
**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 September 30, 2018

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
(State or other jurisdiction of
incorporation or organization)

86-1061005
(I.R.S. Employer
Identification No.)

710 N Post Oak, Suite 512
Houston, Texas
(Address of principal executive offices)

77024
(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 every Interactive Data File required to be submitted 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 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

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

Emerging growth company

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

Securities registered pursuant to Section 12(b) of the Act: None.

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 162,673,727 shares of common stock as of May 10, 2019.

TABLE OF CONTENTS

	<u>Page</u>
<u>Part I Financial Information</u>	
Item 1. Financial Statements	3
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3. Quantitative and Qualitative Disclosures about Market Risk	33
Item 4. Controls and Procedures	33
<u>Part II Other Information</u>	
Item 1. Legal Proceedings	34
Item 1A. Risk Factors	34
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	34
Item 3. Defaults Upon Senior Securities	36
Item 4. Mine Safety Disclosures	36
Item 5. Other Information	36
Item 6. Exhibits	36
SIGNATURES	37
EXHIBITS INDEX	38

PART I

Item 1. Financial Statements

PETROLIA ENERGY CORPORATION
INTERIM CONSOLIDATED BALANCE SHEETS

	September 30, 2018 (unaudited)	December 31, 2017 (audited)
ASSETS		
Current assets		
Cash	\$ 5,378	\$ 82,593
Accounts receivable	77,601	51,026
Other current assets	15,816	8,993
Total current assets	98,795	142,612
Property & equipment		
Oil and gas, on the basis of full cost accounting		
Evaluated properties	16,888,016	14,312,580
Furniture, equipment & software	201,110	264,723
Less accumulated depreciation and depletion	(3,543,325)	(1,192,229)
Net property and equipment	13,545,801	13,385,074
Other Assets		
Intangible assets	49,886	49,886
Total Assets	\$ 13,694,482	\$ 13,577,572
LIABILITIES & STOCKHOLDERS EQUITY		
Current liabilities		
Bank indebtedness	\$ 17,322	\$ —
Accounts payable	290,183	253,557
Accounts payable – related parties	51,148	159,878
Accrued liabilities	504,194	81,083
Accrued liabilities – related parties	582,401	815,814
Notes payable	169,098	32,582
Notes payable – related parties	539,876	217,100
Derivative liability	34,369	—
Total current liabilities	2,188,591	1,560,014
Asset retirement obligations	1,814,222	473,868
Notes payable	880,073	24,204
Total Liabilities	4,882,886	2,058,086
Stockholders' Equity		
Preferred stock, \$0.001 par value, 1,000,000 shares authorized; 199,100 and 197,100 shares issued and outstanding	\$ 199	\$ 197
Common stock, \$0.001 par value; 400,000,000 shares authorized; 158,111,227 and 111,698,222 shares issued and outstanding	158,111	111,698
Additional paid in capital	56,265,132	22,730,974
Accumulated other comprehensive income	(18,858)	—
Accumulated deficit	(47,592,988)	(11,323,383)
Total Stockholders' Equity	8,811,596	11,519,486
Total Liabilities and Stockholders' Equity	\$ 13,694,482	\$ 13,577,572

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

PETROLIA ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Oil and gas sales				
Oil and gas sales	\$ 655,176	\$ 40,632	\$ 708,917	\$ 116,024
Total revenue	<u>655,176</u>	<u>40,632</u>	<u>708,917</u>	<u>116,024</u>
Operating expenses				
Lease operating expense	618,631	77,568	761,511	318,241
Production tax	901	2,150	4,014	7,284
General and administrative expenses	692,588	986,296	3,806,341	2,131,070
Depreciation, depletion and amortization	48,393	17,582	80,307	54,986
Asset retirement obligation accretion	7,002	12,628	18,487	36,833
Impairment of oil and gas properties	2,322,255	—	2,322,255	—
Impairment of equipment	13,783	—	13,783	—
Total operating expenses	<u>3,703,553</u>	<u>1,096,224</u>	<u>7,006,698</u>	<u>2,548,414</u>
Loss from operations	<u>(3,048,377)</u>	<u>(1,055,592)</u>	<u>(6,297,781)</u>	<u>(2,432,390)</u>
Other income (expenses)				
Interest expense	(40,256)	(2,361)	(118,239)	(263,029)
Foreign exchange gain (loss)	(1,775)	—	67,950	—
Loss on related party debt settlement of accrued salaries	—	(5,422)	(203,349)	(94,177)
Change in fair value of derivative liabilities	(7,524)	—	(4,357)	—
Loss on debt extinguishment	—	—	(260,162)	—
Gain (loss) on acquisition and disposition of Bow Energy Ltd.	3,679,776	—	(29,319,554)	—
Other income	—	—	—	805
Total other income (expenses)	<u>3,630,221</u>	<u>(7,783)</u>	<u>(29,837,711)</u>	<u>(356,401)</u>
Net income (loss)	<u>581,844</u>	<u>(1,063,375)</u>	<u>(36,135,492)</u>	<u>(2,788,791)</u>
Series A Preferred Dividends	(45,166)	(41,134)	(134,113)	(49,767)
Net income (loss) attributable to common stockholders	\$ 536,678	\$ (1,104,509)	\$ (36,269,605)	\$ (2,838,558)
Earnings (loss) per share				
Basic and diluted	<u>\$ 0.00</u>	<u>\$ (0.01)</u>	<u>\$ (0.19)</u>	<u>\$ (0.03)</u>
Weighted average number of shares of common stock outstanding - Basic	<u>220,922,294</u>	<u>102,760,115</u>	<u>189,234,812</u>	<u>88,594,051</u>
Weighted average number of shares of common stock outstanding - Diluted	<u>221,387,261</u>	<u>102,760,115</u>	<u>189,234,812</u>	<u>88,594,051</u>
Other comprehensive income, net of tax				
Foreign currency translation adjustments	\$ (56,015)	\$ —	\$ (18,858)	\$ —
Comprehensive income (loss)	<u>\$ 525,829</u>	<u>\$ (1,104,509)</u>	<u>\$ (36,154,350)</u>	<u>\$ (2,788,791)</u>

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

PETROLIA ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Cash Flows from Operating Activities		
Net loss	\$ (36,135,492)	\$ (2,788,791)
Adjustment to reconcile net loss to net cash provided by/(used in) operating activities:		
Depletion, depreciation and amortization	80,307	54,986
Asset retirement obligation accretion	18,487	36,833
Bad debt expense	25,000	—
Loss on related party debt settlement of accrued salaries	203,349	94,177
Change in fair value of derivative liabilities	4,357	—
Loss on extinguishment of debt	260,162	—
Equity settled finance fee	76,537	107,420
Warrant expense related to business combination	103,632	—
Stock-based compensation	2,689,949	774,614
Foreign currency remeasurement gain	(61,906)	—
Loss on acquisition and disposition of Bow Energy Ltd.	29,319,554	—
Impairment of furniture, equipment & software	13,783	—
Impairment of oil and gas properties	2,322,255	—
Guarantor fees	—	482,586
Interest on ORRI conversion	—	128,229
Loss on sale of vehicle	—	3,677
Changes in operating assets and liabilities		
Accounts receivable	(241,701)	31,496
Other current assets	(6,823)	22,547
Deposits	240,000	—
Bank indebtedness	17,322	—
Accounts payable	273,541	370,927
Accounts payable – related parties	(6,140)	—
Accrued liabilities	295,414	—
Accrued liabilities – related parties	(171,792)	—
Net cash flows from operating activities	<u>(680,205)</u>	<u>(681,299)</u>
Cash Flows from Investing Activities		
Purchase of working interest in Canadian Properties	(932,441)	—
Net cash acquired in acquisition of Bow Energy Ltd.	3,784	—
Net cash disposed of in sale of Bow Energy Ltd.	(4,003)	—
Purchase of fixed assets	—	(9,256)
Cash flows from investing activities	<u>(932,660)</u>	<u>(9,256)</u>
Cash Flows from Financing Activities		
Proceed from issuance of common stock	262,500	110,065
Proceeds from issuance of common stock for exercise of warrants	179,675	—
Proceed from issuance of preferred stock	20,000	241,000
Proceeds from notes payable	1,000,000	—
Repayments on notes payable	(33,835)	(4,107)
Proceeds from related party notes payable	278,410	301,600
Repayments to related party notes payable	(171,100)	(14,000)
Cash paid for PORRI conversion	—	(3,230)
Cash flows from financing activities	<u>1,535,650</u>	<u>631,328</u>
Net change in cash	(77,215)	(59,227)
Cash at beginning of period	82,593	68,648
Cash at end of period	<u>\$ 5,378</u>	<u>\$ 9,421</u>

SUPPLEMENTAL DISCLOSURES (Note 13)

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

PETROLIA ENERGY CORPORATION
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(Unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION:

Petrolia Energy Corporation (“we”, “us”, “Petrolia” and the “Company”) is an oil and gas exploration, development, and production company.

Basis of Presentation

The accompanying unaudited interim consolidated 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 year ended December 31, 2017, as reported in Form 10-K, have been omitted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Askarii Resources and Petrolia Canada Corporation. All significant intercompany transactions are eliminated in the consolidation process. All non-intercompany balances are included in the consolidated financial statement balances and all significant intercompany transactions are eliminated in the consolidation process.

The Company accounts for its investment in companies in which it has significant influence by the equity method. The Company’s proportionate share of earnings is included in earnings and added to or deducted from the cost of the investment.

Use of Estimates

The preparation of these consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the interim consolidated financial statements in the period they are determined.

Cash equivalents

The Company considers all highly liquid instruments purchased with an original maturity date of three months or less to be cash equivalents. At September 30, 2018, the Company did not hold any cash equivalents.

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers. The Company adopted this standard on a modified retroactive basis on January 1, 2018. No financial statement impact occurred upon adoption.

Revenue from Contracts with Customers

We recognize revenue when it satisfies a performance obligation by transferring control over a product to a customer. Revenue is measured based on the consideration we expect to receive in exchange for those products.

Performance Obligations and Significant Judgments

We sell oil and natural gas products in the United States through a single reportable segment. We enter into contracts that generally include one type of distinct product in variable quantities and priced based on a specific index related to the type of product.

The oil and natural gas is typically sold in an unprocessed state to processors and other third parties for processing and sale to customers. We recognize revenue at a point in time when control of the oil or natural gas passes to the customer or processor, as applicable, discussed below. For oil sales, control is typically transferred to the customer upon receipt at the wellhead or a contractually agreed upon delivery point. Under our natural gas contracts with processors, control transfers upon delivery at the wellhead or the inlet of the processing entity's system. For our other natural gas contracts, control transfers upon delivery to the inlet or to a contractually agreed upon delivery point. In the cases where we sell to a processor, we have determined that we are the principal in the arrangement and the processors are our customers. We recognize the revenue in these contracts based on the net proceeds received from the processor.

Transfer of control drives the presentation of transportation and gathering costs within the accompanying unaudited consolidated statements of operations. Transportation and gathering costs incurred prior to control transfer are recorded within the transportation and gathering expense line item on the accompanying unaudited consolidated statements of operations, while transportation and gathering costs incurred subsequent to control transfer are recorded as a reduction to the related revenue.

A portion of our product sales are short-term in nature. For those contracts, we use the practical expedient in Accounting Standards Codification ("ASC") 606-10-50-14 exempting us from disclosure of the transaction price allocated to remaining performance obligations if the performance obligation is part of a contract that has an original expected duration of one year or less.

For our product sales that have a contract term greater than one year, we have utilized the practical expedient in ASC 606-10-50-14(a) which states we are not required to disclose the transaction price allocated to remaining performance obligations if the variable consideration is allocated entirely to an unsatisfied performance obligation. Under these sales contracts, each unit of product represents a separate performance obligation; therefore, future volumes are unsatisfied, and disclosure of the transaction price allocated to remaining performance obligations is not required. We have no unsatisfied performance obligations at the end of each reporting period.

We do not believe that significant judgments are required with respect to the determination of the transaction price, including any variable consideration identified. There is a low level of uncertainty due to the precision of measurement and use of index-based pricing with predictable differentials. Additionally, any variable consideration identified is not constrained.

Receivables and allowance for doubtful accounts

Oil revenues receivable do not bear any interest. These receivables are primarily comprised of joint interest billings. We regularly review collectability and establish or adjust an allowance for uncollectible amounts as necessary using the specific identification method. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Management has determined that a reserve for uncollectible amounts was not required in the periods presented.

Asset Retirement Obligations

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

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

Debt Issuance Costs

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

Stock-Based Compensation

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

Derivative Financial Instruments

The Company's derivative financial instruments consist of warrants with an exercise price denominated in a currency other than the Company's functional currency. These derivative financial instruments are measured at their fair value at the end of each reporting period. Changes in fair value are recorded in net income.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. The hierarchy is broken down into three levels based on the observability of inputs as follows:

- Level 1 — Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment;
- Level 2 — Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly; and
- Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The carrying value of cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, as reflected in the consolidated balance sheets, approximate fair value due to the short-term maturity of these instruments. The carrying value of notes payable approximates their fair value due to immaterial changes in market interest rates and the Company's credit risk since issuance of the instruments.

Business Combinations

In January 2017, the FASB issued ASU 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. The ASU provides an updated model for determining if acquired assets and liabilities constitute a business. In a business combination, the acquired assets and liabilities are recognized at fair value and goodwill could be recognized. In an asset acquisition, the assets are allocated value based on relative fair value and no goodwill is recognized. The ASU narrows the definition of a business. We adopted this standard in the first quarter of 2018. ASU 2017-01 did not have a material impact on our financial statements.

Foreign Currency Translation

The Company's functional and reporting currency is the U.S. dollar. The functional currency of Petrolia Canada Corporation is the Canadian dollar. Assets and liabilities of these entities are translated from their functional currency of Canadian dollars into the reporting currency, United States dollars, at the exchange rate in effect at the balance sheet dates. Revenue and expenses are translated at average rates in effect during the reporting periods. Equity transactions are recorded at the historical rate when the transaction occurred. The resulting translation adjustment is reflected as accumulated other comprehensive income, a separate component of stockholders' equity in the statement of stockholders' equity.

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.

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.

4. ACQUISITION OF BOW ENERGY LTD., A RELATED PARTY

On November 30, 2017, we signed an Arrangement Agreement (the "Arrangement") to acquire Bow Energy Ltd, a Canadian company which was then publicly traded on the Toronto Venture Exchange ("Bow" and the "Acquisition"). Bow is considered a related party due to the fact that the largest shareholder of Bow, BSIH Ltd. ("BSIH"), is affiliated with Petrolia's CEO, Zel C. Khan. Bow's offices are in Calgary, Alberta, Canada.

On February 27, 2018, the Acquisition closed, and we acquired all of the issued and outstanding shares of capital stock of Bow (each a "Bow Share"). The Arrangement was approved at a special meeting of shareholders of Bow held on February 21, 2018. None of the related party shareholders were included in this meeting. The vote was strictly between the non-affiliated shareholders and final approval of the Arrangement was granted by the Court of Queen's Bench of Alberta on February 23, 2018.

BSIH's Chief Executive Officer, Ilyas Chaudhary, is related to Mr. Khan. Mr. Chaudhary had a controlling interest in BSIH prior to the acquisition of Bow. Therefore, the Bow acquisition is a related party transaction.

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

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

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

At the closing of the Acquisition, we issued the Bow shareholders the shares described above and assumed warrants to purchase 320,000 shares of common stock valued at \$103,632.

A subsidiary of Bow Energy Ltd., Bow Energy Pte. Ltd., owns 75% of the issued and outstanding shares of Renco Elang Energy Pte. Ltd. ("REE") which owns a 75% working interest in a Production Sharing Contract referred to as "South Block A" (the "Assets" or "SBA") located onshore, North Sumatra, Indonesia. REE is the operator of the Assets. Effectively, the Company has a 44.48% working interest in the Assets.

