5, 2016 (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on July 8, 2016).
10.11†	Employment Agreement with Ronald Ormand, dated as of July 5, 2016 (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed on July 8, 2016).
10.12	Transaction Fee Agreement, dated as of June 6, 2016, between Lilis Energy, Inc. and T.R. Winston & Company, LLC.
10.13	First Amendment to Transaction Fee Agreement, dated as of June 8, 2016, between Lilis Energy, Inc. and T.R. Winston & Company, LLC.
10.14	Guaranty Agreement, dated as of June 22, 2016, between Lilis Energy, Inc. and Independent Bank.
10.15	Escrow Deposit Agreement, dated as of May 26, 2016, by and among Lilis Energy, Inc., T.R. Winston & Company, LLC and Signature Bank.
10.16	Third Amendment to Forbearance Agreement, dated as of May 20, 2016, among Brushy Resources, Inc., ImPetro Resources, LLC, ImPetro Operating, LLC, and Independent Bank (incorporated by reference to Exhibit 10.1.03 to the Quarterly Report on Form 10-Q filed by Brushy Resources, Inc. on May 23, 2016).
31.1	Certifications Pursuant to Section 302 of Sarbanes Oxley Act of 2002.

31.2	Certifications Pursuant to Section 302 of Sarbanes Oxley Act of 2002.
32.1	Certifications Pursuant to Section 906 of Sarbanes Oxley Act of 2002.
32.2	Certifications Pursuant to Section 906 of Sarbanes Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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

NEITHER THIS SECURITY NOR THE SECURITIES FOR WHICH THIS SECURITY IS EXERCISABLE HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY. THIS SECURITY AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS SECURITY MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN SECURED BY SUCH SECURITIES.

COMMON STOCK PURCHASE WARRANT

LILIS ENERGY, INC.

Warrant Shares: 200,000

Initial Exercise Date: June 23, 2016
Issue Date: June 23, 2016

THIS COMMON STOCK PURCHASE WARRANT (the "Warrant") certifies that, for value received, SOSV Investments LLC or its assigns (the "Holder") is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time on or after June 23, 2016 (the "Initial Exercise Date") and on or prior to 3:00 p.m. Mountain Time on the second year anniversary of the Initial Exercise Date (the "Termination Date") but not thereafter, to subscribe for and purchase from Lilis Energy, Inc., a Nevada corporation (the "Company"), up to 200,000 shares (as subject to adjustment hereunder, the "Warrant Shares") of the Company's common stock ("Common Stock"). The purchase price of one share of Common Stock under this Warrant shall be equal to the Exercise Price, as defined in Section 2(b).

Section 1. Definitions. The following terms have the meanings indicated in this Section 1:

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

"Board of Directors" means the board of directors of the Company.

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

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

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"Liens" means a lien, charge pledge, security interest, encumbrance, right of first refusal, preemptive right or other restriction.

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

"Proceeding" means an action, claim, suit, investigation or proceeding (including, without limitation, an informal investigation or partial proceeding, such as a deposition), whether commenced or threatened.

"Rule 144" means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended or interpreted from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same purpose and effect as such Rule.

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

"Trading Day" means a day on which the Common Stock is traded on a Trading Market.

"Trading Market" means any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the NYSE MKT, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, the New York Stock Exchange or the OTC Bulletin Board (or any successors to any of the foregoing).

"Transfer Agent" means Corporate Stock Transfer, the current transfer agent of the Company, with a mailing address of 3200 Cherry Creek South Drive, Suite 430, Denver, Colorado 80209 and a facsimile number of (303) 282-5800, and any successor transfer agent of the Company.

"VWAP" means, for any date, the price determined by the first of the following clauses that applies: (a) if the Common Stock is then listed or quoted on a Trading Market, the daily volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the Trading Market on which the Common Stock is then listed or quoted as reported by Bloomberg L.P. (based on a Trading Day from 9:30 a.m. (New York City time) to 4:02 p.m. (New York City time)), (b) if the OTC Bulletin Board is not a Trading Market, the volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the OTC Bulletin Board, (c) if the Common Stock is not then listed or quoted for trading on the OTC Bulletin Board and if prices for the Common Stock are then reported in the "Pink Sheets" published by Pink OTC Markets, Inc. (or a similar organization or agency succeeding to its functions of reporting prices), the most recent closing bid price per share of the Common Stock so reported, or (d) in all other cases, the fair market value of a share of Common Stock as determined by an independent appraiser selected in good faith by the Holder and reasonably acceptable to the Company, the fees and expenses of which shall be paid by the Company.

Section 2. Exercise.

a) Exercise of Warrant. Subject to Section 5 herein, exercise of the purchase rights represented by this Warrant may be made, in whole or in part, at any time or times on or after the Initial Exercise Date and on or before 3:00 p.m. Mountain time on the Termination Date by delivery to the Company (or such other office or agency of the Company as it may designate by notice in writing to the registered Holder at the address of the Holder appearing on the books of the Company) of a duly executed facsimile copy of the Notice of Exercise form annexed hereto. Within three (3) Trading Days following the date of exercise as aforesaid, the Holder shall deliver the aggregate Exercise Price for the shares specified in the applicable Notice of Exercise by wire transfer or cashier's check drawn on a United States bank. Notwithstanding anything herein to the contrary, the Holder shall not be required to physically surrender this Warrant to the Company until the Holder has purchased all of the Warrant Shares available hereunder and the Warrant has been exercised in full, in which case, the Holder shall surrender this Warrant to the Company for cancellation within three (3) Trading Days of the date the final Notice of Exercise is delivered to the Company. Partial exercises of this Warrant resulting in purchases of a portion of the total number of Warrant Shares available hereunder shall have the effect of lowering the outstanding number of Warrant Shares purchasable hereunder in an amount equal to the applicable number of Warrant Shares purchased. The Holder and the Company shall maintain records showing the number of Warrant Shares purchased and the date of such purchases. The Company shall deliver any objection to any Notice of Exercise Form within two (2) Business Days of receipt of such notice. **The Holder and any assignee, by acceptance of this Warrant, acknowledge and agree that, by reason of the provisions of this paragraph, following the purchase of a portion of the Warrant Shares hereunder, the number of Warrant Shares available for purchase hereunder at any given time may be less than the amount stated on the face hereof.**

b) Exercise Price. The exercise price per share of the Common Stock under this Warrant shall be $**25.00**, subject to adjustment as provided in Section 3 below (the "Exercise Price").

c) Mechanics of Exercise.

i . Delivery of Warrant Shares Upon Exercise. Warrant Shares purchased hereunder shall be transmitted by the Transfer Agent to the Holder by crediting the account of the Holder's prime broker with The Depository Trust Company through its Deposit or Withdrawal at Custodian system ("DWAC") if the Company is then a participant in such system and either (A) there is an effective registration statement permitting the issuance of the Warrant Shares to or resale of the Warrant Shares by the Holder or (B) the shares are eligible for resale by the Holder without volume or manner-of-sale limitations pursuant to Rule 144, and otherwise by physical delivery to the address specified by the Holder in the Notice of Exercise by the date that is three (3) Trading Days after the latest of (A) the delivery to the Company of the Notice of Exercise and (B) surrender of this Warrant (if required) (such date, the "Warrant Share Delivery Date"). The Warrant Shares shall be deemed to have been issued, and Holder or any other person so designated to be named therein shall be deemed to have become a holder of record of such shares for all purposes, as of the date the Warrant has been exercised, with payment to the Company of the Exercise Price and all taxes required to be paid by the Holder, if any, pursuant to Section 2(d)(vi) prior to the issuance of such shares, having been paid.

ii. Delivery of New Warrants Upon Exercise. If this Warrant shall have been exercised in part, the Company shall, at the request of a Holder and upon surrender of this Warrant certificate, at the time of delivery of the Warrant Shares, deliver to the Holder a new Warrant evidencing the rights of the Holder to purchase the unpurchased Warrant Shares called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant.

i i i . Rescission Rights. If the Company fails to cause the Transfer Agent to transmit to the Holder the Warrant Shares pursuant to Section 2(d)(i) by the Warrant Share Delivery Date, then the Holder will have the right to rescind such exercise.

