Petrolia Energy Corp
Form 10-Q
August 21, 2017

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

FORM 10-Q

Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2017

Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from __________ to __________

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<br>Houston, Texas | 77024 |
| (Address of principal executive offices) | (Zip Code) |

(832-941-0011)
(Issuer's telephone number, including area code)

Indicate by check mark whether the registrant: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the issuer was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer r Accelerated filer r

Non-accelerated filer r Smaller Reporting Company

Emerging growth company r

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 Exchange Act). Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 103,583,971 shares of common stock as of August 21, 2017.

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PART I
Item 1. Financial Statements

PETROLIA ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash | $5,712 | $68,648 |
| Accounts receivable | 16,067 | 199,003 |
| Other current assets | 4,470 | 31,192 |
| Total current assets | 26,249 | 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 | (1,155,164 ) | (1,119,708 ) |
| Net property and equipment | 13,422,139 | 12,546,095 |
| | | |
| Other Assets | | |
| Intangible assets | 49,886 | 49,886 |
| Note receivable | - | 316,800 |
| | | |
| Total Assets | $13,498,274 | $13,211,624 |
| | | |
| LIABILITIES & STOCKHOLDERS EQUITY | | |
| | | |
| Current liabilities | | |
| Accounts payable | $357,398 | $352,241 |
| Accrued liabilities | 624,232 | 494,983 |
| Debt short term | 25,000 | 275,000 |
| Convertible debt – related party, unamortized discount of 0 and 0 | 550,000 | 550,000 |
| Current maturities of installment notes payable | 32,582 | 26,186 |
| Note payable – related parties | 212,980 | 1,287,980 |
| Total current liabilities | 1,802,192 | 2,986,390 |
| | | |
| Asset retirement obligations | 448,320 | 322,710 |
| Installment note payable – long term | 26,797 | - |
| Note payable to related party – long term | 1,904,020 | 2,904,020 |
| Total Liabilities | 4,181,329 | 6,213,120 |
| | | |
| Stockholders' Equity | | |
| Preferred stock, $0.001 par value, 1,000,000 shares authorized; | 121 | - |

| | | |
|---|---|---|
| 120,590 and 0 shares issued & outstanding | | |
| Common stock, $.001 par value; 150,000,000 shares authorized; | | |
| 90,834,505 and 79,034,505 shares issued and outstanding | 90,834 | 79,034 |
| Additional paid in capital | 18,919,026 | 14,887,090 |
| Accumulated deficit | (9,693,036 ) | (7,967,620 ) |
| Total Stockholders' Equity | 9,316,945 | 6,998,504 |
| Total Liabilities and Stockholders' Equity | $13,498,274 | $13,211,624 |

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

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PETROLIA ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| Oil and gas sales | | | | |
| Oil and gas sales | $41,831 | $34,294 | $75,391 | $57,293 |
| Equipment sales – related party | - | 18,000 | - | 198,000 |
| Total Revenue | 41,831 | 52,294 | 75,391 | 255,293 |
| | | | | |
| Operating expenses | | | | |
| Lease operating expense | 123,118 | 62,902 | 240,672 | 107,803 |
| Cost of equipment sold | - | 3,030 | - | 33,330 |
| Production tax | 2,696 | 1,679 | 5,134 | 2,772 |
| General and administrative expenses | 871,106 | 292,620 | 1,144,774 | 631,102 |
| Depreciation, depletion and amortization | 19,131 | 17,669 | 37,404 | 35,201 |
| Impairment of Oil & Gas Properties | - | - | - | - |
| Asset retirement obligation accretion | 12,275 | 6,605 | 24,205 | 13,033 |
| Total operating expenses | 1,028,326 | 384,505 | 1,452,189 | 823,241 |
| | | | | |
| Loss from operations | (986,495) | (332,211) | (1,376,798) | (567,948) |
| | | | | |
| Other Income (expenses) | | | | |
| Interest (expense) | (187,557) | (84,400) | (260,669) | (157,476) |
| Other income | 661 | 15,457 | 806 | 34,959 |
| Loss on conversion of debt | (88,755) | (1,705) | (88,755) | (14,336) |
| | | | | |
| Net loss | $(1,262,146) | $(402,859) | $(1,725,416) | $(704,801) |
| | | | | |
| Series A Preferred Dividends | (11,230) | - | (11,230) | - |
| | | | | |
| Net Loss Attributable to Common Stockholders | (1,273,376) | (402,859) | (1,736,646) | (704,801) |
| | | | | |
| Loss per share (Basic and fully diluted) | $(0.02) | $(0.01) | $(0.02) | $(0.02) |
| | | | | |
| Weighted average number of shares of common stock outstanding | 81,393,621 | 45,747,169 | 81,393,621 | 44,634,222 |

