Petrolia Energy Corp
Form 10-K/A
September 26, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

(Mark One)

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

For the fiscal year ended **December 31, 2017**

OR

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

Commission file number: **000-52690**

PETROLIA ENERGY CORPORATION
(Exact name of registrant as specified in its charter)

TEXAS	**86-1061005**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

710 N Post Oak, Suite 512	**77024**
Houston, TX	
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(832) 941-0011**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
None	

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $0.001 Par Value Per Share
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations 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 filing). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, and accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	**Accelerated filer**
Non-accelerated filer	**Smaller reporting company**
Emerging growth	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act): Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant on June 30, 2017 was approximately $8,175,105.

As of April 16, 2018, the registrant had 222,437,810 outstanding shares of common stock.

Documents Incorporated by Reference: None

EXPLANATORY NOTE: RELATED PARTY DISCLOSURES

This Amendment No. 1 on Form 10-K/A ("Amendment") to the Annual Report on Form 10-K of Petrolia Energy Corporation (the "Company") for the fiscal year ended December 31, 2017 (the "Form 10-K"), originally filed with the Securities and Exchange Commission (the "SEC") on April 17, 2018, is being filed for the sole purpose of amending Item 1. Business; Item 8. Financial Statements and Supplementary Data; Item 9A. Controls and Procedures; Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters; Item 13. Certain Relationships and Related Transactions, and Director Independence; and the footnotes to the financial statements included herein, to clarify that (a) the Bow Acquisition is a related party transaction, because of the related party relationship we failed to disclose as described in (c) below, (b) the President, Chief Executive Officer and 100% owner of Blue Sky International Holdings Inc. ("Blue Sky") is Ilyas Chaudhary, the father of Zel C. Khan, the Company's Chief Executive Officer; that Mr. Chaudhary owns and controls BSIH Ltd. ("BSIH"), which was the largest shareholder of the Company prior to the cancellation of the shares held by BSIH in September 2018, pursuant to the terms of a Share Exchange Agreement between the Company and Blue Sky Resources Ltd. dated August 31, 2018 of which entity Mr. Chaudhary also owns and controls; (c) prior to the acquisition of Bow Energy Ltd ("Bow") as described in (b) above, BSIH, and as a result of his ownership and control of BSIH, Mr. Chaudhary controlled Bow; (d) on April 12, 2018 a $500,000 convertible promissory note was issued to Blue Sky and such note was subsequently canceled by the Company; (e) BSIH and Blue Sky Resources Ltd. are both entirely owned by Mr. Chaudhary; (f) Quinten Beasley, the Company's Director, and not Mr. Khan, beneficially owns the shares of the Company's common stock held by Jovian Petroleum Corporation; and (g) the Company's disclosure controls and procedures, and internal control over financial reporting were ineffective as of December 31, 2017; specifically, we have material weakness in internal controls over monitoring and disclosing related party transactions as indicated in the amendment of the related party disclosures above.

Except as described above and set forth below, no changes have been made to the Form 10-K. The Form 10-K continues to speak as of the date of the Form 10-K, except as set forth below, and the Company has not updated the disclosures contained herein to reflect any events that have occurred as of a date subsequent to the date of the Form 10-K, except as set forth below. Accordingly, this Amendment should be read in conjunction with the Form 10-K and the Company's filings made with the SEC subsequent to the filing of the Form 10-K. The filing of this Amendment is not an admission that the Form 10-K, when filed, included any untrue statement of a material fact necessary to make a statement not misleading.

Table of Contents

PART I

FORWARD-LOOKING STATEMENTS

This Report contains statements which, to the extent that they do not recite historical fact, constitute forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts and may include the words “may,” “will,” “could,” “should,” “would,” “believe,” “expect,” “anticipate,” “estimate,” “intend,” words or expressions of similar meaning. We have based these forward-looking statements on our current expectations about future events. The forward-looking statements include statements that reflect management’s beliefs, plans, objectives, goals, expectations, anticipations and intentions with respect to our financial condition, results of operations, future performance and business, including statements relating to our business strategy and our current and future development plans.

The potential risks and uncertainties that could cause our actual financial condition, results of operations and future performance to differ materially from those expressed or implied in this report include:

- The sale prices of crude oil:
- The amount of production from oil wells in which we have an interest;
- Lease operating expenses;
- International conflict or acts of terrorism;
- General economic conditions; and
- Other factors disclosed in this Report.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Many factors discussed in this report, some of which are beyond our control, will be important in determining our future performance. Consequently, actual results may differ materially from those that might be anticipated from the forward-looking statements. In light of these and other uncertainties, you should not regard the inclusion of a forward-looking statement in this Report as a representation by us that our plans and objectives will be achieved, and you should not place undue reliance on such forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

You should read the matters described in “Risk Factors” and the other cautionary statements made in this Report as being applicable to all related forward-looking statements wherever they appear in this Report. We cannot assure you that the forward-looking statements in this Report will prove to be accurate and therefore prospective investors are encouraged not to place undue reliance on forward-looking statements. Other than as required by law, we undertake no obligation to update or revise these forward-looking statements, even though our situation may change in the future.

Please see the “Glossary of Oil and Gas Terms” on page 9, for a list of abbreviations and definitions used throughout this report.

Except where context otherwise requires and for purposes of the Annual Report on Form 10-K only:

“we”, “us”, “our company”, “our”, “the company” refer to Petrolia Energy Corporation, and its subsidiaries
“Exchange Act” refers to the Securities Exchange Act of 1934, as amended;
“SEC” or the “Commission” refers to the United States Securities and Exchange Commission; and “Securities Act” refers to the Securities Act of 1933, as amended.

4

Available Information

We are subject to the information and reporting requirements of the Exchange Act, under which we file periodic reports, proxy and information statements and other information with the United States Securities and Exchange Commission, or SEC. Copies of the reports, proxy statements and other information may be examined without charge at the Public Reference Room of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549, or on the Internet at http://www.sec.gov. Copies of all or a portion of such materials can be obtained from the Public Reference Room of the SEC upon payment of prescribed fees. Please call the SEC at 1-800-SEC-0330 for further information about the Public Reference Room.

Financial and other information about the Company is available on our website (**http://www.petroliaenergy.com/**). Information on our website is not incorporated by reference into this Report. We make available on our website, free of charge, copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC.

ITEM 1. BUSINESS.

Background

We were incorporated in Colorado on January 16, 2002.

We planned to sell custom framed artwork, art accessories, and interior design consulting. However, we generated only limited revenue and were inactive between 2008 and February of 2012.

In February 2012, we decided it would be in the best interests of our shareholders to no longer pursue our original business plan and, in April 2012 we became active in the exploration and development of oil and gas properties.

Effective September 2, 2016, we formally changed our name to Petrolia Energy Corporation, pursuant to the filing of a Statement of Conversion with the Secretary of State of Colorado and a Certificate of Conversion with the Secretary of State of Texas, authorized by the Plan of Conversion which was approved by our stockholders at our April 14, 2016, annual meeting of stockholders, each of which are described in greater detail in the Definitive Proxy Statement on Schedule 14A, which was filed with the Securities and Exchange Commission on March 23, 2016. In addition to the Certificate of Conversion filing, we filed a Certificate of Correction filing with the Secretary of State of Texas (correcting certain errors in our originally filed Certificate of Formation) on August 24, 2016.

As previously reported, although the stockholders approved the Plan of Conversion at the annual meeting, pursuant to which our corporate jurisdiction was to be changed from the State of Colorado to the State of Texas by means of a process called a “Conversion” and our name was to be changed to “Petrolia Energy Corporation”, those filings were not immediately made and the Conversion did not become legally effective until September 2, 2016. Specifically, on June 15, 2016, the Company filed a Certificate of Conversion with the Texas Secretary of State, affecting the Conversion and the name change, and including a Certificate of Formation as a converted Texas corporation; however, the Statement of Conversion was not filed with the State of Colorado until a later date. As a result, and because FINRA and the Depository Trust Company (DTC) had advised us that they would not recognize the Conversion or name change, or update such related information in the marketplace, until we became current in our periodic filings with the Securities and Exchange Commission and they had a chance to review and approve such transactions, we took the position that the Conversion and name change were not legally effective until September 2, 2016.

As a result of the filings described above, and FINRA and the Depository Trust Company (DTC) formally recognizing and reflecting the events described above in the marketplace, the Company has formally converted from a Colorado corporation to a Texas corporation, and has formally changed its name to “Petrolia Energy Corporation”.

Two significant acquisitions were made in 2015 and additional working interests in the same properties were acquired in 2016 and 2017, as described in greater detail in the “Plan of Operation” section below. Additionally, in February 2018, we acquired Bow Energy Ltd and its assets, as discussed below.

5

Plan of Operation

Since 2015, we have established a clearly defined strategy to acquire, enhance and redevelop high-quality, resource in place assets. The Company has been focusing on acquisitions in the Southwest United States while actively pursuing our strategy to offer low-cost operational solutions in established Oil and Gas regions. We believe our mix of assets-oil-in-place conventional plays, low-risk resource plays and the redevelopment of our late-stage plays is a solid foundation for continued growth and future revenue growth.

Our strategy is to acquire low risk, conventionally producing oil fields. This strategy allows us to incorporate new technology to minimize risk and maximize the recoverability of existing reservoirs. This approach allows us to minimize the environmental impact caused by exploratory development.

Our activities will primarily be dependent upon available financing.

Oil and gas leases are considered real property. Title to properties which we may acquire will be subject to landowner's royalties, overriding royalties, carried working and other similar interests and contractual arrangements customary in the oil and gas industry, to liens for current taxes not yet due, liens for amounts owing to persons operating wells, and other encumbrances. As is customary in the industry, in the case of undeveloped properties little investigation of record title will be made at the time of acquisition (other than a preliminary review of local records). However, drilling title opinions may be obtained before commencement of drilling operations.

Minerva-Rockdale Field

The Minerva-Rockdale Field, which is located approximately 30 miles Northeast of Austin, Texas, was first discovered in 1921 and is approximately 50 square miles in size. The main producing formation for this field is the Upper Cretaceous Navarro Group of sands and shales. The Navarro is typically subdivided into several producing zones from the uppermost "A" and "B" sands to the lower "C" and "D" sands. The "B" sand is the primary producing zone. These sands are commonly fine grained and poorly sorted and were deposited close to a shoreline during a cycle of marine regression.

In April 2013, the Company entered into a lease pertaining to a 423 acre tract in Milam County, Texas, which is adjacent to the Company's original 200 acre lease. The Company issued 500,000 shares of its common stock as consideration for a 100% working interest (83.33% net revenue interest) in such lease.

During the period from our inception to December 31, 2011, we did not drill any oil or gas wells. During the year-ended December 31, 2012 we drilled and completed six (6) oil wells; and during 2013 the Company drilled and completed three (3) wells of which one (1) was converted to an injection well. During 2014 the Company drilled seven (7) new wells. In 2015, six (6) of the wells were completed, five (5) wells produced, one (1) did not produce and one (1) well was not completed. In 2016, the Company had thirteen (13) wells producing with one (1) injection well and one (1) did not produce/one (1) well not completed. During 2017, out of a total of sixteen (16) wellbores, thirteen (13) wells are producers, one (1) is an injection well, one (1) well requires completing and one (1) well is completed but not perforated. Out of the thirteen (13) producers, eight (8) were producing during 2017.

Slick Unit Dutcher Sands ("SUDS") Field

The SUDS oilfield consists of 2,600 acres located in Creek County, Oklahoma and carries a 76.5% net revenue interest (NRI). The first oil producer was completed in 1918 by Standard Oil of Ohio ("Sohio"), which at that time was owned by John D. Rockefeller. By 1959, approximately 14,000,000 barrels of oil had been recovered at an average well depth of 3,100 feet and over 100 wells in production. Through a series of events, the infrastructure had deteriorated and the field suffered a lot of neglect. From 2011 to the 2016, when the Company took over operations and 100% of the Working Interest of SUDS, Jovian Petroleum Corporation and its subsidiaries, Jovian Resources, LLC and SUDS Properties, LLC (together known as "Jovian"), the previous operator and owner of SUDS, had invested an estimated $1.6 million into the restoration of the field; including environmental clean-up, rebuilding the infrastructure, and repairing certain injection wells and producers. Note that Jovian and its management are considered a related party. This designation is because two (2) individuals hold key management and ownership positions in both companies which effectively results in joint control. To date, 22 wells have been worked over and 9 are fully operational with considerable reserves remaining. As a result of the transactions below, as of December 31, 2017 and 2016, Petrolia was the operator and has a 100% working interest in this field. Mr. Zel C. Khan, our Chief Executive Officer and President, is the former manager of Jovian and Mr. Quinten Beasley, our Director, currently serves as President of Jovian.

SUDS 10% Acquisition

The Company acquired a 10% working interest in the SUDS field located in Creek County Oklahoma on September 23, 2015, in exchange for 10,586,805 shares of restricted common stock. Based on the then current market value of our common stock, $0.068 per share, the price paid was $719,903 or $4.77 dollars per barrel of oil (Bbl). Through this transaction, the Company increased its reserve base by approximately 151,000 Bbls of (1P) proven reserves. Concurrently with the purchase, Jovian agreed to assign to the Company the right to be the operator of record of the SUDS field, governed by an American Association of Professional Landmen (AAPL) standard Joint Operating Agreement (JOA).

SUDS 90% Acquisition

On the effective date of September 28, 2016, the Company acquired a 90% net working interest in the SUDS field as a result of two separate agreements, Purchase and Sale Agreement and the Share Exchange Agreement, both between the Company and Jovian.

The Company issued two notes for a combined value of $4,000,000 in exchange for a cumulative 50% working interest in SUDS. A Promissory Note to Jovian for $1,000,000 was executed bearing interest at 5% and due on December 31, 2016 related to the acquisition of a 50% working interest in the SUDS field. The Promissory Note was secured by a 12.5% undivided working interest in the SUDS field. In addition, a Production Payment Note was executed for the same 50% working interest in the SUDS field. This note was for $3,000,000, paid out of twenty percent (20%) of the 50% undivided interest of net revenues received by the Purchaser that is attributable to the SUDS field assets. The Production Payment Note was secured by a 12.5% undivided working interest in the SUDS field.

The Company issued 24,308,985 shares of its restricted common stock to Jovian to acquire an additional 40% working interest ownership of SUDS. The purchase price of the shares equates to a $4,373,186 value, based on the $0.1799/share market price of our common stock on September 28, 2016 (the effective date of the transaction).

Jovian Petroleum Corporation converted its outstanding $4,000,000 of debt in two tranches, a $2,000,000 first tranche on May 30, 2017 and a $2,000,000 second tranche on July 19, 2017. Although the two transactions occurred in different reporting periods, the two transactions were contemplated together, and they were accounted for as one extinguishment that was accomplished in two tranches, the first in May 2017 and the second in July 2017.

Tranche 1 - On May 30, 2017, Jovian Petroleum Corporation converted $2 million of its $4 million debt into 10 million shares of the Company's common stock. The $2 million debt included a $1 million Promissory Note and $1 million of the $3 million Production Payment Note as well as interest payable of $33,151.

Tranche 2 - On July 19, 2017, Jovian Petroleum Corporation converted $2 million of its remaining debt (outstanding under a Production Payment Note) into 12,749,286 shares of the Company's common stock and 21,510 shares of the Company's Preferred Stock.

The consideration for the debt extinguished consisted of the following:

10 million shares of common stock which were valued using the market price on the date of issuance of $0.14 per share ($1,400,000)

Warrants to purchase 6 million shares of common stock with an exercise price of $0.20 per share based on a $0.12 valuation, volatility of 293%, a discount rate of 1.09% and warrants to purchase 4 million shares of common stock with an exercise price of $0.35 per share based on a $0.12 valuation, volatility of 293%, and a discount rate of 1.09%. All warrants expire in 3 years. The 6 million warrants were valued at $709,776 while the 4 million warrants were valued at $471,104, totaling $1,180,880.

12,749,286 shares of common stock which were valued using the market price on the date of issuance of $0.104 per share ($1,325,926).

The Preferred Stock was valued at $10.00 per share, the cash price paid by third party investors for the same stock with an aggregate value of $215,100.

The combination of the two transactions resulted in an $88,755 loss which was recognized in the second quarter of 2017. The extinguishment of tranche 2 was recognized in the third quarter, with no impact on the consolidated statement of operations.

Twin Lakes San Andres Unit ("TLSAU") Field

TLSAU is located 45 miles from Roswell, Chavez County, New Mexico and consists of 4,864 acres with 80 wells. The last independent reserve report prepared by MKM Engineering on December 31, 2017, reflects approximately 1.6 million barrels of proven oil reserves remaining for the 100% working interest. During 2017, the Company took control of thirty-eight (38) wells of which twenty-one (21) were re-worked of this eight (8) wells remained producing, five (5) wells were dedicated for injection purpose and the remaining await additional workover and a secondary review. As of December 31, 2017, Petrolia was the operator of the TLSAU field (through an agreement with Blue Sky NM, Inc. ("BSNM") described below). As of the date of this report, Petrolia owns a 100% working interest in the field. In 2017 the Company worked over 21 wells capable of producing oil. Eight (8) of those wells produced and thirteen (13) experienced a repairable mechanical failure after a month of production.

<u>TLSAU 15% Acquisition</u>

On November 4, 2015, the Company acquired a 15% net working interest in the TLSAU field located in Chavez County, New Mexico (the "Net Working Interest") and all operating equipment on the field. Through this transaction, the Company increased its reserve base by approximately 384,800 Bbls of (1P) proven reserves. The Company was also assigned all rights to be the operator of the TLSAU unit under a standard operating agreement.

The total purchase price for the acquisition of the Net Working Interest and equipment rights was $196,875 or $0.52 dollars per barrel of oil (Bbl) and was paid to BSNM. The Company paid $50,000 in cash and gave a promissory note in the amount of $146,875. The $50,000 was paid by the CEO of the Company for the benefit of the Company and recorded as a shareholder advance. Subsequently, the $50,000 advance was converted into 800,000 shares of common stock at $0.06 per share and warrants to purchase 800,000 shares of common stock. In addition, a $1.3 million face value note payable to BSNM was purchased for $316,800 (6,000,000 shares of common stock at $0.0528 per share). With the inclusion of the note receivable, the price per barrel would be $1.33 dollars per barrel oil (Bbl). (See Note 5 and Note 6 of the audited consolidated financial statements beginning on page F-1 hereof for further details)

TLSAU 25% Acquisition

On September 1, 2016, the Company acquired an additional 25% working interest ownership in the TLSAU field through the issuance of 3,500,000 shares of its restricted common stock to an unrelated party. The purchase price of the shares equates to a $350,000 value, based on the $0.10 per share market price of Petrolia's shares on September 1, 2016. After the purchase, the Company owns a total working interest ownership of 40%. The final purchase price allocation of the transaction is as follows: oil and gas properties acquired $392,252, and asset retirement obligations assumed of $42,252.

TLSAU 60% Acquisition

Effective February 12, 2017, the Company acquired an additional 60% working interest ownership in the TLSAU field (the "Net Working Interest") resulting from the execution of a Settlement Agreement on February 12, 2017. The agreement assigned Dead Aim Investments' ("Dead Aim") 60% ownership interests to the Company. As a result of this transaction, Petrolia now owns 100% working interest in TLSAU. Consideration of $465,788 was given in exchange for Dead Aim's working interest. The consideration includes the forgiveness of the Orbit Petroleum Inc Bankruptcy Estate ("OPBE") note of $316,800 (with a $1.3 million face value) which we acquired in November 2015 and the write-off of $148,988 of Dead Aim's outstanding accounts receivable to Petrolia. Dead Aim assumed liability (prior to the acquisition) for the OPBE note that the Company purchased.

Non Oil & Gas Properties Businesses

Askarii Resources, LLC

Effective February 1, 2016, the Company acquired 100% of the issued and outstanding shares in Askarii Resources LLC ("Askarii"), a private Texas based oil & gas service company. The Company acquired Askarii by issuing one (1) million restricted common shares. Based on the then market value of the Company stock at $0.05 per share, the aggregate value of the transaction is $50,000.

Askarii, while dormant for the last few years, has a significant history with major oil companies providing services both onshore and offshore- Gulf of Mexico. Using Askarii, the Company will engage in the oil field service business as well as the leasing of field related heavy equipment. Askarii will also research various enhanced oil recovery (EOR) technologies and methods which it can use for the benefit of the Company's oil fields.

There were no wells drilled during the years ended December 31, 2017 and December 31, 2016.

The following table shows, as of March 31, 2018, our producing wells, developed acreage, and undeveloped acreage:

State	Productive Wells		Developed Acreage		Undeveloped Acreage (1)	
	Gross	Net	Gross	Net	Gross	Net
Texas	16	16	260	260	363	363
Oklahoma	26(2)	26	1,040	1,040	1,564	1,564
New Mexico	38(3)	32	500	500	4,364	4,364

(1) Undeveloped acreage includes leasehold interests on which wells have not been drilled or completed to the point that would permit the production of commercial quantities of natural gas and oil regardless of whether the leasehold interest is classified as containing proved undeveloped reserves.

(2) Represents twenty-six (26) wells that were worked-over and capable of producing oil. Seventeen (17) of those wells experienced a repairable mechanical failure after a week of production. Those eighteen (18) wells are excluded from our producing well totals in the overview description above. Note that there were other wells that

were worked over that never produce oil and are excluded from all of these reported amounts.

(3) Represents 21 wells that were worked-over and capable of producing oil. Eight (8) of those wells produced and thirteen (13) experienced a repairable mechanical failure after a month of production. Note that there were other wells that were worked over that never produce oil and are excluded from all of these reported amounts.

The following table shows, as of February 22, 2018, the status of our gross acreage:

State	**Held by Production**	**Not Held by Production**
Texas	623	—
Oklahoma	2,604	—
New Mexico	4,864	—

9

Leases on acres that are Held by Production remain in force so long as oil or gas is produced from one or more wells on the particular lease. Leased acres that are not held by Production require annual rental payments to maintain the lease until the first to occur of the following: the expiration of the lease or the time oil or gas is produced from one or more wells drilled on the leased acreage. At the time oil or gas is produced from wells drilled on the leased acreage, the lease is considered to be Held by Production.

Proved Reserves

Below is a table that provides historical average sales price per barrel and average production cost per barrel by geographical location and by year, for the last three (3) fiscal years.

	Average Sales Price (per Bbls) ($)	**Average Production Cost (per Bbls) ($)**	**Oil Production (Bbls)**
Texas			
2015	42.38	49.97	4,024
2016	34.49	35.52	3,401
2017	37.90	57.94	2,322
Oklahoma			
2015	45.84	68.48	155
2016	38.14	81.47	2,400
2017	32.51	133.25	885
New Mexico			
2015	43.04	117.44	134
2016	29.10	186.25	842
2017	39.08	251.23	464

Below are estimates of our net proved reserves as of December 31, 2017, net to our interest. Our proved reserves are located in Texas, Oklahoma and New Mexico.

Estimates of volumes of proved reserves at December 31, 2017 are presented in barrels (Bbls) for oil and, for natural gas, in millions of cubic feet (Mcf) at the official temperature and pressure bases of the areas in which the gas reserves are located.

	Oil(Bbls)	Gas(Mcf)
Proved:		
Developed	1,598,010	—
Undeveloped	40,190	—
Total	1,638,200	—

There was a significant increase of approximately 1.6 million barrels of proved reserves primarily due to the acquisition of 60% working interests in the TLSAU field during 2017 (see explanations above).

Bbl - refers to one stock tank barrel, or 42 U.S. gallons liquid volume, in reference to crude oil or other liquid hydrocarbons.
Mcf - refers to one thousand cubic feet.
A BOE (i.e., barrel of oil equivalent) combines Bbls of oil and Mcf of gas by converting each six Mcf of gas to one Bbl of oil.

Below are estimates of our present value of estimated future net revenues from our proved reserves based upon the standardized measure of discounted future net cash flows relating to proved oil and gas reserves in accordance with the provisions of Accounting Standards Codification Topic 932, Extractive Activities—Oil and Gas. The standardized measure of discounted future net cash flows is determined by using estimated quantities of proved reserves and the periods in which they are expected to be developed and produced based on period-end economic conditions. The estimated future production is based upon benchmark prices that reflect the unweighted arithmetic average of the first-day-of-the-month price for oil and gas during the twelve month period ended December 31, 2017. The resulting estimated future cash inflows are then reduced by estimated future costs to develop and produce reserves based on period-end cost levels. No deduction has been made for depletion, depreciation or for indirect costs, such as general corporate overhead. Present values were computed by discounting future net revenues by 10% per year.