On May 24, 2017, Bow's wholly-owned subsidiary, Bow Energy International Holdings Inc. ("BEIH"), acquired all of Bukit Energy Inc.'s shareholding interests in five Singapore holding companies (the "Holding Companies") that own the interests in four Production Sharing Contracts ("PSCs") and one non-conventional joint study agreement ("JSA"), all interests are located onshore in Sumatra, Indonesia. The Holding Companies being acquired were Bukit Energy Central Sumatra (Mahato) Pte. Ltd. ("Mahato"), Bukit Energy Palmerah Baru Pte. Ltd. ("Palmerah Baru"), Bukit Energy Resources Palmerah Deep Pte. Ltd. ("Palmerah Deep"), Bukit Energy Bohorok Pte. Ltd. ("Bohorok"), and Bukit Energy Resources North Sumatra Pte. Ltd. ("Bohorok Deep"), collectively referred to as the "Bukit assets".

The Holding Companies own the following interests in the conventional and non-conventional PSCs and non-conventional JSA:

- Bohorok PSC (conventional) – operated 50% participating interest, 465,266 net acres
- Palmerah Baru PSC (conventional) – operated 54% participating interest, 98,977 net acres
- Palmerah Deep PSC (non-conventional)- operated 69.36% participating interest, 170,398 net acres
- Mahato PSC (conventional)- 20% participating interest, 167,115 net acres, non-operated
- Bohorok Deep (non-conventional)- 20.25% participating interest in a JSA, non-operated with option to become operator

The fair value of the 106,156,712 common shares issued as consideration for the acquisition of Bow (\$34,607,088) was determined based on the acquisition date fair value of the shares.

The purchase price allocation can be summarized as follows:

Cash	\$	3,784
Accounts receivable		432,973
Other current assets		4,763
Deposits		337,997
Furniture, equipment & software		12,059
Unproved properties and properties not subject to amortization		3,403,250
Accounts payable		(1,157,876)
Note payable		(1,429,192)
Loss on acquisition	\$	32,999,330

As a result of the related party nature of the acquisition, the identifiable assets and liabilities acquired were measured at their carrying value, immediately prior to the acquisition with no gain or step-up in fair value. The consideration paid in excess of the net assets acquired was recorded to loss on acquisition. Actual amounts recognized by the Company once the acquisition accounting is finalized may differ materially from these estimates.

Acquisition costs included a grant of 100,000 shares (\$37,000) of common stock as a bonus for the Bow Energy acquisition at a fair value of \$0.37 per share. In addition, the Company incurred \$103,632 in transaction costs associated with the issuance of warrants to purchase 320,000 shares of common stock in connection with the transaction.

The amount of Bow's revenue and loss included in Petrolia's consolidated income statement for the period ended September 30, 2018; and the revenue and loss of the combined entity had the acquisition date been January 1, 2018 and January 1, 2017, are as follows.

	Revenue	Earnings (Loss)
February 28, 2018 to September 30, 2018	\$ —	\$ (211,676)
Supplemental pro forma from January 1, 2018 to September 30, 2018	—	(36,186,545)
Supplemental pro forma from January 1, 2017 to September 30, 2017	\$ 3,144,949	\$ (3,290,379)

5. DISPOSITION OF BOW ENERGY LTD., A RELATED PARTY

Effective August 31, 2018, the Company entered into and closed the transactions contemplated by a Share Exchange Agreement with Blue Sky Resources Ltd. ("Blue Sky" and the "Exchange Agreement"). The President, Chief Executive Officer and 100% owner of Blue Sky is Ilyas Chaudhary, the Company's Chief Executive Officer. As described above in Note 4, Mr. Chaudhary indirectly owns and controls BSIH, which controlled Bow prior to the acquisition of Bow as described in Note 4.

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

- (a) 70,807,417 shares of the Company's common stock owned and controlled by BSIH (the "Blue Sky Shares");
- (b) \$100,000 in cash (less certain advances paid by Blue Sky or Bow to the Company since April 1, 2018);
- (c) the assumption of certain payables owed by Bow, including \$730,000 owed under the terms of a Loan Agreement, as amended, originally entered into by Bow, but not the subsequent \$800,000 borrowed by Bow pursuant to the amendment to the Loan Agreement dated May 9, 2018 (which obligation is documented by a Debt Repayment Agreement);
- (d) 20% of BEIH, which was wholly-owned by Bow (which entity's subsidiaries own certain PSCs and certain other participating assets), pursuant to an Assignment Agreement;
- (e) certain carry rights described in greater detail in the Exchange Agreement, providing for Blue Sky to carry the Company for up to the next \$10 million of aggregate costs in BEIH and the PSC assets, with any profits from BEIH being distributed 80% to Bow and 20% to the Company, pursuant to a Petrolia Carry Agreement; and
- (f) a 3% royalty, after recovery of (i) the funds expended by Bukit Energy Bohorok Pte Ltd, which is wholly-owned by BEIH in the Bohorok, Indonesia PSC since July 1, 2018, plus (ii) \$3,546,450 (i.e., ½ of Bow's share of the prior sunk cost of Bohorok, which royalty is evidenced by an Assignment of Petrolia Royalty).

The Exchange Agreement closed on August 31, 2018 and has an effective date of July 1, 2018. The Exchange Agreement contains customary and standard representations and warranties of the parties, indemnification obligations (which survive for six months following the closing) and closing conditions. The Company canceled the shares following the closing and returned such shares to the status of authorized but unissued shares of common stock. A total of 53,105,563 of the shares were cancelled during the three months ended September 30, 2018, and a total of 17,701,854 of the shares were cancelled in November 2018.

The gain on sale is summarized as follows:

Cash	\$	100,000
Shares returned to treasury (70,807,417 shares at \$0.07 per share)		4,956,519
Total consideration received		<u>5,056,519</u>
Less: Carrying value of net assets disposed		(1,376,743)
Fair value of retained non-controlling interest (20% of \$4,683,893 net liabilities of BEIH)		<u>—⁽¹⁾</u>
Gain on disposition of Bow Energy Ltd.	\$	<u>3,679,776</u>

⁽¹⁾Initially recognized at \$nil as the entity is in a net liability position.

The fair value of the 70,807,417 common shares to be returned as part of the consideration paid for Bow was determined on the closing price of the stock on August 31, 2018 at \$0.07 per share for a fair value of \$4,956,519.

The retained non-controlling 20% interest in BEIH was initially recognized at fair value with a minimum value of \$nil and is accounted for using the equity method. During the quarter ended September 30, 2018, the Company's share of loss on its investment in BEIH was \$11,247, which was not recorded against the carrying value as the investment is in a net liability position. The carrying value of the investment at September 30, 2018 is \$nil.

The gain on disposition of Bow was recorded to offset the loss on acquisition of Bow incurred in the year.

6. ACQUISITION OF CANADIAN PROPERTIES

Effective on June 29, 2018, the Company acquired a 25% working interest in approximately 41,526 acres located in the Luseland, Hearts Hill, and Cuthbert fields, located in Southwest Saskatchewan and Eastern Alberta, Canada (collectively, the "Canadian Properties" and the "Working Interest"). The Canadian Properties currently encompass 64 sections, with 240 oil and 12 natural gas wells currently producing on the properties. Additionally, there are several idle wells with potential for reactivation and 34 sections of undeveloped land (approximately 21,760 acres). The Canadian Properties and the Working Interest were acquired from Blue Sky (a related party, as described in Note 5, above). Blue Sky had previously acquired an 80% working interest in the Canadian Properties from Georox Resources Inc., who had acquired the Canadian Properties from Cona Resources Ltd. and Cona Resources Partnership prior to the acquisition by the Company.

The effective date of the acquisition was June 1, 2018. The acquisition of the Canadian Properties was evidenced and documented by a Memorandum of Understanding between the Company and Blue Sky dated June 29, 2018 and a Conveyance between the parties dated as of the same date, pursuant to which the Company agreed to acquire the Working Interest in consideration for \$1,428,581 in Canadian dollars ("CAD") (approximately \$1,096,216 in U.S. dollars) of which CAD \$1,022,400 (approximately \$782,441 in U.S. dollars) was paid in cash (the "Cash Payment") and CAD \$406,181 (approximately \$313,775 in U.S. dollars) was evidenced by a promissory note (the "Acquisition Note"). The Cash Payment was made with funds borrowed by the Company pursuant to the terms of that certain \$1,530,000 May 9, 2018, Amended and Restated Loan Agreement entered into with Bow and a third party (the "Loan Agreement" and the "Lender"). The amount owed under the Loan Agreement accrues interest at the rate of 12% per annum (19% upon the occurrence of an event of default) and is due and payable on May 11, 2021.

The Working Interest will be held in the name of the Company's newly formed wholly-owned Alberta, Canada, subsidiary, Petrolia Canada Corporation. The Acquisition Note, which was dated June 8, 2018, bears interest at the rate of 9% per annum, beginning on August 1, 2018 and is due and payable on November 30, 2018, provided that we have the right to extend the maturity date for a period six months with 10 days' notice to Blue Sky, in the event we pay 25% of the principal amount of the Acquisition Note at the time of extension.

On September 17, 2018, the Company entered into a Memorandum of Understanding ("MOU") with Blue Sky. Pursuant to the MOU, the Company obtained the rights to acquire an additional 3% working interest in the Canadian Properties, increasing our Working Interest to 28%. Total consideration paid from the Company to Blue Sky for the additional 3% Working Interest was \$150,000.

7. EVALUATED PROPERTIES

The acquired properties and current properties can be summarized as follows.

Cost	Canadian properties	US properties	Askari	Total
As at January 1, 2018	\$ —	\$ 14,199,049	\$ 113,531	\$ 14,312,580
Additions	1,246,216	—	—	1,246,216
Asset retirement cost additions	1,313,982	—	—	1,313,982
Foreign currency translation	15,238	—	—	15,238
As at September 30, 2018	<u>2,575,436</u>	<u>14,199,049</u>	<u>113,531</u>	<u>16,888,016</u>
Accumulated depletion				
As at January 1, 2018	—	1,068,795	24,000	1,092,795
Impairment of oil and gas properties	—	2,322,255	—	2,322,255
Depletion	37,404	11,280	—	48,684
Depreciation	—	—	12,000	12,000
Foreign currency translation	357	—	—	357
As at September 30, 2018	<u>\$ 37,761</u>	<u>3,402,330</u>	<u>36,000</u>	<u>3,476,091</u>
Net book value as at September 30, 2018	\$ 2,537,675	\$ 10,796,719	\$ 77,531	\$ 13,411,925

8. NOTES PAYABLE

	Nominal interest rate	Date of maturity	September 30, 2018		December 31, 2017	
			Face value	Carrying amount	Face value	Carrying amount
Truck loan (i)	5.49%	January 6, 2022	\$ 59,367	\$ 59,367	\$ 56,786	\$ 56,786
Credit note I (ii)	12%	May 11, 2021	800,000	789,804	—	—
Credit note II (iii)	12%	October 17, 2019	200,000	200,000	—	—
			<u>\$ 1,059,367</u>	<u>1,049,171</u>	<u>\$ 56,786</u>	<u>56,786</u>
Long term debt						
Truck loan				20,370		24,204
Credit note I				710,000		—
Credit note II				149,703		—
Current portion of notes payable				<u>\$ 169,098</u>		<u>\$ 32,582</u>

The promissory notes are repayable in full on maturity. The difference between the face value and carrying amount is attributed to accrued interest.

- i. On January 6, 2017, the Company purchased a truck and entered into an installment note with Don Ringer Toyota in the amount of \$59,923 for a term of five years at an annual percentage rate (APR) of 5.49%. The current portion of this note is \$38,997.
- ii. On May 9, 2018, Bow entered into an Amended and Restated Loan Agreement with a third party. The Loan Agreement increased by \$800,000 the amount of a previous loan agreement entered into between Bow and the Lender, to \$1,530,000. The amount owed under the Loan Agreement (\$1,530,000) accrues interest at the rate of 12% per annum (19% upon the occurrence of an event of default) and is due and payable on May 11, 2021, provided that the amount owed can be prepaid prior to maturity, beginning 60 days after the date of the Loan Agreement, provided that the Company give the Lender 10 days' notice of our intent to repay and pay the Lender the interest which would have been due through the maturity date at the time of repayment. The Company is also required to make a payment of principal and interest in the amount of \$50,818 per month for a period of 36 months towards the amount owed beginning on July 15, 2018; these payments were extended to begin on September 15, 2018. The Loan Agreement contains standard and customary events of default, including cross defaults under other indebtedness obligations of us and Bow, and the occurrence of any event which would have a material adverse effect on us or Bow.

The additional \$800,000 borrowed in connection with the entry into the Loan Agreement was used by the Company to acquire the Working Interest in the Canadian Properties described above in Note 6.

In order to induce the Lender to enter into the Loan Agreement, the Company agreed to issue the Lender 500,000 shares of restricted common stock (the "Loan Shares"), which were issued on May 18, 2018, and warrants to purchase 2,320,000 shares of common stock (the "Loan Warrants"), of which warrants to purchase (a) 320,000 shares of common stock have an exercise price of \$0.10 per share in Canadian dollars and expire in May 15, 2021, (b) 500,000 shares of common stock have an exercise price of \$0.12 per share in U.S. dollars, and expire on May 15, 2021; and (c) 1,500,000 shares of common stock have an exercise price of \$0.10 per share in U.S. dollars and expire on May 15, 2020.

The fair value of the 500,000 common shares issued were assessed at the market price of the stock on the date of issuance and valued at \$47,500. The fair value of the Canadian dollar denominated warrants issued were assessed at \$30,012 using the Black Scholes Option Pricing Model. The fair value of the U.S. dollar denominated warrants issued were assessed at \$182,650 using the Black Scholes Option Pricing Model. The Company determined the debt modification to be an extinguishment of debt and recorded a total loss on extinguishment of debt of \$260,162.

Upon the disposition of Bow pursuant to the Exchange Agreement described above under Note 5, a total of \$730,000 of the obligations owed under the Loan Agreement transferred to Blue Sky.

- iii. On September 17, 2018, the Company entered into a loan agreement with a third party for \$200,000 for the purpose of acquiring an additional 3% working interest in the Canadian Properties (note 6). The loan bears interest at 12% per annum and has a maturity date of October 17, 2019. Payments of principal and interest are due monthly, commencing on October 17, 2018. The loan is secured against the Company's 3% Working Interest in the Canadian Properties and has no financial covenants.

9. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations ("AROs") associated with the retirement of tangible long-lived assets are recognized as liabilities with an increase to the carrying amounts of the related long-lived assets in the period incurred. The fair value of AROs is recognized as of the acquisition date of the working interest (see Note 6). The cost of the tangible asset, including the asset retirement cost, is depleted over the life of the asset. AROs are recorded at estimated fair value, measured by reference to the expected future cash outflows required to satisfy the retirement obligations discounted at the Company's credit-adjusted risk-free interest rate. Accretion expense is recognized over time as the discounted liabilities are accreted to their expected settlement value. If estimated future costs of AROs change, an adjustment is recorded to both the ARO and the long-lived asset. Revisions to estimated AROs can result from changes in retirement cost estimates, revisions to estimated discount rates and changes in the estimated timing of abandonment.

Our ARO is measured using primarily Level 3 inputs. The significant unobservable inputs to this fair value measurement include estimates of plugging costs, remediation costs, inflation rate and well life. The inputs are calculated based on historical data as well as current estimated costs. For the Canadian property additions, abandonment and reclamation liabilities are prescribed by the province in which the Company operates in.

The following is a description of the Company's asset retirement obligations:

	United States properties	Canadian properties	Total
Asset retirement obligations at beginning of period	\$ 473,868	\$ —	\$ 473,868
Additions	—	1,313,982	1,313,982
Accretion expense	17,476	1,011	18,487
Foreign currency translation	—	7,885	7,885
Asset retirement obligations at end of period	<u>\$ 491,344</u>	<u>\$ 1,322,878</u>	<u>\$ 1,814,222</u>

10. EQUITY

Preferred Stock

The holders of Series A Preferred Stock are entitled to receive cumulative dividends at a rate of 9% per annum. The Preferred Stock will automatically convert into common stock when the Company's common stock market price equals or exceeds \$0.28 per share for 30 consecutive days. At conversion, the value of each dollar of preferred stock (based on a \$10 per share price) will convert into 7.1429 common shares (which results in a \$0.14 per common share conversion rate).

On February 5, 2018, one accredited investor subscribed and purchased 2,000 shares of Series A Preferred Stock by remitting payment of \$20,000. As of September 30, 2018, there were 199,100 Series A Preferred Stock shares outstanding.