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

PETROLIA ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|
| Cash Flows Used in Operating Activities | | |
| Net loss | $(1,725,416) | $(704,801) |
| Adjustment to reconcile net loss to net cash provided by/(used in) operating activities: | | |
| Depreciation and amortization | 37,404 | 35,201 |
| Accretion of debt discount | - | 134,467 |
| ARO accretion | 24,205 | 13,033 |
| Finance fee for extension of note payable | 60,101 | - |
| Loss on conveyance of ORRI warrants | - | 14,336 |
| Interest on ORRI conversion | 128,229 | - |
| Debt issuance costs | 47,319 | - |
| Loss on conversion of Jovian debt | 88,755 | - |
| Loss on sale of vehicle | 3,677 | - |
| Stock-based compensation expense - employees | 144,957 | 138,097 |
| Stock-based compensation expense - directors | 394,154 | - |
| Stock-based compensation expense – consultant | 21,519 | - |
| | | |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 33,949 | (68,662) |
| Inventory | - | 33,330 |
| Other assets | 26,722 | 4,537 |
| Accounts payable | 5,158 | 257,073 |
| Accrued liabilities | 179,801 | 61,418 |
| Net cash flows used in operating activities | (529,466) | (81,971) |
| | | |
| Cash Flows (used in) Provided by Investing Activities | | |
| Cash acquired from investment in Askarii | | 114 |
| Proceeds from sale of property and equipment | | 30,000 |
| Purchase of fixed asset | (9,256) | (13,116) |
| Cash flows (used in) provided by investing activities | (9,256) | 16,998 |
| | | |
| Cash Flows Provided by Financing Activities | | |
| Proceeds from shareholder advances | 206,500 | 118,000 |
| Payments of shareholder advances | (14,000) | (81,000) |
| Proceeds from issuance of common stock for exercise of warrant | 48,000 | 48,000 |
| Proceeds from issuance of preferred stock | 241,000 | - |
| Cash paid for PORRI conversion | (3,230) | - |
| Payments on notes payable | (2,484) | (1,610) |
| Cash flows provided by financing activities | 475,786 | 83,390 |
| | | |
| Net change in cash and cash equivalents | (62,936) | 18,417 |

| | | |
|---|---|---|
| Cash and cash equivalents | | |
| Beginning of period | 68,648 | 3,091 |
| End of period | $5,712 | $21,508 |

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

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| | | |
|---|---|---|
| SUPPLEMENTAL DISCLOSURES | | |
| Interest Paid | $22,782 | $16,453 |
| 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 | - |
| Preferred shares issued for purchase of related party's equipment | 30,000 | - |
| Settlement of accounts receivable and other assets for oil and gas properties | 465,798 | - |
| Settlement of debt with preferred shares | 154,000 | - |
| Settlement of debt with preferred shares – related parties | 375,900 | |
| Settlement of ORRI investments with preferred shares | 405,000 | - |
| Settlement of related party debt with shares of common stock and warrants | 2,033,152 | - |
| Payment of affiliated note payable through share issuance | - | 146,875 |
| Settlement of accrued accounts payable through share issuance | - | 42,000 |
| Purchase of Askarii | - | 50,000 |
| Transfer to Askarii inventory | - | 146,861 |
| Warrants issued with debt | - | 3,451 |
| Share issued in payment of shareholder advance | $- | $20,000 |

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

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PETROLIA ENERGY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017
(Unaudited)

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION:

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

Basis of Presentation

The accompanying unaudited interim financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission (“SEC”), and should be read in conjunction with the audited financial statements and notes thereto contained in the Company’s latest Annual Report filed with the SEC on Form 10-K. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results of operations for the interim periods presented have been reflected herein. The results of operations for such interim periods are not necessarily indicative of operations for a full year. Notes to the consolidated financial statements which would substantially duplicate the disclosure contained in the audited financial statements for the most recent fiscal year, 2016, as reported in Form 10-K, have been omitted.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Askarii Resources. Our subsidiary operates in the oil field services industry, providing equipment and services to various oil field related companies. All significant intercompany transactions are eliminated in the consolidation process. Since the single subsidiary is wholly-owned, all non intercompany balances are included in the consolidated financial statement balances.

The severance tax balances for all years presented were reclassified and included in the Consolidated Statements of Operations’ lease operating expense line item.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying unaudited consolidated 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.

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.

Preferred Stock – Our shares of preferred stock are convertible based on a certain future common stock price which is not certain to occur which would define them as optionally redeemable. Consequently, these instruments are properly classified as equity and not debt. The Company evaluated the preferred stock for a Beneficial Conversion Feature (“BCF”) at the date of issuance and concluded that no BCF was incurred at the date of issuance.

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.

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NOTE 3. GOING CONCERN

The Company has suffered recurring losses from operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The Company plans to generate profits by reworking its existing oil or gas wells and drilling additional wells, as needed. The Company will need to raise funds through either the sale of its securities, issuance of corporate bonds, joint venture agreements and/or bank financing to accomplish its goals. The Company does not have any commitments or arrangements from any person to provide the Company with any additional capital, at this time. If additional financing is not available when needed, the Company may need to cease operations. The Company may not be successful in raising the capital needed to drill and/or rework existing oil wells. Any additional wells that the Company may drill may be non-productive. Management believes that actions presently being taken to secure additional funding for the reworking of its existing infrastructure will provide the opportunity for the Company to continue as a going concern. Since the Company has an oil producing asset, its goal is to increase the production rate by optimizing its current infrastructure. 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 4. NOTE PAYABLE

On January 6, 2017, the Company purchased a truck and entered into an installment note with Don Ringer Toyota in the amount of $35,677 for a term of five years at 5.49% APR.

During May 2017, the Company offered all debt holders the option to convert their outstanding debt and interest thereon into Preferred Stock (as defined in Note 5, below), $250,000 of Short Term Notes and $9,000 of interest thereon were converted by the holders into 25,900 shares of Preferred Stock. Included in this conversion was $100,000 of debt and $5,000 of interest by James Burns. The remaining short term note balance of $25,000 in outstanding short term notes was not converted.

NOTE 5. EQUITY

Preferred Stock – 1,000,000 shares authorized, 120,590 shares issued and outstanding

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 $0.30 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 4] 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.