Future cash inflows	$62,964,150
Deductions (including estimated taxes)	$(28,828,130)
Future net cash flow	$34,136,020
Discounted future net cash flow	$16,605,980

MKM Engineering prepared the estimates of our proved reserves, future production and income attributable to our leasehold interests as of December 31, 2017. Michele Mudrone was the technical person primarily responsible for overseeing the preparation of the 2017 reserve report. Ms. Mudrone has more than 25 years of practical experience in the estimation and evaluation of petroleum reserves. MKM Engineering is an independent petroleum engineering firm that provides petroleum consulting services to the oil and gas industry. The estimates of drilled reserves, future production and income attributable to certain leasehold and royalty interests are based on technical analysis conducted by engineers employed at MKM Engineering.

Zel C. Khan, our CEO, oversaw preparation of the reserve estimates by MKM Engineering. We do not have a reserve committee and we do not have any specific internal controls regarding the estimates of our reserves.

Our proved reserves include only those amounts which we reasonably expect to recover in the future from known oil and gas reservoirs under existing economic and operating conditions, at current prices and costs, under existing regulatory practices and with existing technology. Accordingly, any changes in prices, operating and development costs, regulations, technology or other factors could significantly increase or decrease estimates of proved reserves.

Proved reserves were estimated by performance methods, the volumetric method, analogy, or a combination of methods utilizing present economic conditions and limited to those proved reserves economically recoverable. The performance methods include decline curve analysis that utilize extrapolations of historical production and pressure data available through December 31, 2017 in those cases where such data was considered to be definitive.

Proved undeveloped reserves decreased from 2016 to 2017, primarily due to a specific “5-year rule”, a new disclosure requirement in SEC Regulations S-X 210.4-10, which states that undeveloped projects should be developed within 5 years of the initial proved reserves booking. The Noack field has been under one ownership for 5 plus years. The Company believes that once the drilling plan commences this will no longer be an issue. As per this regulation, once the Company provides evidence that it adopted a development plan for a PUD location and that this development plan contains a “final investment decision” showing that it would be developed within the next 5 years, then the PUDS removed from the 2017 report should be re-qualified at that point. At this time the Company does not have the funding to support the first five years of development so the proved undeveloped reserves were not taken into account for the Twin Lakes San Andres Unit.

Forecasts for future production rates are based on historical performance from wells currently on production in the region with an economic cut-off for production based upon the projected net revenue being equal to the projected operating expenses. No further reserves or valuation were given to any wells beyond their economic cut-off. Where no production decline trends have been established due to the limited historical production records from wells on the properties, surrounding wells historical production records were used and extrapolated to wells of the property. Where applicable, the actual calculated present decline rate of any well was used to determine future production volumes to be economically recovered. The calculated present rate of decline was then used to determine the present economic life of the production from the reservoir.

For wells currently on production, forecasts of future production rates were based on historical performance data. If no production decline trend has been established, future production rates were held constant, or adjusted for the effects of curtailment where appropriate, until a decline in ability to produce was anticipated. An estimated rate of decline was then applied to economic depletion of the reserves. If a decline trend has been established, this trend was used as the basis for estimating future production rates.

Proved developed non-producing and undeveloped reserves were estimated primarily by the performance and historical extrapolation methods. Test data and other related information were used to estimate the anticipated initial production rates from those wells or locations that are not currently producing. For reserves not yet on production, sales were estimated to commence at a date we determined to be reasonable.

In general, the volume of production from our oil and gas properties declines as reserves are depleted. Except to the extent we acquire additional properties containing proved reserves or conduct successful exploration and development activities, or both, our proved reserves will decline as reserves are produced. Accordingly, volumes generated from our future activities are highly dependent upon the level of success in acquiring or finding additional reserves and the costs incurred in doing so.

Recent Events:

Acquisition of Bow Energy Ltd, a related party transaction

On November 30, 2017, we signed an Agreement and the Arrangement (the “Arrangement”) to acquire Bow Energy Ltd (“Bow”). Bow is a Canadian company with corporate offices in Alberta, Calgary.

Bow is an Oil & Gas Exploration and Development company operating in the prolific Indonesian Sumatra basin. Bow’s key assets include South Block A PSC - 44.48% working interest, Bohorok PSC – 50% working interest, Bohorok Deep JSA – 20.25% working interest, Palmerah Baru – 54% working interest, MNK Palmerah – 69.36% working interest, and Mahato PSC – 20% working interest.

On February 27, 2018, the Acquisition closed and we acquired all of the issued and outstanding shares of capital stock of Bow (each a “Bow Share”). The Agreement and the Arrangement was approved by an overwhelming majority of more than 99% of the votes cast by Bow’s shareholders at a special meeting of shareholders of Bow held on February 21, 2018. Final approval of the Arrangement was granted by the Court of Queen’s Bench of Alberta (the “Court”) on

February 23, 2018.

Under the terms of the Arrangement, Bow shareholders are deemed to have received 1.15 Petrolia common stock shares for each Bow Share. A total of 106,156,712 shares of the Company's common stock were issued to the Bow shareholders as a result of the Arrangement, plus additional shares in connection with the rounding described below. The Arrangement provided that no fractional shares would be issued in connection with the Arrangement, and instead, each Bow shareholder otherwise entitled to a fractional interest would receive the nearest whole number of Company shares. For example, where such fractional interest is greater than or equal to 0.5, the number of shares to be issued would be rounded up to the nearest whole number and where such fractional interest is less than 0.5, the number of shares to be issued would be rounded down to the nearest whole number. In calculating such fractional interests, all shares issuable in the name of or beneficially held by each Bow shareholder or their nominee as a result of the Arrangement shall be aggregated.

The Arrangement provides that any certificate formerly representing Bow common stock not duly surrendered on or before the last business day prior to the third anniversary of the closing date will cease to represent a claim by, or interest of, any former shareholder of any kind of nature against Bow or the Company and on such date all consideration or other property to which such former holder was entitled shall be deemed to have been surrendered to the Company.

The Company also assumed all of the outstanding warrants to purchase shares of common stock of Bow (the "Bow Warrants") and certain options to purchase shares of common stock of Bow (the "Bow Options") in connection with the Arrangement (i.e., each warrant/option to purchase one (1) share of Bow represents the right to purchase one (1) share of the Company following the closing).

The Bow Shares were delisted from the facilities of the TSX Venture Exchange after the close of business on March 5, 2018.

The acquired assets of Bow consist of over 948,000 net acres onshore North Sumatra, Indonesia which consists of interests in five production-sharing contracts (PSCs) and one Joint Study Agreement (JSA) with the Indonesian government. The assets are surrounded by major discoveries by Repsol, ConocoPhillips and Chevron and existing transportation infrastructure.

The preliminary engineering resource estimate was conducted by McDaniel & Associates Consultants LT and further tests are being conducted to complete this report for a full reservoir analysis. Estimates will be released by end of 3rd Quarter of 2018.

Effective April 12, 2018, the Board of Directors (a) appointed Zel C. Khan as Secretary of the Company; (b) appointed Ivar Siem as a member of the Board of Directors of the Company; (c) approved the issuance of 100,000 shares of the Company’s restricted common stock to the Company’s legal counsel; and (d) approved the issuance of 616,210 shares of restricted common stock to Mr. James E. Burns in consideration for 2017 deferred salary of $61,621.

Also on April 12, 2018, the Board of Directors approved (a) the entry by the Company into a $500,000 Convertible Promissory Note with Blue Sky International Holdings Inc., a related party (“Blue Sky”). The note, effective April 1, 2018, is due on April 1, 2019, accrues interest at the rate of 11% per annum until paid in full, and is convertible into shares of common stock of the Company at the rate of $0.12 per share; and (b) the entry into an Amended Revolving Line of Credit Agreement with Jovian Petroleum Corporation, a related party, which establishes a revolving line of credit in the amount of $500,000 for a period of six months (through August 9, 2018) with amounts borrowed thereunder due at the expiration of the line of credit and accruing interest at the rate of 3.5% per annum unless there is a default thereunder at which time amounts outstanding accrue interest at the rate of 7.5% per annum until paid in full, with such interest payable every 90 days.

The President, Chief Executive Officer and 100% owner of Blue Sky is Ilyas Chaudhary, the father of Zel C. Khan, the Company’s Chief Executive Officer. Mr. Chaudhary owns and controls BSIH Ltd. (“BSIH”) which was the largest shareholder of the Company prior to the cancellation of the shares held by BSIH in September 2018 pursuant to the terms of a Share Exchange Agreement between the Company and Blue Sky Resources Ltd. dated August 31, 2018. Additionally, prior to the acquisition of Bow as described above, BSIH, and as a result of his ownership and control of BSIH, Mr. Chaudhary controlled Bow.

Government Regulation

Various state and federal agencies regulate the production and sale of oil and natural gas. All states in which we plan to operate impose restrictions on the drilling, production, transportation and sale of oil and natural gas.

The Federal Energy Regulatory Commission (the “FERC”) regulates the interstate transportation and the sale in interstate commerce for resale of natural gas. The FERC’s jurisdiction over interstate natural gas sales has been substantially modified by the Natural Gas Policy Act under which the FERC continued to regulate the maximum selling prices of certain categories of gas sold in “first sales” in interstate and intrastate commerce.

FERC has pursued policy initiatives that have affected natural gas marketing. Most notable are (1) the large-scale divestiture of interstate pipeline-owned gas gathering facilities to affiliated or non-affiliated companies; (2) further development of rules governing the relationship of the pipelines with their marketing affiliates; (3) the publication of standards relating to the use of electronic bulletin boards and electronic data exchange by the pipelines to make available transaction information on a timely basis and to enable transactions to occur on a purely electronic basis; (4) further review of the role of the secondary market for released pipeline capacity and its relationship to open access service in the primary market; and (5) development of policy and promulgation of orders pertaining to its authorization of market-based rates (rather than traditional cost-of-service based rates) for transportation or transportation-related services upon the pipeline’s demonstration of lack of market control in the relevant service market. We do not know what effect the FERC’s other activities will have on the access to markets, the fostering of competition and the cost of doing business.

Our sale of oil and natural gas liquids will not be regulated and will be at market prices. The price received from the sale of these products will be affected by the cost of transporting the products to market. Much of that transportation is through interstate common carrier pipelines.

Federal, state, and local agencies have promulgated extensive rules and regulations applicable to our oil and natural gas exploration, production and related operations. Most states require permits for drilling operations, drilling bonds and the filing of reports concerning operations, and impose other requirements relating to the exploration of oil and natural gas. Many states also have statutes or regulations addressing conservation matters including provisions for the unitization or pooling of oil and natural gas properties, the establishment of maximum rates of production from oil and natural gas wells and the regulation of spacing, plugging and abandonment of such wells. The statutes and regulations of some states limit the rate at which oil and natural gas is produced from our properties. The federal and state regulatory burden on the oil and natural gas industry increases our cost of doing business and affects our profitability. Because these rules and regulations are amended or reinterpreted frequently, we are unable to predict the future cost or impact of complying with those laws.

Competition and Marketing

We will be faced with strong competition from many other companies and individuals engaged in the oil and gas business, many are very large, well established energy companies with substantial capabilities and established earnings records. We will be at a competitive disadvantage in acquiring oil and gas prospects since we must compete with these individuals and companies, many of which have greater financial resources and larger technical staffs. It is nearly impossible to estimate the number of competitors; however, it is known that there are a large number of companies and individuals in the oil and gas business.

Exploration for and production of oil and gas are affected by the availability of pipe, casing and other tubular goods and certain other oil field equipment including drilling rigs and tools. We will depend upon independent drilling contractors to furnish rigs, equipment and tools to drill our wells. Higher prices for oil and gas may result in competition among operators for drilling equipment, tubular goods and drilling crews which may affect our ability to expeditiously drill, complete, recomplete and work-over wells.

The market for oil and gas is dependent upon a number of factors beyond our control, which at times cannot be accurately predicted. These factors include the proximity of wells to, and the capacity of, natural gas pipelines, the extent of competitive domestic production and imports of oil and gas, the availability of other sources of energy, fluctuations in seasonal supply and demand, and governmental regulation. In addition, there is always the possibility that new legislation may be enacted that would impose price controls or additional excise taxes upon crude oil or natural gas, or both. Oversupplies of natural gas can be expected to recur from time to time and may result in the gas producing wells being shut-in. Imports of natural gas may adversely affect the market for domestic natural gas.

The market price for crude oil is significantly affected by policies adopted by the member nations of Organization of Petroleum Exporting Countries ("OPEC"). Members of OPEC establish prices and production quotas among themselves for petroleum products from time to time with the intent of controlling the current global supply and consequently price levels. We are unable to predict the effect, if any, that OPEC or other countries will have on the amount of, or the prices received for, crude oil and natural gas.

Glossary of Oil and Gas Terms

DEVELOPED ACREAGE. The number of acres that are allocated or assignable to productive wells or wells capable of production.

DISPOSAL WELL. A well employed for the reinjection of salt water produced with oil into an underground formation.

HELD BY PRODUCTION. A provision in an oil, gas and mineral lease that perpetuates an entity's right to operate a property or concession as long as the property or concession produces a minimum paying quantity of oil or gas.

INJECTION WELL. A well employed for the injection into an underground formation of water, gas or other fluid to maintain underground pressures which would otherwise be reduced by the production of oil or gas.

LANDOWNER'S ROYALTY. A percentage share of production, or the value derived from production, which is granted to the lessor or landowner in the oil and gas lease, and which is free of the costs of drilling, completing, and operating an oil or gas well.

LEASE. Full or partial interests in an oil and gas lease, authorizing the owner thereof to drill for, reduce to possession and produce oil and gas upon payment of rentals, bonuses and/or royalties. Oil and gas leases are generally acquired from private landowners and federal and state governments. The term of an oil and gas lease typically ranges from three to ten years and requires annual lease rental payments of $1.00 to $2.00 per acre. If a producing oil or gas well is drilled on the lease prior to the expiration of the lease, the lease will generally remain in effect until the oil or gas production from the well ends. The owner of the lease is required to pay the owner of the leased property a royalty which is usually between 12.5% and 25% of the gross amount received from the sale of the oil or gas produced from the well.

LEASE OPERATING EXPENSES. The expenses of producing oil or gas from a formation, consisting of the costs incurred to operate and maintain wells and related equipment and facilities, including labor costs, repair and maintenance, supplies, insurance, production, severance and other production excise taxes.

NET ACRES OR WELLS. A net well or acre is deemed to exist when the sum of fractional ownership working interests in gross wells or acres equals one. The number of net wells or acres is the sum of the fractional working interests owned in gross wells or acres expressed as whole numbers and fractions.

NET REVENUE INTEREST. A percentage share of production, or the value derived from production, from an oil or gas well and which is free of the costs of drilling, completing and operating the well.

OVERRIDING ROYALTY. A percentage share of production, or the value derived from production, which is free of all costs of drilling, completing and operating an oil or gas well, and is created by the lessee or working interest owner and paid by the lessee or working interest owner to the owner of the overriding royalty.

PRODUCING PROPERTY. A property (or interest therein) producing oil or gas in commercial quantities or that is shut-in but capable of producing oil or gas in commercial quantities. Interests in a property may include working interests, production payments, royalty interests and other non-working interests.

PROSPECT. An area in which a party owns or intends to acquire one or more oil and gas interests, which is geographically defined on the basis of geological data and which is reasonably anticipated to contain at least one reservoir of oil, gas or other hydrocarbons.

PROVED RESERVES. Those quantities of oil and gas, which, by analysis of geosciences and engineering data, can be estimated with reasonable certainty to be economically producible, from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations, prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain regardless of whether deterministic or probabilistic methods are used for the estimation.

SHUT-IN WELL. A well which is capable of producing oil or gas but which is temporarily not producing due to mechanical problems or a lack of market for the well’s oil or gas.

UNDEVELOPED ACREAGE. Lease acres on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and gas regardless of whether or not such acreage contains proved reserves. Undeveloped acreage should not be confused with undrilled acreage which is “Held by Production” under the terms of a lease.

WORKING INTEREST. A percentage of ownership in an oil and gas lease granting its owner the right to explore, drill and produce oil and gas from a tract of property. Working interest owners are obligated to pay a corresponding percentage of the cost of leasing, drilling, producing and operating a well. After royalties are paid, the working interest also entitles its owner to share in production revenues with other working interest owners, based on the percentage of the working interest owned.

Employees

As of April 10, 2018 we have six (6) full time employees and no part time employees.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The consolidated audited financial statements and supplementary data required by this Item are presented beginning on page F-1 of this Annual Report on Form 10-K, which follows “Signatures” below.

ITEM 9A. CONTROLS AND PROCEDURES.

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including the Company’s chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

An evaluation was carried out under the supervision and with the participation of our management, including our Principal Executive and Financial Officer, of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this annual report on Form 10-K. Based on that evaluation, our management concluded that, as of December 31, 2017, our disclosure controls and procedures were not effective. Such disclosure controls and procedures were deemed ineffective due to a material weakness in connection with disclosure and related issues associated with related party transactions involving the Company and its officers and directors.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, and for the assessment of the effectiveness of internal control over financial reporting. As defined by the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of our Principal Executive and Financial Officer and implemented by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are 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.

Our Principal Executive Officer and Principal Financial Officer evaluated the effectiveness of our internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or the COSO Framework of 2013. Management's assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of those controls.

Based on this evaluation, management concluded that the internal control over financial reporting was not effective as of December 31, 2017. The internal control was deemed ineffective due to a material weakness in connection with the related party disclosures for certain transactions involving the Company and its officers and directors.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the period covered by this Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table shows, as of April 13, 2018, information with respect to those persons owning beneficially 5% or more of our common stock and the number and percentage of outstanding shares owned by each of our officers and directors and by all officers and directors as a group. Unless otherwise indicated, each owner has sole voting and investment powers over his shares of common and preferred stock.

Title of class	**Name and address of beneficial owner**	**Amount of beneficial ownership (1)**		**Percent of class (2)**	
Executive Officers & Directors:					
Common	Quinten Beasley	58,983,225 shares	(3)	26.5	%
Common	Joel Oppenheim	8,635,024 shares	(4)	3.9	%
Common	Leo Womack	6,460,000 shares	(5)	2.9	%
Common	Paul Deputy	6,349,131 shares	(6)	2.9	%
Common	James E. Burns	4,191,233 shares	(7)	1.9	%
Common	Zel Khan	3,349,961 shares	(8)	1.3	%
Common	Tariq Chaudhary	675,417 shares	(9)	*	%
Common	Saleem Nizami	750,000 shares	(10)	*	%
Common	Ivar Siem	0 shares		*	%
Total of All Directors and Executive Officers as a Group (seven persons):		**88,844,030 shares**			
More Than 5% Beneficial Owners:					
Jovian Petroleum Corporation (11)		51,277,053 shares	(12)	23.5	%
BSIH Ltd. (13)		70,807,417 shares	(14)	31.9	%

* Less than one percent (1%).

Unless otherwise stated, the address of each shareholder is c/o Petrolia Energy Corporation, 710 N Post Oak, Suite 512, Houston, Texas 77024.

(1)

Under Rule 13d-3 of the Exchange Act, a beneficial owner of a security includes any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares: (i) voting power, which includes the power to vote, or to direct the voting of shares, and/or (ii) investment power, which includes the power to dispose or direct the disposition of shares. Also under this rule, certain shares may be deemed to be beneficially owned by more than one person (if, for example, persons share the power to vote or the power to dispose of the shares). In addition, shares are deemed to be beneficially owned by a person if the person has the right to acquire shares (for example, upon exercise of an option or warrant) within 60 days of the date as of which the information is provided. In computing the percentage ownership of any person, the amount of shares is deemed to include the amount of shares beneficially owned by such person by reason of such acquisition rights. As a result, the percentage of outstanding shares of any person as shown in the following table does not necessarily reflect the person's actual voting power at any particular date.

(2) Except as otherwise indicated, all shares are owned directly and the percentage shown is based on 222,437,810 shares of common stock.

(3) Includes 7,706,172 shares held by Mr. Beasley directly. Includes ownership of the securities held by Jovian Petroleum Corporation, which securities Mr. Beasley is deemed to beneficially own (see footnote 12).

(4) Includes 4,676,690 shares held by Joel Oppenheim. Includes warrants to purchase 100,000 shares of Company common stock at an exercise price of $0.75 per share, which expire on August 5, 2019. Includes warrants to purchase 300,000 shares of Company common stock at an exercise price of $0.12 per share, which expire on August 5, 2018. Includes warrants to purchase 200,000 shares of Company common stock at an exercise price of $0.10 per share, which expire on September 1, 2018. Includes warrants to purchase 10,000 shares of Company common stock at an exercise price of $0.10 per share, which expire on September 1, 2018. Includes warrants to purchase 50,000 shares of Company common stock at an exercise price of $0.09 per share, which expire on June 20, 2019. Includes warrants to purchase 55,000 shares of Company common stock at an exercise price of $0.09 per share, which expire on August 23, 2019. Includes warrants to purchase 10,000 shares of Company common stock at an exercise price of $0.06 per share, which expire on September 14, 2019. Includes warrants to purchase 500,000 shares of Company common stock at an exercise price of $0.12 per share, which expire on August 23, 2020. Includes warrants to purchase 270,000 shares of Company common stock at an exercise price of $0.20 per share, which expire on May 23, 2020. Includes warrants to purchase 2,000,000 shares of Company common stock at an exercise price of $0.14 per share, which expire on August 1, 2020. Includes warrants to purchase 250,000 shares of Company common stock at an exercise price of $0.14 per share, which expire on December 1, 2020. Includes warrants to purchase 83,334 shares of Company common stock at an exercise price of $0.20 per share, which expire on October 1, 2020.

(5) Includes 2,550,000 shares held by the Leo B. Womack Family Trust, which Mr. Womack is deemed to beneficially own (the “Trust”). Includes 166,667 shares issuable upon the exercise of warrants, which have an exercise price of $0.75 per share and an expiration date of August 5, 2019, held by the Trust. Includes 300,000 shares issuable upon the exercise of warrants, which have an exercise price of $0.12 per share and an expiration date of August 5, 2018, held by the Trust. Includes 1,000,000 shares issuable upon the exercise of options, which have an exercise price of $0.06 per share, and have a term of three years from their vesting date. Includes 1,000,000 shares issuable upon the exercise of options, which have an exercise price of $0.06 per share, and have a term of three years from their vesting date. Includes warrants to purchase 10,000 shares of Company common stock at an exercise price of $0.10 per share, which expire on February 1, 2019. Includes warrants to purchase 20,000 shares of Company common stock at an exercise price of $0.09 per share, which expire on August 10, 2019. Includes warrants to purchase 10,000 shares of Company common stock at an exercise price of $0.06 per share, which expire on September 13, 2019. Includes warrants to purchase 1,000,000 shares of Company common stock at an exercise price of $0.12 per share, which expire on May 23, 2020. Includes warrants to purchase 70,000 shares of Company common stock at an exercise price of $0.20 per share, which expire on May 23, 2020.

(6) Includes 4,262,048 shares held by Mr. Deputy. Includes 100,000 shares issuable upon exercise of warrants, which have an exercise price of $0.12 per share and expire on August 31, 2018. Includes 1,100,000 shares issuable upon exercise of warrants, which have an exercise price of $0.10 per share and expire on August 31, 2018. Includes 10,000 shares issuable upon exercise of warrants, which have an exercise price of $0.10 per share and expire on February 1, 2019. Includes 100,000 shares issuable upon exercise of warrants, which have an exercise price of $0.09 per share and expire on June 17, 2019. Includes 10,000 shares issuable upon exercise of warrants, which have an exercise price of $0.059 and expire on September 13, 2019. Includes 550,000 shares issuable upon exercise of warrants, which have an exercise price of $0.077 and expire on July 1, 2019. Includes 6,250 shares

issuable upon exercise of warrants, which have an exercise price of $0.12 and expire on September 26, 2019. Includes 11,666 shares issuable upon exercise of warrants, which have an exercise price of $0.14 and expire on September 30, 2019. Includes 35,000 shares issuable upon exercise of warrants, which have an exercise price of $0.16 and expire on December 31, 2019. Includes 35,000 shares issuable upon exercise of warrants, which have an exercise price of $0.14 and expire on March 31, 2020. Includes 35,000 shares issuable upon exercise of warrants, which have an exercise price of $0.14 and expire on June 30, 2020. Includes 30,000 shares issuable upon exercise of warrants, which have an exercise price of $0.20 and expire on May 23, 2020. Includes 35,000 shares issuable upon exercise of warrants, which have an exercise price of $0.12 and expire on September 30, 2020. Includes 29,167 shares issuable upon exercise of warrants, which have an exercise price of $0.12 and expire on December 31, 2020.