In accordance with the terms of the Series A Preferred Stock, cumulative dividends of \$134,113 were declared for the nine months ended September 30, 2018.

Common Stock

During the nine months ended September 30, 2018, the Company issued and repurchased an aggregate of 117,220,422 and 70,807,417 shares of common stock, respectively. As of September 30, 2018, there were 158,111,227 shares of common stock outstanding. The number of shares of common stock outstanding reflects 17,701,854 shares of common stock repurchased in the sale of Bow and held in treasury at period end. These shares were cancelled in November 2018 (see note 5).

From January 1, 2018 to September 30, 2018, the Company closed private placements at \$0.12 per unit for a total of 2,187,500 units and gross proceeds of \$262,500. Units were comprised of one common share and one warrant entitling the holder to purchase one common share for a period of two years from the date of issuance. The proceeds were allocated to common stock based on the par value of shares issued and additional paid in capital based on the residual value of proceeds received.

On January 24, 2018, 350,000 shares of common stock, valued at \$59,500 based on their grant date fair value, were issued in accordance with Mr. James Burns' common stock related salary compensation.

On January 24, 2018, Mr. James Burns was issued 616,210 shares of restricted common stock in consideration for 2017 deferred salary of \$61,621. The shares were valued at \$264,970 based on their grant date fair value. A debt settlement loss of \$203,349 was recorded.

On February 1, 2018, a law firm was granted 100,000 shares (valued at \$37,000) of common stock as a bonus for the Bow Energy acquisition at a fair value of \$0.37 per share.

On February 1, 2018, a geologist consultant in Oklahoma, was issued 150,000 shares of common stock (valued at \$18,000) at a deemed fair value of \$0.12 per share (valued based on the Company's stock trading price in 2017 when the obligation occurred), in exchange for his professional consulting services.

On February 1, 2018, director, Joel Oppenheim subscribed for a private placement resulting in the issuance of 208,333 shares of common stock and warrants for gross proceeds of \$25,000 at a price of \$0.12 per unit.

On February 1, 2018, our then director Quinten Beasley, exercised warrants to purchase 1,110,000 shares of common stock by settling \$102,590 of Accounts Payable to a company controlled by the director at an average share price of \$0.092 per share. No gain or loss was recorded on settlement.

On February 27, 2018, the Company closed the Acquisition and acquired all of the issued and outstanding shares of capital stock of Bow in consideration for 106,156,712 shares (valued at \$34,607,088) of the Company's common stock as disclosed in Note 4. The shares were valued based on their grant date fair value.

On February 28, 2018, one warrant holder exercised warrants to purchase a total of 360,000 shares of common stock by remitting payment of \$36,875 at an average share price of \$0.102 per share.

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

On March 23, 2018, director, Joel Oppenheim subscribed for a private placement resulting in the issuance of 104,167 shares of common stock and warrants for gross proceeds of \$12,500 at a price of \$0.12 per unit.

On March 31, 2018, 350,000 shares, valued at \$35,000 based on their grant date fair value, were issued in accordance with Mr. Burns common stock related salary compensation.

On April 18, 2018, a Separation and Release Agreement between the former President of the Company, James Burns and the Company became effective, whereby Mr. Burns ceased to be an employee of the Company. Pursuant to the terms of the agreement, the Company paid Mr. Burns \$33,000, and granted Mr. Burns warrants to purchase 3,000,000 shares of common stock at an exercise price of \$0.10 per share. The Company also issued 2,000,000 shares of restricted common stock to Mr. Burns pursuant to the agreement of the Company on May 14, 2018. The fair value of the warrants (\$220,801), was calculated using a Black Scholes model and the restricted shares were valued at the closing price of Petrolia's stock, or \$180,000 and recorded to stock compensation expense.

On April 20, 2018, the Company entered into an agreement to offer the position of Chairman of the Board of Directors to James Burns. Mr. Burns accepted and became Chairman of the Board effective May 1, 2018. Pursuant to the terms of the offer, Mr. Burns will be paid an annual salary of \$65,000 and up to \$25,000 in health benefits for Mr. Burns and his family. The Company issued 500,000 shares of restricted common stock to Mr. Burns on May 14, 2018. An additional 500,000 shares of restricted common stock will be issued upon a successful listing of the Company on the NASDAQ or NYSE exchanges. Mr. Burns was granted warrants to purchase 2,000,000 shares of common stock exercisable at \$0.10 per share, expiring in 36 months, which were fully-vested upon their grant. The fair value of the warrants was calculated using a Black Scholes model (\$147,201) and the restricted shares were valued at the closing price of Petrolia on the date of the agreement (\$45,000) and were recorded to stock compensation expense.

On April 26, 2018, the Company issued 200,000 shares of restricted common stock as a bonus to a vendor valued at \$20,000 based on the closing price of the Company's common stock.

On April 26, 2018, director Joel Oppenheim exercised warrants to purchase 500,000 shares of common stock at a strike price of \$0.10 for gross proceeds of \$50,000.

On May 9, 2018, in conjunction with a debt financing, the Company issued 500,000 shares, fair valued at \$47,456 as a financing fee.

On May 22, 2018, 500,000 shares of common stock were issued to an officer Tariq Chaudhary, who had served as the Chief Financial Officer of the Company, as part of his compensation package. These shares were fair valued based on the value of the closing price of Petrolia's stock, or \$50,000.

On June 25, 2018, the Company issued 600,000 shares of restricted common stock to consultants for services rendered. These shares had a fair value of \$45,000 based on their grant date fair value.

On August 31, 2018, the Company entered into an Exchange Agreement with Blue Sky whereby it and its affiliates would return 70,807,417 shares to treasury for the purchase of Bow Energy Ltd. The fair value of the cancelled shares was determined based on the closing price of the Company's common stock on August 31, 2018, which was \$0.07 per share for a fair value of \$4,956,519. A total of 53,105,563 of the shares were cancelled during the three months ended September 30, 2018, and a total of 17,701,854 of the shares were cancelled in November 2018.

On September 27, 2018, the Company issued 310,000 shares of common stock in connection with the exercise of warrants to purchase 310,000 shares of common stock at an exercise price of \$0.10 per share, upon receipt of the \$31,000 aggregate exercise price of such warrants.

Warrants

Summary information regarding common stock warrants granted and outstanding as of September 30, 2018, is as follows:

	<u>Warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted average remaining contractual life (years)</u>
Outstanding at year ended December 31, 2017	35,087,198	\$ 0.24	2.15
Granted	17,454,666	0.11	1.92
Exercised	(2,910,000)	0.10	—
Expired	(4,900,000)	0.09	—
Outstanding at nine months ended September 30, 2018	<u>44,731,864</u>	<u>\$ 0.22</u>	<u>1.17</u>

The intrinsic value of warrants as of September 30, 2018 is \$256,708 and as of December 31, 2017 is \$1,106,583.

The table below summarizes the warrants granted during the nine month period ended September 30, 2018:

	<u>Number of Warrants</u>	<u>Exercise Price</u>
Board of Director service	5,750,000	\$ 0.10
Pursuant to acquisition of Bow Energy Ltd., a related party	368,000	\$ 0.18
Note payable issuance	2,590,000	\$ 0.10
Private placements	2,187,500	\$ 0.20
Pursuant to employment termination agreement	3,000,000	\$ 0.10
Pursuant to consulting agreement	2,000,000	\$ 0.10
Pursuant to employment termination agreement	250,000	\$ 0.20
Deferred salary – CEO, former CFO	339,166	\$ 0.14
Pursuant to settlement of loan from a director (Joel Oppenheim)	970,000	\$ 0.14
	<u>17,454,666</u>	

The 5,750,000 warrants granted to directors and the advisory board for the nine months ended September 30, 2018 were fair valued at \$539,214. In conjunction with the acquisition of Bow, warrants to acquire 320,000 shares of Bow common stock were exchanged for 368,000 warrants to acquire shares of common stock of the Company. The warrants are exercisable at \$0.08 per share, mature upon repayment of a debt agreement and were fair valued at \$103,632.

On May 9, 2018, Bow entered into an Amended and Restated Loan Agreement with a third party. The Loan Agreement increased by \$800,000 the amount of a previous loan agreement entered into between Bow and the Lender, to \$1,530,000. The amount owed under the Loan Agreement (\$1,530,000) accrues interest at the rate of 12% per annum (19% upon the occurrence of an event of default) and is due and payable on May 11, 2021, provided that the amount owed can be prepaid prior to maturity, beginning 60 days after the date of the Loan Agreement, provided that the Company give the Lender 10 days' notice of our intent to repay and pay the Lender the interest which would have been due through the maturity date at the time of repayment. The Company is also required to make a payment of principal and interest in the amount of \$50,818 per month towards the amount owed beginning on September 15, 2018. The Loan Agreement contains standard and customary events of default, including cross defaults under other indebtedness obligations of us and Bow, and the occurrence of any event which would have a material adverse effect on us or Bow.

The additional \$800,000 borrowed in connection with the entry into the Loan Agreement was used by the Company to acquire the Working Interest in the Canadian Properties described above in Note 6.

In order to induce the Lender to enter into the Loan Agreement, the Company agreed to issue the Lender 500,000 shares of restricted common stock (the "Loan Shares"), which were issued on May 18, 2018, and On May 18, 2018, as an inducement to enter into an Amended and Restated Loan Agreement, the Company issued, among other instruments, warrants to purchase 2,320,000 shares of common stock (the "Loan Warrants"), of which warrants to purchase (a) 320,000 shares of common stock have an exercise price of \$0.10 per share in dollars and expire on May 15, 2021; (b) 500,000 shares of common stock have an exercise price of \$0.12 per share in U.S. dollars, and expire on May 15, 2021; and (c) 1,500,000 shares of common stock have an exercise price of \$0.10 per share in U.S. dollars and expire on May 15, 2020 (see note 8). The fair value of the warrants issued were assessed at \$182,650 and recorded a total loss on extinguishment of debt of \$260,162.

Pursuant to a termination agreement, dated January 19, 2018, with the Company's former CFO, Paul Deputy, the Company issued 250,000 warrants exercisable at \$0.20 expiring in 36 months. The fair value of warrants issued was \$109,021.

Pursuant to a termination agreement with Mr. Burns, warrants to purchase 3,000,000 shares of common stock were issued at an exercise price of \$0.10 per share; and the warrants were fair valued using a Black Scholes model for \$221,401.

James Burns was granted fully vested warrants to purchase 2,000,000 shares of common stock exercisable at \$0.10 per share expiring in 36 months. The warrants were fair valued at \$147,600.

The warrants to purchase 339,166 shares of common stock granted as deferred salary for the nine months ended September 30, 2018 were fair valued at \$34,478.

Pursuant to a loan agreement with director Joel Oppenheim, warrants to purchase 250,000 shares of common stock each were granted at March 31, June 30, and September 30, 2018. The warrants granted at March 31, 2018 were granted at an exercise price of \$0.23 per share and fair valued at \$24,623. The warrants granted at June 30, 2018 were granted at an exercise price of \$0.10 per share and fair valued at \$20,853. The warrants granted at September 30, 2018 were granted at an exercise price of \$0.10 per share and fair valued at \$27,011. The warrants were valued using the Black-Scholes Option Pricing Model.

Stock Options

Upon closing of the Acquisition, the Company granted stock options to purchase 3,500,000 shares of common stock to former Bow employees and directors exercisable at \$0.12 per share, expiring February 27, 2021. The stock options were valued at \$1,131,639 using the Black Scholes options pricing model with volatility of 283%, discount rate of 2.42%, and a call option value of \$0.32.

11. DERIVATIVE FINANCIAL INSTRUMENTS

On May 18, 2018, as an inducement to enter into an Amended and Restated Loan Agreement, the Company issued, among other instruments, warrants to acquire 320,000 shares of common stock with an exercise price of \$0.10 per share in Canadian dollars (see note 8). The warrants are valued using the Black Scholes Option Pricing Model and the derivative is fair valued at the end of each reporting period. The Company assessed an initial derivative liability of \$30,012. The Company recorded a loss for the period ended September 30, 2018 of \$4,357 to adjust the liability to its fair value at the end of the reporting period of \$34,369.

12. RELATED PARTY TRANSACTIONS

The chart below summarize the Notes Payable of related party as of September 30, 2018 and December 31, 2017.

	<u>Nominal interest rate</u>	<u>Date of maturity</u>	<u>September 30, 2018 Carrying amount</u>	<u>December 31, 2017 Carrying amount</u>
M Hortwitz			\$ 10,000	\$ 10,000
Leo Womack			3,000	-
Lee Lytton			3,500	3,500
Quinten Beasley			10,000	10,000
Joel Oppenheim			162,000	47,000
Jovian Petroleum Resources	3.5%		45,910	-
Jovian Petroleum Resources			-	146,600
Blue Sky Resources			55,075	-
Blue Sky Resources	9%	December 29, 2019	160,391	-
Leo Womack	12%	October 17, 2018	60,000	-
Ivar Siem	12%	October 17, 2018	20,000	-
Joel Oppenheim	12%	October 17, 2018	10,000	-
			<u>\$ 539,876</u>	<u>\$ 217,100</u>

On January 15, 2018, Paul Deputy, the former CFO, terminated his employment with the Company. The Company has agreed to pay severance of \$192,521 amortized over a 30 month period beginning April 15, 2018 at a 5% annual percentage rate, \$5,000 per month for January, February and March of 2018 and issue warrants to purchase 250,000 shares of common stock exercisable at \$0.20 per share expiring in 36 months. The fair value of warrants granted was \$109,021. The outstanding balance of severance payable is included in accrued liabilities – related parties.

On January 12, 2018, the Company entered into an employment agreement with Tariq Chaudhary, the Company's CFO, for a period of one year. The CFO was to be paid a salary of \$7,500 a month during the first 90 days of the probationary period. Upon successful completion of the probationary period, the salary was to be \$120,000 per year. Also, the CFO was to be given a signing bonus of 500,000 shares of common stock and was granted warrants to purchase 500,000 shares of common stock exercisable at \$0.12 per share equally vesting over 36 months upon successful completion of the probationary period. On October 31, 2018, Tariq Chaudhary, who had served as the Chief Financial Officer of the Company since January 16, 2018, tendered his resignation as Chief Financial Officer, effective immediately.

On February 1, 2018, our then director Quinten Beasley, exercised warrants to purchase 1,110,000 shares of common stock by settling \$102,590 of Accounts Payable to a company controlled by our then director, Quinton Beasley, at an average share price of \$0.092 per share. No gain or loss was recorded at settlement.

On February 1, 2018, director, Joel Oppenheim subscribed for a private placement resulting in the issuance of 208,333 shares of common stock and warrants for gross proceeds of \$25,000 at a price of \$0.12 per unit.

On February 9, 2018, the Company entered into a Revolving Line of Credit Agreement (“LOC”) for \$200,000 (subsequently increased to \$500,000 on April 12, 2018) with Jovian Petroleum Corporation. The CEO of Jovian is Quinten Beasley, our former director (resigned October 31, 2018), and 25% of Jovian is owned by Zel C. Khan, our CEO and director. The initial agreement is for a period of 6 months and can be extended for up to 5 additional terms of 6 months each. All amounts advanced pursuant to the LOC will bear interest from the date of advance until paid in full at 3.5% simple interest per annum. Interest will be calculated on a basis of a 360-day year and charged for the actual number of days elapsed. The Company repaid \$47,600 on the LOC. As at September 30, 2018, \$45,910 was outstanding on the LOC and the balance was recorded to related party notes payable.

On February 26, 2018, Mr. Oppenheim was issued 630,000 shares of common stock. These shares were the result of exercising warrants to purchase 630,000 shares of common stock, at an average exercise price of \$0.098 per share, which included the remittance of \$61,800 as the aggregate exercise price.

On February 27, 2018, the transactions contemplated by the November 30, 2017, Arrangement (the “Arrangement”) entered into to acquire Bow Energy Ltd (“Bow” and the “Acquisition”), a Canadian company with corporate offices in Alberta, Calgary, closed and the Company acquired Bow Energy Ltd., a related party and all of the issued and outstanding shares of capital stock of Bow (each a “Bow Share”). Under the terms of the Arrangement, Bow shareholders are deemed to have received 1.15 common stock shares for each Bow Share. A total of 106,156,712 shares of the Company’s common stock were issued to the Bow shareholders as a result of the Arrangement, plus additional shares in connection with rounding. Prior to the acquisition of Bow, BSIH was the largest shareholder of Bow.

