

EARTHSTONE ENERGY, INC.

2011 EQUITY INCENTIVE COMPENSATION PLAN

ARTICLE 1. GENERAL

1.1 Purpose of the Plan. Earthstone Energy, Inc. (the "Corporation"), by means of the Plan, seeks to attract, secure and retain the services of the group of persons eligible to receive Awards as set forth in Section 1.2 below, to provide incentives for such persons to exert maximum efforts for the growth and success of the Corporation and any Affiliate and to provide a means by which such eligible recipients may be give an opportunity to benefit from increases in the value of the Common Stock through the grant of Stock Awards.

1.2 Eligible Award Recipients. The persons eligible to receive Awards are Employees and Consultants.

1.3 Available Awards. The Plan provides for the grant of the following Awards: Restricted Stock Awards.

1.4 Definitions. In addition to any other definitions contained elsewhere in this Plan, the following definitions shall apply:

(a) "Act" means the provisions of the Securities Exchange Act of 1934, as amended.

(b) "Affiliate" means any parent corporation or subsidiary corporation of the Corporation, whether now or hereafter existing, as those terms are defined in Sections 424(e) and (f) respectively, of the Code.

(c) "Award" means any Restricted Stock granted under this Plan

(d) "Board" or "Board of Directors" means the Board of Directors of the Corporation.

(e) "Change of Control" means certain recapitalizations, mergers, consolidations, combinations or exchanges of Shares, sales of all or substantially all of the Corporation's assets, liquidations, or similar corporate change.

Prior to the date of a Change in Control, the Plan shall be interpreted, administered and operated by the Board or designated Committee; on and after the date of a Change in Control, the Plan shall be interpreted, administered and operated by a group of individuals appointed by the Board or designated Committee as such group of individuals is constituted immediately prior to the Change in Control.

(f) "Code" means the Internal Revenue Code of 1986, as amended from time to time. A reference to a particular section of the Code includes any related Treasury Regulations and Internal Revenue Service guidance.

(g) "Committee" means the Compensation Committee composed of not less than two Outside Directors, in accordance with Section 162(m) of the Code, or Non-Employee Directors, in accordance with Rule 16b-3, or such other committee of the Board which shall succeed to the functions and responsibilities of the Committee. Such members satisfy the independence requirements of the Qualitative Listing Requirements of the NASDAQ National Market with respect to Compensation Committees.

(h) "Common Stock" means the common stock of the Corporation.

(i) "Consultant" means any person, including an advisor, engaged by the Corporation or an Affiliate to render consultant or advisory services as an independent contractor and who is compensated for such services, provided that the term "Consultant" shall not include Directors who are paid only a director's fee by the Corporation or who are not compensated by the Corporation for their services as Directors.

(j) "Corporation" means Earthstone Energy, Inc., a Delaware corporation or any successor thereto.

(k) "Director" means a member of the Board of Directors of the Corporation.

(l) "Disability" means a Participant's inability to substantially perform his duties and responsibilities in connection with a Stock Award Agreement with the Corporation due to physical or mental illness or other disability for either three (3) or more consecutive months during any twelve-month period, or 120 calendar days during any calendar year as determined in good faith by the Board or the designated Committee.

(m) "Employee" means any person, including Officers, employed by the Corporation or any Affiliate as determined under the rules contained in Code Section 3401. Neither the services as a Director nor payment of a director's fee by the Corporation or by any Affiliate shall be sufficient by itself to constitute "employment" by the Corporation or by the Affiliate.

(n) "Officer" means a person who is an officer of the Corporation within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(o) "Participant" means an Employee or Consultant who has been selected to receive an Award or has an outstanding Award granted under the Plan.

(p) "Performance Goals" means the performance goals established by the Board or designated Committee in connection with the grant of Awards intended to qualify for the performance-based compensation exemption from the corporate tax deductibility limitations imposed by Code Section 162(m), as provided in Section 5.4.

(q) "Period of Restriction" means the period during which the restrictions are imposed on Shares of Restricted Stock pursuant to Article IV.

(r) "Plan" means the 2011 Equity Incentive Plan of the Corporation.

(s) "Restricted Stock" means Shares granted under Article IV.

(t) "Restricted Stock Award" means an Award of Shares of Common Stock which is granted pursuant to the terms and conditions of Article IV.

(u) "Rule 16b-3" means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.

(v) "Shares" means shares of the Corporation's Common Stock.