(7) Includes 3,054,566 shares held by Mr. Burns. Includes 10,000 shares issuable upon exercise of warrants, which have an exercise price of $0.10 per share and expire on February 1, 2019. Includes 50,000 shares issuable upon exercise of warrants, which have an exercise price of $0.12 per share and expire on December 17, 2019. Includes 40,000 shares issuable upon exercise of warrants, which have an exercise price of $0.14 per share and expire on December 31, 2019. Includes 40,000 shares issuable upon exercise of warrants, which have an exercise price of $0.14 per share and expire on January 31, 2020. Includes 40,000 shares issuable upon exercise of warrants, which have an exercise price of $0.14 per share and expire on February 28, 2020. Includes 40,000 shares issuable upon exercise of warrants, which have an exercise price of $0.14 per share and expire on March 31, 2020. Includes 166,667 shares issuable upon exercise of warrants, which have an exercise price of $0.14 per share and expire on September 30, 2020. Includes 250,000 shares issuable upon exercise of warrants, which have an exercise price of $0.14 per share and expire on September 30, 2020. Includes 250,000 shares issuable upon exercise of warrants, which have an exercise price of $0.14 per share and expire on December 31, 2020. Includes 250,000 shares issuable upon exercise of warrants, which have an exercise price of $0.14 per share and expire on March 31, 2021. Does not include shares held by Jovian, of which Mr. Khan serves as a member of the Board of Directors of and owns 25% of.

(8) Includes 1,800,000 shares held by Mr. Khan. Includes 800,000 shares issuable upon exercise of warrants, which have an exercise price of $0.10 per share and expire on August 31, 2018. Includes 40,000 shares issuable upon exercise of warrants, which have an exercise price of $0.20 per share and expire on December 31, 2018. Includes 40,000 shares issuable upon exercise of warrants, which have an exercise price of $0.20 per share and expire on March 31, 2019. Includes 40,000 shares issuable upon exercise of warrants, which have an exercise price of $0.20 per share and expire on June 30, 2019. Includes 40,000 shares issuable upon exercise of warrants, which have an exercise price of $0.20 per share and expire on September 30, 2019. Includes 40,000 shares issuable upon exercise of warrants, which have an exercise price of $0.20 per share and expire on December 31, 2019. Includes warrants to purchase 100,000 shares of Company common stock at an exercise price of $0.12 per share, which expire on August 5, 2018. Includes warrants to purchase 10,000 shares of Company common stock at an exercise price of $0.10 per share, which expire on February 1, 2019. Includes warrants to purchase 6,000,000 shares of Company common stock at an exercise price of $0.20 per share, which expire on May 23, 2020. Includes warrants to purchase 4,000,000 shares of Company common stock at an exercise price of $0.35 per share, which expire on May 23, 2020. Includes 549,961 shares held by Cindy Wu-Khan, spouse of Zel C. Khan, CEO.

(9) Includes 675,417 shares held by Mr. Chaudhary.

(10) Includes 200,000 shares held by Mr. Nizami. Includes warrants to purchase 12,500 shares of Company common stock at an exercise price of $0.05 per share, which expire on June 30, 2019. Includes warrants to purchase 12,500 shares of Company common stock at an exercise price of $0.14 per share, which expire on September 30, 2019. Includes warrants to purchase 12,500 shares of Company common stock at an exercise price of $0.14 per share, which expire on December 31, 2019. Includes warrants to purchase 12,500 shares of Company common stock at an exercise price of $0.14 per share, which expire on March 31, 2020. Includes warrants to purchase 500,000 shares of Company common stock at an exercise price of $0.12 per share, which expire on May 23, 2020.

(11)

Address: 710 N. Post Oak Rd., Suite 550, Houston, Texas 77024. Shares held by Jovian Petroleum Corporation are beneficially owned by Quinten Beasley, President and CEO, a member of the Board of Directors of the Company.

(12) Includes 41,167,053 shares held by Jovian Petroleum Corporation. Includes 100,000 shares issuable upon the exercise of warrants, which have an exercise price of $0.12 per share and an expiration date of August 5, 2018. Includes warrants to purchase 10,000 shares of Company common stock at an exercise price of $0.10 per share, which expire on February 1, 2019. Includes warrants to purchase 6,000,000 shares of Company common stock at an exercise price of $0.20 per share, which expire on May 23, 2020. Includes warrants to purchase 4,000,000 shares of Company common stock at an exercise price of $0.35 per share, which expire on May 23, 2020.

(13) Address: 234-5149 Country Hills Blvd NW Calgary, AB T3A 5K8. Canada.

(14) Includes 70,807,417 shares held by BSIH Ltd. which was the largest shareholder of Bow Energy Ltd. Ilyas Chaudhary, the father of Zel C. Khan, the Company's Chief Executive Officer, owns and controls BSIH Ltd. ("BSIH"). Blue Sky Resources Ltd is also a related party company owned by Mr. Chaudhary. The shares have since been cancelled pursuant to the terms of a Share Exchange Agreement between the Company and Blue Sky Resources Ltd dated August 31, 2018.

Changes in Control

The Company is not aware of any arrangements, which may at a subsequent date result in a change of control of the Company.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Except as discussed below or otherwise disclosed above under " Executive Compensation," or in Note 5 Related Party, of the consolidated audited financial statements included herein, all of which information is incorporated by reference into this Item 13, there have been no transactions since the beginning of the Company's last fiscal year, and there is not currently any proposed transaction, in which the Company was or is to be a participant, where the amount involved exceeds the lesser of $120,000 or one percent of the average of the Company's total assets at year end, for the last two completed fiscal years, and in which any officer, director, or any stockholder owning greater than five percent (5%) of our outstanding voting shares, nor any member of the above referenced individual's immediate family, had or will have a direct or indirect material interest.

Beginning February 1, 2016, the Company sponsored the SUDS 1% Term Overriding Royalty Interest ("ORRI") offering on behalf of the SUDS field to raise $300,000. Under the terms of the Company offering, investors will receive 1% of the gross revenue from the field monthly, based on their investment of $20,000 until such time as they receive a cumulative revenue amount of $30,000. With each unit purchased, a warrant to purchase 10,000 shares of

Company’s common stock was granted with an exercise price of $0.10 per share, and an expiration date of February 28, 2019. At the end of the second quarter of 2016, the $300,000 offering had been received which resulted in the granting of warrants to purchase 150,000 shares of common stock. The following affiliated investors each purchased one (1) unit in the offering: Joel Oppenheim, Jovian, Lee Lytton (former Secretary and Director), Paul Deputy (former CFO) and Leo Womack. The fair value of all 150,000 SUDS related warrants was $14,336, over a 3 year term. This fair value was accounted for as a loss on the conveyance.

The Company through its wholly-owned subsidiary Askarii sold pump jacks to the other owners of the SUDS properties (before the Company’s September 2016 acquisition of the 90% working interest), totaling $198,000 for the year ended December 31, 2016. Askarii booked a profit of $164,670 on the sale of pump jacks to the other owners of the SUDs properties.

On February 10, 2016, Joel Oppenheim, a Director and related party, provided an advance of $20,000 in order to temporarily fund the Company’s working capital needs. On April 1, 2016, in order to compensate the shareholder, the Company issued 285,714 shares in consideration for forgiveness of the debt in full. The valuation of the issuance was $20,000, based on 285,714 shares valued at $0.07 per share on April 1, 2016.

On March 11, 2016, the Board of Directors granted Leo B. Womack, the Chairman of the Board of Directors of the Company an option to purchase 1 million shares of the Company's common stock at an exercise price of $0.06 per share, which vested on January 1, 2017, and is exercisable for 36 months thereafter. The Board also granted Lee Lytton (since deceased) and Joel Oppenheim, members of the Board of Directors each an option to purchase 500,000 shares of the Company's common stock at an exercise price of $0.06 per share, which vested on January 1, 2017, and is excisable for 36 months thereafter. The fair value of the options granted on March 11, 2016 is $115,045.

Effective April 18, 2016, Quinten Beasley was compensated for his Board service during 2016 through a grant of 500,000 warrants to purchase 500,000 shares of the Company's common stock at an exercise price of $0.07 per share, which vested immediately, and are exercisable for 36 months thereafter. The fair value of the warrants is $41,891 with a 3 year term. These warrants are subject to a claw-back provision which would be ratably invoked if Mr. Beasley did not complete his 2016 service term.

On May 2, 2016, the Company paid off its outstanding Promissory Note to Blue Sky NM ("BSNM") for $146,875. This Note was created when the 15% working interest in the Twin Lakes field was purchased in November of 2015. The payoff was made by issuing 1,468,750 shares of the Company's restricted common stock. Based on the market value of the stock on May 2, 2016 of $0.10, the value of the transaction was $146,875 and resulted in no gain or loss. In addition, a cash payment of $4,869 was made to pay off the remaining outstanding interest.

On May 31, 2016, in exchange for a cash payment of $48,000, the Company issued 8 units or 800,000 shares to the former CFO, Paul Deputy, as part of, and under the terms of, the September 1, 2015 private offering. The shares were issued at a price of $0.06 per share and included warrants to purchase an additional 800,000 shares of common stock at a price of $0.10 cents per share at any time prior to August 5, 2018. This represented the final sale under this offering.

On June 17, 2016, the Company entered into Temporary Unsecured Loans (Bridge Loan – Working Capital) for $230,000. The notes bear interest at 10% per annum and were payable and matured in sixty (60) days. The lenders received 100% warrant coverage at an exercise price of $0.09 per share. If the loans are not paid in 60 days, a 10% warrant coverage default penalty was to be paid. Initially, Director Leo Womack loaned $20,000, Director Joel Oppenheim loaned $110,000 and our former CFO loaned $100,000. At December 31, 2017, the outstanding balance of Bridge Loan – Working Capital is $0. The decrease during 2017 was due to all lenders converting their respective debt into shares.

On July 13, 2016, the Company issued warrants to purchase 60,000 shares of common stock. The warrants were related loans provided by investors to the purchase a pulling rig. The fair value of all of the warrants was $3,744 at an exercise price of $0.06 per share, expiring on July 13, 2019. The following affiliated investors each received 10,000 warrants related to their loans: Joel Oppenheim - Director, Lee Lytton – Director (now deceased), Paul Deputy – former

CFO, Leo Womack – Board Chairman and Quinten Beasley – Director.

In association with Mr. Deputy's employment agreement dated July 1, 2016, the Company issued one warrant to purchase one share of the Company's restricted stock at the exercise price at quarter end for each dollar of Mr. Deputy's deferred gross salary for the year ended 2016. Mr. Deputy's total accrued salary at December 31, 2016 was $52,520. The Company granted warrants to purchase 46,666 shares of common shares for the year ended 2016. The warrants have a term of 36 months from their issuance date. The fair value of all four quarter's warrants was $7,090 and a 3 year term.

On August 18, 2016, the Board of Directors issued Mr. Deputy, the then CFO 500,000 shares of the Company's restricted common stock for a signing bonus. The shares were issued at current market price of $0.077 per share on August 17, 2016 at a value of $38,500 and recorded as stock based compensation.

On August 18, 2016, the Board of Directors granted Joel Oppenheim options to purchase 300,000 shares of the Company's restricted common stock at an exercise price of $0.077 per share and have a term of three (3) years beginning August 17, 2016 at a value of $23,028 as compensation for arranging and guaranteeing certain bank relationships for the Company.

22

On August 25, 2016, in consideration for the cancellation of $12,000 of accounts payable, the Company issued 150,000 shares at a valuation of $12,000 priced at $0.08 per share, to Director Quinten Beasley.

On August 25, 2016, in consideration for the cancellation of debts incurred, the Company issued 250,000 shares to Director Joel Oppenheim. These shares had a valuation of $20,000 and were priced at $0.08 per share.

On August 25, 2016, in consideration for the cancellation of debts incurred, the Company issued 285,710 shares to Mr. Deputy, the then CFO. These shares had a valuation of $20,000 and were priced at $0.07 per share.

On August 25, 2016, in consideration for the cancellation of $56,107 of accounts payable and $110,000 of debts incurred, the Company issued 2,076,000 shares at a valuation of $166,107 priced at $0.08 per share, to Mr. Deputy, the then CFO.

During the 2nd and 3rd quarter of 2016, warrants to purchase 230,000 shares of common stock were issued for pre-bridge loans. The loans were provided as follows: $110,000 by Director Joel Oppenheim, $100,000 by Mr. Deputy, the then CFO and $20,000 by Chairman Leo Womack. These warrants had a valuation of $15,792 with an exercise price of $0.09 per share and expire in the 2nd and 3rd quarter of 2019.

During the 3rd quarter of 2016, warrants to purchase 31,250 shares of common stock were issued for guaranteeing bank collateral. This collateral was provided by Director Joel Oppenheim and Mr. Deputy, the then CFO. These warrants had a valuation of $2,629 with an exercise price of $0.06 per share and expire in the 3rd quarter of 2019.

The Board authorized the Company to allow all outstanding warrant-holders to exercise their outstanding warrants at a 20% discount. In October 2016, four (4) warrant holders exercised a total of 825,000 warrants by remitting payments of $63,352 at an average share price of $0.095 per shares. Director Lee Lytton (since deceased) exercised 10,000 warrants (included in the total above) by remitting a payment of $472 at a share price of $0.059 per share. Director Joel Oppenheim exercised 300,000 warrants by remitting payment of $18,480 at a share price of $0.06 per share.

On the effective date of September 28, 2016, we acquired a 90% net working interest in the SUDS field located in Creek County, Oklahoma (the “Working Interest”) based on two separate agreements, the Purchase and Sale Agreement and the Share Exchange Agreement, both between the Company and Jovian.

The Company issued two notes for a combined value of $4,000,000 in exchange for a cumulative 50% working interest in SUDS.

One note is a Promissory Note for $1,000,000 bearing interest at 5% and due on December 31, 2016. If full payment is not made by December 31, 2016, the buyer will be entitled to extend the Note to June 30, 2017 by making a $10,000 payment in cash prior to maturity. The Promissory Note is secured by a 12.5% undivided working interest in the SUDS field. Although the note is due on December 31, 2016, in the event the Company closes any financing related to the SUDS field, 50% of the net proceeds received from the financing will be applied to pay the Note.

The second note is a Production Payment Note for $3,000,000 paid out of twenty percent (20%) of the 50% undivided interest of net revenues received by the Purchaser that are attributable to the SUDS field assets. The Purchaser shall make the production payments to seller no later than the end of each calendar month. The Production Payment Note is secured by a 12.5% undivided working interest in the SUDS field.

As of April 18, 2017, Mr. James Burns and Mr. Saleem Nizami were elected Directors of the Company. In exchange for accepting their appointments, each individual was granted 100,000 shares of common stock valued at $0.13 per share. Each Directors' shares were valued at $13,000.

Also, on April 18, 2017, James E. Burns was appointed President of the Company and entered into an employment agreement with the Company to serve as President. The agreement provides that the Company will pay Mr. Burns $300,000 per year in base salary. For the first year of employment, $100,000 of the salary will be paid in cash, the remaining amount will be paid by the issuance of 1,400,000 shares of common stock. On June 30, 2017, 350,000 shares, valued at $35,000, were issued in accordance with Mr. Burns' common stock related salary compensation. On September 30, 2017, 350,000 shares, valued at $42,000, were issued in accordance with Mr. Burns' common stock related salary compensation. The $100,000 cash salary was to commence after $1,000,000 is raised from the Series A Preferred Offering or a material event that brings cash into the Company. A one-time signing bonus of 1,000,000 shares of common stock, valued at $120,000, was granted to Mr. Burns upon execution of the agreement. Mr. Burns was also to receive an annual bonus based on the percentage increase in stock price during the year. For every percentage point increase in stock price, Mr. Burns will be paid that percentage times his base salary. For example, if the stock price increased by 20%, then a $60,000 bonus ($300,000 * 20% = $60,000) would be paid. On an annual basis, Mr. Burns will also receive service related warrants to purchase 1,000,000 shares of common stock with an exercise price of $0.14 per share. At September 30, 2017, warrants to purchase 250,000 shares of common stock were granted, valued at $29,580, related to his 3rd quarter service bonus. These warrants are based on a $0.12 price per share valuation, volatility of 286%, a discount rate of 1.09% and a 3 year term. In addition, warrants to purchase 166,667 shares of common stock were granted, valued at $14,758, related to his 2nd quarter service bonus. These warrants are based on a $0.09 price per share valuation, volatility of 286%, a discount rate of 1.09% and a 3 year term. On December 31, 2017, warrants to purchase 250,000 shares of common stock were granted, at $0.17 price per share valuation, related to his 4th quarter service, volatility of 284%, a discount rate of 1.09%, valued at $41,916.

On June 8, 2017, the Company sold a 2007 Toyota Tundra truck to Jovian for $5,000. The payment was made through a $5,000 reduction of Jovian's shareholder advance balance. The transaction resulted is a loss of $3,677 based on an original cost of $10,625 and accumulated depreciation of $1,948.

During 2017, shareholders advanced an additional $361,600 to the Company, the Company made payments back to shareholders of $74,000 ($5,000 out of the $74,000 related to the truck purchase disclosed above) and $262,500 of outstanding debt was converted to Series A Preferred Stock. This resulted in an increase to the shareholder advance liability from $192,000 at December 31, 2016 to $217,100 at December 31, 2017. The following related parties (Leo Womack - $55,000, Lee Lytton - $25,000, Joel Oppenheim - $167,500 and Paul Deputy - $15,000) converted their shareholder advances into Preferred Stock.

For their service as Directors on the Company's Board of Directors, on May 23, 2017, the Board granted Leo B. Womack, the Chairman of the Board of Directors of the Company an option to purchase 1,000,000 shares of the Company's common stock at an exercise price of $0.12 per share, which vested immediately, and is exercisable for 36 months thereafter. The Board also granted Lee Lytton, Joel Oppenheim, Quinten Beasley and Saleem Nizami, members of the Board of Directors each an option to purchase 500,000 shares of the Company's common stock at an exercise price of $0.12 per share, which vested immediately, and are exercisable for 36 months thereafter. The fair value of the options granted on May 23, 2017 is $356,027, based on a $0.12 valuation, volatility of 235%, a discount rate of 1.09% and a 3 year term. The total amount of the options was expensed during December 31, 2017. These warrants are subject to a clawback provision which would be ratably invoked if a director did not complete his 2017 service term.

Beginning February 1, 2016, the Company sponsored the SUDS 1% Term Overriding Royalty Interest offering ("ORRI") on behalf of the SUDS field to raise $300,000 to purchase and install pump jacks for twenty two (22) previously drilled wells at the field. Under the terms of the offering, investors received 1% of the gross revenue from the field monthly, based on their investment of $20,000 until such time they receive a cumulative revenue amount of $30,000. At its completion, the ORRI raised a total of $300,000. Effective April 18, 2017, all owners of SUDS ORRI interests were authorized to convert their interests, at their sole discretion, to Preferred Stock in the Company in conjunction with the Company's current Series A Preferred Stock Offering. Included in this conversion offering each investor converted ORRI interests equal to the cumulative revenue amount of $30,000, less their revenue received since inception. During the second quarter of 2017, 14% of the 15% outstanding SUDS ORRI interests were converted to Preferred Stock of the Company. This conversion resulted in 40,500 shares of Preferred Stock being issued to those holders who chose to convert, with a value of $405,000. The transaction resulted in an increase to Oil and Gas Property assets by $280,000 and an increase to interest expense of $128,229 and a cash true-up payment of $3,230. Related parties (James Burns, Joel Oppenheim, Paul Deputy (former CFO), Lee Lytton (former Secretary and Director), Leo Womack and Jovian) converted 6% in ORRI interests and received a total of 17,400 shares of Preferred Stock (2,900 shares of Preferred Stock each), with the total valued at $174,000.

On May 23, 2017, related party debt holders were offered the option to convert their outstanding loan balances of $362,500 and accrued interest of $13,400 (totaling $375,900) into Preferred Stock. As a result, the following Preferred Stock shares were issued: Leo Womack 5,500 shares, Joel Oppenheim 17,590 shares, Lee Lytton 2,500 shares, James Burns 10,500 shares and Paul Deputy 1,500 shares. In addition, any holder of any non-interest bearing loan converted also received warrants to purchase four shares of common stock for each dollar converted. Consequently, a total of warrants to purchase 400,000 shares of common stock were granted (Leo Womack 70,000 shares, Joel Oppenheim 270,000 shares, Lee Lytton 30,000 shares and Paul Deputy (former CFO) 30,000 shares) as part of the conversion, which each had an exercise price of $0.20 per share and a term of 3 years. The warrants were valued at $47,319. Any loan that had received warrants when initially issued did not receive additional warrants in this conversion offering.

Jovian converted its outstanding $4,000,000 of debt in two tranches, a $2,000,000 first tranche on May 30, 2017 and a $2,000,000 second tranche on July 19, 2017. Although the two transactions occurred in different reporting periods, the two transactions were contemplated together, and they were accounted for as one extinguishment that was accomplished in two tranches, the first in May 2017 and the second in July 2017.

Tranche 1 - On May 30, 2017, Jovian converted $2 million of its $4 million debt into 10 million shares of the Company's common stock. The $2 million debt included a $1 million Promissory Note and $1 million of the $3 million Production Payment Note as well as interest payable of $33,151.

Tranche 2 - On July 19, 2017, Jovian converted $2 million of its remaining debt (outstanding under a Production Payment Note) into 12,749,285 shares of the Company's common stock and 21,510 shares of the Company's Preferred Stock.

The consideration for the debt extinguished consisted of the following:

10 million shares of common stock which were valued using the market price on the date of issuance of $0.14 per share ($1,400,000).

Warrants to purchase 6 million shares of common stock with an exercise price of $0.20 per share based on a $0.12 valuation, volatility of 293%, a discount rate of 1.09% and warrants to purchase 4 million shares of common stock with an exercise price of $0.35 per share based on a $0.12 valuation, volatility of 293%, and a discount rate of 1.09%. All warrants expire in 3 years. The 6 million warrants were valued at $709,776 while the 4 million warrants were valued at $471,104, totaling $1,180,880.

12,749,285 shares of common stock which were valued using the market price on the date of issuance of $0.104 per share ($1,325,926).

The Preferred Stock was valued at $10.00 per share, the cash price paid by third party investors for the same stock with an aggregate value of $215,100.

The combination of the two transactions resulted in an $88,755 loss which was recognized in the second quarter of 2017. The extinguishment of tranche 2 was recognized in the third quarter, with no impact on the consolidated statement of operations.

On May 23, 2017, James E. Burns, the President of the Company, sold a Caterpillar D6 Dozer to the Company in exchange for 3,000 shares of Preferred Stock. The equipment was valued at $30,000.

On August 1, 2017, Mr. Joel Oppenheim provided a Letter of Credit (LOC), which was posted as collateral, in order for the Company to issue operating bonds with the State of New Mexico for the operation of 25 Twin Lakes San Andres Unit wells. In exchange for the LOC, the Company issued Mr. Oppenheim 2,000,000 shares of common stock valued at $246,000 and warrants to purchase 2,000,000 shares of common stock valued at $236,586 with an exercise price of $0.14 per share. The warrants are based on a $0.12 price per share valuation, volatility of 286%, a discount rate of 1.09% and a 3 year term. For each quarter following the initial advance until the LOC is revoked an additional two hundred fifty thousand (250,000) warrants will be granted. The exercise price of those warrants will be the average common stock market price over the previous 90 days. In addition, the Company will provide security interest in the form of 100% undivided working interest in the Noack field. On December 31, 2017, warrants to purchase 250,000 shares of common stock were granted, at $0.17 price per share valuation, related to the Letter of Credit (LOC) provided for the 4th quarter, volatility of 284%, a discount rate of 1.09%, and a 3 years term, valued at $41,916.

On September 26, 2017, Mr. Oppenheim was issued 1,035,000 shares of common stock. These shares were the result of exercising warrants to purchase 1,035,000 shares of common stock, at an exercise price of $0.06 per share, which included the remittance of $62,065 as the aggregate exercise price.

On October 1, 2017, the Company initiated a new $500,000 private placement offering consisting of 10 units to "accredited investors", with each unit consisting of (1) 416,667 shares of restricted common stock and (2) warrants to purchase 416,667 additional shares of common stock at an exercise price of $0.20 per share at any time prior to October 1, 2020. Each unit is being sold for $50,000.