Common Stock –

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 issuance. 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 June 30, 2017, the consultant has been granted warrants to purchase 50,000 shares of common stock, with a fair value of $5,683.

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On December 13, 2016 the Company entered into a consulting agreement in exchange for assistance with evaluating financial offers, raising capital and other strategic operational decisions. The consultant is to be granted warrants to purchase 40,000 common shares for each month of service. The exercise price of the warrants is $0.14 per share and the term is 3 years. During the first quarter of 2017, warrants to purchase 120,000 shares of common stock were issued with a fair value of $15,836, based on a $0.14 valuation, volatility of 296%, a discount rate of 1.09% and the term is 3 years. The warrants vested immediately.

The Board of Directors authorized the Company to allow outstanding warrant-holders to exercise their outstanding warrants at a 20% discount to the stated exercise price of their warrants. On May 12, 2017 a warrant holder exercised warrants to purchase 600,000 shares of common stock by remitting a payment of $48,000 at an exercise price of $0.08 per share which is a 20% discount to the stated originally stated price of $0.10 per share.

On December 31, 2016 the Company signed an amendment with Rick Wilber concerning his outstanding convertible debt. A clause in the amendment stated that if the outstanding principal balance of Mr. Wilber's debt was not paid back by January 1, 2017 then he was due to receive warrants to purchase 80,000 shares of Company common stock for each month the balance remained outstanding. The balance was not repaid during the second quarter of 2017. During the second quarter of 2017, Mr. Wilber received warrants to purchase a total of 240,000 shares of common stock which were valued at $28,441, with an exercise price of $0.15 per share that expire five (5) years from their grant dates. As of June 30, 2017, Mr. Wilber has been granted warrants to purchase a total of 480,000 shares of common stock with a fair value of $60,101.

Summary information regarding common stock warrants issued and outstanding as of June 30, 2017, is as follows:

| | Warrants | Weighted Average Exercise Price | Aggregate intrinsic value | Weighted average remaining contractual life (years) |
|---|---|---|---|---|
| Outstanding at year ended December 31, 2016 | 16,825,527 | $ 0.26 | $ - | 3.20 |
| Granted | 14,207,500 | 0.23 | - | 3.05 |
| Exercised | (600,000 ) | 0.10 | - | - |
| Expired | - | - | - | - |
| Outstanding at quarter ended June 30, 2017 | 30,433,027 | $ 0.25 | $ 151,729 | 2.65 |

NOTE 6. COMMITMENTS AND CONTINGENCIES

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 Company for the cost of pollution clean-up resulting from operations and subject the Company 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 June 30, 2017, which have not been provided for, or covered by insurance or which may 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 February 3, 2017, the Company has a one year office lease in Houston at a cost of $2,012 per month. The lease expires January 31, 2018 with two, one year renewable options.

NOTE 7. RELATED PARTY TRANSACTIONS

Transactions with related parties and affiliates

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 June 30, 2017. Mr. Deputy's total accrued salary from September 1, 2016 to June 30, 2017 was $122,520. The Company granted warrants to purchase 35,000 shares of common stock for the quarter ended June 30, 2017 valued at $3,106 (the Company also granted warrants to purchase 35,000 shares of common stock for the quarter ended March 31, 2017 valued at $4,851). The warrants granted for the quarter ended June 30, 2017 are based on a $0.09 price per share valuation, volatility of 296%, a discount rate of 1.09% and a 3 year term. The aggregate fair value of the warrants for the six months ended June 30, 2017 was $7,957. The warrants were valued using the Black Sholes valuation model. The warrants were recognized as stock compensation expense.

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On September 23, 2015, the Company's Board of Directors agreed to issue Mr. Zel C. Khan, the CEO and President of the Company, 1,000,000 shares of the Company's restricted common stock in consideration for entering into an employment agreement with the Company. The value of the award on the issuance date was $68,000 and the award vests over a twenty four (24) month term. Consequently, $8,500 of the award is being expensed each quarter. For the six months ended June 30, 2017, $17,000 of the award was expensed. The remaining un-expensed award amount is $8,500.

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. 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 June 8, 2017, the Company sold a 2007 Toyota Tundra truck to Jovian Petroleum Corporation ("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 the six months ended June 30, 2017, shareholders advanced an additional $206,500, the Company received payments from shareholders of $19,000 ($5,000 out of the $19,000 related to the truck purchase disclosed above) and $262,500 of outstanding debt was converted to Series A Preferred Stock. This resulted in a decrease to the shareholder advance liability from $192,000 at December 31, 2016 to $117,000 at June 30, 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 to 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 $0.15 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 $0.15 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 $0.15 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 six months ended June 30, 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 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 $128,230 and a cash true-up payment of $3,230. Related parties (James Burns, Joel Oppenheim, Paul Deputy, Lee Lytton, Leo Womack and Jovian Petroleum) 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..

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.

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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 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 Petroleum Corporation converted their 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 their $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 their 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 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 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 is recognized in the second quarter of 2017. The extinguishment of tranche 2 will be recognized in the third quarter, with no impact on the statement of operations.

On May 23, 2017, the 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.