On March 23, 2018, director, Joel Oppenheim subscribed for a private placement resulting in the issuance of 104,167 shares of common stock and warrants for gross proceeds of \$12,500 at a price of \$0.12 per unit.

On April 12, 2018, the Board of Directors approved (a) the entry by the Company into a \$500,000 Convertible Promissory Note with Blue Sky International Holdings Inc., a related party. The note, effective April 1, 2018, is due on April 1, 2019, accrues interest at the rate of 11% per annum until paid in full, and is convertible into shares of common stock of the Company at the rate of \$0.12 per share. This note was never utilized and subsequently cancelled on April 27, 2018; and (b) the entry into an Amended Revolving Line of Credit Agreement with Jovian Petroleum Corporation, a related party, which establishes a revolving line of credit in the amount of \$500,000 for a period of six months (through August 9, 2018) with amounts borrowed thereunder due at the expiration of the line of credit and accruing interest at the rate of 3.5% per annum unless there is a default thereunder at which time amounts outstanding accrue interest at the rate of 7.5% per annum until paid in full, with such interest payable every 90 days. Both the BSIH Promissory Note and the Jovian Line of Credit are related party transactions. Blue Sky International Holdings Inc. is owned by Mr. Ilyas Chaudhary, father of Zel C. Khan, former Director and Officer of Jovian and current CEO and President of Petrolia.

On April 18, 2018, a Separation and Release Agreement between the former President of the Company, James Burns and the Company became effective whereby Mr. Burns ceased to be an employee of the Company. Pursuant to the terms of the agreement, the Company will pay Mr. Burns \$33,000, grant him warrants to purchase 3,000,000 shares of common stock at an exercise price of \$0.10 per share and also issue 2,000,000 shares of restricted common stock of the Company, which it satisfied on May 14, 2018. The warrants were granted at fair value using a Black Scholes model for \$266,971 and the restricted shares were valued at the closing price of Petrolia’s stock, for \$180,000.

On April 20, 2018, the Company entered into an agreement to offer the position of Chairman of the Board to James Burns. Mr. Burns accepted and became Chairman of the Board effective May 1, 2018. Pursuant to the terms of the offer, Mr. Burns will be paid an annual salary of \$65,000 and up to \$25,000 in health benefits for Mr. Burns and his family. The Company will issue 500,000 shares of restricted common stock, which it satisfied on May 14, 2018. An additional 500,000 shares of restricted common stock will be issued upon a successful listing of the Company on the NASDAQ or NYSE exchanges. Mr. Burns was granted fully vested warrants to purchase 2,000,000 shares of common stock exercisable at \$0.10 per share expiring in 36 months. The warrants were granted at fair value using a Black Scholes model for \$147,600 and the restricted shares were valued at the closing price of the Company’s common stock on the date of the agreement for \$45,000.

On May 22, 2018, 500,000 shares of restricted common stock were issued to the then CFO, Tariq Chaudhary, as per his employment offer letter.

As described in Note 6, above, effective on June 29, 2018, the Company acquired a 25% working interest in approximately 41,526 acres located in the Luseland, Hearts Hill, and Cuthbert fields, located in Southwest Saskatchewan and Eastern Alberta, Canada, from Blue Sky. The President of Blue Sky is Ilyas Chaudhary, the father of Zel C. Khan, the Company's Chief Executive Officer.

On August 17, 2018, the Company sold an aggregate of \$90,000 in Convertible Promissory Notes (the "Director Convertible Notes"), to the Company's directors, Ivar Siem (\$20,000) through an entity that he is affiliated with; Leo Womack (\$60,000); and Joel Oppenheim (\$10,000). The Director Convertible Notes accrue interest at the rate of 12% per annum until paid in full and are due and payable on October 17, 2018. The amount owed may be prepaid at any time without penalty. The outstanding principal and interest owed under the Director Convertible Notes are convertible into common stock of the Company, from time to time, at the option of the holders of the notes, at a conversion price of \$0.10 per share. As additional consideration for entering into the notes, the Company agreed to grant warrants to purchase one share of the Company's common stock at an exercise price of \$0.10 per share for each dollar loaned pursuant to the Director Convertible Notes (the "Bridge Note Warrants"). The warrants have a contractual life of one year. As such, the Company granted (a) 20,000 Bridge Note Warrants to an entity affiliated with Ivar Siem; (b) 60,000 Bridge Note Warrants to Leo Womack; and (c) 10,000 Bridge Note Warrants to Joel Oppenheim. The Director Convertible Notes contain standard and customary events of default. The Company fair valued the warrants issued using a Black Scholes model for a total fair value of \$6,249.

As described above in Note 5, effective on August 31, 2018, the Company entered into and closed the transactions contemplated by a Share Exchange Agreement with Blue Sky, pursuant to which, among other things, we sold Blue Sky 100% of our ownership of Bow and 70,807,417 shares of the Company's common stock owned and controlled by Blue Sky and BSIH were returned to the Company for cancellation. A total of 53,105,563 of the shares were cancelled during the three months ended September 30, 2018, and a total of 17,701,854 of the shares were cancelled in November 2018.

On September 17, 2018, the Company entered into a Memorandum of Understanding ("MOU") with Blue Sky. Pursuant to the MOU, the Company acquired an additional 3% working interest in the Canadian Properties, increasing our Working Interest to 28%. Total consideration paid from the Company to Blue Sky for the additional 3% Working Interest was \$150,000.

13. SUPPLEMENTAL DISCLOSURES – CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Interest Paid	\$ 25,452	\$ 22,782
NON-CASH INVESTING AND FINANCIAL DISCLOSURES		
Common shares issued for purchase Bow Energy Ltd. (note 4)	34,607,088	—
Shares cancelled as proceeds in sale of Bow Energy Ltd. (note 5)	4,956,519	—
Settlement of accrued salaries for related parties with common shares	61,621	—
Settlement of account payable – related parties for common shares, related party	102,590	—
Series A preferred dividend	134,113	—
Proceeds from notes payable paid directly by the related party creditor to seller for acquisition of working interests	313,775	—
Sale of vehicle to related party	—	8,677
Note payable for vehicle purchase	—	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	—	925,900
Settlement of debt with common shares	—	32,532
Settlement of ORRI investments with preferred shares	—	405,000
Settlement of related party debt with shares of common stock and warrants	—	4,033,151

14. SUBSEQUENT EVENTS

On October 17, 2018, director Quinten Beasley tendered his resignation, the Board accepted Mr. Beasley's resignation and issued Mr. Beasley 2,000,000 shares of common stock, with a value of \$150,000 in consideration for past services rendered to the Company.

On October 17, 2018, the Board approved the appointment of Mr. Richard Dole as a Director of the Company.

On October 26, 2018, director Leo Womack exercised warrants to purchase 1,000,000 shares of common stock at an exercise price of \$0.06 per share, by remitting payment of \$60,000.

On October 31, 2018, the Company commenced a private offering of its securities under Regulation D to accredited investors. Each unit at a price of \$25,000, is comprised of (a) 312,500 shares of common stock and (b) one warrant to purchase an additional 625,000 shares of common stock at a price of \$0.10 per share at any time prior to November 1, 2020.

On October 31, 2018, Tariq Chaudhary, who had served as the Chief Financial Officer of the Company since January 16, 2018, tendered his resignation as Chief Financial Officer, effective immediately. The resignation was not due to a disagreement with the Company or in connection with any matter relating to the Company's operations, policies or practices. Effective on October 31, 2018, Horacio Alfredo Fernandez was appointed as the interim Chief Financial Officer of the Company to fill the vacancy left by Mr. Chaudhary's resignation.

On November 1, 2018, the Company entered into a Purchase and Sale Agreement with Crossroads Petroleum L.L.C. ("Crossroads" and the "Sale Agreement"). Pursuant to the Sale Agreement, the Company sold Crossroads an 83% leasehold net revenue interest and 100% working interest, in the NOACK Field Assets, i.e., the Company's leasehold in the Noack Farms, Minera Lease and all related leases and assets located in Milam County, Texas (the "Noack Assets"). The Sale Agreement includes customary indemnification obligations of the parties. Crossroads agreed to pay \$375,000 for the Noack Assets plus \$5,000 per month, on a month-to-month basis, until they are granted official operatorship by the Railroad Commission, the payment plan is as follows: (a) a \$13,500 deposit which was made on October 12, 2018; (b) \$121,500 which was paid on November 7, 2018, (c) \$60,000 which was paid on February 8, 2019; (d) \$65,000 which was paid on February 28, 2019; and (e) \$125,000 which was due March 31, 2019 and this payment was not made. The sale had an effective date of November 1, 2018, which date was further amended to April 30, 2019. Until paid in full, the Company maintains a secured lien against the assets sold which may be foreclosed upon after a 30-day cure period. The Company has recorded an impairment to the Noack cash generating unit of \$2,322,255 in the period ended September 30, 2018 to impair the carrying value of the property to the expected sale price.

On November 13, 2018, director Joel Oppenheim subscribed and purchased one (1) unit in our private offering securities, by remitting payment of \$25,000.

On November 13, 2018, Richard Dole, who subsequently became a director of the Company, subscribed and purchased one (1) unit in our private offering securities, by remitting payment of \$25,000.

On November 13, 2018, the related party company Jovian subscribed and purchased two (2) units in our private offering securities, by remitting payment of \$50,000.

On December 19, 2018, director Joel Oppenheim subscribed and purchased an aggregate of one half (0.5) unit in our private offering of securities, by remitting payment of \$12,500.

On December 19, 2018, an affiliated company, American Resources Offshore, a company controlled by our director Ivar Siem, subscribed and purchased one half (0.5) unit in our private offering of securities, by remitting payment of \$12,500.

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,” “plan” or other 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 9 of our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on April 17, 2018 (the “2017 Annual Report”) 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 2017 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 subsidiaries.

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

- “Bbl” refers to one stock tank barrel, or 42 U.S. gallons liquid volume, used in this report in reference to crude oil or other liquid hydrocarbons;
- “Boe” barrels of oil equivalent, determined using the ratio of one Bbl of crude oil, condensate or natural gas liquids, to six Mcf of natural gas;
- “Mcf” refers to a thousand cubic feet of natural gas;
- “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.

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. Additionally, in February 2018, we acquired Bow Energy Ltd and its assets (“Bow”), provided that in September 2018, we divested Bow, each as discussed in greater detail above in “Part I – Item 1. Financial Statements - Note 4. Acquisition of Bow Energy Ltd., a Related Party” and “Note 5. Disposition of Bow Energy Ltd., a Related Party”.

Plan of Operation

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

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

Our activities will primarily be dependent upon available financing.

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

Minerva-Rockdale Field

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

In April 2013, the Company entered into a lease pertaining to a 423 acre tract in Milam County, Texas, which is adjacent to the Company's original 200 acre lease. The Company issued 500,000 shares of its common stock as consideration for a 100% working interest (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 stockholder and former employee of Jovian. This allowed for the fixed fee agreement with Jovian. The CEO and President of Jovian is Quinten Beasley, our former director (resigned October 31, 2018).

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. 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, the Company had three (3) wells producing, ten (10) wells to workover, with one (1) injection well, one (1) that did not produce, and one (1) well not completed. During 2017, the Company had four (4) wells producing, ten (10) wells to workover, with one (1) injection well, and one (1) well not completed. During 2018, the Company had six (7) wells producing, eight (7) wells to workover, with one (1) injection well, and one (1) well not completed.

On November 1, 2018, the Company entered into a Purchase and Sale Agreement (“PSA”) with Crossroads Petroleum L.L.C. and Houston Gulf Energy. Pursuant to the Sale Agreement, the Company sold Crossroads an 83% leasehold net revenue interest and 100% working interest, in the NOACK Field Assets, i.e., the Company’s leasehold in the Noack Farms, Minera Lease and all related leases and assets located in Milam County, Texas (the “Noack Assets”). The Sale Agreement includes customary indemnification obligations of the parties. Crossroads agreed to pay \$375,000 for the Noack Assets plus \$5,000 per month, on a month-to-month basis, until they are granted official operatorship by the Railroad Commission, the payment plan is as follows: (a) a \$13,500 deposit which was made on October 12, 2018; (b) \$121,500 which was paid on November 7, 2018, (c) \$60,000 which was paid on February 8, 2019; (d) \$65,000 which was paid on February 28, 2019; and (e) \$125,000 which was due March 31, 2019 and this payment was not made. The sale had an effective date of November 1, 2018, which date was further amended to April 30, 2019. Until paid in full, the Company maintains a secured lien against the assets sold which may be foreclosed upon after a 30-day cure period.

Slick Unit Dutcher Sands (“SUDS”) Field

The SUDS oilfield consists of 2,600 acres located in Creek County, Oklahoma and carries a 76.5% net revenue interest (NRI). The first oil producer was completed in 1918 by Standard Oil of Ohio (“Sohio”), which at that time was owned by John D. Rockefeller. By 1959, approximately 14,000,000 barrels of oil had been recovered at an average well depth of 3,100 feet and over 100 wells in production. Through a series of events, the infrastructure had deteriorated, and the field suffered a lot of neglect. 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, 22 wells have been worked over and 9 are fully operational with considerable reserves remaining.

The Company has approved the SUDS well #1 and has approved and filed for two new infill wells to be drilled. The Company expects to drill the first well during the 2nd Quarter of 2019, 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 was secured by a 12.5% undivided working interest in the SUDS field. In addition, a Production Payment Note was executed for the same 50% working interest in the SUDS field. This note was for \$3,000,000, paid out of twenty percent (20%) of the 50% undivided interest of net revenues received by the Purchaser that is attributable to the SUDS field assets. The Production Payment Note was secured by a 12.5% undivided working interest in the SUDS field.

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

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

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

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

The consideration for the debt extinguished consisted of the following:

- 10 million shares of common stock which were valued using the market price on the date of issuance of \$0.14 per share (\$1,400,000).
- Warrants to purchase 6 million shares of common stock with an exercise price of \$0.20 per share based on a \$0.12 valuation, volatility of 293%, a discount rate of 1.09% and warrants to purchase 4 million shares of common stock with an exercise price of \$0.35 per share based on a \$0.12 valuation, volatility of 293%, and a discount rate of 1.09%. All warrants expire in 3 years. The 6 million warrants were valued at \$709,776 while the 4 million warrants were valued at \$471,104, totaling \$1,180,880.
- 12,749,286 shares of common stock which were valued using the market price on the date of issuance of \$0.104 per share (\$1,325,926).
- The Preferred Stock was valued at \$10.00 per share, the cash price paid by third party investors for the same stock with an aggregate value of \$215,100.

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

Slick Unit Exploration and Development Agreement

On July 24, 2018, the Company announced the signing of the Slick Unit Exploration and Development Agreement (the "Development Agreement") with Boone Operating Inc. ("Boone"), a private Exploration & Production company, to explore and develop the Misener and Simpson Formations at the Slick Unit Dutcher Sands Field ("SUDS Field"). Under the terms of the Development Agreement, the development area consists of 480 acres where Boone will carry the cost of drilling the first well and will earn a 75% Working Interest ("WI") position in that well. If the first well is successful, Boone will have the right to further develop the zone and the Company will maintain the right to participate in further drills, up to a 25% WI in each new well. The current producing Dutcher Sands formation is excluded from this Development Agreement, which the Company will continue developing.

The SUDS Field is a 2600-acre lease located in Creek County, 36 miles Southwest of Tulsa, Oklahoma. The field was first discovered in 1918 by SOHIO Oil Company utilizing over 100 wells with the primary objective to produce from the Dutcher Sands at an average well depth of 3,100 ft.

Twin Lakes San Andres Unit ("TLSAU") Field

TLSAU is located 45 miles from Roswell, Chaves County, New Mexico and consists of 4,864 acres with 130 wells. The last independent reserve report prepared by MKM Engineering on December 31, 2017, reflects approximately 1.6 million barrels of proven oil reserves remaining for the 100% working interest. During 2017, the Company took control of thirty-eight (38) wells of which twenty-one (21) were re-worked, of this eight (8) wells remained producing, five (5) wells were dedicated for injection purpose, and the remaining await additional workover and a secondary. During 2017 and through the second quarter ended June 30, 2018, the field had ninety (90) total wells, six (6) were producing, and twenty-one (21) are producible after certain workovers, and five (5) have been designated as injection wells and are awaiting permits. As of December 31, 2018, and continuing through the filing date of this report, Petrolia had filed its Operator bond and assigned an Operator designation to become the operator of the field. 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 Chaves 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).