(w) "Stock Award" means any right to receive Common Stock granted under the Plan, including a Restricted Stock Award.

(x) "Stock Award Agreement" means a written agreement between the Corporation and a Participant evidencing the terms of a Stock Award. Each Stock Award Agreement shall be subject to the terms and conditions of the Plan.

ARTICLE II. ADMINISTRATION

2.1 Administration by Board. The Board shall administer the Plan unless and until the Board delegates administration of the Plan to a Committee or Committees, as provided in Section 2.3.

2.2 Powers of Board. The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(a) To determine from time to time (i) which of the persons eligible under the Plan shall be granted Awards; (ii) when and how each Award shall be granted; (iii) the provisions of each Award granted (which need not be identical), including the time or times when a person shall be permitted to receive Common Stock pursuant to a Stock Award; and (iv) the number of Shares of Common Stock with respect to which a Stock Award shall be granted to each such person.

(b) To construe and interpret the Plan and Awards granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any Stock Award Agreement in a manner and to the extent it shall deem necessary or expedient to make the Plan or Award fully effective.

(c) To settle all controversies regarding the Plan and Awards granted under it.

(d) To accelerate the time during which a Stock Award or any part thereof will vest in accordance with the Plan, notwithstanding the provisions in the Award stating the time during which it will vest.

(e) To suspend or terminate the Plan at any time. Suspension or termination of the Plan shall not materially impair rights and obligations under any Stock Award granted while the Plan is in effect except with the written consent of the affected Participant.

(f) To amend the Plan in any respect the Board deems necessary or advisable, including, without limitation, to bring the Plan or Stock Awards granted under the Plan into compliance therewith, subject to the limitations, if any, of applicable law, and subject to the last sentence of this Section 2.2(f).

However, except as provided in Section 5.1 relating to Capitalization Adjustments, stockholder approval shall be required for any amendment of the Plan that either (i) materially increases the number of Shares of Common Stock available for issuance under the Plan, (ii) materially expands the class of individuals eligible to receive Awards under the Plan, (iii) materially increases the benefits accruing to Participants under the Plan, (iv) materially extends the term of the Plan, or (v) expands the types of Awards available for issuance under the Plan, but only to the extent required by applicable law or listing requirements. Rights under any Award granted before amendment of the Plan shall not be materially impaired by any amendment of the Plan unless (i) the Corporation requests the consent of the affected Participant, and (ii) such Participant consents in writing.

(g) To submit any amendment to the Plan for stockholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of (i) Section 162(m) of the Code and the regulations thereunder, or (ii) Rule 16b-3.

(f) To approve forms of Stock Award Agreements for use under the Plan and to amend the terms of any one or more Awards, including, but not limited to, amendments to provide terms more favorable than previously provided in the Stock Award Agreement, subject to any specified limits in the Plan that are not subject to Board discretion; *provided however*, that, the Participant's rights under any Award shall not be materially impaired by any such amendment unless (i) the Corporation requests the consent of the affected Participant, and (ii) such Participant consents in writing. Notwithstanding the foregoing, subject to the limitations of applicable law, if any, and without the affected Participant's consent, the Board may amend the terms of any one or more Awards if necessary to bring the Award into compliance with Section 409A of the Code and the related guidance thereunder, including without limitation any such regulations or other guidance that may be issued or amended after the Effective Date.

(g) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Corporation and that are not in conflict with the provisions of the Plan or Awards.

2.3 Delegation to Committee. The Board may delegate the administration of the Plan to the Committee. If administration of the Plan is delegated to the Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board that have been delegated to the Committee, any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board shall thereafter be to the Committee), subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board.

The Board may retain the authority to concurrently administer the Plan with the Committee and may, at any time, reconstitute upon the Board some or all of the powers previously delegated.

2.4 Effect of Decisions. All determinations, interpretations and constructions made by the Board and/or the Committee in good faith shall not be subject to review by any person and shall be final, binding and conclusive on all persons. No member of the Board or the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Award thereunder.

2.5 Indemnification of Committee. In addition to such other rights of indemnification as they may have as Directors or as members of the Committee, the members of the Committee shall be indemnified by the Corporation against the reasonable expenses, including attorney's fees actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any Award granted thereunder,

and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Corporation) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such Committee member is liable for negligence or misconduct in the performance of his duties' provided that within 60 days after institution of any such action, suit or proceeding a Committee member shall in writing offer the Corporation the opportunity at its own expense to handle and defend the same.