## NOTE 8. 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.

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

| | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| Revenues | | | | |
| Oil & Gas | $41,831 | $34,294 | $75,391 | $57,293 |
| Oil field services | - | 18,000 | - | 198,000 |
| Net Income (Loss) | | | | |
| Oil & Gas | (1,258,099 ) | (417,829 ) | (1,717,320 ) | (869,471 ) |
| Oil field services | (4,048 ) | 14,970 | (8,096 ) | 164,670 |
| Assets | | | | |
| Oil & Gas | 13,320,728 | 4,129,506 | 13,320,728 | 4,129,506 |
| Oil field services | 177,546 | 113,523 | 177,546 | 113,523 |
| Accounts Receivable | | | | |
| Oil & Gas | 16,067 | 117,295 | 16,067 | 117,295 |
| Oil field services | $- | $- | $- | $- |

All segment expenses were incurred by the Oil & Gas segment except for the cost of equipment sold of $33,330 which was incurred in the six months ended June 30, 2016.

NOTE 9. ASSET ACQUISITIONS

TLSAU 60% Acquisition

Effective February 12, 2017, the Company acquired an additional 60% net working interest in the "Twin Lakes San Andres Unit" or "TLSAU" field located in Chaves County, New Mexico (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 $465,798 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 Petrolia purchased.

The table below represents the proforma financial statement showing the effects of the combined entity for the periods presented above:

| | Three Months Ended June 30, 2017 | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|---|---|
| Oil and gas sales | $41,831 | $77,967 | $80,951 | $297,424 |

| | | | | |
|---|---|---|---|---|
| Net Loss | $(1,262,147) | $(457,736) | $(1,725,416) | $(977,702) |

NOTE 10. SUBSEQUENT EVENTS

On July 6, 2017, Mr. Rick Wilber agreed to convert his cumulative outstanding debt of $550,000 into 55,000 shares of Petrolia Series A Preferred Stock. The stated value of these shares is $10.00 per share. 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).

As described in greater detail in Note 7 above, on July 19, 2017, Jovian converted $2 million of its remaining debt into 12,749,286 shares of the Company's common stock and 21,510 shares of the Company's preferred stock. The shares of common stock were priced at $0.14 however based on a market price of $0.104 the book value of the shares is $1,325,926. The Preferred Stock was priced at $10.00 per share with a value of $215,100. Refer to Note 7 for further explanation.

From July 17, 2017 to July 24, 2017 the Company sold an additional 76,510 shares of Preferred Stock valued at $765,100. These sales included 55,000 shares for the conversion of Mr. Wilber's debt and 21,510 shares for the conversion of the Jovian debt.

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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, and incorporated by reference 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 11 of our most recent Form 10-K, for a list of abbreviations and definitions used throughout this report.

This information should be read in conjunction with the interim unaudited financial statements and the notes thereto included in this Quarterly Report on Form 10-Q, and the unaudited financial statements and notes thereto and Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2016 (the “Annual Report”).

Certain capitalized terms used below and otherwise defined below, have the meanings given to such terms in the footnotes to our consolidated financial statements included above under "Part I - Financial Information" - "Item 1. Financial Statements".

Unless the context requires otherwise, references to the "Company," "we," "us," "our," "Petrolia" and "Petrolia Energy Corp." refer specifically to Petrolia Energy Corp. and its wholly-owned subsidiary.

In addition, unless the context otherwise requires and for the purposes of this report only:

- "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.

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## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

### Background

We were incorporated in Colorado on January 16, 2002.

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.

### Plan of Operation

Since 2015, we have established a clearly defined strategy to acquire, enhance and redevelop high-quality, resource in place assets. We are focused 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.



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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 shale's. 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 (75% net revenue interest) in such lease.

In August 2013, we became an oil and gas operator and took over the operation of 100% of our wells. As such, we terminated our relationship with RTO Operating, LLC for the day-to-day operations and monitoring of our wells. During 2014, the Company continued to operate its own lease. During the fourth quarter of 2014, the Company hired Jovian Petroleum Corporation (Jovian) to survey the operations and well performance at the Noack field. Their report identified paraffin buildup problems in the well bores and gathering lines as the main production issue for the Company to overcome. In December 2014, the Company signed an operating agreement with Jovian to assume full operational responsibility for the Noack field under a fixed fee agreement of $10,000 per month for full operating field services. On March 1, 2015, the Company hired Zel C. Khan, our current CEO and director, who is the largest stockholder of Jovian, as well as several former employees of Jovian Petroleum. This allowed for the fixed fee agreement with Jovian to end.

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. During 2016 and through second quarter end, the Company had thirteen (8) wells producing, (5) wells to workover, with one (1) injection well and one (1) did not produce/one (1) well not completed.

Slick Unit Dutcher Sands ("SUDS") Field

The SUDS oilfield consists of 2,600 acres located in Creek County, Oklahoma and carries a 7.8% 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. Since 2011, Jovian has invested an estimated $1.6 million into the restoration of the field; rebuilding the infrastructure and putting wells back in production. To date, 18 wells have been worked over and 8 are fully operational with considerable reserves remaining.

The Company has approved SUDS well #1, a new infill drill well, to be drilled during the third quarter of 2017, funding permitting.

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 is 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 is secured by a 12.5% undivided working interest in the SUDS field.

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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 their 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 their $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 their 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 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 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 is recognized in the second quarter of 2017. The extinguishment of tranche 2 will be recognized in the third quarter, with no impact on the 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 130 wells. The last independent reserve report prepared by MKM Engineering on December 31, 2016, reflects approximately 2.7 million barrels of proven oil reserves remaining for the 100% working interest (of which we hold a 40% working interest). During 2016 and through second quarter end, the field had ninety (90) total wells, five (5) were producing, as allowed by permit with thirty-two (32) requiring workovers and an additional fifty (50) will serve as injection wells as needed and permits are acquired. As of December 31, 2016 Petrolia was the operator of the TLSAU field (through an agreement with BSNM described below). As of the date of this report, Petrolia owns a 100% working interest in the field.

