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

FORM 10-K

(Mark One)

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

For the fiscal year ended **December 31, 2016**

OR

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

Commission file number: **000-52690**

PETROLIA ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

TEXAS

(State or other jurisdiction of incorporation or organization)

86-1061005

(I.R.S. Employer Identification No.)

710 N Post Oak, Suite 512

Houston, TX

(Address of principal executive offices)

77024

(Zip Code)

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

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

Title of each class

Name of each exchange on which registered

None

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

Common Stock

(Title of class)

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

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

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting stock held by non-affiliates of the registrant on June 30, 2016 was approximately \$2,354,721.

As of April 17, 2017, the Registrant had 79,034,505 outstanding shares of common stock.

Documents Incorporated by Reference: None

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PART I

FORWARD-LOOKING STATEMENTS

This report contains statements which, to the extent that they do not recite historical fact, constitute forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts and may include the words “may,” “will,” “could,” “should,” “would,” “believe,” “expect,” “anticipate,” “estimate,” “intend,” “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 this Report as being applicable to all related forward-looking statements wherever they appear in this Report. We cannot assure you that the forward-looking statements in this Report will prove to be accurate and therefore prospective investors are encouraged not to place undue reliance on forward-looking statements. Other than as required by law, we undertake no obligation to update or revise these forward-looking statements, even though our situation may change in the future.

Please see the “Glossary of Oil and Gas Terms” on page 11, for a list of abbreviations and definitions used throughout this report.

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

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

Available Information

We are subject to the information and reporting requirements of the Securities Exchange Act of 1934, or the Exchange Act, under which we file periodic reports, proxy and information statements and other information with the United States Securities and Exchange Commission, or SEC. Copies of the reports, proxy statements and other information may be examined without charge at the Public Reference Room of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549, or on the Internet at <http://www.sec.gov>. Copies of all or a portion of such materials can be obtained from the Public Reference Room of the SEC upon payment of prescribed fees. Please call the SEC at 1-800-SEC-0330 for further information about the Public Reference Room.

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

ITEM 1. BUSINESS.

Background

We were incorporated in Colorado on January 16, 2002.

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

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

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

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

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

Two significant acquisitions were made in 2015 and additional working interests in the same properties were acquired in 2016, as described in greater detail in the “Plan of Operation” section below

Plan of Operation

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

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

Our activities will primarily be dependent upon available financing.

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

Minerva-Rockdale Field

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

In April 2013, the Company entered into a lease pertaining to a 423 acre tract in Milam County, Texas, which is adjacent to the Company's original 200 acre lease. The Company issued 500,000 shares of its common stock as consideration for a 100% working interest (75% net revenue interest) in such lease.

During the period from our inception to December 31, 2011, we did not drill any oil or gas wells. During the year-ended December 31, 2012 we drilled and completed six (6) oil wells and during 2013 the Company drilled and completed three (3) wells of which one (1) was converted to an injection well. During 2014 the Company drilled seven (7) new wells. In 2015, six (6) of the wells were completed, five (5) wells produced, one (1) did not produce and one (1) well was not completed. During 2016, the Company had thirteen (13) wells producing with one (1) injection well and one (1) did not produce/one (1) well not completed.

Slick Unit Dutcher Sands ("SUDS") Field

The SUDS oilfield consists of 2,600 acres located in Creek County, Oklahoma and carries a 61% net revenue interest (NRI). The first oil producer was completed in 1918 by Standard Oil of Ohio ("Sohio"), which at that time was owned by John D. Rockefeller. By 1959, approximately 14,000,000 barrels of oil had been recovered at an average well depth of 3,100 feet and over 100 wells in production. Through a series of events, the infrastructure had deteriorated and the field suffered a lot of neglect. From 2011 to the acquisition date, Jovian Petroleum Corporation and its subsidiaries, Jovian Resources, LLC and SUDS Properties, LLC (together known as "Jovian"), the previous operator of the field, had invested an estimated \$1.6 million into the restoration of the field; rebuilding the infrastructure and putting wells back in production. Note that Jovian and its management is considered a related party. This designation is because two (2) individuals hold key management and ownership positions in both Companies which effectively results in joint control. To date, 22 wells have been worked over and 9 are fully operational with considerable reserves remaining. As a result of the transactions below, as of December 31, 2016, Petrolia is the operator and has a 100% working interest in this field. Mr. Zel C. Khan, our Chief Executive Officer and President, is the former manager of Jovian and Mr. Quinten Beasley, our Director currently serves as President of Jovian.

SUDS 10% Acquisition

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

SUDS 90% Acquisition

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

The Company issued two notes for a combined value of \$4,000,000 in exchange for a cumulative 50% working interest in SUDS. See Note 6 – NOTES PAYABLE of the audited consolidated financial statements included herein for a complete description of the note terms.

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).

On November 11, 2016, the Board approved the expenditure of \$150,000 to drill one new well at the SUDS field. This new well is the pilot well in the Company's infill drilling program at SUDS. We believe this program will lead to an accelerated recovery of oil by adding wells in an existing field within the original well patterns.

Twin Lakes San Andres Unit ("TLSAU") Field

TLSAU is located 45 miles from Roswell, Chavez County, New Mexico and consists of 4,864 acres with 130 wells. The last independent reserve report prepared by MKM Engineering on December 31, 2016, reflects approximately 2.7 million barrels of proven oil reserves remaining for the 100% working interest (of which we hold a 40% working interest). During 2016, the field had ninety (90) total wells, eight (8) were producing on timers to equal one well as allowed by permit with thirty-two (32) requiring workovers and an additional fifty (50) will serve as injection wells as needed and permits are acquired. As of December 31, 2016 Petrolia was the operator of the TLSAU field (through an agreement with BSNM described below). As of the date of this report, Petrolia owns a 100% working interest in the field.

TLSAU 15% Acquisition

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

The total purchase price for the acquisition of the Net Working Interest and equipment rights was \$196,875 or \$0.52 dollars 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. In addition, a \$1.3 million face value note payable to BSNM was purchased for \$316,800 (6,000,000 shares of common stock at \$0.0528 per share). With the inclusion of the note receivable, the price per barrel would be \$1.33 dollars per barrel oil (Bbl). (See Note 5 and Note 6 of the audited consolidated financial statements beginning on page F-1 hereof for further details)

TLSAU 25% Acquisition

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

Non Oil & Gas Properties Businesses

Askarii Resources, LLC

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

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

There were no wells drilled during the years ended December 31, 2016 and December 31, 2015.