ARTICLE III. SHARES SUBJECT TO THE PLAN

3.1 Shares in the Plan. Subject to the provisions of Section 5.1 relating to adjustments upon changes in stock, the amount of stock that may be issued pursuant to Awards under this Plan shall not exceed, in the aggregate, 150,000 Shares of the Common Stock of the Corporation.

3.2 Reversion of Shares. To the extent any Shares subject to an Restricted Stock Award are forfeited, or otherwise canceled or expire or terminate, in whole or part, then such Shares shall revert to and again become available for issuance under the Plan. Shares awarded under the Plan with respect to which a Participant or other person received distributions or other benefits of ownership prior to the forfeiture of those Shares shall not revert to and become available for issuance under the Plan. For this purpose, a distribution or other benefit of ownership does not include the exercise of voting right or the accumulation of distributions that are not realized with respect to a Share because of forfeiture under the terms and conditions of the Stock Award Agreement for that Share. The Shares subject to the Plan may be unissued or reacquired Shares, bought on the market or otherwise.

3.3 Reservation of Shares. The Corporation, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of this Plan. The inability of the Corporation to obtain from any regulatory body having jurisdiction authority deemed by the Corporation's counsel to be necessary to the lawful issuance and sale of any Shares hereunder shall relieve the Corporation of any liability in respect of the nonissuance or sale of such Shares as to which such requisite authority shall not have been obtained.

ARTICLE IV. TERMS OF RESTRICTED STOCK AWARDS

4.1 General. Subject to the Plan, Awards of Restricted Stock may be granted to Participants in such number, and upon such terms, and at any time and form as determined by the Board.

4.2 Nature of Award. A Restricted Stock grant is made by the issuance to the Participant of the actual Shares represented by that grant, evidenced in such manner as the Board may deem appropriate.

Any certificate issued in respect of Shares of Restricted Stock shall be registered in the name of the applicable Participant and shall bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Award.

4.3 Terms. Each grant of Restricted Stock shall be evidenced by a Stock Award Agreement in such form and shall contain such terms and conditions as the Board shall deem appropriate. No Award of Restricted Stock shall be a valid and binding obligation of the Corporation unless evidenced by a fully executed Stock Award Agreement or by communication with the Corporation in such manner as the Corporation may authorize. The provisions of separate Awards of Restricted Stock need not be identical. The terms and conditions may provide, in the discretion of the Board, for lapse of transfer restrictions or forfeiture provisions to be contingent on one or more of the continued performance of services, achievement of one or more specified Performance Goals, or other criteria. The Board is not required to treat all Awards similarly. In no event will the term of any such Award exceed five years. Any vesting schedule can be accelerated at the discretion of the Board, unless otherwise specified in the Stock Award Agreement.

4.4 Transferability Restrictions. Shares of Restricted Stock granted under the Plan may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the termination of the applicable Period of Restriction. Except as otherwise provided in this Article IV, after the last day of the Period of Restriction, Shares of Restricted Stock covered by a Restricted Stock grant made under the Plan shall become freely transferrable by the Participant. Once the Shares are released from the restrictions, the Participant shall be entitled to have any legend or stop transfer order removed. During the Period of Restriction, no Shares of Restricted Stock shall be transferable pursuant to a domestic relations order or qualified domestic relations order as defined by Code Section 414(p) with respect to certain tax-qualified retirement plans.

Notwithstanding the foregoing, to the extent that the terms of a Stock Award Agreement provide for the vesting of an Award of Restricted Stock on death or disability, a Share of Restricted Stock shall be transferable by will or by the laws of descent and distribution and the Participant may designate, by delivering written notice to the Corporation, in a form satisfactory to the Corporation, a third party who, in the event of the death of the Participant, shall thereafter be entitled to receive the Shares.

4.5 Other Restrictions. The Board shall impose such other restrictions on any Shares of Restricted Stock granted under the Plan as it may deem advisable and the Board may legend certificates representing Restricted Stock Shares or record stop transfer orders with respect to uncertificated Shares to give appropriate notice of such restrictions.

4.6 Change of Control Provision. If a Participant's employment or services are terminated in the event of a Change of Control or at any time during the one-year period after a Change in Control, the Board may, but is not required to, cause nonvested Shares of Restricted

Stock issued under the Plan (i) to immediately vest, or (ii) otherwise be amended, or (iii) be substituted with equivalent Awards of the successor corporation.