i v . No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. As to any fraction of a share which the Holder would otherwise be entitled to purchase upon such exercise, the Company shall, at its election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Exercise Price or round up to the next whole share.

v . Charges, Taxes and Expenses. Issuance of Warrant Shares shall be made without charge to the Holder for any issue or transfer tax or other incidental expense in respect of the issuance of such Warrant Shares, all of which taxes and expenses shall be paid by the Company, and such Warrant Shares shall be issued in the name of the Holder or in such name or names as may be directed by the Holder; provided, however, that in the event Warrant Shares are to be issued in a name other than the name of the Holder or its Affiliates, this Warrant when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Holder and the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto. The Company shall pay all Transfer Agent fees required for same-day processing of any Notice of Exercise.

vi. Closing of Books. The Company will not close its stockholder books or records in any manner which prevents the timely exercise of this Warrant, pursuant to the terms hereof.

d) Holder's Exercise Limitations. The Company shall not affect any exercise of this Warrant, and a Holder shall not have the right to exercise any portion of this Warrant, pursuant to Section 2 or otherwise, to the extent that after giving effect to such issuance after exercise as set forth on the applicable Notice of Exercise, the Holder (together with the Holder's Affiliates, and any other Persons acting as a group together with the Holder or any of the Holder's Affiliates), would beneficially own in excess of the Beneficial Ownership Limitation (as defined below). For purposes of the foregoing sentence, the number of shares of Common Stock beneficially owned by the Holder and its Affiliates shall include the number of shares of Common Stock issuable upon exercise of this Warrant with respect to which such determination is being made, but shall exclude the number of shares of Common Stock which would be issuable upon (i) exercise of the remaining, nonexercised portion of this Warrant beneficially owned by the Holder or any of its Affiliates and (ii) exercise or conversion of the unexercised or nonconverted portion of any other securities of the Company (including, without limitation, any other Common Stock Equivalents) subject to a limitation on conversion or exercise analogous to the limitation contained herein beneficially owned by the Holder or any of its Affiliates. Except as set forth in the preceding sentence, for purposes of this Section 2(d), beneficial ownership shall be calculated in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder, it being acknowledged by the Holder that the Company is not representing to the Holder that such calculation is in compliance with Section 13(d) of the Exchange Act and the Holder is solely responsible for any schedules required to be filed in accordance therewith. To the extent that the limitation contained in this Section 2(d) applies, the determination of whether this Warrant is exercisable (in relation to other securities owned by the Holder together with any Affiliates) and of which portion of this Warrant is exercisable shall be in the sole discretion of the Holder, and the submission of a Notice of Exercise shall be deemed to be the Holder's determination of whether this Warrant is exercisable (in relation to other securities owned by the Holder together with any Affiliates) and of which portion of this Warrant is exercisable, in each case subject to the Beneficial Ownership Limitation. To ensure compliance with the restriction, the Holder will be deemed to represent to the Company each time it delivers a Notice of Exercise, that such Notice of Exercise has not violated the restrictions set forth in this paragraph, and the Company shall have no obligation to verify or confirm the accuracy of such determination. In addition, a determination as to any group status as contemplated above shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. For purposes of this Section 2(d), in determining the number of outstanding shares of Common Stock, a Holder may rely on the number of outstanding shares of Common Stock as reflected in the most recent of the following: (A) the Company's most recent periodic or annual report filed with the Commission, as the case may be, (B) a more recent public announcement by the Company or (C) a more recent written notice by the Company or the Transfer Agent setting forth the number of shares of Common Stock outstanding. Upon the written or oral request of a Holder, the Company shall within two Trading Days confirm orally and in writing to the Holder the number of shares of Common Stock then outstanding. In any case, the number of outstanding shares of Common Stock shall be determined after giving effect to the conversion or exercise of securities of the Company, including this Warrant, by the Holder or its Affiliates since the date as of which such number of outstanding shares of Common Stock was reported. The "Beneficial Ownership Limitation" shall be 4.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock issuable upon exercise of this Warrant. The provisions of this paragraph shall be construed and implemented in a manner otherwise than in strict conformity with the terms of this Section 2(d) to correct this paragraph (or any portion hereof) which may be defective or inconsistent with the intended Beneficial Ownership Limitation herein contained or to make changes or supplements necessary or desirable to properly give effect to such limitation. The limitations contained in this paragraph shall apply to a successor holder of this Warrant.

Section 3. Certain Adjustments.

a) Price Protection. If, prior to the date that is nine (9) months after the Initial Exercise Date, the Company issues warrants in a capital raising transaction that entitle the holder to acquire Common Stock at a price per share that is less than the Exercise Price, then Exercise Price shall be reduced to equal that price.

b) Stock Dividends and Splits. If the Company, at any time while this Warrant is outstanding: (i) pays a stock dividend or otherwise makes a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Company upon exercise of this Warrant), (ii) subdivides outstanding shares of Common Stock into a larger number of shares, (iii) combines (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares or (iv) issues by reclassification of shares of the Common Stock any shares of capital stock of the Company, then in each case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event, and the number of shares issuable upon exercise of this Warrant shall be proportionately adjusted such that the aggregate Exercise Price of this Warrant and the total number, class, and kind of shares the Holder would have owned had the Warrant been exercised prior to the event and had the Holder continued to hold such shares until after the event requiring adjustment shall remain unchanged. Any adjustment made pursuant to this Section 3(a) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

c) Fundamental Transaction. If, at any time while this Warrant is outstanding, (i) the Company, directly or indirectly, in one or more related transactions effects any merger or consolidation of the Company with or into another Person, (ii) the Company, directly or indirectly, effects any sale, lease, license, assignment, transfer, conveyance or other disposition of all or substantially all of its assets in one or a series of related transactions, (iii) any, direct or indirect, purchase offer, tender offer or exchange offer (whether by the Company or another Person) is completed pursuant to which holders of Common Stock are permitted to sell, tender or exchange their shares for other securities, cash or property and has been accepted by the holders of 50% or more of the outstanding Common Stock, (iv) the Company, directly or indirectly, in one or more related transactions effects any reclassification, reorganization or recapitalization 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, or (v) the Company, directly or indirectly, in one or more related transactions consummates a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another Person or group of Persons whereby such other Person or group acquires more than 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock or share purchase agreement or other business combination) (each a "Fundamental Transaction"), then, upon any subsequent exercise of this Warrant, the Holder shall have the right to receive, for each Warrant Share that would have been issuable upon such exercise immediately prior to the occurrence of such Fundamental Transaction, at the option of the Holder (without regard to any limitation in Section 2(d) on the exercise of this Warrant), the number of shares of Common Stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and any additional consideration (the "Alternate Consideration") receivable as a result of such Fundamental Transaction by a holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such Fundamental Transaction (without regard to any limitation in Section 2(d) on the exercise of this Warrant). 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 3(c) and shall insure that this Warrant (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction.

d) Calculations. All calculations under this Section 3(b) and 3(c) shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 3, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) issued and outstanding.

e) Notice to Holder.

i. Adjustment to Exercise Price. Whenever the Exercise Price is adjusted pursuant to any provision of this Section 3, the Company shall promptly mail to the Holder a notice setting forth the Exercise Price after such adjustment and any resulting adjustment to the number of Warrant Shares and setting forth a brief statement of the facts requiring such adjustment.

ii. Notice to Allow Exercise by Holder. If (A) the Company shall declare a dividend (or any other distribution in whatever form) on the Common Stock, (B) the Company shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock, (C) the Company shall authorize the granting to all holders of the Common Stock rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights, (D) the approval of any stockholders of the Company shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which the Company is a party, any sale or transfer of all or substantially all of the assets of the Company, or any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property, or (E) the Company shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company, then, in each case, the Company shall cause to be mailed to the Holder at its last address as it shall appear upon the Warrant Register of the Company, at least 20 calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange; provided that the failure to mail such notice or any defect therein or in the mailing thereof shall not affect the validity of the corporate action required to be specified in such notice. The Holder shall remain entitled to exercise this Warrant during the period commencing on the date of such notice to the effective date of the event triggering such notice except as may otherwise be expressly set forth herein.