In 2017 the Company sold 6.5 (six and a half) Units (2,708,336 restricted shares of common stock and warrants to purchase 2,708,336 shares of common stock) for aggregate consideration of $325,000. Included as purchases in the offering were Leo Womack, our Chairman and Director, who purchased 0.8 (8/10 part) of Unit for an aggregate of $40,000; and Joel Oppenheim, our Director, which acquired one fifth of one (1/5 part) Unit for an aggregate of $10,000.

On November 30, 2017, we signed an Agreement and the Arrangement (the "Arrangement") to acquire Bow Energy Ltd, a related party ("Bow"). Bow is a Canadian company with corporate offices in Alberta, Calgary.

Bow is an Oil & Gas Exploration and Development company operating in the prolific Indonesian Sumatra basin. Bow's key assets include South Block A PSC - 44.48% working interest, Bohorok PSC – 50% working interest, Bohorok Deep JSA – 20.25% working interest, Palmerah Baru – 54% working interest, MNK Palmerah – 69.36% working interest, and Mahato PSC – 20% working interest.

On February 27, 2018, the Acquisition closed and we acquired all of the issued and outstanding shares of capital stock of Bow (each a "Bow Share"). The Agreement and the Arrangement was approved by an overwhelming majority of more than 99% of the votes cast by Bow's shareholders at a special meeting of shareholders of Bow held on February 21, 2018. Final approval of the Arrangement was granted by the Court of Queen's Bench of Alberta (the "Court") on February 23, 2018.

Under the terms of the Arrangement, Bow shareholders are deemed to have received 1.15 Petrolia common stock shares for each Bow Share. A total of 106,156,712 shares of the Company's common stock were issued to the Bow shareholders as a result of the Arrangement, plus additional shares in connection with the rounding described below. The Arrangement provided that no fractional shares would be issued in connection with the Arrangement, and instead, each Bow shareholder otherwise entitled to a fractional interest would receive the nearest whole number of Company shares. For example, where such fractional interest is greater than or equal to 0.5, the number of shares to be issued would be rounded up to the nearest whole number and where such fractional interest is less than 0.5, the number of shares to be issued would be rounded down to the nearest whole number. In calculating such fractional interests, all shares issuable in the name of or beneficially held by each Bow shareholder or their nominee as a result of the Arrangement shall be aggregated.

The Arrangement provides that any certificate formerly representing Bow common stock not duly surrendered on or before the last business day prior to the third anniversary of the closing date will cease to represent a claim by, or interest of, any former shareholder of any kind of nature against Bow or the Company and on such date all consideration or other property to which such former holder was entitled shall be deemed to have been surrendered to the Company.

The Company also assumed all of the outstanding warrants to purchase shares of common stock of Bow (the “Bow Warrants”) and certain options to purchase shares of common stock of Bow (the “Bow Options”) in connection with the Arrangement (i.e., each warrant/option to purchase one (1) share of Bow represents the right to purchase one (1) share of the Company following the closing).

The Bow Shares were delisted from the facilities of the TSX Venture Exchange after the close of business on March 5, 2018.

Also on April 12, 2018, the Board of Directors approved (a) the entry by the Company into a $500,000 Convertible Promissory Note with Blue Sky International Holdings Inc. (“Blue Sky”). The note, effective April 1, 2018, is due on April 1, 2019, accrues interest at the rate of 11% per annum until paid in full, and is convertible into shares of common stock of the Company at the rate of $0.12 per share; and (b) the entry into an Amended Revolving Line of Credit Agreement with Jovian Petroleum Corporation, a related party, which establishes a revolving line of credit in the amount of $500,000 for a period of six months (through August 9, 2018) with amounts borrowed thereunder due at the expiration of the line of credit and accruing interest at the rate of 3.5% per annum unless there is a default thereunder at which time amounts outstanding accrue interest at the rate of 7.5% per annum until paid in full, with such interest payable every 90 days.

The President, Chief Executive Officer and 100% owner of Blue Sky is Ilyas Chaudhary, the father of Zel C. Khan, the Company’s Chief Executive Officer. Mr. Chaudhary owns and controls BSIH Ltd. (“BSIH”) which was the largest shareholder of the Company prior to the cancellation of the shares held by BSIH in September 2018. Additionally, prior to the acquisition of Bow as described above, BSIH, and as a result of his ownership and control of BSIH, Mr. Chaudhary controlled Bow.

Effective April 12, 2018, the Board of Directors approved the issuance of 616,210 shares of restricted common stock to Mr. James E. Burns in consideration for 2017 deferred salary of $61,621.

Review, Approval and Ratification of Related Party Transactions

We have adopted formal policies and procedures for the review, approval or ratification of transactions, such as those described above, with our executive officers, directors and significant stockholders. All of the transactions described above were approved and ratified by the Board of Directors and one or more officers of the Company. In connection with the approval of the transactions described above, the Board of Directors took into account several factors, including its fiduciary duty to the Company; the relationships of the related parties described above to the Company; the material facts underlying each transaction; the anticipated benefits to the Company and related costs associated with such benefits; whether comparable products or services were available; and the terms the Company could receive from an unrelated third party.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

INDEX TO FINANCIAL STATEMENTS

Audited Financial Statements for Years Ended December 31, 2017 and 2016

(2) Financial Statement Schedules

All financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto included in this Form 10-K/A.

(3) Exhibits required by Item 601 of Regulation S-K

EXHIBIT INDEX

			Incorporated by Reference			
Exhibit Number		**Filed or Furnished Herewith**	**Form**	**Exhibit Number**	**Filing Date/ Period End Date**	**File No.**
2.1	Purchase and Sale Agreement effective October 1, 2015, by and between SUDS Properties, LLC and the Company		8-K	2.1	9/28/2015	000-52690
2.2			8-K	10.1	12/5/2017	000-52690

	Arrangement Agreement, dated November 30, 2017 by and between the Company and Bow Energy Ltd.				
3.1	Original Colorado Articles of Incorporation	SB-2	3.1	7/25/2006	333-136012
3.2	Amended and Restated Colorado Articles of Incorporation	SB-2	3.2	7/25/2006	333-136012
3.3	Amendment to Colorado Articles of Incorporation	S-1	3.3	10/24/2012	333-184575
3.4	Texas Certificate of Conversion Converting From Rockdale Resources Corporation (Colorado) to Petrolia Energy Corporation (Texas) filed with the Secretary of State of Texas on June 15, 2016	8-K	3.1	9/12/2016	000-52690
3.5	Certificate of Correction to Texas Certificate of Formation filed with the Secretary of State of Texas on August 24, 2016	8-K	3.2	9/12/2016	000-52690

3.6	Statement of Conversion as filed with the Secretary of State of Colorado on August 30, 2016		8-K	3.3	9/12/2016	000-52690
3.7	Certificate of Amendment to Certificate of Formation to Increase the Company's Authorized Shares of Common Stock to 400,000,000 Shares and to amend the par value of the Preferred Stock to $0.001 per share, filed with the Secretary of State of Texas on November 9, 2017	#				
3.8	Certificate of Designations of Series A Convertible Preferred Stock of Petrolia Energy Corporation, filed with the Secretary of State of Texas on May 3, 2017		10-Q	3.1	3/31/2017	000-52690
3.9	Bylaws of Petrolia Energy Corporation (Texas)		8-K	3.4	9/12/2016	000-52690
10.1***	Employment Agreement with Mr. Zel C. Khan dated September 23, 2015		8-K	10.1	9/28/2015	000-52690
10.2***	Form of Warrant Agreement for the deferral of Mr. Khan's salary		8-K	10.2	9/28/2015	000-52690
10.3	Memorandum of Agreement dated November 4, 2015, by and between Blue Sky NM, Inc. and the Company, relating to the 15% Net Working Interest in the Twin Lakes San Andres Unit		8-K	10.1	11/10/2015	000-52690
10.4	$146,875 Promissory Note with Financial Assurance & Bonds dated November 4, 2015, owed by the Company to Blue Sky NM, Inc.		8-K	10.2	11/10/2015	000-52690
10.5	Memorandum of Agreement dated November 4, 2015, by and between Blue Sky NM, Inc. and the Company, relating to the acquisition of a $1.3 million promissory note in connection with the Bankruptcy of Orbit Petroleum, Inc.		8-K	10.3	11/10/2015	000-52690
10.6	$1.3 million Installment Promissory Note due from Canyon E&P Company dated September 24, 2010		8-K	10.4	11/10/2015	000-52690
10.7***	Amended and Restated Petrolia Energy Corporation 2015 Stock Incentive Plan		8-K	10.1	11/16/2017	000-52690
10.8	Agreement for Share Exchange, dated January 29, 2016 and effective February 1, 2016 between the Company and Askarii Resources, LLC		8-K	10.2	2/9/2016	000-52690
10.9***	Employment Agreement dated August 17, 2016, with Paul M. Deputy as Chief Financial Officer		10-Q	10.1	6/30/2016	000-52690
10.10***	Option Agreement with Paul M. Deputy dated August 17, 2016		10-Q	10.2	6/30/2016	000-52690
10.11	Rick Wilber Note Extension Agreement dated June 30, 2016		10-Q	10.3	6/30/2016	000-52690
10.12	Purchase and Sale Agreement effective September 1, 2016, by and between Whistler Ventures, LLC and Petrolia Energy Corporation, relating to the 25% Net Working Interest in the Twin Lakes San Andres Unit		8-K	10.1	9/22/2016	000-52690

29

10.13	Assignment and Transfer of Interest effective September 1, 2016 between Petrolia Energy Corporation and Whistler Ventures LLC	8-K	10.2	9/22/2016	000-52690
10.14	Purchase and Sale Agreement effective September 28, 2016, by and between Jovian Petroleum Corporation and Petrolia Energy Corporation, relating to the 50% Net Working Interest in the Slick Unit Dutcher Sands	8-K	10.1	10/5/2016	000-52690
10.15	Assignment and Transfer of Interest (50%) effective September 28, 2016 between Petrolia Energy Corporation and Jovian Petroleum Corporation	8-K	10.2	10/5/2016	000-52690
10.16	Share Exchange Agreement effective September 28, 2016, by and between Jovian Petroleum Corporation and Petrolia Energy Corporation, relating to the 40% Net Working Interest in the Slick Unit Dutcher Sands	8-K	10.3	10/5/2016	000-52690
10.17	Promissory Note ($1M) effective September 28, 2016, by and between Jovian Petroleum Corporation and Petrolia Energy Corporation, relating to the 50% Net Working Interest in the Slick Unit Dutcher Sands	8-K	10.4	10/5/2016	000-52690
10.18	Production Payment Note ($3M) effective September 28, 2016, by and between Jovian Petroleum Corporation and Petrolia Energy Corporation, relating to the 50% Net Working Interest in the Slick Unit Dutcher Sands	8-K	10.5	10/5/2016	000-52690
10.19	Settlement Agreement effective February 12, 2017 between Petrolia Energy Corporation and Dead Aim Investments	8-K	10.1	2/21/2017	000-52690
10.20	Quitclaim Deed effective February 12, 2017 by and between Dead Aim Investments and Petrolia Energy Corporation, relating to the 60% Net Working Interest in the Twin Lakes San Andres Unit	8-K	10.2	2/21/2017	000-52690
10.21	Second Amendment to Rick Wilber Note Agreement effective as of December 31, 2016	10-K	99.2	12/31/2016	000-52690
10.22	Series A Convertible Preferred Stock Offering Memorandum (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, filed with the Securities and Exchange Commission on May 15, 2017 (File Number 000-52690), and incorporated by reference herein)	10-Q	10.3	3/31/2017	000-52690
10.23	Form of Preferred Stock Subscription Agreement for the Company's Series A Convertible Preferred Stock Offering (filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, filed with the Securities and Exchange Commission on May 15, 2017 (File Number 000-52690), and incorporated by reference herein)	10-Q	10.4	3/31/2017	000-52690
10.24	Debt Conversion Agreement, dated June 30, 2011, by and between the Company, Jovian Petroleum Corporation and its subsidiary, Jovian Resources LLC	8-K	10.1	5/31/2017	000-52690
10.25	Debt Conversion Agreement, dated July 19, 2017 by and between the Company and Jovian Petroleum Corporation and its subsidiary, Jovian Resources LLC	8-K	10.1	7/24/2017	000-52690

30

10.26	Debt Conversion Agreement, dated July 6, 2017 by and between the Company and Rick Wilber		8-K	10.2	7/24/2017	000-52690
10.27	Employment Agreement dated April 18, 2017, with James E. Burns as President of Petrolia Energy Corporation		10-Q	10.6	6/30/2017	000-52690
10.28*	$500,000 Convertible Promissory Note dated April 1, 2018 entered into with Blue Sky International Holdings Inc.	#				
10.29*	Amended Revolving Line of Credit Agreement with Jovian Petroleum Corporation dated February 9, 2018 and amended April 12, 2018	#				
14.1	Code of Ethical Business Conduct		10-Q	14.1	9/30/2015	000-52690
21.1*	Subsidiaries	#				
23.1*	Consent of MKM Engineering dated April 12, 2018	#				
31.1*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
31.2*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
32.1**	Certification pursuant to Section 906 of the Sarbanes-Oxley Act	X				
32.2**	Certification pursuant to Section 906 of the Sarbanes-Oxley Act	X				
99.1*	Oil and gas reserve report dated April 12, 2018	#				
101.INS+	XBRL Instance Document	X				
101.SCH+	XBRL Taxonomy Extension Schema Document	X				
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document	X				
101.LAB+	XBRL Taxonomy Extension Label Linkbase Document	X				
101.PRE+	XBRL Taxonomy Presentation Linkbase Document	X				

Filed/furnished as exhibits to the initial Annual Report on Form 10-K filing which this Form 10-K/A amends.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PETROLIA ENERGY CORPORATION

By: */s/ Zel Khan*
Zel Khan
Chief Executive Officer
(Principal Executive Officer)

Date: September 26, 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and Board of Directors of Petrolia Energy Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Petrolia Energy Corporation and its subsidiary (collectively, the "Company") as of December 31, 2017 and 2016, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Amendment to Disclose Related Party Transactions

As disclosed in Note 3 to the consolidated financial statements, the Company amended its 2017 financial statements to properly disclose certain significant related party transactions not disclosed as such previously. Specifically, the Company amended the related party transactions included in Note 6 and Note 15 to properly disclose these related party transactions.

Going Concern Matter

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 4 to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters are also described in Note 4. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ MaloneBailey, LLP

www.malonebailey.com

We have served as the Company's auditor since 2011.

Houston, Texas

April 17, 2018, except for Note 6 and Note 15, as to which the date is September 26, 2018

PETROLIA ENERGY CORPORATION

CONSOLIDATED BALANCE SHEETS

	December 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash	$82,593	$68,648
Accounts receivable	51,026	199,003
Other current assets	8,993	31,192
Total current assets	142,612	298,843
Property & equipment		
Oil and gas, on the basis of full cost accounting		
Evaluated properties	14,312,580	13,465,387
Furniture, equipment & software	264,723	200,416
Less accumulated depreciation	(1,192,229)	(1,119,708)
Net property and equipment	13,385,074	12,546,095
Other Assets		
Intangible assets	49,886	49,886
Note receivable	—	316,800
Total Assets	$13,577,572	$13,211,624
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$413,435	$352,241
Accrued liabilities	896,897	494,983
Debt short term	—	275,000
Convertible debt - related party	—	550,000
Current maturities of installment notes payable	32,582	26,186
Note payable – related parties	217,100	1,287,980
Total current liabilities	1,560,014	2,986,390
Asset retirement obligations	473,868	322,710
Installment note payable	24,204	—
Note payable to related party – long term	—	2,904,020
Total Liabilities	2,058,086	6,213,120
Stockholders' Equity		
	197	—

Preferred stock, $0.001 par value; 1,000,000 shares authorized; 197,100 and 0 shares issued and outstanding		
Common stock, $.001 par value; 400,000,000 shares authorized; 111,698,222 and 79,034,505 shares issued and outstanding	111,698	79,034
Additional paid in capital	22,730,974	14,887,090
Accumulated deficit	(11,323,383)	(7,967,620)
Total Stockholders' Equity	11,519,486	6,998,504
Total Liabilities and Stockholders' Equity	$13,577,572	$13,211,624

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

F-2

PETROLIA ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31, 2017	Year ended December 31, 2016
Oil and gas sales	$148,835	$123,246
Equipment sales to related party	—	198,000
Total Revenue	148,835	321,246
Operating expenses		
Cost of equipment sold	—	33,330
Lease operating expense	416,232	304,199
General and administrative expenses	2,550,481	1,433,182
Depreciation, depletion and amortization	74,469	74,065
Asset retirement obligation accretion	49,753	38,998
Total Operating Expense	3,090,935	1,883,774
Loss from Operations	(2,942,100)	(1,562,528)
Interest (expense)	(265,813)	(359,239)
Other income	40,806	60,324
Loss on warrants issued for PORRI	—	(14,336)
Loss on conversion of debt, including related party debt	(94,177)	—
Total other income (expense)	(319,184)	(313,251)
Net loss from continuing operations before taxes	(3,261,284)	(1,875,779)
Income tax provision (benefit)	—	—
Net Loss	$(3,261,284)	$(1,875,779)
Series A Preferred Dividends	(94,479)	—
Net Loss Attributable to Common Stockholders	(3,355,763)	(1,875,779)
Loss per share (Basic and fully diluted)	$(0.04)	$(0.03)
Weighted average number of common shares outstanding, basic and diluted	93,545,807	54,541,922

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

F-3

PETROLIA ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2017	Year Ended December 31, 2016
Cash Flows from Operating Activities		
Net Loss	$(3,261,284)	$(1,875,779)
Adjustment to reconcile net loss to net cash Used in operating activities:		
Depreciation and amortization	74,469	74,065
Accretion of debt discount	—	171,573
Finance fee for extension on note payable	60,101	79,223
Loss on conveyance of ORRI warrants	—	14,336
Interest on ORRI conversion	128,229	—
Guarantor fees	524,502	—
Loss on disposal of assets	3,677	—
Debt Issuance costs	47,319	38,622
Loss on conversion of related party debt	88,755	—
Loss on conversion of short term debt	5,422	—
Asset retirement obligation accretion	49,753	38,998
Stock-based compensation expense-employees	325,747	150,790
Stock-based compensation expense- directors	394,154	209,125
Stock-based compensation expense-consultants	179,519	—
Changes in operating assets and liabilities		
Accounts receivable	(1,010)	(150,370)
Inventory	—	33,330
Other assets	22,199	(143)
Accounts payable	61,195	302,821
Accrued liabilities	164,307	161,586
Deferred salaries	195,789	200,000
Net cash used in operating activities	(937,157)	(551,823)
Cash Flows from Investing Activities		
Cash acquired from investment in Askarii	—	114
Proceeds from sale of property and equipment	—	30,000
Purchase of fixed assets	(9,256)	(93,476)
Cash used in investing activities	(9,256)	(63,362)
Cash Flows from Financing Activities		
Proceeds from shareholder advances	361,600	388,000
Proceed from issuance of common stocks	323,000	—
Proceeds from issuance of common stock. Related party.	112,065	111,352

Proceeds from issuance of preferred stock	241,000	—
Payments of shareholder advances	(69,000)	(92,000)
Payments on notes payable	(5,076)	(1,610)
Cash paid for PORRI conversion	(3,230)	—
Proceeds from short term loans	—	275,000
Cash provided by financing activities	960,359	680,742
Net change in cash and cash equivalents	13,945	65,557
Cash and cash equivalents		
Beginning of period	68,648	3,091
End of period	$82,593	$68,648

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

	Year Ended December 31, 2017	Year Ended December 31, 2016
SUPPLEMENTAL DISCLOSURES		
Interest paid	$23,210	$33,088
Income taxes paid	—	—
NON-CASH INVESTING AND FINANCIAL DISCLOSURES		
Sale of vehicle to related party	8,677	—
Note payable for purchase of vehicle	35,677	—
Initial recognition of asset retirement obligation	101,405	70,384
Preferred shares issued for purchase of related party's equipment	30,000	—
Settlement of accounts receivable and other assets for oil and gas properties	465,788	—
Settlement of debt with preferred shares	154,000	—
Settlement of debt and advances with preferred shares – related parties	925,900	—
Settlement of debt with common shares	32,532	—
Settlement of ORRI investments with preferred shares	231,000	—
Settlement of ORRI investments with preferred shares. Related party	174,000	—
Settlement of related party debt with shares of common stock, preferred stock and warrants	4,033,151	—
Series A Preferred Dividends	94,479	—
Settlement of accrued accounts payable through share issuance	—	120,146
Fair value of stock issued for oil properties	—	4,773,186
Fair value of stock issued for extinguishment of debt	—	146,875
Shares issued in payment of shareholder advance	—	150,000
Note payable for oil & gas properties	$—	$4,000,000

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

F-5

PETROLIA ENERGY CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Preferred Stock		Common Stock		Additional		Stockholders'
	Shares	Amount	Shares	Amount	Paid-In Capital	Accumulated Deficit	Equity (Deficit)
Balance at December 31, 2015	—	—	42,839,958	$42,840	$9,129,629	$(6,091,841)	$3,080,628
Shares issued for settlement of payables			1,581,098	1,581	118,565	—	120,146
Stock based compensation – directors			—	—	209,125	—	209,125
Stock based compensation – employees			800,000	800	149,990	—	150,790
Shares issued for issuance of common stock for cash			1,625,000	1,625	109,727	—	111,352
Shares issued related to acquisitions			28,808,985	28,809	4,744,377	—	4,773,186
Warrants issued for note extension			—	—	79,223	—	79,223
Warrants issued for loans			—	—	38,622	—	38,622
Shares issued for conversion of shareholder advances			1,910,714	1,910	148,090		150,000
Warrants issued for PORRI equity offering			—	—	14,336		14,336
Shares issued for extinguishment of debt			1,468,750	1,469	145,406	—	146,875
Net Loss						(1,875,779)	(1,875,779)
Balance at December 31, 2016	—	—	79,034,505	$79,034	$14,887,090	$(7,967,620)	$6,998,504
Shares issued for settlement of payables			1,400,000	1,400	178,119	—	179,519
Shares issued for conversion of debt			271,096	271	32,260	—	32,531
Stock based compensation – directors			200,000	200	393,954	—	394,154
Stock based compensation – employees			1,700,000	1,700	324,047	—	325,747
Shares issued for issuance of common			2,891,669	2,892	320,108	—	323,000

stock for cash.							
Shares issued for issuance of common stock for cash. Related Party			1,451,667	1,452	110,613	—	112,065
Warrants issued for loans			—	—	385,922	—	385,922
Shares and warrants issued for conversion of Notes payable to related party			22,749,285	22,749	3,884,057	—	3,906,806
Shares issued to related party for guarantor fee			2,000,000	2,000	244,000	—	246,000
Shares issued for cash	24,100	24			240,976	—	241,000
Shares issued for conversion of shareholder advances	27,090	27			270,873	—	270,900
Shares issued for conversion of debt	42,010	42			420,058	—	420,100
Shares issued for conversion of related party debt	60,400	61			603,940	—	604,001
Shares issued for purchase of equipment	3,000	3			29,997	—	30,000
Shares issued for conversion of TORRI	23,100	23			230,977	—	231,000
Shares issued for conversion of TORRI, a related party	17,400	17			173,983	—	174,000
Series A Preferred Dividends						(94,479)	(94,479)
Net Loss						(3,261,284)	(3,261,284)
Balance at December 31, 2017	197,100	$ 197	111,698,222	$111,698	$22,730,974	$(11,323,383)	$11,519,486

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

PETROLIA ENERGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 1. ORGANIZATION

Petrolia Energy Corporation ("we", "us", and the "Company") is in the business of oil and gas exploration, development, and production. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and the rules of the U.S. Securities and Exchange Commission ("SEC").

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and pursuant to the accounting and disclosure rules and regulations of the SEC. A summary of the significant accounting policies applied in the preparation of the accompanying financial statements follows.

Management Estimates — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made in preparing these financial statements include asset retirement obligations (Note 10), income taxes (Note 11) and the estimate of proved oil and gas reserves and related present value estimates of future net cash flows therefrom (Note 12).

Reclassifications – Certain amounts previously presented for prior periods have been reclassified to conform to the current presentation. The reclassifications had no effect on net loss, working capital or equity previously reported.