TLSAU 25% Acquisition

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

TLSAU 60% Acquisition

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

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 was \$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.

Bow Energy Ltd., a related party

On February 27, 2018, the Acquisition closed and we acquired all of the issued and outstanding shares in Bow Energy Ltd., Bow Energy Ltd. has contracts covering a total land position in Indonesia of 948,029 net acres as described in greater detail below.

Effective on August 31, 2018, the Company entered into and closed the transactions contemplated by a Share Exchange Agreement with Blue Sky Resources Ltd. (“Blue Sky” and the “Exchange Agreement”).

The President, Chief Executive Officer and 100% owner of Blue Sky is Ilyas Chaudhary, who is related to Zel C. Khan, the Company’s Chief Executive Officer. Mr. Chaudhary indirectly owns and controls BSIH Ltd. (“BSIH”), which was a significant shareholder of the Company prior to the consummation of the cancellation of shares discussed below. Additionally, prior to the acquisition of Bow Energy Ltd. (“Bow”) (which we acquired pursuant to an Arrangement Agreement dated November 30, 2017, which acquisition closed on February 27, 2018), BSIH, and as a result of his ownership and control of BSIH, Mr. Chaudhary controlled Bow.

The acquisition of Bow in February 2018 and the disposition of Bow in September 2018 are each discussed in greater detail above in “Part I – Item 1. Financial Statements - Note 4. Acquisition of Bow Energy Ltd., a Related Party” and “Note 5. Disposition of Bow Energy Ltd., a Related Party”.

In connection with the September 2018 closing of the Exchange Agreement, the Company canceled shares of common stock previously held by Blue Sky (and affiliates) and returned such shares to the status of authorized but unissued shares of common stock. A total of 53,105,563 shares were cancelled during the three months ended September 30, 2018 and a total of 17,701,854 shares were cancelled in November 2018.

South Block A

South Block A (“SBA”) is located onshore North Sumatra, Indonesia. Bow is the operator of the 421-kilometer (km) block with a 44.48% Working Interest. The block has a proven petroleum system on trend with the Arun, Pase, Rantu and Kual Simpang gas fields. There are multiple prospects and leads with the potential for stacked pay. The block has existing infrastructure leading to a high demand oil and gas market. The SBA is part of the Dutch vintage oil field known as Paya Bili. The block was purchased on July 2, 2015.

Bow has advanced a total of \$1,971,491 to its subsidiary Renco Elang Energy Pte. Ltd. (“REE”) which holds Bow’s interest in SBA. These advances are interest free loans. As part of the REE shareholder’s agreement, all after-tax proceeds from the operations of SBA are first paid against the shareholder loans, prior to any distributions relative to each party’s share interests.

REE’s partner PT. Prosys Oil and Gas International (“POGI”) defaulted on cash call requirements to fund SBA as part of its 14% working interest. The deadline to remedy the defaults was on October 23, 2016. POGI’s interest in SBA was subsequently transferred in the following proportions: REE: 8.3% and KRX Energy (SBA) Pte Ltd.: 5.7%. The proportionate interests in SBA are now: 59.3% for REE and 40.7% for Lion Energy Limited, an Australian publicly-traded company.

The Indonesian regulatory authority, BPMA, granted an additional 4-year extension, effective as of January 19, 2017, to the exploration term for SBA. The extension was granted following the drilling of the Amanah Timur-1 discovery well. This completed the work commitments for the block. Following the extension, REE is reviewing results from the discovery to identify commercialization options and work towards filing a Plan of Development for approval by the regulatory authority. As per the government requirements, following relinquishment the remaining area of the SBA PSC is 421 km². REE has selected the remaining area to ensure remaining acreage contains previously identified prospects and leads. The work program for the new extension is comprised of 50 km² of 3D seismic and planned drilling of 3 wells. After 2 years, the regulator will review progress on the block. During that time, the work commitment requires REE and its partner to either complete the work program or submit a Plan of Development. Failure to meet either target may result in expiration of the PSC, without financial penalty. The program is anticipated to take several years to complete and is subject to fulfillment of meeting various requirements as well as sufficient availability of funds.

Bukit

In the Bukit region, there are four Production Sharing Contracts (“PSCs”) and one non-conventional joint study agreement (“JSA”), all interests are located onshore in Sumatra, Indonesia. Bukit Energy Inc.’s shareholding interests (the “Bukit Assets”) are in five Singapore holding companies (the “Holding Companies”) that own the interests. The Holding Companies held by BEIH own the following interests in the conventional and non-conventional PSCs and the non-conventional JSA:

- Bohorok PSC (conventional) – operated 50% participating interest, 465,266 net acres
 - Drill ready step-out location with resource potential
- Palmerah Baru PSC (conventional) – operated 54% participating interest, 98,977 net acres
 - Several light oil play trends, shallow and deep analogues in surrounding PSC’s with prolific production
- Palmerah Deep PSC (non-conventional)- operated 69.36% participating interest, 170,398 net acres
 - Area underlies conventional PSC
- Mahato PSC (conventional)- 20% participating interest, 167,115 net acres, non-operated
 - 2 drill ready locations adjacent to producing fields
- Bohorok Deep (non-conventional)- 20.25% participating interest in a JSA, non-operated with option to become operator
 - Area of JSA underlies the Bohorok PSC and adjacent to Pertamina’s nonconventional PSC

Results of Operations

Revenues

Our oil and gas revenue reported for the nine months ended September 30, 2018 was \$708,917, an increase of \$592,893 from the nine months ended September 30, 2017. A total of \$654,140 of the increase was attributable to the new operations associated with the Canadian Properties. Revenues associated with our U.S. properties totalled \$54,777, a decrease of \$61,247 from the prior year’s period U.S. properties revenue of \$116,024; this decrease was due to decreased production at the Noack field and Suds field. Production decreased from 2,128 bbls of oil for the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2018, for our US assets.

For the three months ended September 30, 2018, revenue increased \$614,544 to \$655,176, from \$40,632 for the three months ended September 30, 2017. Total U.S. properties revenue decreased \$36,324 between the three months ended September 30, 2018 and 2017, to \$4,308 from \$40,632, respectively. Production decreased to 330 bbls of oil for the three months ended September 30, 2018, compared to 1,190 bbls of oil for the three months ended September 30, 2017, for our US assets.

Over the comparative periods, the market price for oil has improved, which partially offset the decrease in production. The average market price received was \$57.53 per barrel of oil for the nine months ended September 30, 2018, compared to \$35.43 per barrel of oil over the prior nine month period.

Operating Expenses

Operating expenses increased by \$4,458,284 to \$7,006,698 for the nine months ended September 30, 2018, from \$2,548,414 for the nine months ended September 30, 2017. Period over period changes are due to non-cash accounting items in the periods, which included \$103,632 of transaction costs associated with the Bow acquisition and \$2,689,949 of stock-based compensation in the period ended September 30, 2018. There was also a \$443,270 increase in lease operating expenses for the nine months ended September 30, 2018, compared to the prior period in connection with the acquisition of the Canadian properties and a \$2,322,255 impairment of oil and gas properties.

Operating expenses increased by \$2,697,329, to \$3,703,553 for the three month period ended September 30, 2018, compared to \$1,096,224 for the three months ended September 30, 2017. Operating expenses increased over the comparative period due to an increase of \$541,063 in production from the Canadian Properties, which were offset from decreases in general and administrative costs which decreased from highs in the prior period associated with stock based compensation (directors) of \$652,570 and deferred salary of \$60,000. There was also a \$541,063 increase in lease operating expenses for the three months ended September 30, 2018, compared to the prior period in connection with the acquisition of the Canadian properties and a \$2,322,255 impairment of oil and gas properties.

Other income (expense)

Interest expense increased and decreased for the three month and nine month periods ended September 30, 2018, respectively, compared to the three and nine month periods ended September 30, 2017, by \$37,895 and \$144,790, respectively. The decrease for the nine months ended September 30, 2018, was due to a decrease in debt carried during the applicable period, due to the disposition of Bow, because Bow Energy Ltd. had a high amount of debt.

The Company recorded a loss on related party debt settlement of \$203,349 for the nine months ended September 30, 2018, relating to accrued salaries, compared to loss on related party debt settlement of \$94,177 for the nine months ended September 30, 2017.

The Company incurred a gain of \$3,679,776 for the three months ended September 30, 2018, relating to the disposition of Bow Energy Ltd. The Company incurred loss on acquisition and disposition of \$29,319,554 for the nine months ended September 30, 2018, relating to the acquisition and disposition Bow Energy Ltd. This amount consists of the loss on acquisition of \$32,999,330, partially offset by the gain on disposition of \$3,679,776.

During the three and nine months ended September 30, 2018, the Company incurred an impairment of oil and gas properties of \$2,322,255, relating to negotiated price for the sale of the Noack field.

The Company recorded a loss on extinguishment of debt of \$260,162 for the nine months ended September 30, 2018, relating to the increase and reissuance of debt.

The Company incurred a loss of \$7,524 and \$4,357, for the three and nine months ended September 30, 2018, relating to the change in fair value of derivative liabilities. A derivative liability was incurred upon the issuance of the CDN priced warrants issued to a debt holder.

Net Income (Loss)

Net loss for the nine months ended September 30, 2018 was \$36,135,492 compared to \$2,788,791 for the nine months ended September 30, 2017. The primary reason for the increase in loss for the nine months ended September 30, 2018, is due to the net loss on acquisition and disposition of Bow Energy Ltd. of \$29,319,554 and other factors as described above.

Net income for the three months ended September 30, 2018 was \$581,844, compared to a net loss of \$1,063,375 for the three months ended September 30, 2017. The primary reason for the change from net loss to net income is due to the gain on disposition of Bow Energy Ltd. of \$3,679,776, partially offset by the impairment of oil and gas properties of \$2,322,255, as well as other factors as described above.

Changes in Financial Condition

The financial condition of the Company changed significantly throughout the period from December 31, 2017, to September 30, 2018, as the Company completed the acquisition and disposition of Bow each as discussed in greater detail above in “Part I – Item 1. Financial Statements - Note 4. Acquisition of Bow Energy Ltd., a Related Party” and “Note 5. Disposition of Bow Energy Ltd., a Related Party”.

As of September 30, 2018, we had total current assets of \$98,795 and total assets of \$13,694,482. Our total current liabilities as of September 30, 2018 were \$2,188,591 and our total liabilities as of September 30, 2018 were \$4,882,886. We had negative working capital of \$2,089,796 as of September 30, 2018.

Our material asset balances are made up of oil and gas properties and related equipment. Our most significant liabilities are notes payable, notes payable – related parties and non-current notes payable of \$1,589,047 (see “Part I – Item 1. Financial Statements - Note 8. Notes Payable”, above for information regarding outstanding debt obligations), which were incurred to acquire the Canadian Properties and accounts payable and accrued liabilities of \$1,427,926, mainly consisting of accrued officer salaries.

Net cash used in operating activities was \$680,205 and \$681,299 for the nine months ended September 30, 2018 and 2017, respectively.

Net cash used in investing activities was \$932,660 and \$9,256 for the nine months ended September 30, 2018 and 2017, respectively. The increase was primarily due to the funds used to acquire the Canadian Properties.

Net cash provided by financing activities was \$1,535,650 and \$631,328 for the nine months ended September 30, 2018 and 2017, respectively. The increase was primarily due to proceeds from notes payable of \$1,000,000. Additionally, the Company sold common stock in the amount of \$262,500, received \$179,675 upon the exercise of warrants and received proceeds from related party notes of \$278,410. These proceeds were offset by repayments to related party notes of \$171,100 and notes payable of \$33,835. During the nine months ended September 30, 2017, the Company received gross proceeds of \$110,065 from the issuance of common stock, \$241,000 from the issuance of preferred stock, and proceeds from related party notes of \$301,600.

The Company continues to operate at a negative cash flow of approximately \$90,000 per month which raises substantial doubt about our ability to continue as a going concern. Management is pursuing several initiatives to secure funding to increase production at both the SUDS Field and TLSAU field which together with anticipated increases in the price of crude oil may reduce the Company's monthly cash shortfall. The total amount required by the Company to accomplish this objective is approximately \$1,000,000, 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 generate profits by working over existing wells and drilling productive oil or gas wells. However, we will need to raise additional funds to workover or 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. Moving forward we may sell certain of our oil and gas properties in an effort to raise funds to support our operations and future planned oil and gas operations.

Trends Affecting Future Operations

The factors that will most significantly affect our results of operations will be (i) the sale prices of crude oil and natural gas, (ii) the amount of production from oil or gas wells in which we have an interest, and (iii) lease operating expenses. Our revenues will also be significantly impacted by our ability to maintain or increase oil or gas production through exploration and development activities.

It is expected that our principal source of cash flow will be from the production and sale of crude oil and natural gas reserves which are depleting assets. Cash flow from the sale of oil and gas production depends upon the quantity of production and the price obtained for the production. An increase in prices will permit us to finance our operations to a greater extent with internally generated funds, may allow us to obtain equity financing more easily or on better terms, and lessens the difficulty of obtaining financing. However, price increases heighten the competition for oil and gas prospects, increase the costs of exploration and development, and, because of potential price declines, increase the risks associated with the purchase of producing properties during times that prices are at higher levels.

A decline in oil and gas prices (i) will reduce the cash flow internally generated by the Company which in turn will reduce the funds available for exploring for and replacing oil and gas reserves, (ii) will increase the difficulty of obtaining equity and debt financing and worsen the terms on which such financing may be obtained, (iii) will reduce the number of oil and gas prospects which have reasonable economic terms, (iv) may cause us to permit leases to expire based upon the value of potential oil and gas reserves in relation to the costs of exploration, (v) may result in marginally productive oil and gas wells being abandoned as non-commercial, and (vi) may increase the difficulty of obtaining financing. However, price declines reduce the competition for oil and gas properties and correspondingly reduce the prices paid for leases and prospects. During the last 5 months oil prices have trended upward to approximately \$60.00 per barrel.

Other than the foregoing, we do not know of any trends, events or uncertainties that will have, or are reasonably expected to have, a material impact on our sales, revenues or expenses.

Critical Accounting Policies and New Accounting Pronouncements

See Note 2 to the financial statements included in the 2017 Annual Report 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 September 30, 2018, our Principal Executive Officer and Principal Financial Officer evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were not effective. Such disclosure controls and procedures were deemed ineffective due to material weaknesses in connection with disclosure and related issues associated with related party transactions involving the Company and its officers and directors, and recording, presentation and disclosure issues associated with acquisition transactions.

(b) *Changes in Internal Controls.* There were no changes in our internal controls over financial reporting during the quarter ended September 30, 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Notwithstanding the above, on October 31, 2018, Tariq Chaudhary, who had served as the Chief Financial Officer of the Company since January 16, 2018, tendered his resignation as Chief Financial Officer, effective immediately. The resignation was not due to a disagreement with the Company or in connection with any matter relating to the Company’s operations, policies or practices. Effective on October 31, 2018, Horacio Alfredo Fernandez was appointed as the interim Chief Financial Officer of the Company to fill the vacancy.

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, 2017, filed with the Commission on April 17, 2018, under the heading "Risk Factors", except as set forth below and investors should review the risks provided in the Form 10-K and below, 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, 2017, under "Risk Factors" and below, 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.

Future conditions might require us to make write-downs in our assets, which would adversely affect our balance sheet and results of operations.

We review our long-lived tangible and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. We also test our goodwill and indefinite-lived intangible assets for impairment at least annually on December 31 of each year, or when events or changes in the business environment indicate that the carrying value of a reporting unit may exceed its fair value. If conditions in any of the businesses in which we compete were to deteriorate, we could determine that certain of our assets were impaired and we would then be required to write-off all or a portion of our costs for such assets. Any such significant write-offs would adversely affect our balance sheet and results of operations. On March 31, 2018, the Company recorded an impairment to goodwill of \$27,129,963. The impairment was assessed based on future cash flow as of March 31, 2018.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

Below is a summary of all equity securities sold by the Company during the period covered by this report and through the date of filing of this report, that were not registered under the Securities Act, which has not previously been included in a Current Report on Form 8-K or the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 .