Section 4. Transfer of Warrant.

a) Transferability. Subject to compliance with any applicable securities laws and the conditions set forth in Section 4(d) hereof, this Warrant and all rights hereunder (including, without limitation, any registration rights) are transferable, in whole or in part, upon surrender of this Warrant at the principal office of the Company or its designated agent, together with a written assignment of this Warrant substantially in the form attached hereto duly executed by the Holder or its agent or attorney and funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees, as applicable, and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. The Warrant, if properly assigned in accordance herewith, may be exercised by a new holder for the purchase of Warrant Shares without having a new Warrant issued.

b) New Warrants. This Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Section 4(a), as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice. All Warrants issued on transfers or exchanges shall be dated the original Issue Date and shall be identical with this Warrant except as to the number of Warrant Shares issuable pursuant thereto.

c) Warrant Register. 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.

d) Transfer Restrictions. If, at the time of the surrender of this Warrant in connection with any transfer of this Warrant, the transfer of this Warrant shall not be either (i) registered pursuant to an effective registration statement under the Securities Act and under applicable state securities or blue sky laws or (ii) eligible for resale without volume or manner-of-sale restrictions or current public information requirements pursuant to Rule 144, the Company may require, as a condition of allowing such transfer, that the Holder or transferee of this Warrant, as the case may be, may be required by the Company to provide an opinion of counsel with regard to such assignment or transfer in a form satisfactory to the Company in its reasonable discretion.

Section 5. Representations and Warranties by Holder.

a . Purchase for Own Account. This Warrant and the securities to be acquired upon exercise of this Warrant by Holder are being acquired for investment for Holder's account, not as a nominee or agent, and not with a view to the public resale or distribution within the meaning of the Act. Holder also represents that it has not been formed for the specific purpose of acquiring this Warrant or the Shares.

b. Disclosure of Information. Holder is aware of the Company's business affairs and financial condition and has received or has had full access to all the information it considers necessary or appropriate to make an informed investment decision with respect to the acquisition of this Warrant and its underlying securities. Holder further has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of this Warrant and its underlying securities and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify any information furnished to Holder or to which Holder has access.

c . Investment Experience. Holder understands that the purchase of this Warrant and its underlying securities involves substantial risk. Holder has experience as an investor in securities of companies in the development stage and acknowledges that Holder can bear the economic risk of such Holder's investment in this Warrant and its underlying securities and has such knowledge and experience in financial or business matters that Holder is capable of evaluating the merits and risks of its investment in this Warrant and its underlying securities and/or has a preexisting personal or business relationship with the Company and certain of its officers, directors or controlling persons of a nature and duration that enables Holder to be aware of the character, business acumen and financial circumstances of such persons.

d. Accredited Investor Status. Holder is an "accredited investor" within the meaning of Regulation D promulgated under the Act.

e. The Act. Holder understands that this Warrant and the Shares issuable upon exercise hereof have not been registered under the Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of the Holder's investment intent as expressed herein. Holder understands that this Warrant and the Shares issued upon any exercise hereof must be held indefinitely unless subsequently registered under the Act and qualified under applicable state securities laws, or unless exemption from such registration and qualification are otherwise available. Holder is aware of the provisions of Rule 144 promulgated under the Act.

Section 6. Miscellaneous.

a) No Rights as Stockholder Until Exercise. This Warrant does not entitle the Holder to any voting rights, dividends or other rights as a stockholder of the Company prior to the exercise hereof as set forth in Section 2, except as expressly set forth in Section 3.

b) Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant or any stock certificate relating to the Warrant Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it (which, in the case of the Warrant, shall not include the posting of any bond), and upon surrender and cancellation of such Warrant or stock certificate, if mutilated, the Company will make and deliver a new Warrant or stock certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or stock certificate.

c) Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Business Day, then, such action may be taken or such right may be exercised on the next succeeding Business Day.

d) Authorized Shares.

i. The Company covenants that, during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of the Warrant Shares upon the exercise of any purchase rights under this Warrant. The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of executing stock certificates to execute and issue the necessary Warrant Shares upon the exercise of the purchase rights under this Warrant. The Company will take all such reasonable action as may be necessary to assure that such Warrant Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the Trading Market upon which the Common Stock may be listed. The Company covenants that all Warrant Shares which may be issued upon the exercise of the purchase rights represented by this Warrant will, upon exercise of the purchase rights represented by this Warrant and payment for such Warrant Shares in accordance herewith, be duly authorized, validly issued, fully paid and nonassessable and free from all taxes, liens and charges created by the Company in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue).

ii. If, notwithstanding the foregoing, and not in limitation thereof, at any time while the Warrant remain outstanding, the Company does not have a sufficient number of authorized and unreserved shares of Common Stock to satisfy its obligation to reserve the Required Reserve Amount (an "Authorized Share Failure"), then the Company shall immediately take all action necessary to increase the Company's authorized shares of Common Stock to an amount sufficient to allow the Company to reserve the Required Reserve Amount for all the Warrants then outstanding. Without limiting the generality of the foregoing sentence, as soon as practicable after the date of the occurrence of an Authorized Share Failure, the Company shall hold a meeting of its stockholders for the approval of an increase in the number of authorized shares of Common Stock. In connection with such meeting, the Company shall provide each stockholder with a proxy statement and shall use its reasonable best efforts to solicit its stockholders' approval of such increase in authorized shares of Common Stock and to cause its board of directors to recommend to the stockholders that they approve such proposal.

iii. Except and to the extent as waived or consented to by the Holder, the Company shall not by any action, including, without limitation, amending its certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of Holder as set forth in this Warrant against impairment. Without limiting the generality of the foregoing, the Company will (i) not increase the par value of any Warrant Shares above the amount payable therefor upon such exercise immediately prior to such increase in par value, (ii) take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares upon the exercise of this Warrant and (iii) use commercially reasonable efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof, as may be, necessary to enable the Company to perform its obligations under this Warrant.

iv. Before taking any action which would result in an adjustment in the number of Warrant Shares for which this Warrant is exercisable or in the Exercise Price, the Company shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body or bodies having jurisdiction thereof.

e) Restrictions. The Holder acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not registered, will have restrictions upon resale imposed by state and federal securities laws.

f) Nonwaiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder shall operate as a waiver of such right or otherwise prejudice the Holder's rights, powers or remedies, notwithstanding the fact that all rights hereunder terminate on the Termination Date. If the Company willfully and knowingly fails to comply with any provision of this Warrant, which results in any material damages to the Holder, the Company shall pay to the Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys' fees, including those of appellate proceedings, incurred by the Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

g) Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder by the Company shall be in writing and shall be deemed given and effective on the earliest of (a) the date of transmission, if such notice or communication is delivered via facsimile prior to 5:30 p.m. (New York City time) on a Trading Day, (b) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile on a day that is not a Trading Day or later than 5:30 p.m. (New York City time) on any Trading Day, (c) the 2nd Trading Day following the date of mailing, if sent by U.S. nationally recognized overnight courier service, or (d) upon actual receipt by the party to whom such notice is required to be given.

h) Limitation of Liability. No provision hereof, in the absence of any affirmative action by the Holder to exercise this Warrant to purchase Warrant Shares, and no enumeration herein of the rights or privileges of the Holder, shall give rise to any liability of the Holder for the purchase price of any Common Stock or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

i) Remedies. The Holder, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Warrant. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Warrant and hereby agrees to waive and not to assert the defense in any action for specific performance that a remedy at law would be adequate.

j) Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors and permitted assigns of the Company and the successors and permitted assigns of Holder. The provisions of this Warrant are intended to be for the benefit of any Holder from time to time of this Warrant and shall be enforceable by the Holder or holder of Warrant Shares.

k) Amendment. This Warrant may be modified or amended or the provisions hereof waived with the written consent of the Company and the Holder.

l) Severability. Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Warrant.

m) Headings. The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

n) Governing Law. This Warrant shall be governed by and construed and enforced in accordance with, and all questions concerning the construction, validity, interpretation and performance of this Warrant shall be governed by, the internal laws of the State of New York, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of New York or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of New York. The Company hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to the Company at the address set forth on its signature page to the Purchase Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. The Company hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in The City of New York, Borough of Manhattan, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Nothing contained herein shall be deemed or operate to preclude the Holder from bringing suit or taking other legal action against the Company in any other jurisdiction to collect on the Company's obligations to the Holder, to realize on any collateral or any other security for such obligations, or to enforce a judgment or other court ruling in favor of the Holder. **THE COMPANY HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE TO, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION WITH OR ARISING OUT OF THIS WARRANT OR ANY TRANSACTION CONTEMPLATED HEREBY.**

****

(Signature Page Follows)

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

LILIS ENERGY, INC.