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The following table shows, as of April 17, 2017, our producing wells, developed acreage, and undeveloped acreage:

State	Productive Wells		Developed Acreage		Undeveloped Acreage (1)	
	Gross	Net	Gross	Net	Gross	Net
Texas	13	13	260	260	363	363
Oklahoma	26(2)	26	1,040	1,040	1,564	1,564
New Mexico	12	12	500	500	4,364	4,364

- (1) Undeveloped acreage includes leasehold interests on which wells have not been drilled or completed to the point that would permit the production of commercial quantities of natural gas and oil regardless of whether the leasehold interest is classified as containing proved undeveloped reserves.
- (2) Represents twenty six (26) wells that were worked-over and capable of producing oil. Eighteen (18) of those wells experienced a repairable mechanical failure after a week of production. Those eighteen (18) wells are excluded from our producing well totals in the overview description above. Note that there were other wells that were worked over that never produce oil and are excluded from all of these reported amounts.

The following table shows, as of April 17, 2017, the status of our gross acreage:

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

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

Proved Reserves

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

	Average Sales Price (per Bbls) (\$)	Average Production Cost (per Bbls) (\$)	Oil Production (Bbls)
Texas			
2014	86.98	117.91	8,096
2015	42.38	49.97	4,024
2016	34.49	35.52	3,401
Oklahoma			
2014	89.12	117.82	0
2015	45.84	68.48	155
2016	38.14	81.47	2,400
New Mexico (1)			
2014	86.30(1)	173.57	0
2015	43.04(1)	117.44	134
2016	29.10(1)	186.25 (2)	842

- (1) The market price offered for our New Mexico oil is typically lower than with our other states. There are fewer sales points in New Mexico and comparatively, they are not located as close to our production facilities. These inefficiencies result in a lower relative price for oil sales.
- (2) The New Mexico field was being prepared for significant production during 2016 but due to permitting issues, the equivalent of only one well was allowed to produce. Consequently the number of barrels used to compute this metric was respectively lower which resulted in a higher than usual production cost per barrel in 2016.

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Below are estimates of our net proved reserves as of December 31, 2016, net to our interest. Our proved reserves are located in Texas, Oklahoma and New Mexico.

Estimates of volumes of proved reserves at December 31, 2016 are presented in barrels (Bbls) for oil and, for natural gas, in millions of cubic feet (Mcf) at the official temperature and pressure bases of the areas in which the gas reserves are located.

	<u>Oil(Bbls)</u>	<u>Gas(Mcf)</u>
Proved:		
Developed	1,206,010	—
Undeveloped	1,021,230	—
Total	2,227,240	---

There was a significant increase of approximately 1.5 million barrels of proved reserves primarily due to the acquisition of working interests in the TLSAU and SUDS fields during 2016 (see explanations above). This increase was offset by a reduction of approximately 500,000 barrels of proved reserves at the SUDS field due to the delay of planned drilling of new wells. The 2015 reserves estimate assumed an increase due to expected drilling that did not occur in 2016. The proved developed increased due to the additional wells brought online.

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

Below are estimates of our present value of estimated future net revenues from our proved reserves based upon the standardized measure of discounted future net cash flows relating to proved oil and gas reserves in accordance with the provisions of Accounting Standards Codification Topic 932, Extractive Activities—Oil and Gas. The standardized measure of discounted future net cash flows is determined by using estimated quantities of proved reserves and the periods in which they are expected to be developed and produced based on period-end economic conditions. The estimated future production is based upon benchmark prices that reflect the unweighted arithmetic average of the first-day-of-the-month price for oil and gas during the twelve month period ended December 31, 2016. The resulting estimated future cash inflows are then reduced by estimated future costs to develop and produce reserves based on period-end cost levels. No deduction has been made for depletion, depreciation or for indirect costs, such as general corporate overhead. Present values were computed by discounting future net revenues by 10% per year.

Future cash inflows	\$ 90,265,000
Deductions (including estimated taxes)	\$ (57,446,760)
Future net cash flow	\$ 32,818,240
Discounted future net cash flow	\$ 13,564,480

MKM Engineering prepared the estimates of our proved reserves, future production and income attributable to our leasehold interests as of December 31, 2016. Michele Mudrone was the technical person primarily responsible for overseeing the preparation of the 2016 reserve report. Ms. Mudrone has more than 25 years of practical experience in the estimation and evaluation of petroleum reserves. MKM Engineering is an independent petroleum engineering firm that provides petroleum consulting services to the oil and gas industry. The estimates of drilled reserves, future production and income attributable to certain leasehold and royalty interests are based on technical analysis conducted by engineers employed at MKM Engineering.

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

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

Proved reserves were estimated by performance methods, the volumetric method, analogy, or a combination of methods utilizing present economic conditions and limited to those proved reserves economically recoverable. The performance methods include decline curve analysis that utilize extrapolations of historical production and pressure data available through December 31, 2016 in those cases where such data was considered to be definitive.

Proved undeveloped reserves increased from 2015 to 2016 as a result of the SUDS and TLSAU acquisitions.

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

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

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

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

Recent Events:

SUDS 90% Interest Acquisition

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

The SUDS field is located in Creek County, Oklahoma and consists of 2,600 acres. From a prior transaction described above, we owned a 10% working interest in SUDS.

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

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

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

Twin Lakes San Andres Unit Interest Acquisition

On the effective date of February 12, 2017, we acquired an additional 60% net working interest in the "Twin Lakes San Andres Unit" or "TLSAU" field located in Chavez County, New Mexico (the "Net Working Interest") resulting from the execution of a Settlement Agreement on February 12, 2016. The agreement assigned Dead Aim Investments' ("Dead Aim") 60% ownership interests to Petrolia. As a result of this transaction, Petrolia now owns 100% ownership interest in TLSAU. Consideration of \$639,675 was given in exchange for Dead Aim's working interest. The consideration includes the forgiveness of the Orbit Petroleum Inc Bankruptcy Estate ("OPBE") note of \$316,800 (with a \$1.3M face value) and the write off of \$116,700 of Dead Aim's outstanding accounts receivable to Petrolia. Dead Aim assumed liability for the OPBE note that Petrolia purchased.

TLSAU is 35 miles northeast of Roswell, New Mexico and consists of 4,864 acres of which Petrolia already owned a 40% working interest in the property. The net reserves, based on internal estimates, are approximately 2.6 million barrels of oil equivalent (MMBoe) and are part of the northwestern shelf of the Permian Basin. The San Andres formation holds 100% of the TLSAU production base.

Government Regulation

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

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

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

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

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

Competition and Marketing

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

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

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

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

Glossary of Oil and Gas Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Employees

As of April 17, 2017 we have seven full time employees and no part time employees.