Cash and Cash Equivalents — The Company considers all highly liquid instruments purchased with an original maturity date of three months or less to be cash equivalents.

Oil and Gas Properties — The Company follows the full cost accounting method to account for oil and natural gas properties, whereby costs incurred in the acquisition, exploration and development of oil and gas reserves are capitalized. Such costs include lease acquisition, geological and geophysical activities, rentals on nonproducing leases, drilling, completing and equipping of oil and gas wells and administrative costs directly attributable to those activities and asset retirement costs. Disposition of oil and gas properties are accounted for as a reduction of capitalized costs, with no gain or loss recognized unless such adjustment would significantly alter the relationship between capital costs and proved reserves of oil and gas, in which case the gain or loss is recognized to operations.

The capitalized costs of oil and gas properties, excluding unevaluated and unproved properties, are amortized as depreciation, depletion and amortization expense using the units-of-production method based on estimated proved recoverable oil and gas reserves.

The costs associated with unevaluated and unproved properties, initially excluded from the amortization base, relate to unproved leasehold acreage, wells and production facilities in progress and wells pending determination of the existence of proved reserves, together with capitalized interest costs for these projects. Unproved leasehold costs are transferred to the amortization base with the costs of drilling the related well once a determination of the existence of proved reserves has been made or upon impairment of a lease. Costs associated with wells in progress and completed wells that have yet to be evaluated are transferred to the amortization base once a determination is made whether or not proved reserves can be assigned to the property. Costs of dry wells are transferred to the amortization base immediately upon determination that the well is unsuccessful.

All items classified as unproved property are assessed on a quarterly basis for possible impairment or reduction in value. Properties are assessed on an individual basis or as a group if properties are individually insignificant. The assessment includes consideration of various factors, including, but not limited to, the following: intent to drill; remaining lease term; geological and geophysical evaluations; drilling results and activity; assignment of proved reserves; and economic viability of development if proved reserves are assigned. During any period in which these factors indicate an impairment, the cumulative drilling costs incurred to date for such property and all or a portion of the associated leasehold costs are transferred to the full cost pool and become subject to amortization.

Under full cost accounting rules for each cost center, capitalized costs of evaluated oil and gas properties, including asset retirement costs, less accumulated amortization and related deferred income taxes, may not exceed an amount (the “cost ceiling”) equal to the sum of (a) the present value of future net cash flows from estimated production of proved oil and gas reserves, based on current prices and operating conditions, discounted at ten percent (10%), plus (b) the cost of properties not being amortized, plus (c) the lower of cost or estimated fair value of any unproved properties included in the costs being amortized, less (d) any income tax effects related to differences between the book and tax basis of the properties involved. If capitalized costs exceed this limit, the excess is charged to operations. For purposes of the ceiling test calculation, current prices are defined as the un-weighted arithmetic average of the first day of the month price for each month within the 12 month period prior to the end of the reporting period. Prices are adjusted for basis or location differentials. Unless sales contracts specify otherwise, prices are held constant for the productive life of each well. Similarly, current costs are assumed to remain constant over the entire calculation period. There was no impairment during the year ended December 31, 2017 and 2016.

Given the volatility of oil and gas prices, it is reasonably possible that the estimate of discounted future net cash flows from proved oil and gas reserves could change in the near term. If oil and gas prices decline in the future, even if only for a short period of time, it is possible that impairments of oil and gas properties could occur. In addition, it is reasonably possible that impairments could occur if costs are incurred in excess of any increases in the present value of future net cash flows from proved oil and gas reserves, or if properties are sold for proceeds less than the discounted present value of the related proved oil and gas reserves.

Revenue Recognition — Revenues from the sale of crude oil, natural gas, and natural gas liquids are recognized when the product is delivered at a fixed or determinable price, title has transferred; collectability is reasonably assured and evidenced by a contract. The Company follows the sales method of accounting for its oil and natural gas revenue, so it recognizes revenue on all crude oil, natural gas, and natural gas liquids sold to purchasers, regardless of whether the sales are proportionate to its ownership in the property. A receivable or liability is recognized only to the extent that the Company has an imbalance on a specific property greater than the expected remaining proved reserves. The Company had no imbalance positions at December 31, 2017 or 2016. Charges for gathering and transportation are included in production expenses.

Receivables and allowance for doubtful accounts — Oil revenues receivable do not bear any interest. These receivables are primarily comprised of joint interest billings. Early in 2017, $117,000 of these receivables were provided as consideration towards the purchase of the 60% WI in TLSAU (see Note 9 for further explanation). We regularly review collectability and establish or adjust an allowance for uncollectible amounts as necessary using the specific identification method. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Management has determined that a reserve for uncollectible amounts was not required in the periods presented.

Asset Retirement Obligations — The Company records a liability for asset retirement obligations ("ARO") associated with its oil and gas wells when those assets are placed in service. The corresponding cost is capitalized as an asset and included in the carrying amount of oil and gas properties and is depleted over the useful life of the properties. Subsequently, the ARO liability is accreted to its then-present value.

Inherent in the fair value calculation of an ARO are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal, regulatory, environmental and political environments. To the extent future revisions to these assumptions impact the fair value of the existing ARO liability, a corresponding adjustment is made to the oil and gas property balance. Settlements greater than or less than amounts accrued as ARO are recorded as a gain or loss upon settlement.

Debt Issuance Costs — Costs incurred in connection with the issuance of long-term debt are presented as a direct deduction from the carrying value of the related debt and amortized over the term of the related debt.

Stock-Based Compensation — The Company accounts for stock-based compensation to employees in accordance with FASB ASC 718. Stock-based compensation to employees is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite employee service period. The Company accounts for stock-based compensation to other than employees in accordance with FASB ASC 505-50. Equity instruments issued to other than employees are valued at the earlier of a commitment date or upon completion of the services, based on the fair value of the equity instruments, and is recognized as expense over the service period. The Company estimates the fair value of stock-based payments using the Black-Sholes option-pricing model for common stock options and warrants and the closing price of the Company’s common stock for common share issuances. The Company may grant stock to employees and contractors in exchange for services rendered.

Income Taxes — Income taxes are accounted for pursuant to ASC 740, *Income Taxes*, which requires recognition of deferred income tax liabilities and assets for the expected future tax consequences of events that have been recognized in the Company’s financial statements or tax returns. The Company provides for deferred taxes on temporary differences between the financial statements and tax basis of assets using the enacted tax rates that are expected to apply to taxable income when the temporary differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred income tax assets to the amount expected to be realized.

Uncertain tax positions are recognized in the financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. The Company recognizes interest and penalties related to uncertain tax positions in the income tax provision. There are currently no unrecognized tax benefits that if recognized would affect the tax rate. There was no interest or penalties recognized for the twelve months ended December 31, 2017 and 2016.

The Company is required to file federal income tax returns in the United States and in various state and local jurisdictions. The Company’s tax returns filed since the 2015 tax year are subject to examination by taxing authorities in the jurisdictions in which it operates in accordance with the normal statutes of limitations in the applicable jurisdiction.

Furniture, equipment, and software — Furniture, equipment, and software are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related asset, generally three to five years. Fully depreciated assets are retained in property and accumulated depreciation accounts until they are removed from service. We perform ongoing evaluations of the estimated useful lives of the property and equipment for depreciation purposes. Maintenance and repairs are expensed as incurred. We periodically review our long-lived assets, other than oil and gas property, for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. We recognize an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset's estimated fair value and its book value. We recorded no impairment on our non-oil and gas long-lived assets during the years ended December 31, 2017 and 2016, respectively.

Earnings (Loss) Per Share — Basic earnings (loss) per share have been calculated based upon the weighted-average number of common shares outstanding. The weighted-average number of common shares outstanding used in the computations of earnings (loss) per share was 93,545,807 for 2017 and 54,541,922 for 2016. Diluted earnings per share (EPS) amounts would include the effect of outstanding stock options, warrants, and other convertible securities if including such potential shares of common stock is dilutive. Basic and diluted earnings per share are the same in all periods presented because losses are anti-dilutive.

Concentration of Credit Risk — The Company is subject to credit risk resulting from the concentration of its oil receivables with significant purchasers. Two purchasers accounted for all of the Company's oil sales revenues for 2017 and 2016. The Company does not require collateral. While the Company believes its recorded receivable will be collected, in the event of default the Company would follow normal collection procedures. The Company does not believe the loss of a purchaser would materially impact its operating results as oil is a fungible product with a well-established market and numerous purchasers.

At times, the Company maintains deposits in federally insured financial institutions in excess of federally insured limits. Management monitors the credit ratings and concentration of risk with these financial institutions on a continuing basis to safeguard cash deposits.

Fair Value Measurements – The carrying value of cash and cash equivalents, accounts receivable, and accounts payable, as reflected in the consolidated balance sheets, approximate fair value because of the short-term maturity of these instruments.

Intangible Assets – Our intangible assets are subject to amortization and are amortized using the straight-line method over their estimated period of benefit. Intangible assets acquired as part of a business combination are capitalized at their acquisition date fair value.

Equipment Sales – Revenues from the sale of oil and gas related equipment are recognized at the time of sale, when the significant risks and rewards of ownership have been transferred to the buyer and the recovery of the consideration is probable.

Recent Accounting Pronouncements

The Company has evaluated all the recent accounting pronouncements through the filing date and believes that none of them will have a material effect on the Company.

NOTE 3. AMENDMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

The Company has determined that it should amend its previously issued financial statements in its Form 10-K for the fiscal year ended December 31, 2018 due to its failure to adequately disclose the following matters associated with related party transactions involving the Company and its officers. Thus, the Company has filed the amendment to its previously issued financial statements to adequately disclose and clarify that: (a) the Bow Acquisition is a related party transaction, because of the related party relationship we failed to disclose as described in (c) below, (b) the President, Chief Executive Officer and 100% owner of Blue Sky International Holdings Inc. ("Blue Sky") is Ilyas Chaudhary, the father of Zel C. Khan, the Company's Chief Executive Officer; that Mr. Chaudhary owns and controls BSIH Ltd. ("BSIH"), which was the largest shareholder of the Company prior to the cancellation of the shares held by BSIH in September 2018, pursuant to the terms of a Share Exchange Agreement between the Company and Blue Sky Resources Ltd. dated August 31, 2018 of which entity Mr. Chaudhary also owns and controls; (c) prior to the acquisition of Bow Energy Ltd ("Bow") as described in (b), above, BSIH, and as a result of his ownership and control of BSIH, Mr. Chaudhary controlled Bow; (d) on April 12, 2018 a $500,000 convertible promissory note was issued to Blue Sky and such note was subsequently canceled by the Company; (e) BSIH and Blue Sky Resources Ltd. are both entirely owned by Mr. Chaudhary; (f) Quinten Beasley, the Company's Director, and not Mr. Khan, beneficially owns the shares of the Company's common stock held by Jovian Petroleum Corporation; (g) the Company's disclosure controls and procedures, and internal control over financial reporting were ineffective as of December 31, 2017;

specifically, we have material weakness in internal controls over monitoring and disclosing related party transactions as indicated in the amendment of the related party disclosures above.

NOTE 4. GOING CONCERN

The Company has suffered recurring losses from operations and currently has a working capital deficit. These conditions raise substantial doubt about the Company’s ability to continue as a going concern. We plan to generate profits by drilling productive oil or gas wells. However, we will need to raise the funds required to drill new wells through the sale of our securities, through loans from third parties or from third parties willing to pay our share of drilling and completing the wells. We do not have any commitments or arrangements from any person to provide us with any additional capital. If additional financing is not available when needed, we may need to cease operations. We may not be successful in raising the capital needed to drill oil or gas wells. Any wells that we may drill may not be productive of oil or gas. Management believes that actions presently being taken to obtain additional funding provide the opportunity for the Company to continue as a going concern. The accompanying financial statements have been prepared assuming the Company will continue as a going concern; no adjustments to the financial statements have been made to account for this uncertainty.

NOTE 5. NOTE RECEIVABLE

The Company purchased a Note Receivable from Blue Sky New Mexico, Inc. (“BSNM”) on November 4, 2015 with a face value of $1,300,000. BSNM had previously purchased this note from the Bankruptcy Trustee, it was an asset of the Orbit Petroleum bankruptcy liquidation. The Company issued six million (6,000,000) shares of common stock as consideration for the note. The dollar value of the shares on this date was $316,800, specifically 6,000,000 shares at a market price of $0.528 per share. The note bears an annual simple interest rate that accrues at the rate of 10%. The note is secured by mortgages on the Twin Lakes oil and gas leases.

On November 4, 2015, the note was past due and is considered to be in default. In February 2017, the Company included the note as consideration for the purchase of a 60% working interest in TLSAU, so it is no longer outstanding. See Note 12 for further explanation.

NOTE 6. RELATED PARTY TRANSACTIONS

Beginning February 1, 2016, the Company sponsored the SUDS 1% Term Overriding Royalty Interest offering (“ORRI”) on behalf of the SUDS field to raise $300,000 to purchase and install pump jacks for twenty two (22) previously drilled wells at the field. Under the terms of the offering, investors received 1% of the gross revenue from the field monthly, based on their investment of $20,000 until such time they receive a cumulative revenue amount of $30,000. At its completion, the ORRI raised a total of $300,000. Effective April 18, 2017, all owners of SUDS ORRI interests were authorized to convert their interests, at their sole discretion, to Preferred Stock in the Company in conjunction with the Company's current Series A Preferred Stock Offering. Included in this conversion offering each investor converted ORRI interests equal to the cumulative revenue amount of $30,000, less their revenue received since inception. During the second quarter of 2017, 14% of the 15% outstanding SUDS ORRI interests were converted to Preferred Stock of the Company. This conversion resulted in 40,500 shares of Preferred Stock being issued to those holders who chose to convert, with a value of $405,000. The transaction resulted in an increase to Oil and Gas Property assets by $280,000 and an increase to interest expense of $128,229 and a cash true-up payment of $3,230. Related parties (James Burns, Joel Oppenheim, Paul Deputy, Lee Lytton, Leo Womack and Jovian) converted 6% in ORRI interests and received a total of 17,400 shares of Preferred Stock (2,900 shares of Preferred Stock each), with the total valued at $174,000.

The Company through its wholly-owned subsidiary Askarii sold pump jacks to the other owners of the SUDS properties (before the Company's September 2016 acquisition of the 90% working interest), totaling $198,000 for the year ended December 31, 2016. Askarii booked a profit of $164,670 on the sale of pump jacks to the other owners of the SUDs properties.

F-11

On February 10, 2016, a shareholder provided an advance of $20,000 in order to temporarily fund the Company’s working capital needs. On April 1, 2016, in order to compensate the shareholder, the Company issued 285,714 shares in consideration for forgiveness of the debt in full. The valuation of the issuance was $20,000, based on 285,714 shares valued at $0.07 per share on April 1, 2016.

On March 11, 2016, the Board of Directors granted Leo B. Womack, the Chairman of the Board of Directors of the Company an option to purchase 1 million shares of the Company’s common stock at an exercise price of $0.06 per share, which vested on January 1, 2017, and is exercisable for 36 months thereafter. The Board also granted Lee Lytton and Joel Oppenheim, members of the Board of Directors each an option to purchase 500,000 shares of the Company’s common stock at an exercise price of $0.06 per share, which vests on January 1, 2017, and is excisable for 36 months thereafter. The fair value of the options granted on March 11, 2016 is $115,045.

Effective April 18, 2016, Quinten Beasley was compensated for his Board service during 2016 through a grant of 500,000 warrants to purchase 500,000 shares of the Company’s common stock at an exercise price of $0.07 per share, which vested immediately, and is exercisable for 36 months thereafter. The fair value of the warrants is $41,891 based on a $0.08 valuation, volatility of 235%, a discount rate of 1.09% and a 3 year term. The total amount of the warrants was expensed in 2016. These warrants are subject to a claw-back provision which would be ratably invoked if a director did not complete his 2016 service term.

On May 2, 2016, the Company paid off its outstanding Promissory Note to Blue Sky NM (“BSNM”) for $146,875. This Note was created when the 15% working interest in the Twin Lakes field was purchased in November of 2015. The payoff was made by issuing 1,468,750 shares of the Company’s restricted common stock. Based on the market value of the stock on May 2, 2016 of $0.10, the value of the transaction was $146,875 and resulted in no gain or loss. In addition, a cash payment of $4,869 was made to pay off the remaining outstanding interest.

On May 31, 2016, in exchange for a cash payment of $48,000, the Company issued 8 units or 800,000 shares to the then CFO as part of, and under the terms of, the September 1, 2015 private offering. The shares were issued at a price of $0.06 per share and included warrants to purchase an additional 800,000 shares of common stock at a price of $0.10 cents per share at any time prior to August 5, 2018. This represented the final sale under this offering.

On June 24, 2016, the Company purchased a 2007 Toyota Tundra vehicle for $10,625 from Jovian. It is being used for field operations. During July 2016, payments of $7,000 were made against the outstanding balance. There was no promissory note created for the remaining outstanding balance of $3,264, and both parties agreed for the balance to be paid when funds become available. The truck’s estimated useful life is 5 years.

On July 13, 2016, the Company issued warrants to purchase 60,000 shares of common stock. The warrants were related loans provided by investors to the purchase a pulling rig. The fair value of all of the warrants was $3,744 at an exercise price of $0.06 per share, expiring on July 13, 2019. The following affiliated investors each received 10,000 warrants related to their loans: Joel Oppenheim – Director, Lee Lytton – then Director, Paul Deputy – then CFO, Leo Womack – Board Chairman and Quinten Beasley – Director.

On August 18, 2016, Paul M. Deputy was appointed Chief Financial Officer ("CFO") of the Company and entered into an employment agreement with the Company effective July 1, 2016 to serve as Chief Financial Officer for an initial term of twelve (12) months (automatically renewable thereafter for additional one year terms). The agreement provides that the Company will pay Mr. Deputy $140,000 per year. After 90 days the Board has chosen to issue Mr. Deputy's one warrant for each dollar of gross salary that is deferred. The exercise price of the warrants is the market price of the Company's shares at each quarter end. The Company granted Mr. Deputy options to purchase 550,000 shares of the Company's restricted common stock at a value of $26,096 with an exercise price of $0.077 per share with a term of three (3) years beginning July 1, 2016, as a signing bonus. These warrants were recognized as stock compensation expense.

In association with the employment agreement of Paul Deputy, our Chief Financial Officer, dated July 1, 2016, the Company issued one warrant to purchase one share of the Company's restricted stock at the exercise price at quarter end for each dollar of Mr. Deputy's deferred gross salary for the quarter ended December 31, 2017. Mr. Deputy's total accrued salary from September 1, 2016 to December 31, 2017 was $186,687. The Company granted warrants to purchase 29,167 shares of common stock for the quarter ended December 31 2017 valued at $4,890 (the Company also granted 35,000 shares of common stock for the quarter ended September 30, 2017 valued at $4,146 the Company also granted warrants to purchase 35,000 shares of common stock for the quarter ended June 30, 2017 valued at $3,106 and for the quarter ended March 31, 2017 valued at $4,851). The aggregate fair value of the warrants for the twelve months ended December 31, 2017 was $16,993. The warrants were valued using the Black Sholes valuation model. The warrants were recognized as stock compensation expense.

On August 17, 2016, the Company issued warrants to purchase 10,000 shares of common stock. The warrants were related to Bridge loans – working capital notes that were not paid timely. The agreement stated that lenders would be paid a 10% warrant coverage. At August 17, 2016, Director Joel Oppenheim was due $100,000 and was issued 10,000 warrants. The fair value of these warrants was $1,588 at an exercise price of $0.09 per share, expiring on August 17, 2019.

On August 18, 2016, the Board of Directors issued the then CFO 500,000 shares of the Company's restricted common stock for a signing bonus. The shares were issued at current market price of $0.077 per share on August 17, 2016 at a value of $38,500 and recorded as stock based compensation.

On August 18, 2016, the Board of Directors granted Joel Oppenheim options to purchase 300,000 shares of the Company's restricted common stock at an exercise price of $0.077 per share and have a term of three (3) years beginning August 17, 2016 at a value of $23,028 as compensation for arranging and guaranteeing certain bank relationships for the Company.

On August 25, 2016, in consideration for the cancellation of $12,000 of accounts payable, the Company issued 150,000 shares at a valuation of $12,000 priced at $0.08 per share, to Director Quinten Beasley.

On August 25, 2016, in consideration for the cancellation of debts incurred, the Company issued 250,000 shares to Director Joel Oppenheim. These shares had a valuation of $20,000 and were priced at $0.08 per share.

On August 25, 2016, in consideration for the cancellation of $56,107 of accounts payable and $110,000 of debts incurred, the Company issued 2,076,000 shares at a valuation of $166,107 priced at $0.08 per share, to the then CFO.

During the 2nd and 3rd quarter of 2016, warrants to purchase 230,000 shares of common stock were issued for pre-bridge loans. The loans were provided as follows: $110,000 by Director Joel Oppenheim, $100,000 by the CFO and $20,000 by Chairman Leo Womack. These warrants had a valuation of $15,792 with an exercise price of $0.09 per share and expire in the 2nd and 3rd quarter of 2019.

On September 28, 2016, the Company issued 24,308,985 shares of its restricted common stock to SUDS Properties LLC., a related party, to acquire an additional 40% working interest ownership As a result of the exchange, SUDS became a wholly-owned subsidiary of the Company. The purchase price of the shares equates to a $4,373,186 value, based on the $0.1799 per share market price of the Company's shares on September 28, 2016 (the effective date of the transaction).

On September 28, 2016, the Company acquired an additional 50% working interest ownership from Jovian Resources LLC for $4,000,000 in debt. Specifically, a Promissory Note payable for $1,000,000 as outlined above in Note 4. In addition, a Production Payment Note for $3,000,000 will be paid out net revenues received by the purchaser. See Note 6 for additional details of this transaction. The final purchase price allocation of the combined transactions is as follows: oil and gas properties acquired $8,401,318, asset retirement obligation assumed of $28,132.

During the nine months ended September 30, 2016, two directors were granted warrants to purchase 31,250 shares of common stock in exchange for providing collateral to a bank to collateralize the Company's letters of credit. The value of the warrants was $2,629 with an exercise price of each warrant is $0.06 per share and they expire three (3) years from their grant date. The value of these warrants was recorded as debt issuance costs on the date of the grant.

The Board authorized the Company to allow all outstanding warrant-holders to exercise their outstanding warrants at a 20% discount. In October 2016, four (4) warrant holders exercised a total of 825,000 warrants by remitting payments of $63,352 at an average share price of $0.095 per share. Director Lee Lytton exercised 10,000 warrants (included in the total above) by remitting a payment of $472 at a share price of $0.059 per share. Director Joel Oppenheim exercised 300,000 warrants by remitting payment of $18,480 at a share price of $0.06 per share.

On December 31, 2016, the Company issued warrants to purchase 500,000 shares of Company common stock to extend the due date on Rick Wilber's Notes, based on the Amendment to the Agreement. These warrants were valued at $79,223 and have an exercise price of $0.15 and expire on December 31, 2021.

On April 18, 2017, James E. Burns was appointed President of the Company and entered into an employment agreement with the Company to serve as President. The agreement provides that the Company will pay Mr. Burns $300,000 per year in base salary. For the first year of employment, $100,000 of the salary will be paid in cash, the remaining amount will be paid by the issuance of 1,400,000 shares of common stock. On June 30, 2017, 350,000 shares, valued at $35,000, were issued in accordance with Mr. Burns common stock related salary compensation. On September 30, 2017, 350,000 shares, valued at $42,000, were issued in accordance with Mr. Burns common stock related salary compensation. The $100,000 cash salary will commence after $1,000,000 is raised from the Series A Preferred Offering or a material event that brings cash into the Company. A one-time signing bonus of 1,000,000 shares of common stock, valued at $120,000, was granted to Mr. Burns upon execution of the agreement. Mr. Burns will also receive an annual bonus based on the percentage increase in stock price during the year. For every percentage point increase in stock price, Mr. Burns will be paid that percentage times his base salary. For example, if the stock price increased by 20%, then a $60,000 bonus ($300,000 * 20% = $60,000) would be paid. On an annual basis, Mr. Burns will also receive service related warrants to purchase 1,000,000 shares of common stock with an exercise price of $0.14 per share. At September 30, 2017, warrants to purchase 250,000 shares of common stock were granted, valued at $29,580, related to his 3rd quarter service bonus. These warrants are based on a $0.12 price per share valuation, volatility of 286%, a discount rate of 1.09% and a 3 year term. In addition, warrants to purchase 166,667 shares of common stock were granted, valued at $14,758, related to his 2nd quarter service bonus. These warrants are based on a $0.09 price per share valuation, volatility of 286%, a discount rate of 1.09% and a 3 year term. On December 31, 2017, warrants to purchase 250,000 shares of common stock were granted, at $0.17 price per share valuation, related to his 4th quarter service, volatility of 284%, a discount rate of 1.09%, valued at $41,916.