In this context, termination includes the voluntary resignation of a Participant within 90 days following material reduction in the Participant's compensation, material diminishment in Participant's responsibilities, functions, duties or authority, or the relocation of the Participant's workplace to a site over 35 miles away from the current site.

4.7 Termination, Death, Disability and Retirement. Unless otherwise provided for in a specific Award, if the relationship between the Corporation and the Participant is terminated in connection with the retirement of the Participant, any nonvested portion of an outstanding Award will be forfeited by the Participant and no further vesting will occur.

Unless otherwise provided for in an Award, (i) upon the termination due to the Disability of a Participant, or (ii) upon the death of a Participant, any nonvested portion of an outstanding Award that has not vested will vest in full.

The Board may provide for the continuation of any Award for such period and upon such terms as it determines in the event the Participant ceases to be an Employee or Consultant to the Corporation.

4.8 Voting of Shares. During the Period of Restriction, a Participant holding Shares of Restricted Stock granted under the Plan may exercise full voting rights with respect to those Shares, unless otherwise specified in the applicable Stock Award Agreement.

4.9 Dividends and Other Distributions. Subject to the provisions of the Article IV, during the Period of Restriction, a Participant holding Shares of Restricted Stock granted under the Plan shall be entitled to receive all dividends and other distributions paid with respect to such Shares as the Board may deem appropriate; provided, that any such dividend or other distribution will be paid no later than the date that is 2 ½ months after the close of the Corporation's fiscal year.

Unless an Award of Restricted Stock provides otherwise as determined by the Board, all rights to such dividends and other distributions described above shall be subject to the same restrictions on transferability and forfeiture as the Shares of Restricted Stock with respect to which they were paid. Notwithstanding the foregoing, no dividend (or dividend equivalent) that has been paid with respect to Restricted Stock shall be subject to return or recoupment by the Corporation.

ARTICLE V. MISCELLANEOUS PROVISIONS

5.1 Adjustment Upon Changes in Common Stock. In the event of any change in the number of Shares of Common Stock outstanding by reason of any stock dividend or split, reverse stock split, recapitalization, merger, consolidation, combination or exchange of Shares, sales of all or substantially all of the Corporation's assets, liquidations, or similar corporate change (collectively referred to as "corporate events"), the Board shall make the following

adjustments:

(a) **Shares Available for Awards.** The maximum number of Shares of Common Stock with respect to which the Board may grant Awards under Article IV hereof shall be appropriately adjusted by the Board. In the event of any change in the number of Shares of Common Stock outstanding by reason of any event or transaction other than a corporate event, the Board may, but need not, adjust the maximum number of Shares of Common Stock with respect to which the Board may grant Awards under Article IV hereof, in each case as the Board may deem appropriate.

(b) **Restricted Stock.** The type or number of Shares subject to an Award will be appropriately adjusted in the event of a subdivision or consolidation of Shares, payment of stock dividend or any other increase or decrease in the number of Shares effected without receipt of consideration by the Corporation, or in the event of a change of control or similar corporate change. Such adjustments shall be made by the Board, whose determination shall be final and binding.

5.2 Consent Requirement.

(a) **No Plan Action without Required Consent.** If the Board shall at any time determine that any Consent (as hereinafter defined) is necessary or desirable as a condition of, or in connection with, the granting of any Award under the Plan, the issuance or purchase of Shares or other rights thereunder, or the taking of any other action thereunder (each such action being hereinafter referred to as a “Plan Action”), then such Plan Action shall not be taken, in whole or in part, unless and until such Consent shall have been effected or obtained to the full satisfaction of the Board.

(b) **Consent Defined.** The term “Consent” as used herein with respect to any Plan Action means (i) any and all listings, registrations or qualifications in respect thereof upon any securities exchange or under any federal, state or local law, rule or regulation, (ii) any and all written agreements and representations by the Participant with respect to the disposition of Shares, or with respect to any other matter, which the Board shall deem necessary or desirable to comply with the terms of any such listing, registration or qualification or to obtain an exemption from the requirement that any such listing, qualification or registration be made and (iii) any and all consents, clearances and approvals in respect of a Plan Action by any governmental or other regulatory bodies.