On June 1, 2018, the Company closed a private placement of two units for \$100,000, with each unit having a price of \$50,000, each of which is comprised of 416,667 shares of common stock and one warrant to purchase an additional 416,667 shares of common stock at a price of \$0.20 per share at any time prior to October 1, 2020. The units were acquired by an entity affiliated with Ivar Siem, our director.

On September 27, 2018, the Company issued 310,000 shares of common stock in connection with the exercise of warrants to purchase 310,000 shares of common stock at an exercise price of \$0.10 per share, upon receipt of the \$31,000 aggregate exercise price of such warrants.

Pursuant to a loan agreement with director Joel Oppenheim, warrants to purchase 250,000 shares of common stock each were granted at March 31, June 30 and September 30, 2018. The warrants granted at March 31, 2018 were granted at an exercise price of \$0.23 per share and fair valued at \$24,623. The warrants granted at June 30, 2018 were granted at an exercise price of \$0.10 per share and fair valued at \$20,853. The warrants granted at September 30, 2018 were granted at an exercise price of \$0.10 per share and fair valued at \$27,011.

On October 17, 2018, director Quinten Beasley tendered his resignation, the Board accepted Mr. Beasley's resignation and issued Mr. Beasley 2,000,000 shares of common stock, with a value of \$150,000 in consideration for past services rendered to the Company.

On October 31, 2018, the Company commenced a private offering of its securities under Regulation D to accredited investors. Each unit at a price of \$25,000, is comprised of (a) 312,500 shares of common stock and (b) one warrant to purchase an additional 625,000 shares of common stock at a price of \$0.10 per share at any time prior to November 1, 2020.

On October 31, 2018, director Joel Oppenheim subscribed and purchased one (1) unit in our private offering securities, by remitting payment of \$25,000.

On October 26, 2018, director Leo Womack exercised warrants to purchase 1,000,000 shares of common stock at an exercise price of \$0.06 per share, by remitting payment of \$60,000.

On November 13, 2018, the related party company Jovian subscribed and purchased two (2) units in our private offering securities, by remitting payment of \$50,000.

On November 13, 2018, Richard Dole, who subsequently became a director of the Company, subscribed and purchased one (1) unit in our private offering securities, by remitting payment of \$25,000.

On November 13, 2018 and December 19, 2018, director Joel Oppenheim subscribed and purchased one and a half (1.5) units in our private offering securities, by remitting payment of \$37,500.

On December 19, 2018, an affiliated company, American Resources Offshore, a company controlled by our director Ivar Siem, subscribed and purchased a half (0.5) unit in our private offering of securities, by remitting payment of \$12,500.

The table below summarizes the warrants granted during the nine month period ended September 30, 2018:

	Number of Warrants	Exercise Price
Board of Director service	5,750,000	\$ 0.10
Pursuant to acquisition of Bow Energy Ltd., a related party	368,000	\$ 0.18
Note payable issuance	2,590,000	\$ 0.10
Private placements	2,187,500	\$ 0.20
Pursuant to employment termination agreement	3,000,000	\$ 0.10
Pursuant to consulting agreement	2,000,000	\$ 0.10
Pursuant to employment termination agreement	250,000	\$ 0.20
Deferred salary – CEO, former CFO	339,166	\$ 0.14
Pursuant to loans from directors	970,000	\$ 0.14
	<u>17,454,666</u>	

We claim an exemption from registration pursuant to Section 4(a)(2) and/or Rule 506(b) 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 and grants 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.

Item 3 Defaults Upon Senior Securities

None.

Item 4 Mine Safety Disclosures

Not Applicable.

Item 5 Other Information

On November 1, 2018, the Company entered into a Purchase and Sale Agreement with Crossroads Petroleum L.L.C. (“Crossroads” and the “Sale Agreement”). Pursuant to the Sale Agreement, the Company sold Crossroads an 83% leasehold net revenue interest and 100% working interest, in the NOACK Field Assets, i.e., the Company’s leasehold in the Noack Farms, Minera Lease and all related leases and assets located in Milam County, Texas (the “Noack Assets”). The Sale Agreement includes customary indemnification obligations of the parties.

Crossroads agreed to pay \$375,000 for the Noack Assets plus \$5,000 per month, on a month-to-month basis, until they are granted official operatorship by the Railroad Commission, the payment plan is as follows: (a) a \$13,500 deposit which was made on October 12, 2018; (b) \$121,500 which was paid on November 7, 2018, (c) \$60,000 which was paid on February 8, 2019; (d) \$65,000 which was paid on February 28, 2019; and (e) \$125,000 which was due March 31, 2019 and such payment was not made.

The sale had an effective date of November 1, 2018, which date was further amended to April 30, 2019. Until paid in full the Company maintains a secured lien against the assets sold which may be foreclosed upon after a 30-day cure period.

On September 17, 2018, the Company entered into a loan agreement with a third party for \$200,000 for the purpose of acquiring an additional 3% working interest in the Canadian Properties (note 6). The loan bears interest at 12% per annum and has a maturity date of October 17, 2019. Payments of principal and interest are due monthly, commencing on October 17, 2018. The loan is secured against the Company’s 3% Working Interest in the Canadian Properties and has no financial covenants.

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.

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

May 10, 2019

By: /s/ Zel C. Khan

Zel C. Khan
Chief Executive Officer
(Principal Executive Officer)

May 10, 2019

By: /s/ Horacio Alfredo Fernandez

Horacio Alfredo Fernandez
Interim Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit Number		Filed or Furnished Herewith	Incorporated by Reference			
			Form	Exhibit Number	Filing Date/ Period End Date	File No.
2.1	Arrangement Agreement, dated November 30, 2017 by and between the Company and Bow Energy Ltd.		8-K	10.1	12/5/2017	000-52690
2.2	Bukit Energy Inc. Share Purchase Agreement Dated May 16, 2017		10-Q	2.2	3/31/2018	000-52690
2.3	Share Exchange Agreement by and between Petrolia Energy Corporation and Blue Sky Resources Ltd, dated August 31, 2018 and effective July 1, 2018		8-K	2.1	9/5/2018	000-52690
3.1	Certificate of Amendment to Certificate of Formation to Increase the Company's Authorized Shares of Common Stock to 400,000,000 Shares and to amend the par value of the Preferred Stock to \$0.001 per share, filed with the Secretary of State of Texas on November 9, 2017		10-Q	3.1	3/31/2018	000-52690
10.1	\$500,000 Convertible Promissory Note dated April 1, 2018 entered into with Blue Sky International Holdings Inc.		10-K	10.28	12/31/2017	000-52690
10.2	Amended Revolving Line of Credit Agreement with Jovian Petroleum Corporation dated February 9, 2018 and amended April 12, 2018		10-K	10.29	12/31/2017	000-52690
10.3	Separation and Release Agreement dated April 19, 2018, by and between James E. Burns and Petrolia Energy Corporation		8-K	10.1	5/1/2018	000-52690
10.4	Chairman Offer Letter dated April 20, 2018, by and between James E. Burns and Petrolia Energy Corporation		8-K	10.2	5/1/2018	000-52690
10.5	Warrant to Purchase Common Stock, evidencing warrants to purchase 5,000,000 shares of common stock granted to James E. Burns on April 19, 2018		8-K	10.3	5/1/2018	000-52690
10.6	Tariq Chaudhary Offer Letter dated January 12, 2018		10-Q	10.6	3/31/2018	000-52690
10.7	Bukit Energy Inc. \$500,000 Promissory Note dated August 31, 2017 and amendment		10-Q	10.7	3/31/2018	000-52690
10.8	Memorandum of Understanding between Blue Sky Resources Ltd. and Petrolia Energy Corporation dated June 29, 2018		8-K	10.1	7/6/2018	000-52690
10.9	Conveyance between Blue Sky Resources Ltd. and Petrolia Energy Corporation dated June 29, 2018		8-K	10.2	7/6/2018	000-52690
10.10	CAD \$406,181 Promissory Note by Petrolia Energy Corporation in favor of Blue Sky Resources Ltd. dated June 8, 2018		8-K	10.3	7/6/2018	000-52690
10.11	EIL Debt Repayment Agreement effective July 31, 2018, by and between Petrolia Energy Corporation and Blue Sky Resources Ltd (incorporated by reference to Schedule 2A of the Share Exchange Agreement incorporated by reference herewith as Exhibit 2.3)		8-K	10.1	9/5/2018	000-52690

10.12	Assignment of 20% BOW EIH effective July 31, 2018, by and between Petrolia Energy Corporation and Bow Energy Ltd. (incorporated by reference to Schedule 3 of the Share Exchange Agreement incorporated by reference herewith as Exhibit 2.3)		8-K	10.2	9/5/2018	000-52690
10.13	Assignment of Petrolia Royalty effective July 31, 2018, by and between Petrolia Energy Corporation and Bow Energy Ltd. (incorporated by reference to Schedule 4 of the Share Exchange Agreement incorporated by reference herewith as Exhibit 2.3)		8-K	10.3	9/5/2018	000-52690
10.14	Petrolia Carry Agreement, by and between Petrolia Energy Corporation and Bow Energy Ltd. (incorporated by reference to Schedule 5 of the Share Exchange Agreement incorporated by reference herewith as Exhibit 2.3)		8-K	10.4	9/5/2018	000-52690
10.15	Form of 12% Bridge Note – 2018		8-K	10.5	9/5/2018	000-52690
10.16	Purchase and Sale Agreement dated and effective November 1, 2018, by and between Petrolia Energy Corporation and Crossroads Petroleum L.L.C.	X				
10.17	\$240,000 Promissory Note dated November 2, 2018, by Crossroads Petroleum L.L.C. in favor of Petrolia Energy Corporation	X				
10.18*	Loan Agreement dated September 17, 2018 with Emmett Lescroart	X				
14.1	Whistleblower Protection Policy		8-K	14.1	5/24/2018	000-52690
31.1*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
31.2*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X				
32.1**	Certification pursuant to Section 906 of the Sarbanes-Oxley Act	X				
32.2**	Certification pursuant to Section 906 of the Sarbanes-Oxley Act	X				
99.1	Charter of the Audit Committee		8-K	99.1	5/24/2018	000-52690
99.2	Charter of the Compensation Committee		8-K	99.2	5/24/2018	000-52690
99.3	Charter of the Nominating and Corporate Governance Committee		8-K	99.3	5/24/2018	000-52690
101.INS*	XBRL Instance Document	X				
101.SCH*	XBRL Taxonomy Extension Schema Document	X				
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document	X				
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document	X				
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document	X				
101.PRE*	XBRL Taxonomy Presentation Linkbase Document	X				

* Filed herewith.

** Furnished herewith.

PURCHASE AND SALE AGREEMENT

This Purchase and Sale Agreement (the "Agreement") is made and entered into effective as of November 1, 2018 (the "Effective Date") by and between **Petrolia Energy Corporation**, a Texas Corporation, whose mailing address is 710 N. Post Oak Rd, Suite 512, Houston, Texas 77024 (the "Seller") and **Crossroads Petroleum L.L.C.**, a Texas Limited Liability Company, whose mailing address is 28535 Nelson Rd., San Benito, Texas 78586 (the "Purchaser").

BACKGROUND

The Purchaser desires to purchase from the Seller, and the Seller desires to sell to the Purchaser, all of Seller's right, title and interest, believed to be one hundred percent (100%) Working Interest, carrying an undivided eighty three percent (83%) Net Revenue Interest (NRI%) of eight-eighths (8/8ths) leasehold in the Noack Farms, Minerva Lease and all related leases and assets located in Milam County, Texas, which are more specifically described in Exhibit A attached hereto and incorporate herein (collectively, herein called the "Noack Field Assets") on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, for value received, the parties hereto agree to the following terms and conditions:

➤ Purchase and Sale. On the terms and subject to the conditions set forth in this Agreement, at the Closing (defined below), the Purchaser hereby agrees to purchase, acquire and accept from Seller, and Seller hereby agrees to sell, transfer, assign, convey and deliver to the Purchaser, all of the Seller's right, title and interest in and to the NOACK Field Assets, believed to be not less than an undivided eighty three percent (**83%**) leasehold net revenue interest ("NRI"); a one hundred percent (100%) Working Interest in the NOACK Field Assets.

Purchase Price. Subject to the conditions set forth in this Agreement, the total purchase price ("Purchase Price") for the NOACK Field Assets to be paid by the Purchaser to the Seller for the NOACK Field Assets shall be the sum of **\$375,000.00**, payable as follows:

- **\$13,500.00** credit on file;
 - **\$121,500.00** paid on or before November 5th, 2018 ("1st Deposit"); plus
 - **\$125,000.00** paid on or before December 1st, 2018 ("2nd Deposit"); plus
 - **\$115,000.00** paid on or before December 31st, 2018 ("Final Payment");
 - Carried Payments. *After the Initial Deposit, the Purchaser will have officially Closed on the transaction with an effective date of November 1st, 2018. Until the Final Payment is received, the Seller will have a fully secured and primary lien against 100% Interest the Noack Field Asset. Any default on the Carried Payments will allow Seller to foreclose after a 30-day remedy period. No surface equipment or facilities can be removed without Seller until Final Payment is received and the security is removed.*
-

➤ Closing. Subject to the conditions set forth in this Agreement and the waiver of the Noak Farms, LLC right of first refusal (disclosed below) being obtained or the failure of it to be timely exercised, the official closing date (“Closing”) shall be **November 1st, 2018**. Any oil produced prior to this date will belong to the Seller.

➤ Additional Terms - At Closing, the Seller shall execute, acknowledge and deliver to the Purchaser: (i) a recordable assignment, mutually acceptable in form and substance, to the Purchaser and the Seller of the Seller’s NOACK Field Assets (the “Assignment”), reserving a lien to secure payment of the Purchase Price, (ii) a promissory note acceptable to the Seller evidencing the Purchaser’s payment obligation of the Purchase Price. Upon Closing, Purchaser will also promptly file all appropriate documents with the Railroad Commission (RRC) to take over as the official Operator as of the Effective Date. Ad Valorem Taxes will be prorated to Buyer and Seller as of the Effective Date. Upon Closing, and within seven (7) days thereafter, Seller agrees to provide Purchaser with copies of Seller’s records relating to the Assets that are the subject of this Agreement, including (if applicable) information regarding all of Seller’s accounts holding funds in suspense and Seller’s division orders and all supporting documentation regarding the royalty owners and working interest owners in the leases for which Seller disburses proceeds of productions.

➤ Allocation of Liabilities. Notwithstanding anything to the contrary elsewhere contained, following the Closing, the Purchaser shall be responsible for and shall assume only liabilities related to the NOACK Field Assets that arise solely as a result of events wholly occurring subsequent to the Effective Date. The Seller agrees to be responsible for and assume all liabilities whatsoever that pertain to the NOACK Field Assets, to the extent that they arise as a result of events occurring prior to the Effective Date.

➤ Seller’s Covenants, Representations and Warranties. The Seller covenants, represents and warrants to Purchaser that:

(a) Disclosure. Seller has fully disclosed to the Purchaser in writing all of the Seller’s contracts, commitments and liabilities to Purchaser, whether they be direct or contingent. No hydrocarbons are subject to any sales contract, and no person or entity has any call upon, option to purchase, or similar rights with respect to the production from the wells and leases that are included in the Assets that are the subject of this Agreement. Seller has disclosed to Purchaser in writing any and all facts and circumstances of which Seller has knowledge that could reasonably be expected to materially affects any of the Assets or the development, use, operation, management, leasing, occupancy, status, condition and legal compliance of the Assets or any portion thereof.

(b) Assets. Seller is the owner of all of the NOACK Field Assets covered by this Agreement and conveys all such NOACK Field Assets to the Purchaser, free of all claims, liens, burdens, encumbrances, restrictions and other adverse interests other than those that have been expressly disclosed to the Purchaser in writing on or prior to the Effective Date.

(e) Liabilities. There are no debts or liabilities of any type whatsoever with respect to Seller (including without limitation, tax liabilities of any type) other than debts or liabilities incurred in the ordinary course of business as of this date and which have been expressly disclosed to the Purchaser in writing prior to the Effective Date.