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

NOTICE OF EXERCISE

TO: LILIS ENERGY, INC.

(1) The undersigned hereby elects to purchase _____ Warrant Shares of the Company pursuant to the terms of the attached Warrant (only if exercised in full), and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any.

(2) Payment shall take the form of lawful money of the United States.

(3) Please issue said Warrant Shares in the name of the undersigned or in such other name as is specified below:

_____

The Warrant Shares shall be delivered to the following DWAC Account Number or by physical delivery of a certificate to:

_____

_____

_____

(4) Accredited Investor. The undersigned is an "accredited investor" as defined in Regulation D promulgated under the Securities Act of 1933, as amended.

[SIGNATURE OF HOLDER]

Name of Investing Entity: _____
Signature of Authorized Signatory of Investing Entity: _____
Name of Authorized Signatory: _____
Title of Authorized Signatory: _____
Date: _____

ASSIGNMENT FORM

(To assign the foregoing warrant, execute
this form and supply required information.
Do not use this form to exercise the warrant.)

FOR VALUE RECEIVED, [____] all of or [_____] shares of the foregoing Warrant and all rights evidenced thereby are hereby assigned to

_____ whose address is

_____.

_____

Dated: _____, _____

Holder's Signature: _____

Holder's Address: _____

_____

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatsoever. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

Exhibit 10.12

THIS TRANSACTION FEE AGREEMENT (this "Agreement") is made as of the 6th day of June, 2016.

BETWEEN:

LILIS ENERGY, INC.
216 16th Street, Suite 1350
Denver, CO 80202

(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 of 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) seven percent (7%) of the gross proceeds of the offering, payable at the Closing (as defined in the Purchase Agreement), (ii) a warrant equal to seven percent (7%) of the common shares issued to the Investors, identical to the Investor Warrants, and (iii) shall reimburse the agent for its legal fees equal to $25,000, along with reasonable expenses incurred by any approved Selected Dealer or by the Broker. Broker may retain other brokers or dealers to act as sub-agents or selected-dealers on its behalf in connection with any Subsequent Financing (as defined below).

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. The Broker may assign any portion of the Tail Fee to approved Selected Dealers accordingly.

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, including approved Selected Dealers (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 reasonable 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, determined by a court of competent jurisdiction in a final non-appealable judgment, 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/ Abraham Mirman
Name: Abraham Mirman
Title: CEO

T.R. WINSTON & COMPANY, LLC

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

Exhibit 10.13

FIRST AMENDMENT TO TRANSACTION FEE AGREEMENT

This First Amendment to that certain Transaction Fee Agreement (this "***Amendment***") is dated effective as of June 8, 2016, among **LILIS ENERGY, INC**., a Nevada corporation ("***Company***") and **T.R. WINSTON & COMPANY, LLC**, as Broker.

W I T N E S S E T H:

WHEREAS, that certain Transaction Fee Agreement, dated June 6, 2016 (as the same may have been or may hereafter be modified, renewed or amended, the "***Transaction Agreement***") set forth the agreement of the parties relating to that 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 of up to $20 million;,

WHEREAS, the Broker has agreed to amend the Transaction Agreement as set forth below.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Broker hereby agree as follows:

Section 1 is hereby amended and restated in its entirety as follows:

The Company agrees to compensate the Broker as follows: (i) seven percent (7%) of the gross proceeds of the offering, payable at the Closing (as defined in the Purchase Agreement), (ii) a warrant equal to seven percent (7%) of the common shares issued to the Investors, identical to the Investor Warrants with the exception of the exercise price which shall be $0.13, and (iii) shall reimburse the agent for its legal fees equal to $25,000, along with reasonable expenses incurred by any approved Selected Dealer or by the Broker. Broker may retain other brokers or dealers to act as sub-agents or selected-dealers on its behalf in connection with any Subsequent Financing (as defined below).

[REMAINDER OF PAGE INTENTIONALLY BLANK -
SEE SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, this Amendment is executed effective as of the date first written above.

BORROWER:

LILIS ENERGY, INC.

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

BROKER:

T.R WINSTON & COMPANY, LLC

By: /s/ G Tyler Runnels
G Tyler Runnels
Chairman & CEO

Exhibit 10.14

GUARANTY
(Lilis Energy, Inc.)

This **GUARANTY** (herein so called) dated June 22, 2016, is by Lilis Energy, Inc., a Nevada corporation (herein referred to as the "**Guarantor**"). Terms defined in the Credit Agreement (hereinafter defined) are used herein as therein defined, unless otherwise defined herein or the context otherwise requires.

R E C I T A L S:

WHEREAS, Brushy Resources, Inc. (f/k/a Starboard Resources, Inc.), a Delaware corporation (the "**Borrower**") and Independent Bank (the "**Lender**") entered into the Credit Agreement dated June 27, 2013 (such agreement, as the same may have been or be from time to time supplemented or amended, or the terms thereof waived or modified being the "**Credit Agreement**") to set forth the terms upon which the Lender would extend credit to the Borrower; and

WHEREAS, Events of Default have occurred under the Credit Agreement; and

WHEREAS, the Borrower and the Lender previously entered into a Forbearance Agreement dated November 24, 2015 to set forth the terms and conditions upon which the Lender would agree to forbear from exercising its remedies (such agreement, as the same may have been or be from time to time supplemented or amended, or the terms thereof waived or modified being the "**Forbearance Agreement**"); and

WHEREAS, the Borrower and the Lender have entered or substantially contemporaneously herewith are entering into a Fourth Amendment to Forbearance Agreement, whereby the Lender agrees to further forbear from exercising various remedies under the Loan Documents and consents to the Borrower's merger with a wholly owned subsidiary of the Guarantor under the terms and conditions set forth in such amendment (the "**Forbearance Amendment**"); and

WHEREAS, it is a condition to the Lender's obligation to forbear from exercising various of its remedies that the Guarantor execute and deliver to the Lender this Guaranty; and

WHEREAS, the governing authority of the Guarantor has determined that this Guaranty may reasonably be expected to benefit, directly or indirectly, the Guarantor;

NOW, THEREFORE, in order to induce the Lender to enter into the Forbearance Amendment and continue to forbear from exercising its remedies thereunder, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Guarantor agrees as follows:

1. The Guarantor, as primary obligor and not as surety, hereby irrevocably and unconditionally guarantees, independently of the Borrower, to the Lender the due and punctual payment when due by the Borrower of all amounts now or hereafter owed by the Borrower to the Lender including, without limitation, the Obligations and all other amounts payable under the Credit Agreement, the Note and the other Loan Documents to which the Borrower is a party, whether principal, interest or other amounts, including, without limitation, attorneys' fees and costs of collection. The obligations of the Borrower guaranteed hereby and described in the preceding sentence are hereinafter referred to as the "Payment Obligations". The Guarantor, as primary obligor and not merely as surety, also hereby irrevocably and unconditionally guarantees, independently of the Borrower, to the Lender the complete observance, fulfillment and performance by the Borrower of all the terms and conditions of the Credit Agreement and all other Loan Documents to which the Borrower is or will be a party. The obligations of the Borrower guaranteed hereby and described in the immediately preceding sentence are hereinafter referred to as the "Performance Obligations".

2. The Guarantor hereby agrees that in the event that the Borrower fails to pay any Payment Obligations or the Borrower fails to perform any Performance Obligations for any reason (including, without limitation, the liquidation, dissolution, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition or readjustment of, or other similar proceedings affecting the status, existence, assets or obligations of the Borrower, or the disaffirmance by the Borrower in any such proceeding of any Loan Document to which the Borrower is a party), the Guarantor will pay such Payment Obligations and perform such Performance Obligations within ten days following the date on which written demand is made by the Lender on the Guarantor.