ITEM 1A. RISK FACTORS

In addition to risks and uncertainties in the ordinary course of business that are common to all businesses, important factors that are specific to us and our industry could materially impact our future performance and results of operations. We have provided below a list of known material risk factors that should be reviewed when considering buying or selling our securities. These are not all the risks we face and other factors currently considered immaterial or unknown to us may impact our future operations.

The price we receive for our oil directly affects our revenues, profitability, access to capital and future rate of growth. Oil is a commodity that is subject to wide price fluctuations in response to relatively minor changes in supply and demand. Lower prices for our oil may not only decrease our revenues but may also reduce the amount of oil that we can produce economically. Historically, the markets for oil have been volatile and will likely continue to be volatile in the future. The prices we receive for our production and the volume of our production depend on numerous factors beyond our control. These factors include the following: changes in global supply and demand for oil, the actions of OPEC, the price and quantity of imports of foreign oil, acts of war, terrorism or political instability in oil producing countries and economic conditions.

The prices of crude oil have declined substantially since June 2014. The price of West Texas Intermediate (“WTI”) crude oil has decreased from \$107 per barrel in the middle of June 2014 to as low as \$44 per barrel in January 2015. This decrease in prices has impacted all oil and gas producers to varying degrees depending on hedging strategies. During 2016, the price increased to a high of \$53.75 per barrel but is still substantially less than the price prior to 2015.

Accounting rules applicable to us require that we periodically review the carrying value of our oil properties for possible impairment. Based on specific market factors and circumstances at the time of prospective impairment reviews and the continuing evaluation of development plans, production data, economics and other factors, we will likely be required to write down the carrying value of our oil and natural gas properties. Such write-downs constitute a non-cash charge to earnings. Impairment of proved properties under our full cost oil accounting method is largely driven by the present values of future net revenues of proved reserves estimated using SEC mandated 12-month un-weighted first-day-of-the-month commodity prices. No assurance can be given that we will not experience ceiling test impairments in future periods, which could have a material adverse effect on our results of operations in the periods taken. As a result of lower oil prices, we may also reduce our estimates of the reserve volumes that may be economically recovered, which would reduce the total value of our proved reserves.

Our undeveloped proved reserves and developed non-producing proved reserves require additional expenditures and/or activities to convert these into producing reserves. We cannot provide assurance these expenditures will be made and that activities will be entirely successful in converting these reserves. Furthermore, there can be no assurance that all of our undeveloped and developed non-producing reserves will ultimately be produced during the time periods we have planned, at the costs we have budgeted, or at all, which could result in the write-off of previously recognized reserves.

Our future success depends largely upon our ability to find, develop or acquire additional oil and natural gas reserves that are economically recoverable. Unless we replace the reserves we produce through successful exploration, development or acquisition activities, our proved reserves and production will decline over time. Our exploration, development and acquisition activities require substantial capital expenditures. The capital markets we have historically accessed are currently constrained, but we believe we could access other capital markets if the need arises. These limitations in the capital markets may affect our ability to grow and changes in our capitalization structure may significantly affect our financial risk profile. Furthermore, we cannot be certain that financing for future capital expenditures will be available if needed, and to the extent required, on acceptable terms.

Future cash flows are subject to a number of variables, such as the level of production from existing wells, the prices of oil and our success in developing and producing new reserves. Any reductions in our capital expenditures to stay within internally generated cash flow (which could be adversely affected by declining commodity prices) and cash on hand will make replacing produced reserves more difficult. If our cash flow from operations and cash on hand are not sufficient to fund our capital expenditure budget, we may be limited in our ability to access additional debt, equity or other methods of financing on an economic or timely basis to replace our proved reserves.

The Environmental Protection Agency (EPA) has adopted new regulations under the Clean Air Act (CAA) that, among other things, require additional emissions controls for the production of oil, including New Source Performance Standards to address emissions of sulfur dioxide and Volatile Organic Compounds (VOCs) and a separate set of emission standards to address hazardous air pollutants frequently associated with such production activities. For well completion operations occurring at such well sites before January 1, 2015, the final regulations allow operators to capture and direct flowback emissions to completion combustion devices, such as flares, in lieu of performing green completions. These regulations also establish specific new requirements regarding emissions from dehydrators, storage tanks and other production equipment. Compliance with these requirements could significantly increase our costs of development and production.

We are required to record a liability for the present value of our asset retirement obligation (ARO) to plug and abandon inactive non-producing wells, facilities and equipment, and to restore the land at the end of oil production operations. As a result, we may make significant increases or decreases to our estimated ARO in future periods. Accordingly, our estimate of future ARO could differ dramatically from what we may ultimately incur.

Our development activities may be unsuccessful for many reasons, including adverse weather conditions, cost overruns, equipment shortages, geological issues and mechanical difficulties. Moreover, the successful drilling of an oil well does not assure us that we will realize a profit on our investment. A variety of factors, both geological and market-related, can cause a well to become uneconomical or only marginally economical. In addition to their costs, unsuccessful wells hinder our efforts to replace reserves.

Our oil exploration and production activities, including well stimulation and completion activities which include, among other things, hydraulic fracturing, involve a variety of operating risks, including fires, explosions, blow-outs and surface craters, uncontrollable flows of oil and formation water, natural disasters. If we experience any of these problems, well bores, platforms, gathering systems and processing facilities could be affected, which could adversely affect our ability to conduct operations. We could also incur substantial losses as a result of injury or loss of life, damage to and destruction of property, natural resources and equipment, pollution and other environmental damage.

Our business strategy includes growing by making acquisitions, which may include acquisitions of exploration and production companies, producing properties and undeveloped leasehold interests. Our acquisition of oil and natural gas properties requires assessments of many factors that are inherently inexact and may be inaccurate, including the acceptable prices for available properties, amounts of recoverable reserves, estimates of future oil prices, estimates of future exploratory, development and operating costs, estimates of the costs and timing of plugging, and abandonment and estimates of potential environmental and other liabilities

The process of estimating oil reserves is complex. It requires interpretations of available technical data and many assumptions, including assumptions relating to economic factors. Any significant inaccuracies in these interpretations or assumptions could materially affect the estimated quantities and the calculation of the present value of our reserves at December 31, 2016. In order to prepare our year-end reserve estimates, our independent petroleum consultant projected our production rates and timing of development expenditures. Our independent petroleum consultant also analyzed available geological, geophysical, production and engineering data. The extent, quality and reliability of this data can vary and may not be under our control. The process also requires economic assumptions about matters such as oil and natural gas prices, operating expenses, capital expenditures, taxes and availability of funds. Therefore, estimates of oil and natural gas reserves are inherently imprecise.