TLSAU 15% Acquisition

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 per barrel of oil (Bbl) and was paid to Blue Sky NM, Inc. (“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 that expire in three (3) years. In addition, a $1.3 million face value note payable to BSNM was purchased for $316,800 [the “BSNM Note”] (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).

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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%. Included in the purchase price was the write off of $32,288 in outstanding accounts receivable to Petrolia. The final purchase price allocation of the transaction is as follows: oil and gas properties acquired $424,540, asset retirement obligations assumed of $42,252.

TLSAU 60% Acquisition

Effective February 12, 2017, the Company acquired an additional 60% net working interest in the TLSAU in connection with 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 $433,500 was given in exchange for Dead Aim's working interest. The consideration includes the forgiveness of the BSNM Note of $316,800 (with a $1.3million face value) and the write off of $116,700 of Dead Aim's outstanding accounts receivable to Petrolia. Dead Aim assumed liability (prior to the acquisition) for the OPBE note that Petrolia purchased.

Askarii Resources, LLC

Effective February 1, 2016, the Company acquired 100% of the issued and outstanding interests in Askarii Resources LLC ("Askarii"), a private Texas based oil & gas service company. The Company acquired Askarii by issuing one (1) million restricted shares of common stock. Based on the then market value of the Company's common 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 plans to engage in the oil field service business as well as the leasing of field related heavy equipment. It is also contemplated that Askarii will research various enhanced oil recovery (EOR) technologies and methods which it can use for the benefit of the Company's oil fields.

Results of Operations/Liquidity and Capital Resources

Revenues & Costs – Three months ended June 30, 2017 compared to the three months ended June 30, 2016

Revenues

Our oil and gas revenue reported for the quarter ended June 30, 2017 was $41,831, an increase of $7,537 from the prior year's quarter of $34,294. Our increased revenue for the quarter ended June 30, 2017 as compared with the prior year's quarter is due to increased production at the Noack field. Our equipment sales for the quarter ended June 30, 2017 were $0, compared to the prior year's quarter of $18,000. This was because 2016 was the first year for the Company to have equipment sales and the Company has not had any additional equipment sales since 2016.

Operating Expenses

Operating expenses increased to $1,028,326 for the quarter ended June 30, 2017 from $384,504 for the quarter ended June 30, 2016. Our major expenses for the quarter ended June 30, 2017 were professional services of $55,891 and stock based compensation (directors) of $604,670, all included in general and administrative expenses. In comparison, major operating expenses for the quarter ended June 30, 2016 were professional services of $117,432, stock based compensation (directors) of $34,342 and salaries and wages of $77,209, all included in general and administrative expenses. Additionally, lease operating expenses increased $60,217 to $123,119 for the quarter ended June 30, 2017, compared to $62,902 for the quarter ended June 30, 2016, due to numerous workovers at SUDS and TLSAU and additional labor hired and contracted to maintain the TLSAU and SUDS fields.

Other Expenses

Total other expense was $275,651 for the quarter ended June 30, 2017 compared to total other expense of $70,648 for the quarter ended June 30, 2016. The increase was due to increased interest expense and loss on conversion of Jovian debt. Interest expense increased to $187,557 due to the conversion of ORRI (as described in Note 5 to the financial statements included herein) and interest related to the Jovian Promissory note (as described above). Loss on conversion increased to $88,755 and is attributable to the Jovian debt conversion.

Net Loss

Net loss for the quarter ended June 30, 2017 was $1,262,146 compared to a net loss of $402,859 for the quarter ended June 30, 2016 due to the factors described above.

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Revenues & Costs – Six months ended June 30, 2017 compared to the six months ended June 30, 2016

Revenues

Our oil and gas revenue reported for the six months ended June 30, 2017 was $75,391, an increase of $18,098 from the prior year's six months ended June 30, 2016, revenue of $57,293. Our increased revenue for the six months ended June, 30, 2017 as compared to the prior year's period is due to increased production at the Noack field and the acquisition of working interests in the SUDS and TLSAU fields during the end of 2016 and 2017. Our equipment sales for the six months ended June 30, 2017 were $0, a decrease of $198,000 from the prior six month's revenue of $198,000. This was because 2016 was the first year for the Company to have equipment sales and it has not had any additional equipment sales in 2017.

Operating Expenses

Operating expenses increased to $1,452,189 for the six months ended June 30, 2017 from $823,241 for the six months ended June 30, 2016. Our major expenses for the six months ended June 30, 2017 were professional services of $90,769, stock based compensation (directors) of $673,949 and deferred salaries of $89,954, all included in general and administrative expenses. In comparison, major operating expenses for the six months ended June 30, 2016 were professional services of $196,097, stock based compensation (directors) of $134,467, and salaries and wages of $158,523, all included in general and administrative expenses.

Our lease operating expenses increased from $107,803 for the six months ended June 30, 2016 to $240,672 for the six months ended June 30, 2017, due to numerous workovers at SUDS and TLSAU and additional labor hired and contracted to maintain the TLSAU and SUDS fields.

Other Expenses

Total other expense was $348,618 for the six months ended June 30, 2017 compared to total other expense of $136,853 for the six months ended June 30, 2016. The increase was due to increased interest expense and loss on conversion of Jovian debt. Interest expense increased to $260,669 due to the conversion of ORRI and interest related to the Jovian Promissory note as described in greater detail in Note 7 to the financial statements included herein. Loss on conversion of debt increased to $88,755 for the six months ended June 30, 2017 compared to $14,336 for the six months ended June 30, 2016 and was attributable to the Jovian debt conversion for the six months ended June 30, 2017.