On June 8, 2017, the Company sold a 2007 Toyota Tundra truck to Jovian for $5,000. The payment was made through a $5,000 reduction of Jovian's shareholder advance balance. The transaction resulted in a loss of $3,677 based on an original cost of $10,625 and accumulated depreciation of $1,948.

During the year ended December 31, 2017, shareholders advanced an additional $361,600 to the Company, the Company made payments back to shareholders of $74,000 ($5,000 out of the $74,000 related to the truck purchase disclosed above) and $262,500 of outstanding debt was converted to Series A Preferred Stock. This resulted in an increase to the shareholder advance liability from $192,000 at December 31, 2016 to $217,100 at December 31, 2017. The following related parties (Leo Womack – $55,000, Lee Lytton – $25,000, Joel Oppenheim – $167,500 and Paul Deputy - $15,000) converted their shareholder advances into Preferred Stock.

For their service as Directors on the Company's Board of Directors, on May 23, 2017, the Board granted Leo B. Womack, the Chairman of the Board of Directors of the Company an option to purchase 1,000,000 shares of the Company's common stock at an exercise price of $0.12 per share, which vested immediately, and is exercisable for 36 months thereafter. The Board also granted Lee Lytton, Joel Oppenheim, Quinten Beasley and Saleem Nizami, members of the Board of Directors each an option to purchase 500,000 shares of the Company's common stock at an exercise price of $0.12 per share, which vested immediately, and is exercisable for 36 months thereafter. The fair value of the options granted on May 23, 2017 is $356,027, based on a $0.12 valuation, volatility of 235%, a discount rate of 1.09% and a 3 year term. The total amount of the options was expensed during the year ended December 31, 2017. These warrants are subject to a clawback provision which would be ratably invoked if a director did not complete his 2017 service term.

On April 18, 2017, Mr. James Burns and Mr. Saleem Nizami were elected Directors of the Company. In exchange for accepting their appointments, each individual was granted 100,000 shares of common stock valued at $0.13 per share. Each Directors shares were valued at $13,000.

On May 23, 2017, related party debt holders were offered the option to convert their outstanding loan balances of $362,500 and accrued interest of $13,400 (totaling $375,900) into Preferred Stock. As a result, the following Preferred Stock shares were issued: Leo Womack 5,500 shares, Joel Oppenheim 17,590 shares, Lee Lytton 2,500 shares, James Burns 10,500 shares and Paul Deputy (former CFO) 1,500 shares. In addition, any holder of any non-interest bearing loan converted also received warrants to purchase four shares of common stock for each dollar converted. Consequently, a total of warrants to purchase 400,000 shares of common stock were granted (Leo Womack 70,000 shares, Joel Oppenheim 270,000 shares, Lee Lytton 30,000 shares and Paul Deputy (former CFO) 30,000 shares) as part of the conversion, which each had an exercise price of $0.20 per share and a term of 3 years. The warrants were valued at $47,319. Any loan that had received warrants when initially issued did not receive additional warrants in this conversion offering.

Jovian converted its outstanding $4,000,000 of debt in two tranches, a $2,000,000 first tranche on May 30, 2017 and a $2,000,000 second tranche on July 19, 2017. Although the two transactions occurred in different reporting periods, the two transactions were contemplated together, and they were accounted for as one extinguishment that was accomplished in two tranches, the first in May 2017 and the second in July 2017 (See Note 6. Notes Payable for the details of these transactions).

The combination of the two transactions resulted in an $88,755 loss which was recognized in the second quarter of 2017. The extinguishment of tranche 2 was recognized in the third quarter, with no impact on the consolidated statement of operations.

On May 23, 2017, James E. Burns, the President of the Company, sold a Caterpillar D6 Dozer to the Company in exchange for 3,000 shares of Preferred Stock. The equipment was valued at $30,000.

On August 1, 2017 Mr. Joel Oppenheim provided a Letter of Credit (LOC), which was posted as collateral, in order for the Company to issue operating bonds with the State of New Mexico for the operation of 25 Twin Lakes San Andres Unit wells. In exchange for the LOC, the Company issued Mr. Oppenheim 2,000,000 shares of common stock valued at $246,000 and warrants to purchase 2,000,000 shares of common stock valued at $236,586 with an exercise price of $0.14 per share. The warrants are based on a $0.12 price per share valuation, volatility of 286%, a discount rate of 1.09% and a 3 year term. For each quarter following the initial advance until the LOC is revoked an additional two hundred fifty thousand (250,000) warrants will be granted. The exercise price of those warrants will be the average common stock market price over the previous 90 days. In addition, Petrolia will provide security interest in the form of 100% undivided working interest in the Noack field. On December 31, 2017, warrants to purchase

250,000 shares of common stock were granted, at $0.17 price per share valuation, related to the Letter of Credit (LOC) provided for the 4th quarter, volatility of 284%, a discount rate of 1.09%, and a 3 years term, valued at $41,916.

On September 26, 2017, Mr. Oppenheim was issued 1,035,000 shares of common stock. These shares were the result of exercising warrants to purchase 1,035,000 shares of common stock, at an exercise price of $0.06 per share, which included the remittance of $62,065 as the aggregate exercise price.

On October 1, 2017, the Company commenced a private offering of its securities under Regulation D to accredited investors. Each unit is comprised of 416,667 shares of common stock at a price of $0.12 per share and one warrant to purchase an additional 416,670 shares of common stock at a price of $0.20 per share at any time prior to October 1, 2020. As of December 31, 2017 six and a half (6.5) units had been subscribed for and 2,708,336 shares of common stock had been purchased by various accredited investors. See Note 6 for financial related details on all purchases. Out of the six and a half (6.5) units subscribed for, 4/5 (0.80) of one unit was subscribed by and 333,333 shares of common stock had been purchased by our Director Leo Womack, and 1/5 (0.20) of one unit was subscriber for and 83,334 shares of common stock had been purchased by our Director Joel Oppenheim.

On January 16, 2018, Paul Deputy tendered his resignation as the Chief Financial Officer of the Company.

Also effective on January 16, 2018, the Company appointed Tariq Chaudhary as the Company’s new Chief Financial Officer (CFO), in anticipation of the completion of the Company’s acquisition of Bow Energy Ltd.

Mr. Chaudhary’s biographical information is presented in PART III. ITEM 10.

On January 24, 2018, 350,000 shares, valued at $44,800, were issued in accordance with Mr. James Burns’ common stock related salary compensation.

On February 1, 2018, a law firm was granted 100,000 shares of common stock as a bonus for the Bow Energy acquisition.

On February 1, 2018, in consideration for the cancellation of $25,000 in debt, the Company issued 125,000 shares of common stock to a Director, a related party transaction.

On February 1, 2018, a Director exercised 1,110,000 warrants of common stock by settling $102,590 of Accounts Payable to a company controlled by the director at an average share price of $0.092 per share, a related party transaction.

On February 23, 2018, a Director was issued 100,000 shares of common stock for reissuance of lost certificate, related party transaction.

On February 27, 2018, the Company closed the Acquisition and Petrolia acquired all of the issued and outstanding shares of capital stock of Bow Energy Ltd., ("BOW"), a Canadian company with corporate offices in Alberta, Calgary. Bow's common shares were listed for trading on the TSX Venture Exchange. The Bow shares were delisted from the facilities of the TSX Venture Exchange on March 5, 2018.

Under the terms of the Arrangement, Bow shareholders are deemed to have received 1.15 Petrolia common stock shares for each Bow share. A total of 106,156,712 shares of the Company's common stock were issued to the Bow shareholders as a result of the Arrangement, plus additional shares in connection with rounding.

Bow is an Oil & Gas Exploration and Development company operating in the prolific Indonesian Sumatra basin. BOW's key assets include South Block A PSC – 44.48% working interest, Bohorok PSC – 50% working interest, Bohorok Deep JSA – 20.25% working interest, Palmerah Baru – 54% working interest, MNK Palmerah – 69.36% working interest, Mahato PSC – 20% working interest. BOW will continue as a wholly owned subsidiary of Petrolia and continue to operate all properties under BOW.

Ilyas Chaudhary, is the father of Zel C. Khan, the Company's Chief Executive Officer. Mr. Chaudhary owned and controlled BSIH Ltd. ("BSIH") prior to the acquisition of Bow and through the ownership and control of BSIH, Mr. Chaudhary controlled Bow. Therefore, the BOW acquisition is considered to be a related party transaction. Additionally, BSIH was the largest shareholder of the Company prior to the cancellation of the shares pursuant to the terms of a Share Exchange Agreement between the Company and Blue Sky Resources Ltd dated August 31, 2018.

The acquired assets of Bow consist of over 948,000 net acres onshore North Sumatra, Indonesia which consists of interests in five production-sharing contracts (PSCs) and one Joint Study Agreement (JSA) with the Indonesian government.

On February 28, 2018, Director Joel Oppenheim exercised 630,000 warrants by remitting payment of $61,800 at an average share price of $0.098 per share.

Effective April 12, 2018, the Board of Directors (a) appointed Zel C. Khan as Secretary of the Company; (b) appointed Ivar Siem as a member of the Board of Directors of the Company; and (c) approved the issuance of 616,210 shares of restricted common stock to Mr. James E. Burns, a member of the Board of Directors, in consideration for 2017 deferred salary of $61,621.

Also, on April 12, 2018, the Board of Directors approved (a) the entry by the Company into a $500,000 Convertible Promissory Note with Blue Sky International Holdings Inc., a related party. The note, effective April 1, 2018, is due on April 1, 2019, accrues interest at the rate of 11% per annum until paid in full, and is convertible into shares of common stock of the Company at the rate of $0.12 per share. This note was never utilized and subsequently cancelled; and (b) the entry into an Amended Revolving Line of Credit Agreement with Jovian Petroleum Corporation, a related party, which establishes a revolving line of credit in the amount of $500,000 for a period of six months (through August 9, 2018) with amounts borrowed thereunder due at the expiration of the line of credit and accruing interest at the rate of 3.5% per annum unless there is a default thereunder at which time amounts outstanding accrue interest at the rate of 7.5% per annum until paid in full, with such interest payable every 90 days. Both the Blue Sky International Holdings Inc. Promissory Note and the Jovian Line of Credit are related party transactions. Blue Sky International Holdings Inc. is owned by Mr. Ilyas Chaudhary, father of Zel C. Khan, former Director and Officer of Jovian and current CEO and President of the Company.

Effective on June 29, 2018, the Company acquired a 25% working interest in approximately 41,526 acres located in the Luseland, Hearts Hill, and Cuthbert fields, located in Southwest Saskatchewan and Eastern Alberta, Canada (collectively, the “Canadian Properties” and the “Working Interest”). The Canadian Properties currently encompass 64 sections, with 240 oil and 12 natural gas wells currently producing on the properties. Additionally, there are several idle wells with potential for reactivation and 34 sections of undeveloped land (approximately 21,760 acres).

The Canadian Properties and the Working Interest were acquired from Blue Sky Resources Ltd. (“Blue Sky”), whose President is Ilyas Chaudhary, the father of Zel C. Khan, the Company’s Chief Executive Officer. Mr. Chaudhary owns and controls BSIH Ltd. (“BSIH”). BSIH was the largest shareholder of the Company prior to the cancellation of the shares pursuant to the terms of a Share Exchange Agreement between the Company and Blue Sky Resources Ltd dated August 31, 2018. Blue Sky had previously acquired an 80% working interest in the Canadian Properties from Georox Resources Inc., who had acquired the Canadian Properties from Cona Resources Ltd. and Cona Resources Partnership prior to the acquisition by the Company.

The effective date of the acquisition was June 1, 2018. The acquisition of the Canadian Properties was evidenced and documented by a Memorandum of Understanding between the Company and Blue Sky dated June 29, 2018 and a General Conveyance between the parties dated as of the same date, pursuant to which the Company agreed to acquire the Working Interest in consideration for $1,428,581 in Canadian dollars (“CAD”) (approximately $1,089,150 in U.S. dollars) of which CAD $1,022,400 (approximately $779,478 in U.S. dollars) was paid in cash (the “Cash Payment”) and CAD $406,181 (approximately $314,912 in U.S. dollars) was evidenced by a promissory note (the “Acquisition Note”).

The Cash Payment was made with funds borrowed by the Company pursuant to the terms of that certain $1,530,000 May 9, 2018, Amended and Restated Loan Agreement entered into with Bow and a third party (the “Loan Agreement” and the “Lender”). The amount owed under the Loan Agreement accrues interest at the rate of 12% per annum (19% upon the occurrence of an event of default) and is due and payable on May 11, 2021. The Working Interest will be held in the name of the Company’s newly formed wholly-owned Alberta, Canada, subsidiary, Petrolia Canada

Corporation. The Acquisition Note, which was dated June 8, 2018, bears interest at the rate of 9% per annum, beginning on August 1, 2018 and is due and payable on November 30, 2018, provided that we have the right to extend the maturity date for a period six months with 10 days' notice to Blue Sky, in the event we pay 25% of the principal amount of the Acquisition Note at the time of extension.

The acquisition has not formally closed as the assets can only be transferred after the payment/settlement of the Acquisition Note.

On August 17, 2018, the Company sold an aggregate of $90,000 in Convertible Promissory Notes (the "Director Convertible Notes"), to the Company's directors, Ivar Siem ($20,000) through an entity that he is affiliated with; Leo Womack ($60,000); and Joel Oppenheim ($10,000). The Director Convertible Notes accrue interest at the rate of 12% per annum until paid in full and are due and payable on October 17, 2018. The amount owed may be prepaid at any time without penalty. The outstanding principal and interest owed under the Director Convertible Notes are convertible into common stock of the Company, from time to time, at the option of the holders of the notes, at a conversion price of $0.10 per share. As additional consideration for entering into the notes, the Company agreed to grant one-year warrants to purchase one share of the Company's common stock at an exercise price of $0.10 per share for each dollar loaned pursuant to the Director Convertible Notes (the "Bridge Note Warrants"). As such, the Company granted (a) 20,000 Bridge Note Warrants to an entity affiliated with Ivar Siem; (b) 60,000 Bridge Note Warrants to Leo Womack; and (c) 10,000 Bridge Note Warrants to Joel Oppenheim. The Director Convertible Notes contain standard and customary events of default. It is contemplated that up to an additional $160,000 in Director Convertible Notes will be sold to affiliates of the Company in the next several months.

Effective on August 31, 2018, the Company entered into and closed the transactions contemplated by a Share Exchange Agreement with Blue Sky Resources Ltd. ("Blue Sky" and the "Exchange Agreement"). The President, Chief Executive Officer and 100% owner of Blue Sky is Ilyas Chaudhary, the father of Zel C. Khan, the Company's Chief Executive Officer. Chaudhary indirectly owns and controls BSIH Ltd. ("BSIH"), which is a significant shareholder of the Company. Additionally, prior to the acquisition of Bow Energy Ltd. ("Bow") (which we acquired pursuant to an Arrangement Agreement dated November 30, 2017, which acquisition closed on February 27, 2018), BSIH, and as a result of his ownership and control of BSIH, Mr. Chaudhary, controlled Bow.

Pursuant to the Exchange Agreement, we exchanged 100% of the ownership of Bow, in consideration for:

(a)

70,807,417 shares of the Company's common stock owned and controlled by Mr. Chaudhary and BSIH (the "Blue Sky Shares");

(b)

$100,000 in cash (less certain advances paid by Blue Sky or Bow to the Company since April 1, 2018);

(c)

the assumption of certain payables owed by Bow totaling $1,696,332 (which includes $730,000 owed under the terms of a Loan Agreement, as amended, originally entered into by Bow, but not the subsequent $800,000 borrowed by Bow pursuant to the amendment to the Loan Agreement dated May 9, 2018 (which obligation is documented by a Debt Repayment Agreement));

(d)

20% of Bow Energy International Holdings, Inc, which is wholly-owned by Bow (“Bow EIH”)(which entity’s subsidiaries own certain Production Sharing Contracts (the “PSC”) and certain other participating assets), pursuant to an Assignment Agreement;

(e)

certain carry rights described in greater detail in the Exchange Agreement, providing for Blue Sky to carry the Company for up to the next $10 million of aggregate costs in BOW EIH and the PSC assets, with any profits from BOW EIH being distributed 80% to Bow and 20% to the Company, pursuant to a Petrolia Carry Agreement (the “Carry Agreement”); and

(f)

a 3% royalty, after recovery of (i) the funds expended by Bukit Energy Bohorok Pte Ltd, which is wholly-owned by BOW EIH in the Bohorok, Indonesia PSC (the “Bohorok PSC”) since July 1, 2018, plus (ii) $3,546,450 (i.e., ½ of Bow’s share of the prior sunk cost of the Bohorok PSC), which royalty is evidenced by an Assignment of Petrolia Royalty (the “Royalty Assignment”).

The Exchange Agreement closed on August 31, 2018 and has an effective date of July 1, 2018. The Exchange Agreement contains customary and standard representations and warranties of the parties, indemnification obligations (which survive for six months following the closing) and closing conditions. The Company is in the process of cancelling the Blue Sky Shares and returning such shares to the status of authorized but unissued shares of common stock.

F-17

NOTE 7. NOTES PAYABLE

Convertible Debt – Related Party

On June 17, 2013, the Company entered into a Convertible Secured Note and Warrant Purchase Agreement (the "Purchase Agreement") with Rick Wilber. Pursuant to the Purchase Agreement, the Company agreed to sell, and Mr. Wilber agreed to buy, for aggregate consideration of $350,000, a convertible secured promissory note in the principal amount of $350,000 (the "Note") convertible at $0.30 per share, and a warrant to purchase 1,000,000 shares of the Company's common stock (the "Warrant") at an exercise price of $0.80 per share. The Warrant vests immediately and has a term of 10 years. The relative fair value of the Warrant was determined to be $148,925, which was recorded as a debt discount. The intrinsic value of the beneficial conversion feature of the note was determined to be $102,259 and was recorded as a debt discount. The debt discounts were amortized over the life of the Note using the effective interest method. The effective interest rate was 53.7%. The $350,000 balance is due June 17, 2016. The Note's due date was extended until June 30, 2017.

On September 30, 2013, the Company entered into a Convertible Secured Note and Warrant Purchase Agreement (the "September Purchase Agreement") with Rick Wilber. Pursuant to the September Purchase Agreement, the Company agreed to sell, and Mr. Wilber agreed to buy, for aggregate consideration of $100,000, a convertible secured promissory note in the principal amount of $100,000 (the "September Note") convertible at $0.30 per share, and a warrant to purchase 285,000 shares of the Company's common stock (the "September Warrant") at an exercise price of $0.80 per share. The September Warrant vests immediately and has a term of 10 years. The relative fair value of the September Warrant was determined to be $46,022 which was recorded as a debt discount. The intrinsic value of the beneficial conversion feature of the September Note was determined to be $46,022 and was recorded as a debt discount. The debt discounts were amortized over the life of the September Note using the effective interest method. The effective interest rate was 119.7%. The $100,000 balance is due September 30, 2016. The September Note's due date was extended to June 30, 2017. In order to extend the September Note's due date and based on the Amendment to the Agreement, warrants to purchase 500,000 shares of Company common stock were issued by the Company. These warrants were valued at $79,223 and have an exercise price of $0.15 and expire on December 31, 2021.

On December 31, 2013, the Company entered into a Convertible Secured Note and Warrant Purchase Agreement (the "December Purchase Agreement") with Rick Wilber. The September Note was consolidated into the December Purchase Agreement. Pursuant to the December Purchase Agreement, in addition to the proceeds of the September Note, the Company agreed to sell, and Mr. Wilber agreed to buy, for aggregate consideration of $100,000, a convertible secured promissory note in the principal amount of $100,000 (the "December Note") convertible at $0.30 per share, and a warrant to purchase 285,000 shares of the Company's common stock (the "December Warrant") at an exercise price of $0.80 per share. The December Warrant vests immediately and has a term of 10 years. The relative fair value of the December Warrant was determined to be $49,873 which was recorded as a debt discount. The intrinsic value of the beneficial conversion feature of the December Note was determined to be $50,127 and was recorded as a debt discount. The debt discounts were amortized over the life of the December Note using the effective interest method. The effective interest rate was 132.2%. The $100,000 balance is due September 30, 2016. The December Note's due date was extended to June 30, 2017.

During the years ended December 31, 2016 and 2015, the Company amortized $171,573 and 152,980 of the total discounts on the three transactions above to interest expense. At December 31, 2016 the discount was fully amortized, and the ending note payable-related party balance was $550,000; resulting in net convertible debt-related party of $550,000.

During January to June 2017, the Company issued 80,000 warrants, at the exercise price of $0.15 per share for a 36 month term, for each month to keep the December Purchase Agreement compliant while negotiating conversion terms, totaling 480,000 warrants of common shares. On July 6, 2017, Mr. Rick Wilber agreed to convert his cumulative outstanding debt of $550,000 into 55,000 shares of Preferred Stock.

Convertible Debt – (non-related parties)

Convertible Bridge Notes

On July 25, 2016, the Company entered into Promissory Notes for $75,000 with accredited investors. The notes bear interest at 10% per annum and mature on July 31, 2017. If the Company completes a qualified offering prior to July 31, 2017, the notes and accrued interest will automatically convert into the common shares at an 80% conversion rate. If not converted earlier, the principal and interest on the Note will convert into shares at the rate of $0.10 per share at maturity.

Promissory Notes – non convertible (related parties)

On May 1, 2015, twenty two (22) units were subscribed for by accredited investors in a private offering of securities under Regulation D, which resulted in 2,200,000 shares being purchased. Eight (8) units of the twenty two (22) units or 800,000 shares were issued for conversion of debt. These eight units were issued as follows. Mr. Leo Womack, Chairman of the Company, purchased 300,000 shares (including 300,000 warrants) through the Leo B. Womack Family Trust. Mr. Lee Lytton, a Director of the Company, purchased 300,000 shares (including 300,000 warrants). Mr. Joel Oppenheim, a Director of the Company, purchased 200,000 shares (including 200,000 warrants). These 800,000 shares (and 800,000 warrants) offset a total of $80,000 in advances from affiliates that was disclosed as a liability in the consolidated financial statements as of March 31, 2015 and were converted to equity in this offering. The conversion resulted in a $90,800 loss on the conversion (including the value of the warrants). In addition, Jovian purchased 100,000 of the shares and Joel Oppenheim purchased an additional 100,000 shares, exclusive of his shares related to his conversion of debt.

On November 4, 2015, the Company executed a Promissory Note for $146,875 related to the TLSAU acquisition. The note was due on December 31, 2015 and accrues at a rate of 10% per annum and the repayment of the note is secured by 1,000,000 shares of restricted stock of the Company. The Company exercised its one time right for a 6 month extension of the maturity date of the note by issuing BSNM 500,000 additional shares of restricted Company stock. The 500,000 shares were issued at a price of $0.75 per share at a value of $37,500.

On May 2, 2016, the Company paid off its outstanding Promissory Note to BSNM for $146,875. The payoff was made through the issuance of 1,468,750 shares of Company common stock. Based on the market value of the stock on May 2, 2016 of $0.10, the value of the transaction was $146,875 and resulted in no gain or loss. In addition, a cash payment of $4,869 was made to pay off the remaining outstanding interest.

A Promissory Note to Jovian for $1,000,000 was executed bearing interest at 5% and due on December 31, 2016 related to the acquisition of a 50% working interest in the SUDS field. Full payment was due on December 31, 2016, provided the buyer extended the Note to June 30, 2017 by making a $10,000 payment in cash. The Promissory Note is secured by a 12.5% undivided working interest in the SUDS field. In the event the Company closes any financing related to the SUDS field, 50% of the net proceeds received from the financing will be applied to pay the Note.

Production Payment Note

In addition to the Promissory Note described above, a Production Payment Note was executed for the same 50% working interest in the SUDS field. This note was for $3,000,000, paid out of twenty percent (20%) of the 50% undivided interest of net revenues received by the Purchaser that is attributable to the SUDS field assets. The Purchaser shall make the production payments to seller no later than the end of each calendar month. The Production Payment Note is secured by a 12.5% undivided working interest in the SUDS field. Based on forecasts of future SUDS related revenues, $2,904,020 of the note balance is classified as long term and $95,980 is classified as current as of December 31, 2016.