You should not assume that the present value of future net revenues from our proved oil and natural gas reserves is the current market value of our estimated oil and natural gas reserves. In accordance with SEC requirements, we base the estimated discounted future net cash flows from our proved reserves on the 12-month un-weighted first-day-of-the-month average price for each product and costs in effect on the date of the estimate. Actual future prices and costs may differ materially from those used in the present value estimate.

Our operations and facilities are subject to extensive federal, state and local laws and regulations relating to the exploration, development, production and transportation of oil and natural gas and operational safety. Future laws or regulations, any adverse change in the interpretation of existing laws and regulations or our failure to comply with such legal requirements may harm our business, results of operations and financial condition.

To a large extent, we depend on the services of our senior management. The loss of the services of any of our senior management, could have a negative impact on our operations. We do not maintain or plan to obtain for the benefit of the Company any insurance against the loss of any of these individuals.

Wherever possible, our board of directors will attempt to use non-cash consideration to satisfy obligations. In many instances, we believe that the non-cash consideration will consist of shares of our common stock, preferred stock or warrants to purchase shares of our common stock. Our board of directors has authority, without action or vote of the shareholders to issue all or part of the authorized but unissued shares of common stock, preferred stock or warrants to purchase such shares of common stock. In addition, we may attempt to raise capital by selling shares of our common stock, possibly at a discount to market in the future. These actions will result in dilution of the ownership interests of existing shareholders and may further dilute common stock book value, and that dilution may be material. Such issuances may also serve to enhance existing management's ability to maintain control of us, because the shares may be issued to parties or entities committed to supporting existing management.

We currently have a highly sporadic, illiquid and volatile market for our common stock, which market is anticipated to remain sporadic, illiquid and volatile in the future. Factors that could affect our stock price or result in fluctuations in the market price or trading volume of our common stock include:

- our actual or anticipated operating and financial performance and drilling locations, including reserves estimates;
- quarterly variations in the rate of growth of our financial indicators, such as net income per share, net income and cash flows, or those of companies that are perceived to be similar to us;
- changes in revenue, cash flows or earnings estimates or publication of reports by equity research analysts;
- speculation in the press or investment community;
- public reaction to our press releases, announcements and filings with the SEC;

- sales of our common stock by us or other shareholders, or the perception that such sales may occur;
- the limited amount of our freely tradable common stock available in the public marketplace;
- general financial market conditions and oil and natural gas industry market conditions, including fluctuations in commodity prices;
- the realization of any of the risk factors presented in this Annual Report;
- the recruitment or departure of key personnel;
- commencement of, or involvement in, litigation;
- the prices of oil and natural gas;
- the success of our exploration and development operations, and the marketing of any oil and natural gas we produce;
- changes in market valuations of companies similar to ours; and
- domestic and international economic, legal and regulatory factors unrelated to our performance.

Our stock price may be impacted by factors that are unrelated or disproportionate to our operating performance. The stock markets in general have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock. Additionally, general economic, political and market conditions, such as recessions, interest rates or international currency fluctuations may adversely affect the market price of our common stock. Due to the limited volume of our shares which trade, we believe that our stock prices (bid, ask and closing prices) may not be related to our actual value, and not reflect the actual value of our common stock. Shareholders and potential investors in our common stock should exercise caution before making an investment in us.

Additionally, as a result of the illiquidity of our common stock, investors may not be interested in owning our common stock because of the inability to acquire or sell a substantial block of our common stock at one time. Such illiquidity could have an adverse effect on the market price of our common stock. In addition, a shareholder may not be able to borrow funds using our common stock as collateral because lenders may be unwilling to accept the pledge of securities having such a limited market. We cannot assure you that an active trading market for our common stock will develop or, if one develops, be sustained.

Our common stock will be subject to the requirements of Rule 15c-9, promulgated under the Exchange Act, as long as the price of our common stock is below \$5.00 per share. Under such rule, broker-dealers who recommend low-priced securities to persons other than established customers and accredited investors must satisfy special sales practice requirements, including a requirement that they make an individualized written suitability determination for the purchaser and receive the purchaser's consent prior to the transaction. The Securities Enforcement Remedies and Penny Stock Reform Act of 1990 also requires additional disclosure in connection with any trades involving a stock defined as a penny stock. Generally, the Commission defines a penny stock as any equity security not traded on an exchange or quoted on NASDAQ that has a market price of less than \$5.00 per share. The required penny stock disclosures include the delivery, prior to any transaction, of a disclosure schedule explaining the penny stock market and the risks associated with it. Such requirements could severely limit the market liquidity of the securities and the ability of purchasers to sell their securities in the secondary market. In addition, various state securities laws impose restrictions on transferring "penny stocks" and as a result, investors in the common stock may have their ability to sell their shares of the common stock impaired.

ITEM 2. PROPERTIES.

Our principal office is located at 710 N. Post Oak Rd. Suite 512 Houston, Texas 77024.

We lease our principal office space, consisting of approximately 1,000 square feet, at a rate which is currently \$1,650 per month. Our lease is an annual renewable lease and it expires on August 31, 2017.

The Company's oil and gas properties are described under "Item 1. Business" and below under "Note 12. Supplemental Information Relating To Oil And Gas Producing Activities (Unaudited)" at the end of the consolidated audited financial statements attached hereto.

ITEM 3. LEGAL PROCEEDINGS.

We may, from time to time, be involved in litigation and claims arising out of our operations in the normal course of business. We are not currently a party to any material legal proceeding. In addition, we are not aware of any material legal or governmental proceedings against us, or contemplated to be brought against us.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

Our common stock is quoted under the symbol "BBLS" on the OTCQB market operated by OTC Markets Group.

Only a limited market exists for our securities. There is no assurance that a regular trading market will develop, or if developed, that it will be sustained. Therefore, a shareholder may be unable to resell his securities in our company.

The following tables set forth the range of high and low closing prices for our common stock for the periods indicated as reported by the OTCQB market operated by the OT Markets Group. The market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions and may not necessarily represent actual transactions.

<u>Quarter Ended</u>	<u>High</u>	<u>Low</u>
March 31, 2015	\$ 0.17	\$ 0.06
June 30, 2015	\$ 0.12	\$ 0.06
September 30, 2015	\$ 0.11	\$ 0.06
December 31, 2015	\$ 0.19	\$ 0.02

<u>Quarter Ended</u>	<u>High</u>	<u>Low</u>
March 31, 2016	\$ 0.08	\$ 0.04
June 30, 2016	\$ 0.18	\$ 0.05
September 30, 2016	\$ 0.18	\$ 0.02
December 31, 2016	\$ 0.16	\$ 0.09

Penny Stock

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a market price of less than \$5.00, other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock, to deliver a standardized risk disclosure document prepared by the SEC, that: (a) contains a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading; (b) contains a description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to a violation of such duties or other requirements of the securities laws; (c) contains a brief, clear, narrative description of a dealer market, including bid and ask prices for penny stocks and the significance of the spread between the bid and ask price; (d) contains a toll-free telephone number for inquiries on disciplinary actions; (e) defines significant terms in the disclosure document or in the conduct of trading in penny stocks; and (f) contains such other information and is in such form, including language, type size and format, as the SEC shall require by rule or regulation.