(f) Actions/Suits. There are no suits, claims, demands, filings, causes of action, administrative proceedings, lawsuits or other litigation pending, or threatened that could now or hereafter adversely affect the ownership or operation of Seller except those (if any) that have been expressly disclosed to the Purchaser in writing prior to the Effective Date. There are no bankruptcy proceedings pending, being contemplated by, or to the knowledge of Seller, threatened against Seller. All property taxes and production taxes that have become due or payable before the Closing Date have been paid, and all income taxes and obligations resulting thereto that could result in a lien or other claim against any of the Assets that are the subject of this Agreement have been paid.

(h) Compliance. The NOACK Field Assets have been operated in accordance with all applicable laws, orders, rules and regulations of all governmental authorities having or asserting jurisdiction relating to the ownership and operation thereof, including the production of all hydrocarbons attributable thereto. To the best of Seller's knowledge, all necessary governmental certificates, consents, permits, licenses or other authorizations with regard to the ownership or operation of the NOACK Field Assets have been obtained and no violations exist or have been recorded in respect of such licenses, permits or authorizations except for those (if any) which have been expressly disclosed to the Purchaser in writing prior to the Effective Date.

(i) Consents, Waivers and Preferential Rights. There are no consents or waivers of preferential purchase or other rights necessary to prevent the valid conveyance to Purchaser of the NOACK Field Assets that is contemplated by this Agreement (excluding governmental consents and approvals (if any are necessary) that are customarily obtained post-Effective Date), except for a right of first refusal held or owned on the lease described in Exhibit A by Noak Farms, LLC. Seller has obtained a waiver of this right of first refusal.

(j) Brokers. No broker or finder is entitled to any brokerage or finder's fee, or to any commission, based in any way on agreements, arrangements or understandings made by or on behalf of Seller for which Purchaser has or will have any liabilities or obligations (contingent or otherwise).

(k) Organization and Good Standing. Seller is a corporation, validly existing and in good standing under the laws of the State of Texas and has all requisite corporate power and authority to own, lease and operate the NOACK Field Assets, to carry on its business as now conducted and to perform its obligations under this Agreement, and to perform its obligations hereunder and thereunder.

(l) Corporate Power. The Seller has full corporate power and authority to execute and deliver this Agreement and each other agreement, document, instrument or certificate contemplated by this Agreement or to be executed by Seller in connection with the consummation of the transactions contemplated by this Agreement, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery by Seller of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all requisite corporate action on behalf of Seller. This Agreement has been duly executed and delivered by Seller and (assuming the due authorization, execution and delivery by the Purchaser) this Agreement constitutes the legal, valid and binding obligations of Seller, enforceable against Seller in accordance with their respective terms.

➤ Purchaser's Covenants, Representations and Warranties. The Purchaser covenants, represents and warrants to Seller that:

(a) Brokers. No broker or finder is entitled to any brokerage or finder's fee, or to any commission, based in any way on agreements, arrangements or understandings made by or on behalf of Purchaser for which Seller has or will have any liabilities or obligations (contingent or otherwise).

(b) Organization and Good Standing. Purchaser is a limited liability company, validly existing and in good standing under the laws of the State of Texas and has all requisite corporate power and authority to perform its obligations under this Agreement.

(c) Corporate Power. The Purchaser has full corporate power and authority to execute and deliver this Agreement and each other agreement, document, instrument or certificate contemplated by this Agreement or to be executed by Purchaser in connection with the consummation of the transactions contemplated by this Agreement, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery by Purchaser of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all requisite corporate action on behalf of Seller. This Agreement has been duly executed and delivered by Purchaser and (assuming the due authorization, execution and delivery by the Seller) this Agreement constitutes the legal, valid and binding obligations of Purchaser, enforceable against Purchaser in accordance with their respective terms.

➤ Further Assurances. Seller and Purchaser shall each, on a timely basis, execute, acknowledge and deliver all such further conveyances, certificates, notices, assumptions, releases and such other instruments, and shall, on a timely basis, take such further actions, as may be reasonably necessary or appropriate to assure fully to Purchaser and its respective successors or assigns, all of the assets, rights, titles, interests, estates, remedies, powers and privileges intended to be conveyed to Purchaser under this Agreement and to otherwise make effective the transactions contemplated hereby.

➤ Entire Agreement. This Agreement contains the entire agreement of the parties hereto. There are no other agreements, oral or written, and this Agreement can be amended only by written agreement signed by the parties hereto, and by reference, made a part hereof.

➤ Assignment. This Agreement may not be transferred or assigned, in whole or in part, by either party without the prior written consent of the other party being first obtained. After Closing, Purchaser may convey or assign the Assets to a third party, subject to all of Purchaser's obligations and Seller's rights hereunder.

➤ Binding Effect. This Agreement, and the terms, covenants, and conditions herein contained, shall inure to the benefit of and be binding upon the permitted successors, and permitted assigns of each of the parties hereto.

➤ Expenses. Except as otherwise provided in this Agreement, Seller and Purchaser shall each bear their own respective expenses, including without limitation attorney's fees, incurred in connection with the negotiation and execution of this Agreement and each other agreement, document and instrument contemplated by this Agreement and the consummation of the transactions contemplated hereby and thereby. Notwithstanding the foregoing, in the event of any action or proceeding to interpret or enforce this Agreement, the prevailing party in such action or proceeding shall be entitled to have and recover from the non-prevailing party such costs and expenses (including, without limitation, all court costs and reasonable attorneys' fees) as the prevailing party may incur in the pursuit or defense thereof.

➤ Indemnification of Purchaser. Seller agrees to and shall indemnify Purchaser and its officers, directors, employees, agents, representatives, successors and assigns (each a "Purchaser Party"), and save and hold each of them harmless from and against, and pay on behalf of or reimburse any Purchaser Party as and when incurred for, all claims, costs, expenses, liabilities and/or losses of every type nature and character whatsoever pertaining to, arising out of or relating to the NOACK Field Assets and occurring (in whole or in part) prior to the Effective Date. Seller also agrees to and shall indemnify Purchaser and its officers, directors, employees, agents, representatives, successors and assigns, and save and hold each of them harmless from and against, and pay on behalf of or reimburse any Purchaser Party, for any actual losses, costs, expenses, liabilities, damages and injury arising from, related to any breach of any covenant or warranty by Seller set forth herein.

➤ Indemnification of Seller. Purchaser agrees to and shall indemnify Seller and its officers, directors, employees, agents, representatives, successors and assigns (each a "Seller Party"), and save and hold each of them harmless from and against, and pay on behalf of or reimburse any Seller Party as and when incurred for, all claims, costs, expenses, liabilities and/or losses of every type nature and character whatsoever pertaining to, arising out of or relating to the NOACK Field Assets and occurring (in whole or in part) on or subsequent to the Effective Date. Purchaser also agrees to and shall indemnify Seller and its officers, directors, employees, agents, representatives, successors and assigns, and save and hold each of them harmless from and against, and pay on behalf of or reimburse any Seller Party, for any actual losses, costs, expenses, liabilities, damages and injury arising from, related to any breach of any covenant or warranty by Purchaser set forth herein.

➤ Section Headings. The section headings contained in this Agreement are for convenience only and shall in no way enlarge or limit the scope or meaning of the various and several sections hereof.

➤ Publicity. Neither Seller nor Purchaser shall issue any press release or public announcement concerning this Agreement or the transactions contemplated hereby without obtaining the prior written approval of the other party hereto, which approval will not be unreasonably withheld or delayed, unless, in the sole judgment of Purchaser or Seller, disclosure is otherwise required by applicable law, provided that the party intending to make such release shall use its reasonable efforts consistent with such applicable law to consult with the other party with respect to the text thereof.

➤ Severability. If any provision of this Agreement or application to any party or circumstance shall be determined by any court of competent jurisdiction to be invalid and unenforceable to any extent, the remainder of this Agreement or the application of such provision to such person or circumstances, other than those as to which it is so determined invalid or unenforceable, shall not be affected thereby, and each provision hereof shall be valid and shall be enforced to the fullest extent permitted by law.

➤ No Third Party Beneficiary. Except as otherwise expressly set forth herein, no term or provision of this Agreement is intended to or shall be for the benefit of any person or entity not a party hereto, and no such other person or entity shall have any right or cause of action hereunder, nor is anything in this Agreement intended to relieve or discharge the obligation or liability of any third persons to any party to this Agreement, nor shall any provision give any third persons any right of subrogation or action over and against any party to this Agreement.

➤ Governing Law. This Agreement shall be governed by the applicable laws of the State of Texas, without regard to its choice or conflicts of law rules or principles.

➤ Venue. The parties acknowledge their agreement and irrevocably consent to the courts situated in Milam County, Texas, as the sole and exclusive venue for litigation of any type, nature or character whatsoever between the parties pertaining in any manner whatsoever to this Agreement.

➤ Authorization. The undersigned natural persons executing this Agreement warrant and represent that they are duly authorized to do so and to bind the entity for which they sign.

➤ Time of the Essence. Time is of the essence in all things pertaining to the performance of this Agreement.

➤ Currency. All dollar amounts are expressed in United States currency.

➤ Survival of Obligations. To the extent necessary to carry out the terms and provisions hereof, the terms, conditions, obligations and rights set forth herein shall not be deemed terminated at the time of the execution and delivery of the assignment provided in Paragraph 1, above or the payment of the purchase price provided in Paragraph 2, above. Nor will they merge into the assignment provided in Paragraph 1, above.

➤ Multiple Counterparts. For purposes of the execution of this Agreement, signature pages transmitted by facsimile or email shall be given the same weight and effect as, and treated as, original signatures which can be signed in multiple counterparts.

➤ NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS AGREEMENT, THIS AGREEMENT WILL AUTOMATICALLY BE DEEMED NULL AND VOID, WITHOUT FURTHER NOTICE, IF THE 1st DEPOSIT OF \$121,500.00 USD IS NOT RECEIVED BY 5PM CST, NOVEMBER 9th, 2018. ANY CREDITS WILL BE WITHHELD BY SELLER.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement to be effective for all purposes as of the Effective Date.

SELLER:

Petrolia Energy Corporation

By: _____
Zel C. Khan, CEO & President

PURCHASER:

Crossroads Petroleum L.L.C.

By: _____
Jorge Medina, Managing Member

EXHIBIT A

NOACK FIELD ASSETS

- 1) All leasehold working interests, in and to all the oil, gas and/or mineral leases which are now owned or may be hereafter acquired by the Seller which pertain to, cover and/or include the following lands in Milam County, Texas (collectively, the "Leases):

Oil and Gas Lease dated July 3, 2013, recorded in Volume 1203, Page 189 of the Records of Milam, County, Texas, from Kingman Operating Company, Inc, as Lessor to Rockdale Resources Corporation, as Lessee on the following describe land in Milam County, to wit: Being 623.29 acres, more or less, out of the James Reese League, A-303, in Milam, County, Texas.

Well Listing:

Noack Farm A-1
Noack Farm A-2
Noack Farm A-3
Noack Farm A-4
Noack Farm A-7
Noack Farm A-8
Noack Farm A-9
Noack Farm A-12
Noack Farm A-13
Noack Farm A-16
Noack Farm A-18
Noack Farm A-19
Noack Farm A-22
Noack Farm A-23
Noack Farm A-24
Noack Farm C-1

- 2) All rights, titles, and interests of every type whatsoever in real, personal and intangible property rights which are now owned or may be hereafter acquired by the Seller which are appurtenant to the above described lands and Lease, including without limitation the following:

i. As well as all rights, titles and interests in or derived from pooling or unit agreements, orders and decisions of state regulatory authorities establishing pooling rights and/or units, joint operating agreements, enhanced recover and injection agreements, gas sales contracts, farm-out agreements and farm-in agreements, options, drilling agreements, exploration agreements, assignments of operating rights, working interests and subleases;

ii. All royalties, overriding royalties, production payments, rights to take royalties in kind, and/or other interests in production of oil, gas and/or other minerals pertaining to the Lease;

iii. All equipment, wells, machinery, fixtures, related inventory and other personal property located in, on, or used in connection with the Lease;

iv. All oil, condensate, natural gas liquid produced from or pertaining to the Lease after the Effective Date, and all inventory, including line fill and inventory below the pipeline connection in tanks, attributable to the Leases and/or Units;

v. All contractual rights and all contracts and agreements of every type, nature and character whatsoever pertaining to the Lease;

vi. All rights-of-way, easements, servitudes and franchises acquired or used in connection with operations for the exploration and/or production of oil, gas and/or other minerals pertaining to the Lease; and

vii. All permits and licenses of any nature owned, held or operated in connection with operations for the exploration and/or production of oil, gas and/or other minerals pertaining to the Lease, to the extent such permit and licenses are transferable.



PROMISSORY NOTE

Effective Date: November 1, 2018

For Value received the undersigned Crossroads Petroleum LLC ("Maker") of 28535 Nelson Rd, San Benito, TX 78586, promises to pay Petrolia Energy Corporation ("Holder"), 710 N Post Oak Rd, Suite 512, Houston, TX 77024, or order, the sum of Two Hundred Forty Thousand and Zero Cents (\$240,000.00) for the purchase of Noack Farms, Minerva lease in Milam County, Texas.

This note shall be due on the following schedule:

- One Hundred Twenty Five Thousand (\$125,000.00) on or before December 1, 2018
• One Hundred Fifteen Thousand (\$115,000.00) on or before December 31, 2018

This note may be prepaid at any time or from time to time in whole or in part without penalty, premium, or permission.

Should the Maker default in payment of any principal, and/or profit, when due, Maker shall be obligated to pay such costs, fees, expenses, including attorney's fees, which may be incurred by Holder, or any such Holder hereof, in connection with any and all enforcement proceeding. In the event of default hereunder, Holder shall have the right to offset against any obligation payable to Maker under Maker's any other contracts with Holder, such amounts as are necessary to extinguish this Note as soon as possible after Maker's default.

By: [Signature]
CROSSROADS PETROLEUM LLC ("Maker")

By: [Signature]
PETROLIA ENERGY CORPORATION ("Holder")

Table with contact information for Petrolia Energy Corporation, including website, email, address, and phone numbers.

LOAN AGREEMENT

Sept 17th, 2018

WHEREAS Emmett Lescroart (the “**Lender**”) and Petrolia Energy Corporation (the “**Borrower**”) wish to enter into this loan agreement (the “Loan Agreement”) which provides a loan of US \$200,000 at an interest rate of 12%;

AND WHEREAS by September 17th, 2018, Borrower has acquired three percent (3%) undivided working interest in the 3 former Cona Resources Ltd. leases (“Cuthbert Assets”) and is prepared to issue certain securities of Petrolia pursuant to the terms herein;

NOW THEREFORE, in consideration of the increase of the loan upon the terms hereof, the Lender and the Borrower covenant and agree as follows:

Borrower: Petrolia Energy Corporation

Guarantor(s): Petrolia Energy Corporation (the “Guarantor” or “Loan Party”).

Lender: Emmett Lescroart.

Loan: US \$200,000 (“Loan”).

Loan Purpose: To acquire 3% working interest in the Cuthbert Assets formerly owned by Cona Resources Ltd. in Alberta and Saskatchewan, Canada; and are free and clear of any liens and encumbrances on the Closing Date.

Effective Date: September 17th, 2018.

Maturity Date: October 17th, 2019.

Interest Rate: The Borrower shall pay interest on the total Loan at a rate of 12% per annum.

Warrants: In addition to the repayment of principal and interest on the Loan, the Borrower shall grant to the Lender an aggregate 250,000 warrants in Petrolia Energy Corporation at an exercise price of US\$0.10 per share expiring on Maturity Date (the “Warrants”).

The terms of the Warrants shall include: (i) typical adjustment provisions to adjust the number of Warrants and the Exercise Price in the event of any share consolidation, recapitalization, reclassification, or similar transaction or reorganization of share capital; and (ii) provisions allowing exercise in the event of any change in control, business combination or other transaction involving the Borrower.

Repayment: A repayment schedule is attached as Schedule A. Principal and interest shall be remitted on the 17th of each Month commencing October 17th, 2018.

Prepayment: Prepayment is permitted any time on, or after, 60 days from the date hereof, with no penalty, subject to a written notification period of 10 calendar days. In the event of early payout, the Borrower shall ensure total interest paid to the lender is 12% on US \$200,000.