Conversion of $1,000,000 Promissory Note and $3,000,000 Production Payment Note to common stock and preferred stock.

Jovian Petroleum Corporation converted its outstanding $4,000,000 of debt in two tranches, a $2,000,000 first tranche on May 30, 2017 and a $2,000,000 second tranche on July 19, 2017. Although the two transactions occurred in different reporting periods, the two transactions were contemplated together, and they were accounted for as one extinguishment that was accomplished in two tranches, the first in May 2017 and the second in July 2017.

Tranche 1 - On May 30, 2017, Jovian Petroleum Corporation converted $2 million of its $4 million debt into 10 million shares of the Company’s common stock. The $2 million debt included a $1 million Promissory Note and $1 million of the $3 million Production Payment Note as well as interest payable of $33,151.

Tranche 2 - On July 19, 2017, Jovian Petroleum Corporation converted $2 million of its remaining debt (outstanding under a Production Payment Note) into 12,749,285 shares of the Company’s common stock and 21,510 shares of the Company’s Preferred Stock.

The consideration for the debt extinguished consisted of the following:

10 million shares of common stock which were valued using the market price on the date of issuance of $0.14 per share ($1,400,000)
Warrants to purchase 6 million shares of common stock with an exercise price of $0.20 per share based on a $0.12 valuation, volatility of 293%, a discount rate of 1.09% and warrants to purchase 4 million shares of common stock with an exercise price of $0.35 per share based on a $0.12 valuation, volatility of 293%, and a discount rate of 1.09%. All warrants expire in 3 years. The 6 million warrants were valued at $709,776 while the 4 million warrants were valued at $471,104, totaling $1,180,880.
12,749,285 shares of common stock which were valued using the market price on the date of issuance of $0.104 per share ($1,325,926).
The Preferred Stock was valued at $10.00 per share, the cash price paid by third party investors for the same stock with an aggregate value of $215,100.

The combination of the two transactions resulted in an $88,755 loss which was recognized in the second quarter of 2017. The extinguishment of tranche 2 was recognized in the third quarter, with no impact on the consolidated statement of operations.

Bridge Loan – Working Capital

On June 17, 2016, the Company entered into Temporary Unsecured Loans (Bridge Loan – Working Capital) for $230,000. The notes bear interest at 10% per annum payable and mature in sixty (60) days. The lenders receive 100% warrant coverage at an exercise price of $0.09 per share. If the loans are not paid in 60 days, a 10% warrant coverage default penalty is paid. Initially, Director Leo Womack loaned $20,000, Director Joel Oppenheim loaned $110,000 and the CFO loaned $100,000. At December 31, 2016, the outstanding balance of Bridge Loan – Working Capital was $120,000. The decrease during 2016 was due to Mr. Oppenheim converting $20,000 and the CFO converting $110,000 of their respective debt into shares.

Rig Loan

On July 13, 2016, the Company entered into Temporary Unsecured Loans (Rig Loan) for $60,000. The notes bear interest at 10% per annum payable and mature on September 13, 2016. Should the Company default in timely repayment, the Company shall pay a penalty to each of the named parties by issuing warrants at a 100% coverage ratio. Each warrant has an exercise price of $0.059 per share and will expire September 13, 2019. The following related parties loaned funds to the Company as follows: $10,000 from Mr. Leo Womack – Chairman, $10,000 from the CFO, $10,000 from Mr. Lee Lytton – Director, $10,000 from Mr. Joel Oppenheim – Director, $10,000 from Mr. Quinten Beasley – Director. At December 31, 2016 the outstanding balance of Rig Loan was $60,000.

Cancelation of Bridge Loan-Working Capital and Rig Loan

As of May 23, 2017, the following related parties had the following outstanding balances corresponding to the Bridge Loan-Working Capital, Rig Loan and Shareholder Advance: Leo Womack $55,000, Lee Lytton $$25,000, Joel Oppenheim $167,500, Paul Deputy (former CFO) $15,000 and James Burns $100,000.

On May 23, 2017, related party debt holders were offered the option to convert their outstanding loan balances of $362,500 and accrued interest of $13,400 (totaling $375,900) into Preferred Stock. As a result, the following Preferred Stock shares were issued: Leo Womack 5,500 shares, Joel Oppenheim 17,590 shares, Lee Lytton 2,500 shares, James Burns 10,500 shares and Paul Deputy (former CFO) 1,500 shares. In addition, any holder of any non-interest bearing loan converted also received warrants to purchase for shares of common stock for each dollar converted. Consequently, a total of warrants to purchase 400,000 shares of common stock were granted (Leo Womack 70,000 shares, Joel Oppenheim 270,000 shares, Lee Lytton 30,000 shares and Paul Deputy (former CFO) 30,000 shares) as part of the conversion, which each had an exercise price of $0.20 per share and a term of 3 years. The warrants were valued at $47,319. Any loan that had received warrants when initially issued did not receive additional warrants in this conversion offering.

Promissory Notes – (non-related parties)

Short Term Debt

On November 15, 2016 the Company entered into Promissory Notes for $200,000 with two accredited investors. The notes bear interest at 12% per annum payable monthly at the rate of 1% and will mature on May 31, 2017. The Company will have the option of extending the notes for up to an additional six (6) months at an annual rate of 18% by paying interest monthly at a rate of 1.5%. Investors received warrants to purchase 100,000 shares of common stock (a 50% coverage ratio) at an exercise price of $0.12 per share. The warrants expire on December 31, 2019. On May 11, 2017, one accredited investor converted his outstanding balance of the loan of $100,000 into 10,000 Series A preferred shares. On May 26, 2017 one accredited investor converted his outstanding balance of the loan of $100,000 plus interest accrued of $5,000 into 10,500 Series A preferred shares.

Installment Notes

On January 6, 2017, the Company purchased a 2014 Toyota Tundra for a total price of $35,677 and entered into an installment note with JPMorgan Chase Bank in the amount of $35,677 for a term of 5 years at 5.49% APR. Principal payments of $5,076 were made during 2017, leaving a remaining balance of $30,600 at year end.

Shareholder Advances (Related Party Only)

Shareholder Advances (Related Party Only)

	Amount
Balance at December 31, 2016	$192,000
Additions	
Advance (1)	361,600
Total Additions	361,600
Payments	
Debt Conversion to Shares (2)	262,500
Reduction of shareholder balance through the sale of truck (3)	5,000
Cash (4)	69,000
Total Payments	336,500
Balance at December 31, 2017	$217,100

(1) Funds that were provided by related parties as shareholder advances.

(2) Shares were issued to extinguish outstanding liabilities of the Company. These liabilities could be outstanding shareholder advances, pre-bridge working capital loans or service related accounts payable.

(3) Reduction of Jovian Petroleum balance through the sale of 2007 pickup truck Toyota.

(4) Funds that were paid in cash by the Company to various related parties to reimburse for funds that were previously loaned as a shareholder advances.

Five Year Maturity

As of December 31, 2017, future maturities on our notes payable, which include the $217,100 related party notes, and the $32,582 current maturities and $24,204 long term installment note payable, were as follows:

Fiscal year ending:	
2018	$249,682
2019	7,102
2020	7,502
2021	7,925
2022	1,675
Total	$273,886

NOTE 8. EQUITY

Preferred Stock – 1,000,000 shares authorized.

Effective April 11, 2017, the Company initiated a $2,000,000 Series A Convertible Preferred Stock ("Preferred Stock") offering at a price of $10.00 per share. The holders of Series A Preferred Stock are entitled to receive cumulative dividends at a rate of 9%. The Preferred Stock will automatically convert into common stock when the Company's common stock market price equals or exceeds $0.28 per share for 30 consecutive days. At conversion, the value of each dollar of preferred share will convert to 7.1429 common shares (which results in a $0.14 per common share conversion rate). During the second quarter of 2017, 120,590 shares or $1,205,900 of the offering had been issued. The 120,590 shares were issued as follows: conversion of TORRI (40,500 shares) – See Note 7 for additional details, conversion of debt (28,900 shares - 25,900 related to short term notes [as described in Note 6] and 3,000 related to equipment purchase), conversion of shareholder advances (27,090 shares of which 840 was for accrued interest, see Note 7 for further explanation) and cash (24,100 shares). Of the 120,590 shares, 57,990 of the shares were issued to related parties while 62,600 of the shares were issued to third parties.

On July 6, 2017, Mr. Rick Wilber agreed to convert his cumulative outstanding debt of $550,000 into 55,000 shares of Preferred Stock. The outstanding debt included the following: a $350,000 Convertible Secured Note dated June 17, 2013, a $100,000 Convertible Secured Note dated September 30, 2013 and a $100,000 Convertible Secured Note dated December 31, 2013. Subsequent to this conversion, all of the Company's debt with Mr. Wilber is deemed cancelled and it is no longer due and payable. Mr. Wilber retains both the warrants and shares that were previously issued by the Company related to the original sale of these notes (and their respective amendments).

On July 19, 2017, Jovian Petroleum Corporation ("Jovian") converted $2 million of its remaining debt into 12,749,285 shares of the Company's common stock and 21,510 shares of the Company's Preferred Stock. The Preferred Stock was priced at $10.00 per share with a value of $215,100. Refer to Note 6 for further explanation. The CEO of Jovian is Quinten Beasley, our director, and the largest shareholder of Jovian is Zel C. Khan, our CEO and director.

On the 1st quarter 2017, James Burns received warrants to purchase 120,000 common shares, at an exercise price of $0.14 per share at a 3 year term, valued at $15,800, for his consulting services.

Common Stock –

On May 1, 2015, the Company commenced a private offering of its securities under Regulation D to accredited investors. Each unit with a price of $10,000 per unit, is comprised of 100,000 shares of common stock and one warrant to purchase an additional 100,000 shares of common stock at a price of $0.12 per share at any time prior to August 5, 2018. As of December 31, 2015, fourteen (14) units had been subscribed for and 1,400,000 shares of common stock had been purchased by various accredited investors. See Note 6 for financial related details on all purchases.

On September 1, 2015, the Company commenced a private offering of its securities under Regulation D to accredited investors. Each unit which has a price of $6,000, is comprised of 100,000 shares of common stock and one warrant to purchase an additional 100,000 shares of common stock at a price of $0.10 per share at any time prior to August 31, 2018. As of December 31, 2015 twenty seven (27) units had been subscribed for and 2,700,000 shares of common stock had been purchased. Seven (7) of those units were purchased by accredited investors. This offering was closed on May 31, 2016.

On September 23, 2015, the Company acquired a 10% working interest from Jovian in the SUDS field, in exchange for 10,586,805 shares of restricted common stock. For further details see Note 9.

On September 24, 2015, the Board of Directors of the Company approved the adoption of the 2015 Stock Incentive Plan (the “Plan”). The Plan provides an opportunity, subject to approval of our Board of Directors of individual grants and awards, for any employee, officer, director or consultant of the Company. The maximum aggregate number of shares of common stock which may be issued pursuant to awards under the Plan was 4,000,000 shares (which has since been increased to 40,000,000 as discussed below). The plan was ratified by the stockholders at the Company’s annual meeting which was held on April 14, 2016.

At the 2015 Annual Meeting of our Stockholders, held on April 14, 2016, the shareholders voted to increase the total number of authorized shares of common stock to 150,000,000.

On November 4, 2015, the Company acquired a 15% net working interest in the TLSAU field and all operating equipment on the field, pursuant to the terms of a Memorandum of Agreement between the Company and BSNM, which was dated November 4, 2015 (the “Purchase Agreement”).

On February 1, 2016, the Company acquired 100% of the issued and outstanding shares in Askarii Resources, LLC, a private Texas based oil & gas service company for 1,000,000 shares of Company common stock. See Note 9 for further details on this transaction.

On March 11, 2016, the Board of Directors granted three (3) contract employees 700,000 shares of the Company's restricted common stock for settlement of outstanding payables. The shares were issued at the current market price of $0.06 per share on March 11, 2016, at an aggregate value of $42,000.

On August 17, 2016 the Board of Directors issued two employees 200,000 shares of the Company's restricted common stock. The shares were issued at current market price of $0.077 per share on August 17, 2016 at a value of $15,400 and recorded as stock based compensation.

On September 1, 2016, the Company acquired an additional 25% working interest ownership of TLSAU field through the issuance of 3,500,000 shares of its restricted common stock with an unrelated party. See Note 9 for additional details on this transaction.

On September 28, 2016, the Company issued 24,308,985 shares of its restricted common stock to Jovian to acquire an additional 40% working interest ownership of SUDS. See Note 9 for further details of this transaction.

On September 30, 2016, per a consulting agreement, a contractor was issued 11,607 shares of common stock in exchange for services. These shares were valued at $1,625 at a market price of $0.14 per share.

Effective September 30, 2016, the seven (7) Advisory Board members were compensated for their service from April 1, 2016 through September 30, 2016 (for two quarters) though the granting of 12,500 warrants each (87,500 total warrants per quarter), per quarter per Board member, to purchase 12,500 shares of the Company's common stock at an average exercise price of $0.095 per share, which vested immediately, and are exercisable for 36 months thereafter. In 2016, a total of 262,000 warrants were issued with a fair value of $29,161 based on an average $0.095 valuation, volatility of 235%, a discount rate of 1.09% and a 3 year term. The total amount of the warrants was expensed in 2016. These warrants are subject to a clawback provision which would be ratably invoked if an advisory board member did not complete his 2016 service term.

On December 7, 2016, the Board of Directors issued an employee 100,000 shares of the Company's restricted common stock. The shares were issued at current market price of $0.12 per share on the effective date of November 17, 2016 at a value of $12,000 and recorded as stock based compensation.

During December 2016, warrants to purchase 100,000 shares of common stock were issued for short term debt. The loans were provided by accredited investors. These warrants had a valuation of $14,870 with an exercise price of $0.12 per share and expire in December 2019.

On December 31, 2016, a contractor was granted warrants to purchase 40,000 shares of common stock with an exercise price of $0.14 per share. These warrants were valued at $5,545 at a market price of $0.16 per share.

On December 31, 2016, per the consulting agreement, a contractor was issued 18,157 shares of common stock in exchange for services. These shares were valued at $2,869 at a market price of $0.16 per share.

Effective March 31, 2017, the seven (7) Advisory Board members were compensated for their service from January 1, 2017 through March 31, 2017 by the granting of warrants to purchase 12,500 shares of common stock each per quarter per Board member (in aggregate 87,500 total warrants per quarter), at an average exercise price of $0.14 per share, which vested immediately, and are exercisable for 36 months thereafter. The warrants were issued with a fair value of $12,127 based on an average $0.14 valuation, volatility of 296%, a discount rate of 1.09% and a 3 year term. The warrants were valued using the Black Sholes valuation model. These warrants are subject to a clawback provision which would be ratably invoked if an advisory board member did not complete his 2017 service term. Effective March 31, 2017, the Advisory Board was dissolved and no other warrants were issued subsequent to the first quarter of 2017.

Effective February 1, 2017, the Company entered into a consulting agreement in exchange for geology related services. Specifically these services include providing reports detailing analysis of present and potential oil and gas assets. The term of the agreement is one (1) year, subject to a one (1) year extension. The consultant is to be granted warrants to purchase 25,000 shares of common stock for services provided each quarter. The exercise price of the warrants will be the market price of the Company's stock at quarter end, the warrant term expires 3 years from the date of grant. During the first quarter of 2017, 25,000 warrants were issued with a fair value of $3,465, based on an average $0.14 valuation, volatility of 296%, a discount rate of 1.09% and a 3 year term. During the second quarter of 2017, 25,000 warrants were issued with a fair value of $2,217 based on an average $0.09 valuation, volatility of 296%, a discount rate of 1.09% and a 3 year term. The warrants vested immediately. As of December 31, 2017, the consultant has been granted warrants to purchase 50,000 shares of common stock, with a fair value of $5,682.

From January to March 2017, James Burns received 120,000 warrants of common shares, at the exercise price of $0.14 for a 3 year term, valued at $15,800, for his consulting services.

On May 12, 2017, one (1) warrant holder exercised a total of 600,000 warrants by remitting payment of $48,000 at a share price of $0.08 per shares.

On July 6, 2017, the Company contracted with an attorney to facilitate the conversion of the Rick Wilber debt (described above). To compensate the attorney for his service, he was granted 150,000 shares of common stock valued at $15,000.

On July 31, 2017, based on the terms of the agreement, the Company's final outstanding $25,000 Convertible Bridge Note was mandatorily converted to 271,096 shares of common stock. Based on the agreement, the debt was converted at $0.10 per share. This included the principal balance of $25,000 and accrued interest of $2,110. However, the market price of the shares on the conversion date was $0.12 per share resulting in a loss on conversion of $5,422.

On August 15, 2017, in exchange for services related to negotiations concerning our New Mexico operating bond requirements, the Company paid a law firm 500,000 shares of common stock was valued at $65,000. Such shares were provided as a bonus for the successful closing of the Twin Lakes San Andres Unit, New Mexico acquisition.

From October to December 2017, the Company issued a total of 750,000 shares of common stock for consulting services valued at $78,000. Out of the 750,000 shares: 294,000 shares were issued to Sandstone Group Corp; 243,000 shares were issued to Newbridge Securities Corp; 63,000 shares were issued to Robert Santos Nesperiera; and 150,000 shares were issued to Interlink Group Inc.

On October 1, 2017, the Company commenced a private offering of its securities under Regulation D to accredited investors. Each unit which has a price of $50,000, is comprised of 416,667 shares of common stock and one warrant to purchase an additional 416,667 shares of common stock at a price of $0.20 per share at any time prior to October 1, 2020. As of December 31, 2017 six and a half (6.5) units had been subscribed for and 2,708,336 shares of common stock had been purchased by various accredited investors for $325,000. The proceeds from this private offering include units sold to related parties, as described in Note 5.

On November 07, 2017, the majority stockholders of the Company, via written consent to action without meeting, approved (1) the adoption of an amendment to the Petrolia Energy Corporation 2015 Stock Incentive Plan to increase by 36,000,000 (to 40,000,000) the number of shares of common stock reserved for issuance under the plan; (2) the filing of a Certificate of Amendment to the Company's Certificate of Formation with the Secretary of State of Texas to (a) increase the number of authorized shares of common stock, par value $0.001 per share of the Company, to 400,000,000 shares of common stock; and (b) amend the par value of the Company's preferred stock, from $0.10 per share to $0.001 per share.

Summary information regarding common stock warrants issued and outstanding as of December 31, 2017, is as follows:

	Warrants	**Weighted Average Exercise Price**	**Aggregate intrinsic value**	**Weighted average remaining contractual life (years)**
Outstanding at year ended December 31, 2015	11,910,111	$ 0.33	$ —	3.5
Granted	5,740,416	0.09	—	2.6
Exercised	(825,000)	—	—	
Expired	—	—	—	
Outstanding at year ended December 31, 2016	16,825,527	0.26	—	3.20
Granted	19,896,670	0.19	—	3.01
Exercised	(1,635,000)	0.07	—	—
Expired	—	—	—	—
Outstanding at quarter ended December 31, 2017	35,087,197	$ 0.24	$ 1,106,583	2.15

The table below summarizes warrant issuances during the years ended December 31, 2017 and 2016:

	Year Ended December 31,	
	2017	2016
Warrants Granted		
Board of Director Service	3,120,000	2,500,000
PORRI	—	150,000
Deferred Salary – CEO, CFO	134,167	206,666
Performance bonus – President	666,667	—
Providing Bond Related Collateral	2,250,000	31,250
Conversion of Debt	10,400,000	
Pre-bridge Loans	—	290,000
Short-term Debt	—	100,000
Advisory Board	87,500	262,500
Deferred loan penalty	—	10,000
Consulting Agreements	50,000	340,000
Rick Wilber Loan	480,000	500,000
Signing Bonus – CEO, CFO	—	550,000
Private Placement Memo (Sept 2015)	—	800,000
Private Placement Memo (Oct 2017)	2,708,336	—
Total	19,896,670	7,740,000

NOTE 9. COMMITMENTS AND CONTINGENCIES

Environmental Matters – The Company, as a lessee of oil and gas properties, is subject to various federal, state and local laws and regulations relating to discharge of materials into, and protection of, the environment. These laws and regulations may, among other things, impose liability on the lessee under an oil and gas lease for the cost of pollution clean-up resulting from operations and subject the lessee to liability for pollution damages. In some instances, the Company may be directed to suspend or cease operations in the affected area. The Company is not aware of any environmental claims existing as of December 31, 2017, which have not been provided for, covered by insurance or otherwise have a material impact on its financial position or results of operations. There can be no assurance, however, that current regulatory requirements will not change, or past noncompliance with environmental laws will not be discovered on the Company’s properties.

Office Lease – As of December 31, 2017, the Company has one annually renewable office lease in Houston at a cost of $2,012 per month.

During 2017, one Director provided personal guarantees to the bank. The bank, relying on those guarantees, issued letters of credit to bonding authorities to meet regulatory bonding requirements.

NOTE 10. OIL AND GAS ACQUISITIONS

As of December 31, 2015, the Company had completed the drilling of sixteen wells on the leased properties. Four of these wells have been pledged as collateral for the convertible notes payable.

On September 23, 2015, the Company entered into a Purchase and Sale Agreement with SUDS Properties, LLC ("SUDS" and the "Purchase Agreement"). SUDS is 100% owned by Jovian Resources LLC ("Jovian"). Mr. Zel C. Khan, our present CEO, is the former manager of Jovian. Pursuant to the Purchase Agreement, the Company acquired a 10% working interest (carrying a 7.8% NRI) in the SUDS field located in Creek County Oklahoma, in exchange for 10,586,805 shares of restricted common stock. Based on that current market value of Company common stock at $0.068 per share, the price paid was $719,903. Concurrently with the purchase, Jovian agreed to assign us all rights to be the operator of the SUDS unit under a standard operating agreement. The Company did not prepare an unaudited pro-forma income statement table for 2015, related to this SUDS purchase, because the net income effect of those transactions was consider to be immaterial.

On November 4, 2015, the Company acquired a 15% net working interest in the TLSAU field located in Chavez County, New Mexico (the "Net Working Interest") and all operating equipment on the field, pursuant to the terms of a Memorandum of Agreement between the Company and BSNM, which was dated November 4, 2015 (the "Purchase Agreement").

On February 1, 2016, the Company acquired 100% of the issued and outstanding shares in Askarii Resources, a private Texas based oil & gas service company. The Company acquired Askarii by issuing one million restricted common shares. Based on the then current market value of the Company's stock of $0.05 per share, the aggregate value of the transaction is $50,000. There were minimal tangible assets purchased from Askarii. The final purchase price allocation is as follows: trademarks $10,000, internet/website $5,000, customer lists $10,000 and customer relationships $25,000.

On September 1, 2016, the Company acquired an additional 25% working interest ownership of the TLSAU field located 45 miles from Roswell, Chavez County, New Mexico, through the issuance of 3,500,000 shares of its restricted common stock with an unrelated party. The purchase price of the shares equates to a $350,000 value, based on the $0.10/share market price of Petrolia's shares on September 1, 2016. After the purchase, the Company holds a total working interest ownership of 40%. The final purchase price allocation of the transaction is as follows: oil and gas properties acquired $392,252, asset retirement obligation assumed of $42,252.

On September 28, 2016 the Company issued 24,308,985 shares of its restricted common stock to Jovian, a related party, to acquire 100% (an additional 40% working interest ownership) As a result of the exchange, SUDS became a wholly-owned subsidiary of the Company. The purchase price of the shares equates to a $4,373,186 value, based on the $0.1799 per share market price of Petrolia's shares on September 28, 2016 (the effective date of the transaction).

On September 28, 2016, the Company acquired a 100% working interest ownership of SUDs (an additional 50% working interest ownership) through the issuance of a note payable for $4,000,000 as outlined above in Note 4 and the issuance of 24,308,985 shares of its restricted common stock, from a related party. The purchase price of the shares equates to a $4,373,186 value, based on the $0.1799/share market price of the Company's common stock on September 28, 2016. After the acquisition, the Company holds a total working interest ownership of 100%. The final purchase price allocation of the combined transactions is as follows: oil and gas properties acquired $8,401,318, asset retirement obligation assumed of $28,132.