The broker-dealer also must provide, prior to effecting any transaction in a penny stock, the customer with (a) bid and offer quotations for the penny stock; (b) the compensation of the broker-dealer and its salesperson in the transaction; (c) the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and (d) a monthly account statement showing the market value of each penny stock held in the customer's account.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written acknowledgment of the receipt of a risk disclosure statement, a written agreement as to transactions involving penny stocks, and a signed and dated copy of a written suitability statement.

These disclosure requirements may have the effect of reducing the trading activity for our common stock. Therefore, stockholders may have difficulty selling our securities.

Holder of Our Common Stock

As of April 17, 2017 we had 79,034,505 outstanding shares of common stock and approximately 245 shareholders of record.

Dividends

Holder of our common stock are entitled to receive dividends as may be declared by our board of directors. Our directors are not restricted from paying any dividends but are not obligated to declare a dividend. We have never declared or paid any dividends on our common stock and do not anticipate that we will pay dividends in the foreseeable future. Any payment of cash dividends on our common stock in the future will be dependent upon the amount of funds legally available, our earnings, if any, our financial condition, our anticipated capital requirements and other factors that the board of directors may think are relevant. However, we currently intend for the foreseeable future to follow a policy of retaining all of our earnings, if any, to finance the development and expansion of our business and, therefore, do not expect to pay any dividends on our common stock in the foreseeable future.

Preferred Stock

Our Certificate of Formation authorizes our Board of Directors to issue up to 1,000,000 shares of preferred stock. The provisions in the Certificate of Formation, relating to the preferred stock, allow our directors to issue preferred stock with multiple votes per share and dividend rights which would have priority over any dividends paid with respect to the holders of our common stock. The issuance of preferred stock with these rights may make the removal of management difficult even if the removal would be considered beneficial to shareholders generally, and will have the effect of limiting shareholder participation in certain transactions such as mergers or tender offers if these transactions are not favored by our management.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information, as of December 31, 2016, with respect to our compensation plans under which common stock is authorized for issuance.

Equity Compensation Plan Information

Plan Category	(A) Number of securities to issued upon exercise of outstanding warrants	(B) Weighted-average exercise price of outstanding warrants	(C) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in Column A)
Equity compensation plans approved by shareholders (1)	0	N/A	4,000,000
Equity compensation plans not approved by shareholders (2)	1,522,916	\$ 0.09 per share	0
Total	1,522,916	\$ 0.09 per share	4,000,000

(1) The Company's 2015 Stock Incentive Plan has included 4,000,000 shares in the Plan. At present, no shares have been issued from the Plan.

(2) During 2016 only, 1,522,916 warrants were issued to Management and Directors as performance incentives and compensation for funds provided from investment and operations.

Recent Sale of Unregistered Securities

The Board authorized the Company to allow all outstanding warrant-holders to exercise their outstanding warrants at a 20% discount. In October 2016, four (4) warrant holders exercised warrants to purchase a total of 825,000 shares of common stock by remitting payments of \$63,352 (equal to an average exercise price of \$0.095 per share). Director Lee Lytton exercised warrants to purchase 10,000 shares (included in the total above) by remitting a payment of \$472 at an exercise price of \$0.059 per share. Director Joel Oppenheim exercised warrants to purchase 300,000 shares by remitting payment of \$18,480 at an exercise price of \$0.06 per share. On February 1, 2016, the Company acquired 100% of the issued and outstanding shares in Askarii Resources, LLC, a private Texas based oil & gas service company for 1,000,000 shares of Company common stock. See Note 9 for further details on this transaction.

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

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

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

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

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

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

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

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

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

On December 31, 2016, the Company granted warrants to purchase 500,000 shares of Company common stock to extend the due date on Rick Wilber's Notes, based on the Amendment to the Agreement. (See Exhibit 99.2) These warrants were valued at \$79,223 and have an exercise price of \$0.15 and expire on December 31, 2021. See Note 6 for further details

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

ITEM 6. SELECTED FINANCIAL DATA

Not required under Regulation S-K for "smaller reporting companies."

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes appearing elsewhere in this Annual Report. The following discussion contains "forward-looking statements" that reflect our future plans, estimates, beliefs and expected performance. We caution you that assumptions, expectations, projections, intentions or beliefs about future events may, and often do, vary from actual results and the differences can be material. See "Risk Factors" and "Forward Looking Statements."

Results of Operations

Revenues

Our total revenue reported for the year ended December 31, 2016 was \$321,246, an increase of \$133,270 from the prior year. However, our oil and gas sales decreased \$64,730 due to various factors including a lack of funding for field operations while the focus was on increasing proven reserves and field ownership percentages.

Our increased revenue for the year ended December 31, 2016 as compared with the prior year is a result of Askarii's equipment sales.

Operating Expenses

Operating expenses increased to \$1,883,774 for the year ended December 31, 2016 from \$1,731,652 for the year ended December 31, 2015, an increase of \$152,122. Our major expenses for the year ended 2016 were for professional services of \$304,204, stock compensation of \$509,798, and deferred salary of \$200,000. Professional services increased primarily due to financial and accounting contractors, a SUDS property audit and investor relations/IT related services. Stock compensation increased due to Board and Advisory Board fees/compensation (See Note 7 for further details). Deferred salary increased due to the hiring of the CFO (40,000) and a full year of CEO salary deferral (\$160,000). In comparison, our operating expenses for the year ended 2015 included a property impairment of \$668,073 (primarily due to the drop in oil prices) and stock compensation expense of \$185,395 and management fees of \$105,000 and professional fees and contract labor of \$163,783. The management fees were for administrative and accounting services early in 2015. Professional fees were paid for a financial analyst, investor managing, audit, tax and CPA services. Contract labor was paid for operational support in the field.

Our lease operating expenses increased due to adding additional field personnel to oversee the new SUDS and TLSAU fields, increased repairs due to SUDS and TLSAU workovers and higher administrative charges due to taking over as operator at the new fields. Our general and administrative expenses increased primarily due to increased stock compensation expense, increased professional services and deferred salary.