Security: The Lender holds security (the “Security”) against the Borrower’s 3% Working Interest in the Cuthbert Assets. All Security, as the same may be amended, replaced, restated or supplemented, shall be held by the Lender as continuing security for the present and future indebtedness, liabilities and obligations (whether direct or indirect, absolute or contingent) of the Borrower to the Lender under this Loan Agreement and the Security as the same may be amended, replaced, restated or supplemented.

**Representations and
Warranties:**

Borrower represents and warrants to the Lender that:

1. it has been duly incorporated and is in good standing under the legislation governing it, and it has the powers, permits, and licenses required to operate its business or enterprise and to own, manage, and administer its property;
 2. this Loan Agreement constitutes, the Security, and the Warrants and other agreements shall constitute, legal, valid, and binding obligations of itself, enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency, or similar laws affecting creditors' rights generally and to the availability of equitable remedies;
 3. it has the right to pledge, charge, mortgage, or lien its assets in accordance with the Security contemplated by this Loan Agreement;
 4. it is presently in good standing under, and shall duly perform and observe, all material terms of all material documents, agreements, and instruments affecting or relating to its petroleum and natural gas assets (collectively, the "PNG Agreements");
 5. the Borrower is Petrolia Energy Corporation.
 6. it is not involved in any dispute or legal proceedings likely to materially affect its financial position or its capacity to operate its business;
 7. without limiting the generality of clause 4 above with respect to the PNG Agreements, it is not in default under any other contracts to which it is a party or under the applicable legislation and regulations governing the operation of its business or its property, including all material environmental requirements except where such default or non-compliance could not reasonably be expected to have a material adverse effect on the Borrower or its property;
 8. it is not in default under the contracts to which it is a party or under the applicable legislation and regulations governing the operation of its business or its property, including all material environmental requirements, other than arrears in payment of amounts outstanding to suppliers and service providers, which have been disclosed to the Lender;
 9. it has provided to the Lender all material information in the possession of or available to it and relevant to the Lender's review and assessment of the Loan, Security and the structure of the Loan Parties and, all such information is true, complete and accurate;
 10. it has all the requisite power, authority and capacity to execute and deliver this Loan Agreement and the Security (to which it is a party) and to perform its obligations hereunder and thereunder;
 11. the execution and delivery of this Loan Agreement, the Warrants and the Security (to which it is a party) and the performance of the terms of this Loan Agreement, the Warrants and Security do not violate the provisions of its contacting documents or its by-laws or any law, order, rule or regulation applicable to it and have been validly authorized by it; and
 12. the execution, delivery and performance of the terms of this Loan Agreement, the Warrants and the Security (to which it is a party) shall not constitute a breach of any agreement to which it or its property, assets or undertaking are bound or affected.
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Unless expressly stated to be made as of a specific date, the representations and warranties made in this Loan Agreement shall survive the execution of this Loan Agreement, the Warrants and all Security, and shall be deemed to be repeated as of the date of each drawdown under the Loan subject to modifications made by the Borrower to the Lender in writing and accepted by the Lender. The Lender shall be deemed to have relied upon such representations and warranties at each such time as a condition of making each drawdown under the Loan or continuing to extend the Loan.

Affirmative Covenants: Each of the Loan Parties covenants and agrees that it shall:

1. pay all sums of money when due and payable by it to the Lender under this Loan Agreement and the Security;
2. in the case of the Borrower, carry on business and operate its petroleum and natural gas reserves in accordance with good practices consistent with accepted industry standards and pursuant to applicable agreements, regulations, and laws;
3. maintain its corporate existence and comply with all applicable laws;
4. pay, when due, all taxes, assessments, deductions at source, crown royalties, income tax or levies for which the payment is guaranteed by legal privilege, prior claim, or legal hypothec, without subrogation or consolidations;
5. comply with all regulatory bodies and provisions regarding environmental procedures and controls;
6. upon reasonable notice, allow the Lender access to its books and records and to visit and inspect its assets and place of business; and

inform the Lender of any event or action which would have a material adverse impact on its operational or financial affairs, including the sale of assets, guarantees, or alterations of type and business.

Events of Default: The Lender may accelerate the payment of any such outstanding amounts and cancel availability of any undrawn portion of any of the Loan at any time after the occurrence of anyone or more of the following events (each an “**Event of Default**”):

1. failure by the Borrower to pay principal, interest and fees when due;
 2. any material representations and warranties made by a Loan Party are incorrect in any material respect;
 3. any breach of applicable law by a Loan Party;
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4. any breach by a Loan Party of, or failure of a Loan Party to perform, any covenant set forth in this Loan Agreement or any of the Security to which it is a party (other than covenants referred to elsewhere in this Events of Default section) if such breach or failure continues unremedied for more than 30 business days after the Borrower first receives notice from the Lender requiring the applicable Loan Party to remedy such breach or failure;
5. the bankruptcy or insolvency of a Loan Party, or any action is taken for the winding up, liquidation or any appointment of any person with respect to such bankruptcy or insolvency;
6. any cross default as a result of a failure in the performance or observance of any material term or condition in respect of any other indebtedness or obligation of a Loan Party under this Loan Agreement or any of the Security to which it is a party or under any other material agreement to which it is a party; or

any event which has happened or is expected to happen which would have a material adverse effect on a Loan Party.

Indemnity:

The Loan Parties jointly and severally indemnify the Lender against any loss, costs, claims, actions, suits, damages, expenses or liabilities of any and every kind which the Lender may sustain or incur, directly or indirectly, as a consequence of the entry into and performance of this Loan Agreement and any of the Security, the use of funds advanced under this Loan Agreement, the consummation of any transaction contemplated by this Loan Agreement, any litigation or claim commenced arising out of the execution, delivery or performance of, or the enforcement of any right under this Loan Agreement or any of the Security, a default by any Loan Party in the payment or performance of any obligations (including any representation or warranty made herein by a Loan Party being incorrect at the time it was made or deemed to have been made), the failure by a Loan Party to comply with any of its covenants in this Loan Agreement or in any of the Security, or the occurrence of any other default or Event of Default, except where such loss, costs, claims, actions, suits, damages, expenses or liabilities arise by reason of the gross negligence or willful misconduct of the Lender. The indemnities in this Loan Agreement shall extend to the agents and assignees of the Lender and, for certainty, those for whom the Lender acts as agent hereunder, and the Loan Parties shall hold the benefit of such indemnities in trust for such indemnified parties to the extent necessary to give effect hereto.

The provisions, undertakings, and indemnifications set out in this Loan Agreement, shall survive the satisfaction and release of the Security and payment and satisfaction of the indebtedness and liability of the Loan Parties to the Lender.

Costs:

Each party shall be responsible for its own legal costs.

General:

Time is of the essence.

The insertion of headings in this Loan Agreement is for convenience of reference only and shall not affect the construction or interpretation of this Loan Agreement. The terms "this Loan Agreement", "hereof", "hereunder", "herein" and similar expressions refer to this Loan Agreement and not to any particular Section or other portion hereof and include any agreement supplemental hereto.

Words importing the singular number only shall include the plural and vice versa, words importing the masculine gender shall include the feminine and neuter genders and vice versa, words importing persons shall include individuals, partnerships, associations, trusts, unincorporated organizations and corporations and vice versa and words and terms denoting inclusiveness (such as “include” or “includes” or “including”), whether or not so stated, are not limited by their context or by the words or phrases which precede or succeed them.

Reference herein to any agreement, instrument, license or other document shall be deemed to include reference to such agreement, instrument, license or other document as the same may from time to time be amended, modified, supplemented or restated in accordance with the provisions of this Loan Agreement if and to the extent such provisions are applicable; and reference herein to any enactment shall be deemed to include reference to such enactment as re-enacted, amended or extended from time to time and to any successor enactment.

The Borrower agrees that all information provided by it to the Lender may be disclosed to the Lender’s consultants, advisors and legal counsel.

The Borrower shall do all things and execute all documents reasonably deemed necessary or appropriate by the Lender, for the purposes of giving full force and effect to the terms, conditions, undertakings, and security granted or to be granted hereunder.

It is understood and agreed that the execution, delivery and registration of the Security shall in no way merge or extinguish this Loan Agreement or the terms and conditions hereof, which shall survive and continue in full force and effect. When a contradiction or conflict exists between an express term of any of the Security and an express term of this Loan Agreement, the term of this Loan Agreement shall govern and prevail. For greater certainty a term contained in the Security and not contained in the Loan Agreement and vice versa is not a contradiction or conflict with the other. Notwithstanding the foregoing, if there is any right or remedy of the Lender set out in any of the Security or any part of which is not set out or provided for in this Loan Agreement, such additional right shall not constitute a conflict or inconsistency.

If any amount due to the Lender is not paid when due, then Borrower shall pay interest on such unpaid amount if and to the fullest extent permitted by applicable law but not exceeding 19% per annum, provided such default is cured in 30 days from the date of the default. After the occurrence of an Event of Default, the Lender shall be entitled to charge \$250 per hour for recorded time to administer its Loan and in exercising its rights and remedies under this Loan Agreement and the Security.

All interest rates specified are nominal annual rates. The effective annual rate in any case shall vary with payment frequency. All interest payable hereunder bears interest as well after as before maturity, default and judgment with interest on overdue interest at the applicable rate payable herein.

Notwithstanding any provision herein to the contrary, in no event shall the aggregate “interest” (as defined in section 347 of the *Criminal Code* (Canada)) payable under this Loan Agreement exceed the maximum effective annual rate of interest on the “credit advanced” (as defined in that section) permitted under that section and, if any payment, collection or demand pursuant to this Loan Agreement in respect of “interest” (as defined in that section) is determined to be contrary to the provisions of that section, such payment, collection or demand shall be deemed to have been made by mutual mistake and the amount of such payment or collection shall be refunded to the Borrower. For purposes of this Loan Agreement, the effective annual rate of interest shall be determined in accordance with generally accepted actuarial practices and principles over the term of the Loan on the basis of annual compounding of the lawfully permitted rate of interest and, in the event of dispute, a certificate of a Fellow of the Canadian Institute of Actuaries appointed by the Lender shall be prima facie evidence, for the purposes of such determination.

In accordance with prudent lending practices of knowing your client, the Borrower acknowledges that the policies and procedures of the Lender require investigation, verification and recording of information regarding the Borrower, the Guarantors, their directors, officers and shareholders and other persons in control of any Loan Party. Subject to any applicable privacy laws, the Loan Parties agree to promptly provide all information as may be reasonably requested by Emmett Lescroart Capital Partners Corp. and the Lender, including supporting documentation and other evidence, in order to comply with the Lender’s internal policies and anti-money laundering and anti-terrorist legislation. Subject to compliance with any applicable privacy laws, the Loan Parties hereby authorize any personal information agent, financial institution, creditor, tax authority, employer, or any other person including any public entity, having information concerning the Loan Parties or their respective property, more particularly any financial information or information with respect to any undertaking, guarantee, or suretyship given by the Loan Parties, to supply such information to the Lender in order to verify the accuracy of all information furnished or to be furnished from time to time to the Lender and to ensure the solvency of any Loan Party at all times.

- Requirements:** The Borrower hereby agrees to provide to the Lender written notice of a change in name or address immediately.
- Assignment:** The rights or obligations of the Borrower herein and the amount of the Loan may be transferred or assigned by the Borrower subject to written approval of the Lender, acting reasonably. The Lender may assign all or any part of the Loan, the Security and this Loan Agreement without the consent of the Borrower but shall notify the Borrower within a reasonable time frame of such assignment occurring.
- Binding Agreement:** The terms and conditions of this Loan Agreement are binding and legal obligations and shall constitute a commitment on the part of the Borrower and the Lender.
- Confidentiality:** This Loan Agreement is delivered to you on the understanding that neither it nor its contents shall be disclosed to any other party except to counsel, accountants, employees and agents of the Borrower who are specifically involved in the transaction.
- Lender’s Role:** Nothing contained in this Loan Agreement, the Security or any related documentation shall in any way be deemed to be or be construed as creating the relationship of joint venturer or partner or co-venturer with the Loan Parties. The parties each acknowledge and agree that the relationship between them is solely and exclusively one of borrower and lender.
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Counterparts: This Loan Agreement may be executed by the parties hereto in any number of counterparts and by different parties in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same document. Executed copies may be delivered by facsimile transmission or electronic mail transmission and it shall not be necessary to confirm execution by delivery of originally executed documents.

Currency: All references to amounts in this agreement, unless otherwise described, are in United States Dollars.

Rights and Remedies: The rights, remedies and powers of the Lender under this Loan Agreement and the Security, at law and in equity are cumulative and not alternative and are not in substitution for any other remedies, rights or powers of the Lender, and no delay or omission in exercise of any such right, remedy or power shall exhaust such rights, remedies and powers to be construed as a waiver of any of them.

Waivers and Amendments: No term, provision or condition of this Loan Agreement or any of the Security, may be waived, varied or amended unless in writing and signed by a duly authorized officer of the Lender.

Governing Law: This Loan Agreement shall be construed, governed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New Jersey and the laws of the United States of America applicable therein.

Notice: All notices which may be required to be given pursuant to this Loan Agreement shall be in writing and shall be addressed as follows:

If to Borrower:

Petrolia Energy Corporation
710 N Post Oak Road, Suite 522
Houston, Texas USA 77024
Attention: Tariq Chaudhary, CFO
With a copy by email to: tariq.c@petroliaenergy.com

If to the Lender:

Emmett Lescroart
280 Cherry Valley Road
Princeton, New Jersey 08540
USA
With a copy by email to: ejlesc@gmail.com

or such other addresses or emails as the parties may advise by notice in writing. All communications provided for or permitted hereunder shall be in writing, personally delivered to an officer or other responsible employee of the addressee or sent by email set forth above or to such other address or email as the recipient may from time to time designate to the other in such manner. Any communication so personally delivered or sent by email shall be deemed to have been validly and effectively given on the date of such delivery or facsimile, as the case may be.

Joint and Several Liability:

If more than one person is designated as Guarantor, then each such person shall be jointly and severally liable for all of the indebtedness, liabilities, covenants, representations, warranties and other obligations of the Guarantors set out in this Loan Agreement. If more than one person is designated as a Loan Party, then each such person shall be jointly and severally liable for all of the indebtedness, liabilities, covenants, representations, warranties and other obligations of the Loan Parties set out in this Loan Agreement.

Waiver of Jury Trial:

The Borrower hereby irrevocably waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in any legal proceeding directly or indirectly arising out of or relating to this Loan Agreement, the Security or any other document or the transactions contemplated hereby or thereby (whether based on contract, tort or any of other theory).

AGREED AND ACCEPTED as of the 17th day of September 2018.

Carla Petty

Witness

EMMETT LESCROART
Lender

PETROLIA ENERGY CORPORATION
Borrower

Per: 

Name: Zel C. Khan
Title: CEO & President

CERTIFICATION

I, Zel C. Khan, certify that;

1. I have reviewed this Quarterly Report on Form 10-Q of Petrolia Energy Corporation;
2. Based on my knowledge, this report, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 10, 2019

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

CERTIFICATION

I, Horacio Alfredo Fernandez, certify that;

1. I have reviewed this Quarterly Report on Form 10-Q of Petrolia Energy Corporation;
2. Based on my knowledge, this report, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 10, 2019

By: /s/ Horacio Alfredo Fernandez
Horacio Alfredo Fernandez
Interim Chief Financial Officer
(Principal Financial/Accounting Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Petrolia Energy Corporation (the "Company") on Form 10-Q for the quarter ending September 30, 2018 as filed with the Securities and Exchange Commission (the "Report"), Zel C. Khan, the Principal Executive Officer of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects the financial condition and results of operations of the Company.

May 10, 2019

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

**CERTIFICATION OF PRINCIPAL ACCOUNTING AND FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Petrolia Energy Corporation (the "Company") on Form 10-Q for the quarter ending September 30, 2018 as filed with the Securities and Exchange Commission (the "Report"), Horacio Alfredo Fernandez, the Principal Financial and Accounting Officer of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects the financial condition and results of operations of the Company.

May 10, 2019

By: /s/ Horacio Alfredo Fernandez
Horacio Alfredo Fernandez
Interim Chief Financial Officer
(Principal Financial/Accounting Officer)