Effective February 12, 2017, the Company acquired an additional 60% working interest ownership in the TLSAU field (the "Net Working Interest") resulting from the execution of a Settlement Agreement on February 12, 2017. The agreement assigned Dead Aim Investments' ("Dead Aim") 60% ownership interests to the Company. As a result of this transaction, the Company now owns 100% working interest in TLSAU. Consideration of $465,788 was given in exchange for Dead Aim's working interest. The consideration includes the forgiveness of the Orbit Petroleum Inc Bankruptcy Estate ("OPBE") note of $316,800 (with a $1.3 million face value) which the Company acquired in November 2015 and the write-off of $148,988 of Dead Aim's outstanding accounts receivable to the Company. Dead Aim assumed liability (prior to the acquisition) for the OPBE note that the Company purchased.

The table below represents the unaudited pro-forma financial statement to show the effects of the combined entity for the periods presented above:

	December 31, 2017		**December 31, 2016**	
	Petrolia Combined (Unaudited)		**Petrolia Combined (Unaudited)**	
Oil and Gas Sales	150,970		333,741	
Net Loss	(3,274,539	)	(1,957,181	)
Loss per share	(0.04	)	(0.04	)

NOTE 11. ASSET RETIREMENT OBLIGATIONS

During the calendar years presented, the Company brought a number of oil and gas wells into productive status and will have asset retirement obligations once the wells are permanently removed from service. The primary obligations involve the removal and disposal of surface equipment, plugging and abandoning the wells, and site restoration. For the purpose of determining the fair value of ARO incurred during the calendar years presented, the Company used the following assumptions:

	December 31, 2017	
Inflation rate (avg.)	2.1	%
Estimated asset life	21 years	

The following table shows the change in the Company's ARO for 2017 and 2016:

Asset retirement obligations at December 31, 2015	$213,328
Obligations assumed in acquisitions	70,384
Additional retirement obligations incurred	—
Change in estimate	—
Accretion expense	38,998
Settlements	—
Asset retirement obligations at December 31, 2016	$322,710
Obligations assumed in acquisition	101,405
Additional retirement obligations incurred	—
Change in estimate	—
Accretion expense	49,753
Settlements	—
Asset retirement obligations at December 31, 2017	$473,868

NOTE 12. INCOME TAXES

There was no provision for income taxes for 2017 and 2016 due to a net operating losses and doubt as to the entity's ability to continue as a going concern resulting in a 100% valuation allowance. Years from 2015 forward are open to IRS examination.

The provision for income taxes differs from the amount computed by applying the federal statutory income tax rate (35%) on operations due primarily to permanent differences attributable to organizational expenses.

	Fiscal Year Ended December 31, 2017	Fiscal Year Ended December 31, 2016
Income tax expense computed at statutory rates	$(1,141,449)	$(656,523)
Non-deductible items	536,470	219,438
Change in valuation allowance	604,979	437,085
Total	$—	$—

The components of the net deferred tax asset were as follows:

	December 31, 2016 Gross Values	**Tax Effect**
Deferred tax assets		$
Book Impairment	$668,073	$233,825
Net operating loss carryforwards	7,120,879	2,492,308
Asset retirement obligation	—	—
Other	—	—
Total deferred tax assets	7,788,952	2,726,133
Deferred tax liabilities		
O&G Properties	(6,496,717)	(2,273,851)
Other	—	—
Total deferred tax liabilities	(6,496,717)	(2,273,851)
Less: Valuation allowance	(1,292,235)	(452,282)

Net deferred tax assets (liabilities)	$—	$—

	December 31, 2017 Gross Values	Tax Effect
Deferred tax assets		$
Book Impairment	$668,073	$140,295
Net operating loss carryforwards	8,924,934	1,874,236
Asset retirement obligation	—	—
Other	—	—
Total deferred tax assets	9,593,007	2,014,531
Deferred tax liabilities		
O&G Properties	(1,556,593)	(326,884)
Other	—	—
Total deferred tax liabilities	(1,556,593)	(326,884)
Less: Valuation allowance	(8,036,415)	(1,687,647)
Net deferred tax assets (liabilities)	$—	$—

A valuation allowance has been established to offset deferred tax assets. The Company's accumulated net operating losses were approximately $9.6 million at December 31, 2017 and begin to expire if not utilized beginning in the year 2033. The Tax Cuts and Jobs Act was signed into law on December 22, 2017, and reduced the corporate income tax rate from 34% to 21%. The Company's deferred tax assets, liabilities, and valuation allowance have been adjusted to reflect the impact of the new tax law.

NOTE 13. SUPPLEMENTAL INFORMATION RELATING TO OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED)

Costs Incurred in Oil and Gas Property Acquisition, Exploration and Development. Amounts reported as costs incurred include both capitalized costs and costs charged to expense during the year for oil and gas property acquisition, exploration and development activities. Costs incurred also include new asset retirement obligations established in the current year, as well as increases or decreases to the asset retirement obligations resulting from changes to cost estimates during the year. Exploration costs presented below include the costs of drilling and equipping successful exploration wells, as well as dry hole costs, leasehold impairments, geological and geophysical expenses, and the costs of retaining undeveloped leaseholds. Development costs include the costs of drilling and equipping development wells, and construction of related production facilities.

In 2016, the Company purchased 90% working interest in the SUDS field in the amount of $8,373,186 and also purchased the 25% working interest in the TLSAU field in the amount of $350,000. In 2017, the Company purchased a 60% working interest in the TLSAU field in the amount of $745,788. With these purchases the Company obtained 100% working interest in the TLSAU field.

	Fiscal Year Ended December 31, 2017	**Fiscal Year Ended December 31, 2016**
Property acquisitions	$ 745,788	$ 8,723,186
Unevaluated	—	—
Evaluated	—	—
Exploration	—	—
Development	—	—
Total Costs Incurred	$ 745,788	$ 8,723,186

Capitalized costs. Capitalized costs include the cost of properties, equipment and facilities for oil and natural-gas producing activities. Capitalized costs for proved properties include costs for oil and natural-gas leaseholds where proved reserves have been identified, development wells, and related equipment and facilities, including development wells in progress. Capitalized costs for unproved properties include costs for acquiring oil and gas leaseholds and geological and geophysical expenses where no proved reserves have been identified.

	December 31, 2017	**December 31, 2016**
Capitalized costs		
Unevaluated properties	$—	$—
Evaluated properties	13,837,800	13,092,012
	13,837,800	13,092,012
Less: Accumulated DD&A	(1,068,795)	(1,042,545)
Net capitalized costs	$12,769,005	$12,049,467

F-30

Oil and Gas Reserve Information.

MKM Engineering, an independent engineering firm, prepared the estimates of the proved reserves, future production, and income attributable to the leasehold interests as of December 31, 2017 and 2016. The estimated proved net recoverable reserves presented below include only those quantities that were expected to be commercially recoverable at prices and costs in effect at the balance sheet dates under the then existing regulatory practices and with conventional equipment and operating methods. Proved Developed Reserves represent only those reserves estimated to be recovered through existing wells. Proved Undeveloped Reserves include those reserves that may be recovered from new wells on undrilled acreage or from existing wells on which a relatively major expenditure for recompletion or secondary recovery operations is required. All of the Company's Proved Reserves are located onshore in the continental United States of America.

Discounted future cash flow estimates like those shown below are not intended to represent estimates of the fair value of oil and gas properties. Estimates of fair value should also consider unproved reserves, anticipated future oil and gas prices, interest rates, changes in development and production costs and risks associated with future production. Because of these and other considerations, any estimate of fair value is subjective and imprecise.

The following table sets forth estimates of the proved oil and gas reserves (net of royalty interests) for the Company and changes therein, for the periods indicated.

	Oil (Bbls)
December 31, 2015	734,520
Revisions of prior estimates	(58,297)
Purchases of reserves in place	1,557,660
Production	(6,643)
December 31, 2016	2,227,240
Revisions of prior estimates	(2,186,554)
Purchases of reserves in place	1,600,935
Production	(3,421)
December 31, 2017	1,638,200

	December 31, 2017	**December 31, 2016**
Estimated Quantities of Proved Developed Reserves – Oil (Bbls)	1,598,010	1,206,010

Estimated Quantities of Proved Undeveloped Reserves – Oil (Bbls)	40,190	1,021,230

Proved undeveloped reserves decreased from December 31, 2016 to December 31, 2017, primarily due to a specific "5-year rule", a new disclosure requirement in SEC Regulations S-X 210.4-10, which states that undeveloped projects should be developed within 5 years of the initial proved reserves booking. The Noack field has been under one ownership for 5 plus years. The Company believes that once the drilling plan commences this will no longer be an issue. As per this regulation, once the Company provides evidence that it adopted a development plan for a PUD location and that this development plan contains a "final investment decision" showing that it would be developed within the next 5 years, then the PUDS removed from the 2017 report should be re-qualified at that point.

The following table sets forth estimates of the proved developed and proved undeveloped oil and gas reserves (net of royalty interests) for the Company and changes therein, for the period indicates.

Proved developed producing and non-producing reserve	**Oil (bbls)**
December 31, 2016	1,206,010
Acquired Reserves	377,670
Revision of prior estimates	17,751
Production	(3,421)
December 31, 2017	1,598,010

Proved undeveloped reserves	**Oil (bbls)**
December 31, 2016	1,021,230
Acquired Reserves	1,223,265
Revisions to prior estimates	(2,204,305)
December 31, 2017	40,190

The increases in Proved developed reserves and the increase in Proved Undeveloped (PUD) reserves were all due to the acquisition of the 60% working interest in TLSAU.

Standardized Measure of Discounted Future Net Cash Flows. The Standardized Measure related to proved oil and gas reserves is summarized below. Future cash inflows were computed by applying a twelve month average of the first day of the month prices to estimated future production, less estimated future expenditures (based on year end costs) to be incurred in developing and producing the proved reserves, less estimated future income tax expense. Future income tax expenses are calculated by applying appropriate year-end tax rates to future pretax net cash flows, less the tax basis of properties involved. Future net cash flows are discounted at a rate of 10% annually to derive the standardized measure of discounted future net cash flows. This calculation procedure does not necessarily result in an estimate of the fair market value or the present value of the Company.

Standardized Measure of Oil and Gas

The following table sets forth the changes in standardized measure of discounted future net cash flows relating to proved oil and gas reserves for the periods indicated.

	December 31, 2017	**December 31, 2016**

Future cash inflows	$62,964,150	$90,265,000
Future production costs	(27,336,630)	(47,050,770)
Future development costs	(1,491,500)	(10,396,000)
Future income taxes	—	—
Future net cash flows	34,136,020	32,818,230
Discount of future net cash flows at 10% per annum	(17,530,040)	(19,253,750)
Standardized measure of discounted future net cash flows	$16,605,980	$13,564,480

Changes in standardized measure of discounted future cash flows

	December 31, 2017	**December 31, 2016**
Beginning of year	$13,564,480	$6,220,500
Sales and transfers of oil & gas produced, net of production costs	267,997	175,048
Net changes in prices and production costs	1,967,068	(1,917,506)
Changes in estimated future development costs	1,806,404	(673,960)
Acquisitions of minerals in place, net of production costs	7,645,722	9,941,241
Revision of previous estimates	(19,654,723)	(544,877)
Change in discount	732,656	817,235
Change in production rate or other	(10,276,980)	(453,201)
End of year	$16,605,980	$13,564,480

F-32

NOTE 14. BUSINESS SEGMENTS

We are a diversified oil and gas company with operations in two segments:

Oil and Gas Exploration and Production – which includes exploration, development, and production of current and potential oil and gas properties.

Oil field services – which includes selling oil field related equipment and providing various oil field related services to the oil and gas industry.

	December 31, 2017	December 31, 2016
Revenues		
Oil & Gas	$148,835	$123,246
Oil field services	—	198,000
Total Revenues	148,835	321,246
Net Income		
Oil & Gas	(3,245,008)	(2,052,004)
Oil field services	(16,276)	176,225
Total Net Income	(3,261,284)	(1,875,779)
Assets		
Oil & Gas	13,408,306	13,026,082
Oil field services	169,266	185,542
Total Assets	13,577,572	13,211,624
Accounts Receivable		
Oil & Gas	51,026	199,003
Oil field services	—	—
Total Accounts Receivable	$51,026	$199,003

During 2017, all segment expenses incurred by the oil and gas segment. During the year ended December 31, 2016, all segment expenses incurred by the oil and gas segment except the cost of equipment sold of $33,330, which was incurred by the oil field services segment.

NOTE 15. SUBSEQUENT EVENTS

On January 16, 2018, Paul Deputy tendered his resignation as the Chief Financial Officer of the Company.

Also effective on January 16, 2018, the Company appointed Tariq Chaudhary as the Company's new Chief Financial Officer (CFO), in anticipation of the completion of the Company's acquisition of Bow Energy Ltd.

Mr. Chaudhary's biographical information is presented on PART III. ITEM 10.

On January 24, 2018, 350,000 shares, valued at $44,800, were issued in accordance with Mr. James Burns' common stock related salary compensation.

On February 1, 2018, a law firm was granted 100,000 shares of common stock as a bonus for the Bow Energy acquisition.

On February 1, 2018, a geologist consultant in Oklahoma, was issued 150,000 shares of common stock in exchange for his professional consulting services.

On February 1, 2018, in consideration for the cancellation of $25,000 in debt, the Company issued 125,000 shares of common stock to a Director.

On February 1, 2018, a Director exercised 1,110,000 warrants of common stock by settling $102,590 of Accounts Payable to a company controlled by the director at an average share price of $0.092 per share.

On February 5, 2018, one accredited investors subscribed and purchased 2,000 Series A preferred shares by remitting payment of $20,000.

On February 23, 2018, a Director was issued 100,000 shares of common stock for reissuance of lost certificate.

On February 27, 2018, the Company closed the Acquisition and Petrolia acquired all of the issued and outstanding shares of capital stock of Bow Energy Ltd ("BOW"), a Canadian company with corporate offices in Alberta, Calgary. Bow's common shares are currently listed and posted for trading on the TSX Venture Exchange. Bow Shares delisted from the facilities of the TSX Venture Exchange on March 5, 2018. The current capital structure of Bow is as follows: 92,310,184 common shares issued and outstanding, 9,046,478 vested stock options, no warrants, no convertible preferred shares, with a fully diluted total of 101,356,662 shares.

Under the terms of the Arrangement, Bow shareholders are deemed to have received 1.15 Petrolia common stock shares for each Bow Share. A total of 106,156,712 shares of the Company's common stock will be issued to the Bow shareholders as a result of the Arrangement, plus additional shares in connection with the rounding described below.

Bow is an Oil & Gas Exploration and Development company operating in the prolific Indonesian Sumatra basin. BOW's key assets include South Block A PSC – 44.48% working interest, Bohorok PSC – 50% working interest, Bohorok Deep JSA – 20.25% working interest, Palmerah Baru – 54% working interest, MNK Palmerah – 69.36% working interest, Mahato PSC – 20% working interest. BOW will continue as a wholly owned subsidiary of Petrolia and continue to operate all properties under BOW.

Ilyas Chaudhary, is the father of Zel C. Khan, the Company's Chief Executive Officer. Mr. Chaudhary owned and controlled BSIH Ltd. ("BSIH") prior to the acquisition of Bow and through the the ownership and control of BSIH, Mr.

Chaudhary controlled Bow. Therefore, the BOW acquisition is considered to be a related party transaction. Additionally, BSIH was the largest shareholder of the Company prior to the cancellation of the shares pursuant to the terms of a Share Exchange Agreement between the Company and Blue Sky Resources Ltd dated August 31, 2018.

The acquired assets of Bow consist of over 948,000 net acres onshore North Sumatra, Indonesia which consists of interests in five production-sharing contracts (PSCs) and one Joint Study Agreement (JSA) with the Indonesian government.

On February 27, 2018, three (3) accredited investors subscribed and purchased two and a half (2.5) units of shares of common stock in our private offering of securities. Each unit which has a price of $50,000, is comprised of 416,667 shares of common stock and one warrant to purchase an additional 416,667 shares of common stock at a price of $0.20 per share at any time prior to October 1, 2020. In consideration of the two and a half (2.5) units subscribed, the Company issued 1,041,667 common shares for a total price of $125,000 and 1,041,667 warrants of common stock at a price of $0.20 per share expiring on October 1, 2020.

On February 28, 2018, one (1) warrant holder exercised a total of 360,000 warrants by remitting payment of $36,875 at an average share price of $0.102 per share.

On February 28, 2018, Director Joel Oppenheim exercised 630,000 warrants by remitting payment of $61,800 at an average share price of $0.098 per share.

Effective April 12, 2018, the Board of Directors (a) appointed Zel C. Khan as Secretary of the Company; (b) appointed Ivar Siem as a member of the Board of Directors of the Company; and (c) approved the issuance of 616,210 shares of restricted common stock to Mr. James E. Burns, a member of the Board of Directors, in consideration for 2017 deferred salary of $61,621.

Also, on April 12, 2018, the Board of Directors approved (a) the entry by the Company into a $500,000 Convertible Promissory Note with Blue Sky International Holdings Inc., a related party. The note, effective April 1, 2018, is due on April 1, 2019, accrues interest at the rate of 11% per annum until paid in full, and is convertible into shares of common stock of the Company at the rate of $0.12 per share. This note was never utilized and subsequently cancelled; and (b) the entry into an Amended Revolving Line of Credit Agreement with Jovian Petroleum Corporation, a related party, which establishes a revolving line of credit in the amount of $500,000 for a period of six months (through August 9, 2018) with amounts borrowed thereunder due at the expiration of the line of credit and accruing interest at the rate of 3.5% per annum unless there is a default thereunder at which time amounts outstanding accrue interest at the rate of 7.5% per annum until paid in full, with such interest payable every 90 days. Both the Blue Sky International Holdings Inc. Promissory Note and the Jovian Line of Credit are related party transactions. Blue Sky International Holdings Inc. is owned by Mr. Ilyas Chaudhary, father of Zel C. Khan, former Director and Officer of Jovian and current CEO and President of the Company.

Effective on June 29, 2018, the Company acquired a 25% working interest in approximately 41,526 acres located in the Luseland, Hearts Hill, and Cuthbert fields, located in Southwest Saskatchewan and Eastern Alberta, Canada (collectively, the “Canadian Properties” and the “Working Interest”). The Canadian Properties currently encompass 64 sections, with 240 oil and 12 natural gas wells currently producing on the properties. Additionally, there are several idle wells with potential for reactivation and 34 sections of undeveloped land (approximately 21,760 acres).

The Canadian Properties and the Working Interest were acquired from Blue Sky Resources Ltd. (“Blue Sky”), whose President is Ilyas Chaudhary, the father of Zel C. Khan, the Company’s Chief Executive Officer. Mr. Chaudhary owns and controls BSIH Ltd. (“BSIH”). BSIH was the largest shareholder of the Company prior to the cancellation of the shares pursuant to the terms of a Share Exchange Agreement between the Company and Blue Sky Resources Ltd dated August 31, 2018. Blue Sky had previously acquired an 80% working interest in the Canadian Properties from Georox Resources Inc., who had acquired the Canadian Properties from Cona Resources Ltd. and Cona Resources Partnership prior to the acquisition by the Company.

The effective date of the acquisition was June 1, 2018. The acquisition of the Canadian Properties was evidenced and documented by a Memorandum of Understanding between the Company and Blue Sky dated June 29, 2018 and a General Conveyance between the parties dated as of the same date, pursuant to which the Company agreed to acquire the Working Interest in consideration for $1,428,581 in Canadian dollars (“CAD”) (approximately $1,089,150 in U.S.

dollars) of which CAD $1,022,400 (approximately $779,478 in U.S. dollars) was paid in cash (the "Cash Payment") and CAD $406,181 (approximately $309,672 in U.S. dollars) was evidenced by a promissory note (the "Acquisition Note").

The Cash Payment was made with funds borrowed by the Company pursuant to the terms of that certain $1,530,000 May 9, 2018, Amended and Restated Loan Agreement entered into with Bow and a third party (the "Loan Agreement" and the "Lender"). The amount owed under the Loan Agreement accrues interest at the rate of 12% per annum (19% upon the occurrence of an event of default) and is due and payable on May 11, 2021. The Working Interest will be held in the name of the Company's newly formed wholly-owned Alberta, Canada, subsidiary, Petrolia Canada Corporation. The Acquisition Note, which was dated June 8, 2018, bears interest at the rate of 9% per annum, beginning on August 1, 2018 and is due and payable on November 30, 2018, provided that we have the right to extend the maturity date for a period six months with 10 days' notice to Blue Sky, in the event we pay 25% of the principal amount of the Acquisition Note at the time of extension.

The acquisition has not formally closed as the assets can only be transferred after the payment/settlement of the Acquisition Note.

On August 17, 2018, the Company sold an aggregate of $90,000 in Convertible Promissory Notes (the "Director Convertible Notes"), to the Company's directors, Ivar Siem ($20,000) through an entity that he is affiliated with; Leo Womack ($60,000); and Joel Oppenheim ($10,000). The Director Convertible Notes accrue interest at the rate of 12% per annum until paid in full and are due and payable on October 17, 2018. The amount owed may be prepaid at any time without penalty. The outstanding principal and interest owed under the Director Convertible Notes are convertible into common stock of the Company, from time to time, at the option of the holders of the notes, at a conversion price of $0.10 per share. As additional consideration for entering into the notes, the Company agreed to grant one-year warrants to purchase one share of the Company's common stock at an exercise price of $0.10 per share for each dollar loaned pursuant to the Director Convertible Notes (the "Bridge Note Warrants"). As such, the Company granted (a) 20,000 Bridge Note Warrants to an entity affiliated with Ivar Siem; (b) 60,000 Bridge Note Warrants to Leo Womack; and (c) 10,000 Bridge Note Warrants to Joel Oppenheim. The Director Convertible Notes contain standard and customary events of default. It is contemplated that up to an additional $160,000 in Director Convertible Notes will be sold to affiliates of the Company in the next several months.

Effective on August 31, 2018, the Company entered into and closed the transactions contemplated by a Share Exchange Agreement with Blue Sky Resources Ltd. ("Blue Sky" and the "Exchange Agreement"). The President, Chief Executive Officer and 100% owner of Blue Sky is Ilyas Chaudhary, the father of Zel C. Khan, the Company's Chief Executive Officer. Chaudhary indirectly owns and controls BSIH Ltd. ("BSIH"), which is a significant shareholder of the Company. Additionally, prior to the acquisition of Bow Energy Ltd. ("Bow") (which we acquired pursuant to an Arrangement Agreement dated November 30, 2017, which acquisition closed on February 27, 2018), BSIH, and as a result of his ownership and control of BSIH, Mr. Chaudhary, controlled Bow.

Pursuant to the Exchange Agreement, we exchanged 100% of the ownership of Bow, in consideration for:

(a)

70,807,417 shares of the Company's common stock owned and controlled by Mr. Chaudhary and BSIH (the "Blue Sky Shares");

(b)

$100,000 in cash (less certain advances paid by Blue Sky or Bow to the Company since April 1, 2018);

(c)

the assumption of certain payables owed by Bow totaling $1,696,332 (which includes $730,000 owed under the terms of a Loan Agreement, as amended, originally entered into by Bow, but not the subsequent $800,000 borrowed by Bow pursuant to the amendment to the Loan Agreement dated May 9, 2018 (which obligation is documented by a Debt Repayment Agreement));

(d)

20% of Bow Energy International Holdings, Inc, which is wholly-owned by Bow (“Bow EIH”)(which entity’s subsidiaries own certain Production Sharing Contracts (the “PSC”) and certain other participating assets), pursuant to an Assignment Agreement;

(e)

certain carry rights described in greater detail in the Exchange Agreement, providing for Blue Sky to carry the Company for up to the next $10 million of aggregate costs in BOW EIH and the PSC assets, with any profits from BOW EIH being distributed 80% to Bow and 20% to the Company, pursuant to a Petrolia Carry Agreement (the “Carry Agreement”); and

(f)

a 3% royalty, after recovery of (i) the funds expended by Bukit Energy Bohorok Pte Ltd, which is wholly-owned by BOW EIH in the Bohorok, Indonesia PSC (the “Bohorok PSC”) since July 1, 2018, plus (ii) $3,546,450 (i.e., ½ of Bow’s share of the prior sunk cost of the Bohorok PSC), which royalty is evidenced by an Assignment of Petrolia Royalty (the “Royalty Assignment”).

The Exchange Agreement closed on August 31, 2018 and has an effective date of July 1, 2018. The Exchange Agreement contains customary and standard representations and warranties of the parties, indemnification obligations (which survive for six months following the closing) and closing conditions. The Company is in the process of cancelling the Blue Sky Shares and returning such shares to the status of authorized but unissued shares of common stock.