Other Income/Expenses

Other expenses were \$313,251 for the year ended December 31, 2016 a small increase from other expenses of \$312,938 for the same period ended 2015. The small increase was primarily due to a \$95,543 decrease in loss on conversion of debt but was offset by an 117,461 increase in interest expense.

Net Loss

The net loss for the year ended December 31, 2016 was \$1,875,779 compared to net loss of \$1,856,614 for the year ended December 31, 2015, an increase of \$19,165 from the prior period for the reasons described above.

Liquidity and Capital Resources

As of December 31, 2016 we had total current assets of \$298,843 and total assets in the amount of \$13,211,624. Our total current liabilities as of December 31, 2016 were \$2,986,390 and our total liabilities as of December 31, 2016 were \$6,213,120. We had negative working capital of \$2,687,547 as of December 31, 2016.

Our material asset balances are made up of oil and gas properties and related equipment. Our most significant liabilities include related party notes (primarily the purchase of 90% working interest in SUDS from Jovian) See Note 6 for further details, ARO and accruals for professional services.

See also Note 6. Notes Payable of the consolidated audited financial statements included herein for a description of our outstanding notes payable.

Operating activities used \$551,823 in cash for the year ended December 31, 2016. Our net loss of \$1,875,779 was the main component of our negative operating cash flow, offset mainly by amortization of debt discount of \$171,573, stock-based compensation of \$359,915 (Management signing bonuses and Board compensation) and deferred salaries of \$200,000 (see details above) and accounts payable and accrued liabilities of \$464,407.

Cash used by investing activities for the year ended December 31, 2016 was \$63,362 primarily the result of the purchase of property and equipment of \$93,476.

Cash provided by financing activities during the year ended December 31, 2016 amounted to \$680,742 and consisted of \$111,352 in private placement offerings, \$296,000 in net advances from shareholders (funds provided primarily by Management and Board members for working capital) See Note 6 for further details, and \$275,000 in proceeds from short term loans (funds provided by accredited investors used for working capital).

During the year ended December 31, 2015, we raised \$140,000 through a private placement offering with warrants authorized by the Board on March 23, 2015. We also raised \$162,000 through a private placement offering with warrants, as reported on Form 8-K filed November 9, 2015. (See Note 7 for further details)

During the year ended December 31, 2016, we raised \$48,000 through a private placement offering with warrants authorized by the Board on March 23, 2015. And we raised \$63,352 through the exercise of outstanding warrants. (See Note 7 for further details)

Our sources and (uses) of funds for the year ended December 31, 2016 were:

Cash used in operations	\$ (551,823)
Net Purchase of equipment	(63,362)
Net Proceeds from shareholder advances	296,000
Proceeds from issuance of common stock	111,352
Proceeds from Short Term Loans	275,000

The Company continues to operate at a negative cash flow of approximately \$50,000 per month and our auditors have raised a going concern in their latest audit report as contained herein. Management is pursuing several initiatives to secure funding to increase production at both the SUDS and TLSAUs fields 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.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, and results of operations, liquidity or capital resources.

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 \$50.00 per barrel, (vii) if prices remain low operating costs will decrease to offset the reduced revenue.

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

In December 2001, the SEC requested that all registrants list their most “critical accounting policies” in the Management Discussion and Analysis. The SEC indicated that a “critical accounting policy” is one which is both important to the portrayal of a company’s financial condition and results, and requires management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Going concern – The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred cumulative net losses of \$7,967,620 since its inception and requires capital for its contemplated operational and marketing activities to take place. The Company’s ability to raise additional capital through the future sales of common stock is unknown. The obtainment of additional financing, the successful development of the Company’s contemplated plan of operations, and its transition, ultimately, to the attainment of profitable operations are necessary for the Company to continue operations. The ability to successfully resolve these factors raise substantial doubt about the Company’s ability to continue as a going concern. The consolidated financial statements of the Company do not include any adjustments that may result from the outcome of these aforementioned uncertainties.

Recently Issued Accounting Pronouncements

We do not expect the adoption of recently issued accounting pronouncements to have a significant impact on our results of operations, financial position or cash flow.

ITEM 7 A. 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None

ITEM 9A. CONTROLS AND PROCEDURES.

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

An evaluation was carried out under the supervision and with the participation of our management, including our Principal Executive and Financial Officer, of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15 and 15d-15(e) under the Exchange Act, as of the end of the period covered by this annual report on Form 10-K. Based on that evaluation, our management concluded that, as of December 31, 2016, our disclosure controls and procedures were effective. Subsequent audit adjustments were necessary but were the result of further review of complex accounting issues and were not considered the result of material control deficiencies with regard to financial reporting by our internal staff.

Management's Report on Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Paul Deputy, our CFO and Zel C. Khan our CEO evaluated the effectiveness of our internal control over financial reporting as of December 31, 2016 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or the COSO Framework of 2013. Management's assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of those controls.

Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2016.

Changes in Internal Control Over Financial Reporting

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

Attestation Report of the Registered Public Accounting Firm

This report does not include an attestation report of our registered public accounting firm regarding our internal controls over financial reporting. Under SEC rules, such attestation is not required for smaller reporting companies such as ourselves.

ITEM 9B. OTHER INFORMATION.

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The following information sets forth the names, ages, and positions of our current directors and executive officers as of December 31, 2016.

Name	Age	Position
Zel C. Khan	42	Chief Executive Officer, President & Board Member
Paul Deputy	57	Chief Financial Officer
Leo Womack	73	Chairman
Lee Lytton	72	Director and Corporate Secretary
Joel Oppenheim	73	Director
Quinten Beasley	42	Director

Set forth below is a brief description of the background and business experience of each of our current executive officers and directors:

Zel C. Khan is an oilfield operator with over 20 years of experience in the Oil & Gas industry. He has successfully operated, both on and offshore, in Texas, Oklahoma, New Mexico and California. He has established a reputation for reducing operating costs on various projects, including a former ConocoPhillips offshore facility located in deep water Gulf of Mexico where he was the Operating Manager. Mr. Khan has also operated in Kern County, California and Alberta, Canada, both are heavy oil fields requiring special operational procedures to maintain low lift costs and strict environmental policies as set by the respective governmental agencies. Mr. Khan holds a Bachelor of Science degree and a Master's degree from Chapman University, California.

Paul Deputy is the Chief Financial Officer of the Company is a Certified Public Accountant. He has more than 13 years of experience in the oil and gas industry and is a member of the American Institute of CPA's (AICPA). Prior to joining the Company, Mr. Deputy owned a consulting firm (since Dec 2009), which specialized in SEC compliance and audit process management. Early in his career, he served as a Senior Auditor with Deloitte & Touche LLP before serving as a Senior Financial Analyst for Continental Airlines. Mr. Deputy specialized in audit procedure and compliance and has held management and directorial positions at companies, such as Swift Energy (NYSE:SNFY), Mariner Energy (NYSE:ME), Versabar, Inc. and Highmount E&P, a former subsidiary of Loews Corporation (NYSE: L). Mr. Deputy holds a Bachelor of Business Administration in Management and a Masters in Professional Accounting from the University of Texas (Austin).