5.3 Compliance with Section 409A of the Code. To the extent that the Board determines that any Award granted under the Plan is subject to Section 409A of the Code, the Stock Award Agreement evidencing such Award shall incorporate the terms and conditions necessary to avoid the consequences specified in Section 409A(a)(1) of the Code. To the extent applicable, the Plan and Stock Award Agreements shall be interpreted in accordance with Section 409A of the Code and Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance

that may be issued or amended after the Effective Date.

Notwithstanding any provision of the Plan to the contrary, in the event that following the Effective Date the Board determines that any Award may be subject to Section 409A of the Code and related Department of Treasury guidance (including such Department of Treasury guidance as may be issued after the Effective Date), the Board may adopt such amendments to the Plan and the applicable Stock Award Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Board determines are necessary or appropriate to (i) exempt the Award from Section 409A of the Code and/or preserve the intended tax treatment of the benefits provided with respect to the Award, or (ii) comply with the requirements of Section 409A of the Code and related Department of Treasury guidance, including without limitation any such regulations or other guidance that may be issued or amended after the Effective Date.

5.4 Compliance with Section 162(m) of the Code. To the extent that Section 162(m) of the Code places a cap on deductible compensation that may be paid to certain executives of publicly traded corporations, amounts that qualify as “performance based” compensation under Section 162(m)(4)(C) of the Code are exempt from the cap and do not count toward the limit. Awards may or may not so qualify, depending on their terms.

5.5 Requirement of Notification of Election Under Section 83(b) of the Code. If any Participant shall, in connection with the acquisition of Shares of Common Stock under the Plan, make the election permitted under Section 83(b) of the Code (i.e., an election to include in gross income in the year of transfer the amounts specified in Section 83(b)), such Participant shall notify the Corporation of such election within 10 days of filing notice of the election with the Internal Revenue Service, in addition to any filing and notification required pursuant to regulations issued under the authority of Code Section 83(b).

5.6 Withholding Taxes. Whenever Shares of Restricted Stock vest pursuant to an Award under the Plan, the Corporation shall be entitled to require that the Participant remit to the Corporation an amount to satisfy all minimum statutory federal, state and other governmental tax withholding requirements related thereto. With the approval of the Board, which the Board shall have sole discretion whether or not to give, the Participant may satisfy the foregoing condition by electing to have the Corporation withhold vested Shares having a value equal to the amount of tax to be withheld. Such Shares shall be valued at their fair market value as of the date upon which such Shares of Restricted Stock vest. Such a withholding election may be made with respect to all or any portion of the Restricted Stock vesting pursuant to an Award.

5.7 Right of Discharge Reserved. Nothing in the Plan or in any Award shall confer upon any Participant the right to continue his or her employment or affect any right which the Corporation may have to terminate such employment or change the terms of such employment.

5.8 Nature of Payments.

(a) **Consideration for Services Performed.** Any and all Awards and issuances of Shares of Restricted Stock under the Plan shall be in consideration of services performed for the Corporation by the Participant.

(b) **Not Taken into Account for Benefits.** All such grants and issuances shall constitute a special incentive payment to the Participant and shall not be taken into account in computing the amount of salary or compensation of the Participant for the purpose of determining any benefits under any pension, retirement, profit-sharing, bonus, life insurance or other benefit plan that may be offered by the Corporation or under any agreement between the Corporation and the Participant, unless such Stock Award specifically otherwise provides.

5.9 Headings. Any section, subsection, paragraph or other subdivision headings contained herein are for the purpose of convenience only and are not intended to expand, limit or otherwise define the contents of such subdivisions.

5.10 Effective Date and Term of Plan.

(a) **Adoption; Stockholder Approval.** The Plan was adopted by the Board on July 14, 2011, subject to approval by the Corporation's stockholders.

(b) **Termination of Plan.** Unless sooner terminated by the Board or due to non-approval by the Corporation's stockholders pursuant to Section 5.8(a), or upon all Shares reserved under the Plan having been awarded, the provisions of the Plan respecting the grant of Restricted Stock shall terminate on July 14, 2021, the tenth anniversary of the adoption of the Plan by the Board.

All Awards made under the Plan prior to its termination shall remain in effect until such Awards have been satisfied or terminated in accordance with the terms and provisions of the Plan and the applicable Stock Award Agreement.

5.11 Governing Law. Except to the extent preempted by any applicable federal law, the Plan will be construed and administered in accordance with the laws of the State of Delaware, without giving effect to principles of conflict of laws.