3. The obligations of the Guarantor hereunder shall not be affected by (i) the genuineness, validity, regularity or enforceability of any of the Borrower's obligations under the Credit Agreement, the Note or any other Loan Document or any other document to which the Borrower is a party (including without limitation any finding that any such document is void or voidable), or (ii) any amendment, waiver or other modification of the Credit Agreement, the Note or any other Loan Document or other document given or executed with or without the consent of the Guarantor, or (iii) any priority or preference to which any other obligations of the Borrower may be entitled over the Borrower's obligations under the Credit Agreement, the Note or any other Loan Document or other document to which the Borrower is a party, or (iv) the release of any collateral or guaranty now or hereafter securing the Payment Obligations or the Performance Obligations, or (v) to the fullest extent permitted by applicable law, any other circumstance which might otherwise constitute a legal or equitable defense to or discharge of the obligations of a surety or guarantor. This Guaranty shall continue to be effective or be automatically reinstated, as the case may be, if, for any reason, any payment by or on behalf of the Borrower shall be rescinded or must otherwise be restored, whether as a result of proceedings in bankruptcy or reorganization of the Borrower or otherwise, and the Guarantor guarantees, absolutely, irrevocably and unconditionally that all payments made by or on behalf of the Borrower in respect of its obligations under the Credit Agreement, the Note and the other Loan Documents will, when made, be final.

4. This Guaranty is a continuing guaranty and shall constitute a guaranty of payment and not of collection. The Guarantor specifically agrees that it shall not be necessary or required, and that the Guarantor shall not be entitled to require, that the Lender (i) file suit or proceed to obtain or assert a claim for personal judgment against the Borrower for the Payment Obligations or the Performance Obligations, or (ii) make any effort at a collection or enforcement of the Payment Obligations or the Performance Obligations from the Borrower, or (iii) foreclose against or seek to realize by suit or other process from any collateral pledged as security for the Payment Obligations or the Performance Obligations, or (iv) file suit or proceed to obtain or assert a claim for personal judgment against any other Person liable for the Payment Obligations or the Performance Obligations, or (v) make any effort at collection or enforcement of the Payment Obligations or the Performance Obligations from any such other Person, or (vi) exercise or assert any other right or remedy to which the Lender is or may be entitled in connection with the Payment Obligations or the Performance Obligations or any security or other guaranty therefor, or (vii) assert or file any claim against the assets of the Borrower or any other guarantor or other Person liable for the Payment Obligations or the Performance Obligations, or any part thereof, before or as a condition of enforcing the liability of the Guarantor under this Guaranty or requiring payment of said Payment Obligations or the performance of the Performance Obligations by the Guarantor hereunder, or at any time thereafter.

5. The Guarantor waives notice of the acceptance of this Guaranty and of the performance or nonperformance by the Borrower, demand for payment or performance from the Borrower or any other Person and notice of nonpayment or failure to perform on the part of the Borrower and all demands whatsoever, other than the demand for payment hereunder provided for in paragraph 2 hereof. To the extent allowed by applicable law, the Guarantor expressly waives and relinquishes all rights and remedies now or hereafter accorded by applicable law to guarantors and sureties, including, without limitation, any defense, right of offset or setoff, or other claim which Guarantor may have against the Borrower or the Lender or which the Borrower may have against the Lender or the holder of the Note.

6. No amendment of or supplement to this Guaranty, or waiver or modification of or consent under the terms hereof, shall be effective unless evidenced by an instrument in writing signed by the Guarantor and the Lender.

7. All payments hereunder shall be made in the currency of the United States of America and at the place and in the manner as provided in the Credit Agreement and the Note for payments by the Borrower.

8. The Guarantor hereby subordinates any and all claims it may have against the Borrower, including without limitation, all indebtedness of the Borrower to the Guarantor and any and all claims arising in respect of payments made by the Guarantor pursuant to this Guaranty, whether now existing or hereafter arising, to any and all claims by the Lender for amounts owing from the Borrower to the Lender under the Credit Agreement and the Note. The Guarantor further agrees that following any Event of Default all payments in respect of any indebtedness of the Borrower to the Guarantor shall be suspended and deferred, and the Guarantor shall not call, demand or enforce any right to receive such payments, shall thereafter hold any amounts or property received by the Guarantor in respect of any indebtedness of the Borrower in trust for the benefit of the Lender and shall forthwith deliver to the Lender any such amounts or property, for application to the Obligations. The Guarantor will deliver such further documents as the Lender may from time to time request evidencing such subordination.

9. Irrespective of any payment or performance by the Guarantor pursuant to this Guaranty, the Guarantor will not be subrogated in place of and to the claims and demands of the Lender or any other Person to whom payment has been made, nor will the Guarantor have any right to participate in any Lien or security now or hereafter held by or on behalf of the Lender until payment in full of all amounts guaranteed hereby and performance of all obligations undertaken herein.

10. Any notices or other communications required or permitted to be given herein must be (i) given in writing and personally delivered or mailed by prepaid certified or registered mail, or (ii) made by facsimile delivered or transmitted, to the party to whom such notice of communication is directed, to the address of such party as follows: (A) Guarantor: Lilis Energy, Inc., 216 16th Street, Suite #1350, Denver Colorado 80202; (B) Lender: Independent Bank, 2100 McKinney Ave., Suite 1200, Dallas, Texas 75201 (Attention: Energy Lending), with a copy to Jackson Walker LLP, 2323 Ross Ave., Suite 600, Dallas, Texas 75201 (Facsimile No. 214/661-6671) (Attention: Frank P. McEachern). Any notice to be mailed or personally delivered may be mailed or delivered to the principal offices of the party to whom such notice is addressed. Any such notice or other communication shall be deemed to have been given (whether actually received or not) on the day it is mailed or personally delivered as aforesaid or, if transmitted by facsimile, on the day that such notice is transmitted as aforesaid. Any party may change its address for purposes of this Guaranty by giving notice of such change to the other parties pursuant to this paragraph.

11. The Guarantor waives any and all rights and remedies of suretyship, including, without limitation, those it may have or be able to assert by reason of the provisions of Chapter 43 of the Texas Civil Practice and Remedies Code, as amended. The Guarantor waives any defense arising by reason of any disability, lack of corporate authority or power, or other defense of the Borrower or any other guarantor of all or any part of the Obligations. The Guarantor expressly waives all notices of any kind, presentment for payment, demand for payment, protest, notice of protest, notice of intent to accelerate maturity, notice of acceleration of maturity, dishonor, diligence, notice of any amendment of any Loan Document, notice of any adverse change in the financial condition of the Borrower, notice of any adjustment, indulgence, forbearance, or compromise that might be granted or given by the Lender to the Borrower, and notice of acceptance of this Guaranty, acceptance on the part of the Lender being conclusively presumed by its request for this Guaranty and the delivery of this Guaranty to the Lender.

12. This Guaranty is unconditional and unlimited, except that the Guarantor shall be liable under this Guaranty with respect to the Payment Obligations only for amounts aggregating up to the largest amount that would not render his or its guaranty obligation hereunder subject to avoidance under Section 548 of the United States Bankruptcy Code or any comparable provisions of any state law applicable to this Guaranty.

13. If this Guaranty is placed in the hands of an attorney for collection or is enforced by suit or through probate or bankruptcy court or through any other judicial or nonjudicial proceedings, the Guarantor shall pay to the Lender an amount equal to the reasonable attorneys' fees and collection costs incurred by the Lender in the collection or enforcement of this Guaranty.

14. The Guarantor waives any rights the Guarantor has under, or any requirements imposed by, (i) Section 17.001 of the Texas Civil Practice and Remedies Code, as amended, (ii) Rule 31 of the Texas Rules of Civil Procedure, as amended, and (iii) Sections 51.003, 51.004 and 51.005 of the Texas Property Code, as amended.

15. The Guarantor agrees to maintain its existence and good standing in the State of Nevada.

16. The Guarantor (a) represents and warrants to the Lender that the Recitals hereto are true and correct, (b) represents and warrants to the Lender that the representations and warranties applicable to the Guarantor in the Credit Agreement are true and correct and (c) agrees with the Lender to comply with and be bound by the covenants and agreements in the Credit Agreement concerning the Guarantor.