Directors

Leo Womack has over 40 years of experience in advising and serving as Director of small micro-capitalization public and private companies. Mr. Womack has been the President of Gulf Equities Realty Advisors, Inc., a diversified real estate portfolio management company, since 1986. For the last five (5) years Mr. Womack has been and continues to be employed as the President of Gulf Equities Realty Advisors Inc. He has been the Chairman of Fairway Medical Technologies, Inc., a medical device company and a portfolio company of the Baylor College of Medicine Venture Fund since 1996. From 1969 to 1978, he was the managing partner of a local and later national CPA firm. He has served on the Board and as Chairman of the Houston Angel Network and on National Committees of the Angel Capital Association. Prior to its acquisition by ITT Corporation in 2010, he served as a board member and the audit committee chair for OI Corporation (NASDAQ:OICO). Mr. Womack continues to serve on the Boards of Directors of five early stage companies that he or his Family Trust have invested in. Mr. Womack earned a Bachelor of Business Administration in Accounting from Texas A&M University-Kingsville in 1965 and holds a Series 7 Securities License. Mr. Womack is also a licensed Certified Public Accountant (CPA).

Lee Lytton is a currently a tenured professor at St. Mary's Law School in San Antonio where he has taught Oil and Gas Law as well as Texas Land and Title courses for the last 26 years. Prior to that Mr. Lytton was a founding partner in a South Texas Oil and Gas Operating Company for 10 years after leaving the FBI as a Special Agent. He was admitted to the Texas Bar and practiced law as an Assistant District Attorney early in his career. Mr. Lytton serves on the Board of the South Texans' Property Rights Association as a result of his family's historical standing as a prominent South Texas ranching family. For the last five (5) years, Mr. Lytton has been and continues to be employed as a tenured Professor at the St. Mary's School of Law in San Antonio.

Joel Oppenheim, currently owns and has operated the Oppenheim Group since 1991. The Oppenheim Group is a real estate consulting firm that has represented multiple Fortune 10 and Fortune 100 Companies on their commercial real estate needs throughout the United States. In 2014, Mr. Oppenheim began concentrating on the Oppenheim Group's investment portfolio including several successful oil and gas investments both in Texas and California. Mr. Oppenheim is a licensed Commercial Real Estate Broker in Texas and graduated from City College of New York - Bernard Baruch School of Business, with a degree in accounting. Mr. Oppenheim has been an active member of the Houston Angel Network since 2009. He has successfully started and sold numerous businesses throughout his career, including some of the most successful restaurants and clubs in Houston.

Quinten Beasley is a design engineer and an independent businessman with over 25 years of diverse international energy and development experience. Mr. Beasley is co-founder, and current President and Chief Executive Officer, of Jovian Petroleum Corporation, a private Oil & Gas exploration and production company with assets in the United States and has held key positions in a number of successful oilfield construction companies in Canada. Mr. Beasley continues to manage a private equity firm, Critical Update Limited, focused on early stage land development while overseeing the operations of Critical Update, Inc., an international product development firm for the last several years. Since receiving a Diploma in Interior Design from Mount Royal University in 1995, Mr. Beasley has established a significant reputation for his commitment to excellence in product development and project completion; playing a prominent role in the development of many residential and industrial applications in Canada and the United Kingdom. He currently serves on several for-profit and not-for-profit boards as part of his commitment to serving the community.

Term of Office

Our Directors are appointed for a one-year term to hold office until the next annual general meeting of our shareholders or until removed from office in accordance with our bylaws. Our officers are appointed by our board of directors and hold office until removed by the board.

CORPORATE GOVERNANCE

The Company promotes accountability for adherence to honest and ethical conduct; endeavors to provide full, fair, accurate, timely and understandable disclosure in reports and documents that the Company files with the SEC and in other public communications made by the Company; and strives to be compliant with applicable governmental laws, rules and regulations.

Board Leadership Structure

The roles of Chairman and Chief Executive Officer of the Company are currently held separately. Mr. Womack serves as Chairman and Mr. Khan serves as Chief Executive Officer. The Board of Directors does not have a policy as to whether the Chairman should be an independent director, an affiliated director, or a member of management. Our Board believes that the Company's current leadership structure is appropriate because it effectively allocates authority, responsibility, and oversight between management (the Company's Chief Executive Officer, Mr. Khan and the Company's Chief Financial Officer, Mr. Deputy) and the members of our Board (currently Mr. Womack as Chairman). It does this by giving primary responsibility for the operational leadership and strategic direction of the Company to its Chief Executive Officer, while enabling our Chairman to facilitate our Board's oversight of management, promote communication between management and our Board, and support our Board's consideration of key governance matters. The Board believes that its programs for overseeing risk, as described below, would be effective under a variety of leadership frameworks and therefore do not materially affect its choice of structure.

Risk Oversight

Effective risk oversight is an important priority of the Board of Directors. Because risks are considered in virtually every business decision, the Board of Directors discusses risk throughout the year generally or in connection with specific proposed actions. The Board of Directors' approach to risk oversight includes understanding the critical risks in the Company's business and strategy, evaluating the Company's risk management processes, allocating responsibilities for risk oversight, and fostering an appropriate culture of integrity and compliance with legal responsibilities. The directors exercise direct oversight of strategic risks to the Company.

Family Relationships

None of our directors are related by blood, marriage, or adoption to any other director, executive officer, or other key employees.

Arrangements between Officers and Directors

To our knowledge, there is no arrangement or understanding between any of our officers and any other person, including directors, pursuant to which the officer was selected to serve as an officer.

Other Directorships

No directors of the Company are also directors of issuers with a class of securities registered under Section 12 of the Exchange Act (or which otherwise are required to file periodic reports under the Exchange Act).

Director Qualifications

The Board believes that each of our directors is highly qualified to serve as a member of the Board. Each of the directors has contributed to the mix of skills, core competencies and qualifications of the Board. When evaluating candidates for election to the Board, the Board seeks candidates with certain qualities that it believes are important, including integrity, an objective perspective, good judgment, and leadership skills. Our directors are highly educated and have diverse backgrounds and talents and extensive track records of success in what we believe are highly relevant positions.