Net Loss

Net loss for the six months ended June 30, 2017 was $1,725,416 compared to a net loss of $704,801 for the six months ended June 30, 2016 due to the factors described above.

Liquidity and Capital Resources

Our sources and (uses) of funds for the six months ended June 30, 2017 were:

| | |
|---|---|
| Cash provided (used) in operations | $(529,466) |
| Purchase of fixed asset | (9,256) |
| Proceeds from shareholder advances | 206,500 |
| Proceeds from issuance of common and preferred stock | 289,000 |
| Payments of shareholder advances | $(14,000) |

Overview of Cash Flow Activities:

Net cash used by operating activities was $529,466 for the six months ended June 30, 2017 and net cash used in operating activities was $81,971 for the six months ended June 30, 2016. The increase was due primarily to the increase in net loss, an increase in working capital requirements and newly acquired fields with higher cumulative lease operating expenses.  This was partially offset by a delay in the accounts payable cycle (increased days outstanding) and deferred interest on short term debt.

Net cash used by investing activities for the six months ended June 30, 2017 was $9,256 compared to net cash provided by investing activities of $16,998 for the six months ended June 30, 2016.  The decrease was primarily due to proceeds received from the sale of equipment in the previous period.

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Net cash provided by financing activities was $475,786 and $83,390 for the six months ended June 30, 2017 and 2016, respectively. The increase from 2016 to 2017 was due to a year-over-year increase in advances from affiliates and proceeds from the sale of Preferred Stock as described in greater detail below.

As of June 30, 2017, we had total current assets of $26,249 and total assets in the amount of $13,498,274. Our total current liabilities as of June 30, 2017 were $1,802,192. We had negative working capital of $1,775,943 as of June 30, 2017. Our material asset balances are made up of oil & gas properties and related equipment. Our most significant liabilities include related party notes, ARO and accruals for professional services. One note totaling $2,000,000 which was outstanding with Jovian was converted into Preferred Stock as described in greater detail below under Item 2. Unregistered Sales of Equity Securities and Use of Proceeds and another related party note in the amount of $550,000 was outstanding with Rick Wilber, however, on July 6, 2017, Mr. Rick Wilber agreed to convert his cumulative outstanding debt of $550,000 into 55,000 shares of Preferred Stock. Additionally, there is $117,000 of shareholder advances outstanding and other short term debts that are temporarily funding working capital shortfalls. See "Note 6 – Notes Payable" to our audited financials included in our Annual Report, for further details regarding our outstanding notes payable.

The Company continues to operate at a negative cash flow of approximately $50,000 per month and our Auditors have raised a going concern issue in their latest audit report. Management is pursuing several initiatives to secure funding to increase production at both the SUDS and Twin Lakes fields which together with anticipated increases in the price of crude oil may reduce Company's monthly cash shortfall. The total amount required by the Company to accomplish this objective is approximately $250,000, which funding may not be available on favorable terms, if at all.

The Company has suffered recurring losses from operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. We plan to increase revenues by drilling productive oil or gas wells. However, we will need to raise additional funds 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. There can be no assurance that we will be successful in raising the capital needed to drill oil or gas wells nor that any such additional financing will be available to us on acceptable terms or at all. Any wells which 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.

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 "Offering"), as described in greater detail in Note 5 to the financial statements included herein. During the second quarter of 2017, 120,590 shares of Preferred Stock or $1,205,900 of the offering amount has been sold to accredited investors. As of July 19, 2017, all $2,000,000 of Preferred Stock subject to the Offering had been sold with 24,100 shares of Preferred Stock being sold for $241,000, 132,500 shares of Preferred Stock being issued in connection with Debt Conversion Agreements discussed below in the aggregate amount of $1,325,000 and 43,400 shares of Preferred Stock being issued in connection with the conversion of SUDS ORRI working interests in the amount of $434,000 (as discussed below).

Critical Accounting Policies and New Accounting Pronouncements

See Note 2 to the financial statements included as part of our Annual Report on Form 10-K, for the year ended December 31, 2016, filed with the Securities and Exchange Commission on April 17, 2017 for a description of our critical accounting policies and the potential impact of the adoption of any new accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Pursuant to Item 305(e) of Regulation S-K (§ 229.305(e)), the Company is not required to provide the information required by this Item as it is a "smaller reporting company," as defined by Rule 229.10(f)(1).

Item 4. Controls and Procedures.

(a) We maintain a system of controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act , is recorded, processed, summarized and reported within time periods specified in the SEC's rules and forms and to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Principal Executive and Financial Officer, as appropriate to allow timely decisions regarding required disclosure. As of June 30, 2017, our Principal Executive and Financial Officer evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our Principal Executive and Financial Officer concluded that our disclosure controls and procedures were effective.

(b) Changes in Internal Controls. There were no changes in our internal controls over financial reporting during the quarter ended June 30, 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II: OTHER INFORMATION

Item 1. Legal Proceedings.

We are periodically named in legal actions arising from normal business activities. We evaluate the merits of these actions and, if we determine that an unfavorable outcome is probable and can be reasonably estimated, we will establish the necessary reserves. We are not currently involved in legal proceedings that could reasonably be expected to have a material adverse effect on our business, prospects, financial condition or results of operations. We may become involved in material legal proceedings in the future.