17. Jurisdiction and Venue. The Guarantor hereby irrevocably submits to the non-exclusive jurisdiction of any United States federal or Texas state court sitting in Dallas, Dallas County, Texas in any action or proceeding arising out of or relating to this Guaranty, and the Guarantor hereby irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in any such court, and the Guarantor hereby specifically consents to the jurisdiction of the State District Courts of Dallas County, Texas and the United States District Court for the Northern District of Texas, Dallas Division. Nothing herein shall limit the right of the Lender to bring proceedings against the Guarantor in the courts of any other jurisdiction. Any judicial proceeding by the Guarantor against the Lender or any Affiliate of the Lender involving, directly or indirectly, any matter in any way arising out of, related to, or connected with this Guaranty shall be brought only in the State District Courts of Dallas County, Texas, or in the United States District Court for the Northern District of Texas, Dallas Division.

18. **WAIVER OF RIGHTS TO JURY TRIAL. THE GUARANTOR HEREBY KNOWINGLY, VOLUNTARILY, INTENTIONALLY, UNCONDITIONALLY, AND IRREVOCABLY WAIVES (A) ANY OBJECTIONS THAT IT MAY NOW OR HEREAFTER HAVE TO PERSONAL JURISDICTION OR THE LAYING OF VENUE OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS GUARANTY OR ANY OTHER LOAN DOCUMENT BROUGHT IN ANY OF SAID COURTS, (B) ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM, (C) ANY RIGHT TO TRIAL BY JURY GRANTED BY STATUTE, RULE, COURT OR OTHERWISE IN ANY SUIT, ACTION, PROCEEDING, COUNTERCLAIM OR OTHER LITIGATION THAT RELATES TO OR ARISES OUT OF ANY OF THIS GUARANTY OR ANY OTHER LOAN DOCUMENT OR THE ACTS OR OMISSIONS OF THE LENDER IN THE ENFORCEMENT OF ANY OF THE TERMS OR PROVISIONS OF THIS GUARANTY OR ANY OTHER LOAN DOCUMENT OR OTHERWISE WITH RESPECT THERETO, AND (D) TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY SUCH LITIGATION ANY SPECIAL DAMAGES (AS DEFINED BELOW). THE PROVISIONS OF THIS SECTION ARE A MATERIAL INDUCEMENT FOR THE LENDER'S ENTERING INTO THE CREDIT AGREEMENT. AS USED IN THIS SECTION, "SPECIAL DAMAGES" INCLUDES ALL SPECIAL, CONSEQUENTIAL, EXEMPLARY, OR PUNITIVE DAMAGES (REGARDLESS OF HOW NAMED).**

19. This Guaranty (i) may be executed in several counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument and (ii) shall be binding upon the heirs, personal representatives successors and assigns of the Guarantor and shall inure to the benefit of, and shall be enforceable by, any party entitled to the benefits of this Guaranty, and their respective successors and assigns. The Guarantor may not assign his or its obligations hereunder.

20. This Guaranty has been negotiated, is being executed and delivered, and will be performed in whole or in part, in the State of Texas. This Guaranty, the other Loan Documents, the entire relationship of the parties hereto, and any litigation between the parties (whether grounded in contract, tort, statute, law or equity) shall be governed by, construed in accordance with, and interpreted and enforced pursuant to the laws of the State of Texas (and the applicable federal laws of the United States of America) without giving effect to its choice of law principles.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

21. **THIS GUARANTY CONSTITUTES THE ENTIRE AGREEMENT BETWEEN THE PARTIES HERETO WITH RESPECT TO THE SUBJECT HEREOF. FURTHERMORE, IN THIS REGARD, THIS GUARANTY AND THE OTHER WRITTEN LOAN DOCUMENTS REPRESENT, COLLECTIVELY, THE FINAL AGREEMENT AMONG THE PARTIES THERETO AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF SUCH PARTIES.**

THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG SUCH PARTIES.

IN WITNESS WHEREOF, the Guarantor has executed this Guaranty, or caused this Guaranty to be duly executed by its duly authorized representative, as of the date first hereinabove set forth.

LILIS ENERGY, INC.

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

Exhibit 10.15

ESCROW DEPOSIT AGREEMENT

This **ESCROW DEPOSIT AGREEMENT** (this "Agreement") dated as of this 26th day of May 2016, by and among **LILIS ENERGY, INC.,** a Nevada corporation (the "**Company**"), having an address at 216 16th Street, Suite 1350, Denver, CO 80202, **T.R. WINSTON & COMPANY, LLC**, a Delaware limited liability company ("**Placement Agent**"), having its principal address at 2049 Century Park East, Suite 320, Los Angeles, CA 90067, and **SIGNATURE BANK** (the "**Escrow Agent**"), a New York State chartered bank, having an office at 261 Madison Avenue, New York, New York 10016. All capitalized terms not herein defined shall have the meaning ascribed to them in that certain Securities Purchase Agreement, dated on or about the date hereof, including all attachments, schedules and exhibits thereto (the "**Subscription Agreement**").

W I T N E S S E T H:

WHEREAS, pursuant to the terms of the Subscription Agreement the Company desires to sell (the "**Offering**") up to Twenty Million Dollars ($20,000,000) of Series B 6% Convertible Preferred Stock (the "**Shares**"), and warrants to purchase Common Stock (the "**Warrants**") ; and

WHEREAS, the Offering will terminate on the earlier of the sale of all of the Shares offered pursuant to the Subscription Agreement or July 1, 2016 (the "**Termination Date**"), or by August 1, 2016 (the "**Final Termination Date**"), if the Termination Date has been extended by Company and the Placement Agent; and

WHEREAS, the Company and Placement Agent desire to establish an escrow account with the Escrow Agent into which the Company and Placement Agent shall instruct subscribers, who subscribed to the Offering pursuant to the terms of the Subscription Agreement (the "**Subscribers**"), to deposit checks and other instruments for the payment of money made payable to the order of "Signature Bank as Escrow Agent for Lilis Energy, Inc." and Escrow Agent is willing to accept said checks and other instruments for the payment of money in accordance with the terms hereinafter set forth; and

WHEREAS, the Company, as issuer, and Placement Agent, as an introducing broker-dealer, each, individually represent and warrant to the Escrow Agent that, solely with respect to such party individually, they will comply with all of their separate respective obligations under applicable state and federal securities laws and regulations with respect to sale of the Offering; and

WHEREAS, the Company and Placement Agent each, individually represent and warrant to the Escrow Agent that, solely with respect to such party individually, they have not stated to any individual or entity that the Escrow Agent's duties will include anything other than those duties stated in this Agreement; and

WHEREAS, the Company and Placement Agent each, individually represent and warrant to the Escrow Agent that, solely with respect to such party individually, a copy of each document that has been delivered to Subscribers and third parties that include Escrow Agent's name and duties is attached hereto as Schedule I.

NOW, THEREFORE, IT IS AGREED as follows:

1. Delivery of Escrow Funds.

(a) The Placement Agent and the Company shall instruct Subscribers to deliver to Escrow Agent checks made payable to the order of "Signature Bank, as Escrow Agent for Lilis Energy, Inc.," or wire transfer to Signature Bank, 261 Madison Avenue, New York, New York 10016, ABA No. **** for credit to Signature Bank, as Escrow Agent for Lilis Energy, Inc., Account No. *****, in each case, with the name and address of the individual or entity making payment. In the event any Subscriber's address is not provided to Escrow Agent by the Subscriber, then the Company, upon notification by Escrow Agent, agrees to promptly provide Escrow Agent with such information in writing. The checks or wire transfers shall be deposited into a non interest-bearing account at Signature Bank entitled "Lilis Energy, Inc., Signature Bank, as Escrow Agent" (the "**Escrow Account**").

(b) The collected funds deposited into the Escrow Account are referred to as the "**Escrow Funds**."

(c) The Escrow Agent shall have no duty or responsibility to enforce the collection or demand payment of any funds deposited into the Escrow Account. If, for any reason, any check deposited into the Escrow Account shall be returned unpaid to the Escrow Agent, the sole duty of the Escrow Agent shall be to return the check to the Subscriber and advise the Company and Placement Agent promptly thereof.