Item 1A. Risk Factors.

There have been no material changes from the risk factors previously disclosed in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed with the Commission on April 17, 2017, under the heading "Risk Factors", and investors should review the risks provided in the Form 10-K, prior to making an investment in the Company. The business, financial condition and operating results of the Company can be affected by a number of factors, whether currently known or unknown, including but not limited to those described in the Form 10-K for the year ended December 31, 2016, under "Risk Factors", any one or more of which could, directly or indirectly, cause the Company's actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect the Company's business, financial condition, operating results and stock price.

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

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 June 30, 2017. Mr. Deputy's total accrued salary from September 1, 2016 to June 30, 2017 was $122,520. The Company granted warrants to purchase 35,000 shares of common stock for the quarter ended June 30, 2017 valued at $3,106 (the Company also granted warrants to purchase 35,000 shares of common stock for the quarter ended March 31, 2017 valued at $4,851). The warrants granted for the quarter ended June 30, 2017 are based on a $0.09 price per share valuation, volatility of 296%, a discount rate of 1.09% and a 3 year term. The aggregate fair value of the warrants for the six months ended June 30, 2017 was $7,957. The warrants were valued using the Black Sholes valuation model. The warrants were recognized as stock compensation expense.

On April 11, 2017, the Company began a private offering of up to $2 million of Series A Convertible Preferred Stock ("Series A Preferred Stock" or "Preferred Stock"), at $10 per share. On May 3, 2017, the Board of Directors approved, and the Company filed, a Certificate of Designations, designating the rights and preferences of the Series A Preferred Stock with the Secretary of State of Texas. The Company also provided the investors in the private offering piggyback registration rights in connection with the shares of common stock issuable upon conversion of the Series A Preferred Stock which remain in place until the earlier of (a) two years from the closing date; and (b) the date that the investors are eligible to sell the securities under Rule 144.

The designation provided for up to 400,000 shares of Series A Preferred Stock. The Series A Preferred Stock have an original issuance price of $10 per share; are convertible into shares of common stock of the Company on a 71.429-for-one basis, based on a conversion price of $0.14 per share, provided that accrued and unpaid dividends are also convertible into common stock based on a conversion price of $0.14 per share; entitle the holders thereof the right to receive cumulative dividends in preference to any dividend on the common stock at the rate of 9% per annum, payable in cash on a semi-annual basis; participate pro-rata, on an as-converted basis, in cash dividends paid on the common stock; provide the holders thereof the right to receive, in preference to the holders of common stock, an amount equal to the original issuance price, together with any declared but unpaid dividends, in the event of any liquidation, dissolution or winding up of the Company; and contain no redemption rights.

The Series A Preferred Stock and all accrued and unpaid dividends thereon automatically convert into common stock, upon the earliest to occur of (i) the holders of a majority of the Series A Preferred Stock then outstanding consenting to such conversion; (ii) the closing of a registered public offering of the Company's common stock, but only if the gross proceeds of the offering to the Corporation equal or exceed $10 million and the offering price is at least $0.30 per share; (iii) May 3, 2022 (the five year anniversary of the date the designation was filed); and (iv) the date that the average closing price per share of the Company's common stock as reported on a national securities exchange, NASDAQ, the OTCQX, the OTCQB, the OTCQX or the OTC Pink market, equals or exceeds $0.28 per share during any period of thirty (30) consecutive trading days.

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The Series A Preferred Stock votes together with the common stock and not as a separate class except that as long as at least 20% of the original shares of the Series A Preferred Stock issued remain outstanding, consent of the holders of a majority of the Series A Preferred Stock then outstanding is required for any action which (a) increases or decreases (other than by redemption or conversion) the total number of authorized shares of Series A Preferred Stock; (b) adopts or authorizes any new designation of any preferred stock or which amends the Certificate of Formation of the Company in a manner which adversely affects the rights, preferences and privileges of the Series A Preferred Stock; (c) creates (by reclassification or otherwise) any new series or shares of capital stock having rights, preferences, or privileges senior to or on a parity with the Series A Preferred Stock in connection with liquidation rights or dividends; (d) effects an exchange, or creates a right of exchange, cancellation, or creates a right to cancel, of all or any part of the shares of another class of shares into shares of Series A Preferred Stock; or (e) alters or changes the rights, preferences or privileges of the shares of Series A Preferred Stock so as to affect adversely the shares of such series.

The Series A Preferred Stock includes a blocker prohibiting the conversion of the Series A Preferred Stock into common stock of the Company, if upon such conversion/exercise the holder thereof would beneficially own more than 4.99% of the Company’s then outstanding common stock, provided such limitation shall not apply in the event of an automatic conversion of the Series A Preferred Stock (the “Beneficial Ownership Limitation”). The Beneficial Ownership Limitation also limits the voting rights of any holders of the Series A Preferred Stock. The Beneficial Ownership Limitation may be waived by any holder with 61 days prior written notice to the Company.

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 “Offering”), as described above in Item 2. During the second quarter of 2017, 120,590 shares of Preferred Stock or $1,205,900 of the offering amount has been sold to accredited investors. As of July 19, 2017, $1,971,000 of Preferred Stock subject to the Offering had been sold with 24,100 shares of Preferred Stock being sold for $241,000, 132,500 shares of Preferred Stock being issued in connection with Debt Conversion Agreements discussed below in the aggregate amount of $1,325,000 and 40,500 shares of Preferred Stock being issued in connection with the conversion of SUDS ORRI working interests in the amount of $405,000 (as discussed below)..

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. During the second quarter of 2017, 14% of the 15% outstanding SUDS PORRI interests were converted into Preferred Stock as part of the Offering. This conversion resulted in 40,500 Preferred Stock being issued to those who chose to convert, with an aggregate value of $405,000. Related parties (James Burns, Joel Oppenheim, Paul Deputy, Lee Lytton, Leo Womack and Jovian Petroleum) converted 6% in ORRI interests and received 17,400 shares of Preferred Stock (2,900 shares of Preferred Stock each) valued at $174,000.

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 way of the issuance of 1,400,000 shares of common stock. 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.

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.

The Board of Directors authorized the Company to allow outstanding warrant-holders to exercise their outstanding warrants at a 20% discount to the stated exercise prices of their warrants.  On May 12, 2017 a warrant holder exercised warrants to purchase 600,000 shares of common stock by remitting a payment of $48,000 at an exercise price of $0.08 per share which was a 20% discount to the $0.10 per share stated price originally granted by the Company.

For their service as Directors on the Company's Board of Directors, on May 23, 2017, the Board of Directors 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 $0.15 per share, which vests 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 $0.15 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 $0.15 valuation and a 3 year term. The total amount of the options was expensed during the six months ended June 30, 2017. These warrants are subject to a clawback provision which would be ratably invoked if a director did not complete his 2016 service term.

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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 shares were issued: Leo Womack 5,500 Preferred Stock shares, Joel Oppenheim 17,590 Preferred Stock shares, Lee Lytton 2,500 Preferred Stock shares, James Burns 10,500 Preferred Stock shares and Paul Deputy 1,500 Preferred Stock shares. In addition, any holder of any non-interest bearing loan converted also received a warrant to purchase four shares of common stock for each dollar converted. Consequently, warrants to purchase a total of 400,000 shares of common stock were granted (Leo Womack 70,000, Joel Oppenheim 270,000, Lee Lytton 30,000 and Paul Deputy 30,000) 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 Petroleum Corporation converted their 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 their $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 their 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 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 were valued using the market price on the date of issuance $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 tranche transactions resulted in an $88,755 loss which is recognized in the second quarter of 2017. The extinguishment of tranche 2 will be recognized in the third quarter, with no impact on the 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 Series A preferred stock. The equipment was valued at $30,000

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 stated value of these shares is $10.00 per share. 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).

We claim an exemption from registration pursuant to Section 4(a)(2) and/or Rule 506 of Regulation D of the Securities Act, and the rules and regulations promulgated thereunder in connection with the sales, grants and issuances described above since the foregoing issuances did not involve a public offering, the recipients were (a) “accredited investors”, and/or (b) had access to similar documentation and information as would be required in a Registration Statement under the Securities Act.. With respect to the transactions described above, no general solicitation was made either by us or by any person acting on our behalf. The transactions were privately negotiated, and did not involve any kind of public solicitation. No underwriters or agents were involved in the foregoing issuances and we paid no underwriting discounts or commissions. The securities sold are subject to transfer restrictions, and the certificates evidencing the securities contain an appropriate legend stating that such securities have not been registered under the Securities Act and may not be offered or sold absent registration or pursuant to an exemption therefrom.

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Issuer Purchases of Equity Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

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 way of the issuance of 1,400,000 shares of common stock. 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.

Item 6. Exhibits

See the Exhibit Index following the signature page to this Quarterly Report on Form 10-Q for a list of exhibits filed or furnished with this report, which Exhibit Index is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements 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 | |
| August 21, 2017 | By: | /s/ Zel C. Khan<br>Zel C. Khan<br>Chief Executive Officer<br>(Principal Executive Officer |

| | | |
|---|---|---|
| | PETROLIA ENERGY CORPORATION | |
| August 21, 2017 | By: | /s/ Paul Deputy<br>Paul Deputy<br>Chief Financial Officer<br>(Principal Financial and Accounting Officer |

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EXHIBITS INDEX

| | |
|---|---|
| 3.1 | 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 (filed as Exhibit 3.1 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 and incorporated by reference herein |
| 10.1 | 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 and incorporated by reference herein) |
| 10.2 | 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 and incorporated by reference herein) |
| 10.3 | Debt Conversion Agreement, dated June 30, 2011, by and between the Company, Jovian Petroleum Corporation and its subsidiary, Jovian Resources LLC (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 31, 2017 and incorporated by reference herein) |
| 10.4 | Debt Conversion Agreement, dated July 19, 2017 by and between the Company and Jovian Petroleum Corporation and its subsidiary, Jovian Resources LLC (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 24, 2017 and incorporated by reference herein) |
| 10.5 | Debt Conversion Agreement, dated July 6, 2017 by and between the Company and Rick Wilber (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 24, 2017 and incorporated by reference herein) |
| 10.6 * | Employment Agreement dated April 18, 2017, with James E. Burns as President of Petrolia Energy Corporation. |
| 31.1 * | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 * | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 ** | Certification pursuant to Section 906 of the Sarbanes-Oxley Act. |
| 32.2 ** | Certification pursuant to Section 906 of the Sarbanes-Oxley Act. |
| 101.INS+ | XBRL Instance Document |
| 101.SCH+ | XBRL Taxonomy Extension Schema Document |
| 101.CAL+ | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF+ | XBRL Taxonomy Extension Definition Linkbase Document |

101.LAB+XBRL Taxonomy Extension Label Linkbase Document

101.PRE+ XBRL Taxonomy Presentation Linkbase Document

* Filed herewith
** Furnished herewith