2. Release of Escrow Funds. The Escrow Funds shall be paid by the Escrow Agent in accordance with the following:

(a) In the event that the Company and Placement Agent advise the Escrow Agent in writing that the Offering has been terminated (the "**Termination Notice**"), the Escrow Agent shall promptly return the funds paid by each Subscriber to said Subscriber without interest or offset.

(b) If prior to 3:00 P.M. Eastern time on the Termination Date, the Escrow Agent receives written notice, in the form of Exhibit A, attached hereto and made a part hereof, and signed by the Company and Placement Agent, stating that the Termination Date has been extended to the Final Termination Date (the "**Extension Notice**"), then the Termination Date shall be so extended.

(c) Provided that the Escrow Agent does not receive the Termination Notice in accordance with Section 2(a) and Escrow Funds have been deposited into the Escrow Account on or prior to the later of the Termination Date or the date stated in the Extension Notice, if any, received by the Escrow Agent in accordance with Section 2(b) above, the Escrow Agent shall, upon receipt of written instructions, in the form of Exhibit B, attached hereto and made a part hereof, or in a form and substance satisfactory to the Escrow Agent, received from the Company and the Placement Agent, from time to time pay the Escrow Funds in accordance with such written instructions, which instructions shall be limited to the payment of the Placement Agent's commission and non-accountable expense allowance and other offering expenses and the payment of the balance to the Company. Such payment or payments shall be made by wire transfer within one (1) Business Day of receipt of such written instructions, which must be received by the Escrow Agent no later than 3:00 PM Eastern Time on a Business Day for the Escrow Agent to process such instructions that Business Day. The Company further agrees that there shall be a limit of three (3) closings (each a "**Closing**") under this Agreement with each Closing limited to three (3) wires. Any subsequent wires or Closing may be subject to additional fees of Twenty Five Dollars ($25.00) per wire.

(d) By 3:00 P.M. Eastern time on the date that is ten (10) Business Days from the later of the Termination Date or the date stated in the Extension Notice, if any, that the Escrow Agent has received in accordance with paragraph 2(a) above, the Company and the Placement Agent shall provide the Escrow Agent with final written instructions in accordance with paragraph 2(c) regarding the disbursement of any funds remaining in the Escrow Account (e). The Escrow Agent shall not be required to pay any uncollected funds or any funds that are not available for withdrawal. Should the Company and Placement Agent fail to provide such final written instructions contemplated under this paragraph by the deadline, the Escrow Agent shall promptly return the Escrow Funds to the Subscribers without interest and offset.

(e) If the Termination Date, Final Termination Date or any date that is a deadline under this Agreement for giving the Escrow Agent notice or instructions or for the Escrow Agent to take action is not a Business Day, then such date shall be the Business Day that immediately precedes that date. A "**Business Day**" is any day other than a Saturday, Sunday or a Bank holiday.

3. Acceptance by Escrow Agent. The Escrow Agent hereby accepts and agrees to perform its obligations hereunder, provided that:

(a) The Escrow Agent may act in reliance upon any signature believed by it to be genuine, and may assume that any person who has been designated by Placement Agent or the Company to give any written instructions, notice or receipt, or make any statements in connection with the provisions hereof has been duly authorized to do so. The Escrow Agent shall have no duty to make inquiry as to the genuineness, accuracy or validity of any statements or instructions or any signatures on statements or instructions. The names and true signatures of each individual authorized to act singly on behalf of the Company and Placement Agent are stated in Schedule II, which is attached hereto and made a part hereof. The Company and Placement Agent may each remove or add one or more of its authorized signers stated on Schedule II by notifying the Escrow Agent of such change in accordance with this Agreement, which notice shall include the true signature for any new authorized signatories.

(b) The Escrow Agent may act relative hereto in reliance upon advice of counsel in reference to any matter connected herewith. The Escrow Agent shall not be liable for any mistake of fact or error of judgment or law, or for any acts or omissions of any kind, unless caused by its willful misconduct or gross negligence.

(c) The Placement Agent and the Company agree to indemnify and hold the Escrow Agent harmless from and against any and all claims, losses, costs, liabilities, damages, suits, demands, judgments or expenses (including but not limited to reasonable attorney's fees) claimed against or incurred by Escrow Agent arising out of or related, directly or indirectly, to this Escrow Agreement unless caused by the Escrow Agent's gross negligence or willful misconduct

(d) In the event that the Escrow Agent shall be uncertain as to its duties or rights hereunder, the Escrow Agent shall be entitled to (i) refrain from taking any action other than to keep safely the Escrow Funds until it shall be directed otherwise by a court of competent jurisdiction, or (ii) deliver the Escrow Funds to a court of competent jurisdiction.

(e) The Escrow Agent shall have no duty, responsibility or obligation to interpret or enforce the terms of any agreement other than Escrow Agent's obligations hereunder, and the Escrow Agent shall not be required to make a request that any monies be delivered to the Escrow Account, it being agreed that the sole duties and responsibilities of the Escrow Agent shall be to the extent not prohibited by applicable law (i) to accept checks or other instruments for the payment of money and wire transfers delivered to the Escrow Agent for the Escrow Account and deposit said checks and wire transfers into the non-interest bearing Escrow Account, and (ii) to disburse or refrain from disbursing the Escrow Funds as stated above, provided that the checks received by the Escrow Agent have been collected and are available for withdrawal.

4 . Escrow Account Statements and Information. The Escrow Agent agrees to send to the Company and/or the Placement Agent, at no cost to the Company and/or Placement Agent, a copy of the Escrow Account periodic statement, upon request in accordance with the Escrow Agent's regular practices for providing account statements to its non-escrow clients and to also provide the Company and/or Placement Agent, or their designee, upon request other deposit account information, including Escrow Account balances, by telephone or by computer communication, to the extent practicable. The Company and Placement Agent agree to complete and sign all forms or agreements required by the Escrow Agent for that purpose. The Company and Placement Agent each consents to the Escrow Agent's release of such Escrow Account information to any of the individuals designated by Company or Placement Agent, which designation has been signed in accordance with paragraph 3(a) by any of the persons in Schedule II. Further, the Company and Placement Agent have an option to receive e-mail notification of incoming and outgoing wire transfers. If this e-mail notification service is requested and subsequently approved by the Escrow Agent, the Company and/or Placement Agent agrees to provide a valid e-mail address and other information necessary to set-up this service and sign all forms and agreements required for such service. The Company and Placement Agent each consents to the Escrow Agent's release of wire transfer information to the designated e-mail address(es). The Escrow Agent's liability for failure to comply with this section shall not exceed the cost of providing such information.

5 . Resignation and Termination of the Escrow Agent. The Escrow Agent may resign at any time by giving 30 days' prior written notice of such resignation to Placement Agent and the Company. Upon providing such notice, the Escrow Agent shall have no further obligation hereunder except to hold as depository the Escrow Funds that it receives until the end of such 30-day period. In such event, the Escrow Agent shall not take any action, other than receiving and depositing Subscribers checks and wire transfers in accordance with this Agreement, until the Company has designated a banking corporation, trust company, attorney or other person as successor. Upon receipt of such written designation signed by Placement Agent and the Company, the Escrow Agent shall promptly deliver the Escrow Funds to such successor and shall thereafter have no further obligations hereunder. If such instructions are not received within 30 days following the effective date of such resignation, then the Escrow Agent may deposit the Escrow Funds held by it pursuant to this Agreement with a clerk of a court of competent jurisdiction pending the appointment of a successor. In either case provided for in this paragraph, the Escrow Agent shall be relieved of all further obligations and released from all liability thereafter arising with respect to the Escrow Funds.

6 . Termination. The Company and the Placement Agent may terminate the appointment of the Escrow Agent hereunder upon written notice specifying the date upon which such termination shall take effect, which date shall be at least 30 days from the date of such notice. In the event of such termination, the Company and Placement Agent shall, within 30 days of such notice, appoint a successor escrow agent and the Escrow Agent shall, upon receipt of written instructions signed by the Company and Placement Agent, turn over to such successor escrow agent all of the Escrow Funds; *provided*, *however*, that if the Company and Placement Agent fail to appoint a successor escrow agent within such 30-day period, such termination notice shall be null and void and the Escrow Agent shall continue to be bound by all of the provisions hereof. Upon receipt of the Escrow Funds, the successor escrow agent shall become the escrow agent hereunder and shall be bound by all of the provisions hereof and Escrow Agent shall be relieved of all further obligations and released from all liability thereafter arising with respect to the Escrow Funds and under this Agreement.

7. Investment. All funds received by the Escrow Agent shall be held only in non-interest bearing bank accounts at Escrow Agent.

8 . Compensation. Escrow Agent shall be entitled, for the duties to be performed by it hereunder, to a fee of $4,000, which fee shall be paid by the Company upon the signing of this Agreement. In addition, the Company shall be obligated to reimburse Escrow Agent for all reasonable and customary fees, costs and expenses incurred or that become due in connection with this Agreement or the Escrow Account, including reasonable attorney's fees. Neither the modification, cancellation, termination or rescission of this Agreement nor the resignation or termination of the Escrow Agent shall affect the right of Escrow Agent to retain the amount of any fee which has been paid, or to be reimbursed or paid any reasonable and customary amount which has been incurred or becomes due, prior to the effective date of any such modification, cancellation, termination, resignation or rescission. To the extent the Escrow Agent has incurred any such expenses, or any such fee becomes due, prior to any closing, the Escrow Agent shall advise the Company and the Company shall direct all such amounts to be paid directly at any such closing. Escrow Agent shall be entitled to a fee of $1,000 in the event that this Agreement is amended for any reason in accordance with Section 10(d).

9. Notices. All notices, requests, demands and other communications required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given if sent by hand-delivery, by facsimile (followed by first-class mail), by nationally recognized overnight courier service or by prepaid registered or certified mail, return receipt requested, to the addresses set forth below:

If to the Company:	Lilis Energy, Inc. 216 16th Street, Suite 1350 Denver, CO 80202 Attention: Abraham Mirman, CEO Fax:
If to the Placement Agent:	T.R. Winston & Company, LLC 2049 Century Park East, Suite 320 Los Angeles, CA 90067 Attention: Karen Kang, Vice President Fax: 310-424-1990
If to Escrow Agent:	Signature Bank 261 Madison Avenue New York, NY 10016 Attention: Cliff Broder, Group Director and Senior Vice President Fax: 646-822-1364

10. General.

(a) This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of New York applicable to agreements made and to be entirely performed within such State, without regard to choice of law principles and any action brought hereunder shall be brought in the courts of the State of New York, located in the County of New York. Each party hereto irrevocably waives any objection on the grounds of venue, forum nonconveniens or any similar grounds and irrevocably consents to service of process by mail or in any manner permitted by applicable law and consents to the jurisdiction of said courts. EACH OF THE PARTIES HERETO HEREBY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT.

(b) This Agreement sets forth the entire agreement and understanding of the parties with respect to the matters contained herein and supersedes all prior agreements, arrangements and understandings relating thereto.

(c) All of the terms and conditions of this Agreement shall be binding upon, and inure to the benefit of and be enforceable by, the parties hereto, as well as their respective successors and assigns.

(d) This Agreement may be amended, modified, superseded or canceled, and any of the terms or conditions hereof may be waived, only by a written instrument executed by each party hereto or, in the case of a waiver, by the party waiving compliance. The failure of any party at any time or times to require performance of any provision hereof shall in no manner affect its right at a later time to enforce the same. No waiver of any party of any condition, or of the breach of any term contained in this Agreement, whether by conduct or otherwise, in any one or more instances shall be deemed to be or construed as a further or continuing waiver of any such condition or breach or a waiver of any other condition or of the breach of any other term of this Agreement. No party may assign any rights, duties or obligations hereunder unless all other parties have given their prior written consent.

(e) If any provision included in this Agreement proves to be invalid or unenforceable, it shall not affect the validity of the remaining provisions.

(f) This Agreement and any modification or amendment of this Agreement may be executed in several counterparts or by separate instruments and all of such counterparts and instruments shall constitute one agreement, binding on all of the parties hereto.

11. Form of Signature. The parties hereto agree to accept a facsimile transmission copy of their respective actual signatures as evidence of their actual signatures to this Agreement and any modification or amendment of this Agreement; *provided*, *however*, that each party who produces a facsimile signature agrees, by the express terms hereof, to place, promptly after transmission of his or her signature by fax, a true and correct original copy of his or her signature in overnight mail to the address of the other party.

12. No Third-Party Beneficiaries. This Agreement is solely for the benefit of the parties and their respective successors and permitted assigns, and no other person has any right, benefit, priority or interest under or because of the existence of this Agreement.

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

LILIS ENERGY, INC.

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

T.R. WINSTON & COMPANY, LLC

By: /s/ Karen Kang
Name: Karen Kang
Title: Vice President

SIGNATURE BANK

By: /s/ Steven Deneff
Name: Steven Deneff
Title: VP

By: /s/ Arturo Mora
Name: Arturo Mora
Title: Relationship Manager

Schedule I

OFFERING DOCUMENTS

*See Exhibits 10.2 and 10.3 to the Company's quarterly report on Form 10Q for the quarter ended June 30, 2016.

Schedule II

The Escrow Agent is authorized to accept instructions signed or believed by the Escrow Agent to be signed by any one of the following on behalf of the Company and Placement Agent.

LILIS ENERGY, INC.

Name	True Signature
Abraham Mirman	/s/ Abraham Mirman

T.R. WINSTON & COMPANY, LLC

Name	True Signature
Karen Kang	/s/ Karen Kang
G. Tyler Runnels	/s/ G. Tyler Runnels

Exhibit A

EXTENSION NOTICE

Date: _____, 2016

Signature Bank
261 Madison Avenue
New York, NY 10016
Attention: Cliff Broder, Group Director and Senior Vice President

Dear _____:

In accordance with the terms of paragraph 2(a) of an Escrow Deposit Agreement dated _____, 2016, by and among Lilis Energy, Inc. (the "**Company**"), T.R. Winston & Company, LLC (the " **Placement Agent**") and Signature Bank (the "**Escrow Agent**"), the Company hereby notifies the Escrow Agent that the Termination Date has been extended to _____, the Final Termination Date.

Very truly yours,

Lilis Energy, Inc.
By:_____
Name: Abraham Mirman
Title: Chief Executive Officer

T.R. Winston & Company, LLC
By: _____
Name: Karen Kang
Title: Vice President

Exhibit B

FORM OF ESCROW RELEASE NOTICE

Date: _____, 2016

Signature Bank
261 Madison Avenue
New York, NY 10016
Attention: Cliff Broder, Group Director and Senior Vice President

Dear _____:

In accordance with the terms of paragraph 2(c) of an Escrow Deposit Agreement dated as of _____, 2016 (the "**Escrow Agreement**"), by and between Lilis Energy, Inc. (the "**Company**"), T.R. Winston & Company, LLC (the " **Placement Agent**") and Signature Bank (the "Escrow Agent"), the Company and the Placement Agent hereby notify the Escrow Agent that the _____ closing will be held on _____ for gross proceeds of $_____.

PLEASE DISTRIBUTE FUNDS BY WIRE TRANSFER AS FOLLOWS (wire instructions attached):

Lilis Energy, Inc.: $

T.R. Winston & Company, LLC $

Very truly yours,

Lilis Energy, Inc.
By:_____
Name: Abraham Mirman
Title: Chief Executive Officer

T.R. Winston & Company, LLC
By: _____
Name: Karen Kang
Title: Vice President

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13A-14(A) OF
THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

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

August 25, 2016

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13A-14(A) OF
THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Kevin Nanke, 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/ Kevin Nanke
Kevin Nanke
Executive Vice President and Chief Financial Officer

August 25, 2016

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
RULE 13A-14(B)/15D-14(B) OF
THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

In connection with the Quarterly Report of Lilis Energy, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2016, 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

August 25, 2016

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
RULE 13A-14(B)/15D-14(B) OF
THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

In connection with the Quarterly Report of Lilis Energy, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2016, 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/ Kevin Nanke
Kevin Nanke
Executive Vice President and Chief Financial Officer

August 25, 2016