Involvement in Certain Legal Proceedings

To the best of our knowledge, none of our executive officers or directors has been involved in any of the following events during the past ten years:

- (1) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- (2) any conviction in a criminal proceeding or being a named subject to a pending criminal proceeding (excluding traffic violations and minor offenses);
- (3) being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities;
- (4) being found by a court of competent jurisdiction (in a civil action), the SEC or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law;
- (5) being the subject of, or a party to, any Federal or State judicial or administrative order, judgment, decree, or finding, not subsequently reversed, suspended or vacated, relating to an alleged violation of (i) any Federal or State securities or commodities law or regulation; (ii) any law or regulation respecting financial institutions or insurance companies, including, but not limited to, a temporary or permanent injunction, order of disgorgement or restitution, civil money penalty or temporary or permanent cease-and-desist order, or removal or prohibition order, or (iii) any law or regulation prohibiting mail or wire fraud or fraud in connection with any business entity; or
- (6) being the subject of, or a party to, any sanction or order, not subsequently reversed, suspended or vacated, of any self-regulatory organization (as defined in Section 3(a)(26) of the Exchange Act), any registered entity (as defined in Section (1a)(40) of the Commodity Exchange Act), or any equivalent exchange, association, entity, or organization that has disciplinary authority over its members or persons associated with a member.

Board of Directors Meetings

The Company had thirteen (13) official meetings of the Board of Directors during the fiscal year 2016 and eight (8) during the previous fiscal year ending December 31, 2015. In 2016, four of the directors (Leo Womack, Lee Lytton, Zel C Khan and Joel Oppenheim) attended each meeting while Quinten Beasley attended (2) meetings (note that Mr. Beasley lives in Canada). The Company has not adopted a policy requiring its directors to attend its annual meeting of stockholders.

COMMITTEES OF THE BOARD

Our Company currently does not have nominating, compensation or audit committees or committees performing similar functions, nor does our Company have a written nominating, compensation or audit committee charter. Our directors believe that it is not necessary to have such committees, at this time, because the functions of such committees can be adequately performed by our Board of Directors.

Our Company has defined policy and procedural requirements for stockholders to submit recommendations or nominations for directors as set forth in the Company's Bylaws and described below. Our Company does not currently have any specific or minimum criteria for the election of nominees to the Board of Directors and we do not have any specific process or procedure for evaluating such nominees. The directors will assess all candidates, whether submitted by management or stockholders, and make recommendations for election or appointment.

The Board of Directors will consider candidates recommended by stockholders, provided the names of such persons, accompanied by relevant biographical information, are properly submitted in writing to the Secretary of the Company in accordance with the manner described below. The Secretary will send properly submitted stockholder recommendations to the Board of Directors. Individuals recommended by stockholders in accordance with these procedures will receive the same consideration received by individuals identified to the Board of Directors through other means. The Board of Directors also may, in its discretion, consider candidates otherwise recommended by stockholders without accompanying biographical information, if submitted in writing to the Secretary.

Although we do not have a formal audit committee, the Board of Directors approves the selection of our independent accountants and meets and interacts with the independent accountants to discuss issues related to financial reporting. In addition, the Board of Directors reviews the scope and results of the audit with the independent accountants, reviews with management and the independent accountants our annual operating results, considers the adequacy of our internal accounting procedures and considers other auditing and accounting matters including fees to be paid to the independent auditor and the performance of the independent auditor.

Additionally, Mr. Leo Womack Chairman of our Board of Directors has been licensed as a Certified Public Accountant (CPA) in Texas since 1967 and qualifies as an “audit committee financial expert” (as defined in the SEC rules) because he has the following attributes: (i) an understanding of generally accepted accounting principles in the United States of America (“GAAP”) and financial statements; (ii) the ability to assess the general application of such principles in connection with accounting for estimates, accruals and reserves; (iii) experience analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by our financial statements; (iv) an understanding of internal control over financial reporting; and (v) an understanding of audit committee functions.

Stockholder Communications with the Board

Our stockholders and other interested parties may communicate with members of the Board of Directors by submitting such communications in writing to our Corporate Secretary, 710 N. Post Oak Rd., Suite 512, Houston, Texas 77024, who, upon receipt of any communication other than one that is clearly marked “Confidential,” will note the date the communication was received, open the communication, make a copy of it for our files and promptly forward the communication to the director(s) to whom it is addressed. Upon receipt of any communication that is clearly marked “Confidential,” our Corporate Secretary will not open the communication, but will note the date the communication was received and promptly forward the communication to the director(s) to whom it is addressed. If the correspondence is not addressed to any particular Board member or members, the communication will be forwarded to a Board member to bring to the attention of the Board.

Director Independence

Our common stock is quoted for trading on the OTCQB market operated by OTC Markets Group and we are not required to have independent members of our Board of Directors pursuant to OTCQB market rules. Notwithstanding that we currently consider Leo Womack and Joel Oppenheim as independent directors.

As described above, we do not currently have a separately designated audit, nominating or compensation committee.

Code of Conduct

We have adopted a Code of Ethical Business Conduct (“Code of Conduct”) that applies to all of our directors, officers and employees.

Any stockholder who so requests may obtain a free copy of our Code of Conduct by submitting a written request to our Corporate Secretary. Additionally, the Code of Conduct was filed as an exhibit to the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, filed with the SEC on November 23, 2015, as Exhibit 14.1.

We intend to disclose any amendments to our Code of Conduct and any waivers with respect to our Code of Conduct granted to our principal executive officer, our principal financial officer, or any of our other employees performing similar functions on our website at www.petrolienergy.com within four business days after the amendment or waiver. In such case, the disclosure regarding the amendment or waiver will remain available on our website for at least 12 months after the initial disclosure. There have been no waivers granted with respect to our Code of Conduct to any such officers or employees.

Employment Agreements

Zel C. Khan (CEO)

On September 23, 2015, Zel C. Khan, entered into an employment agreement with the Company effective October 1, 2015 to serve as our President and Chief Executive Officer for an initial term of twenty four (24) months (automatically renewable thereafter for additional one year terms). The agreement provides that the Company will pay Mr. Khan an annual base salary of \$160,000, with a provision for deferral of current payments until such time that the Company is cash flow positive. The Company will issue one warrant to purchase one share of the Company’s restricted common stock at an exercise price of \$0.20 per share for each dollar of gross salary that is deferred. The Warrants will have a term of 36 months from date of grant, which will vest quarterly.

Mr. Khan also received a one-time grant of one million (1,000,000) restricted shares of the Company’s common stock (the “Shares”), effective October 1, 2015. The Shares shall be forfeited should the employment agreement be terminated for any reason prior to the conclusion of the initial 24-month term at a rate equal to 41,666 of the Shares for each whole month that the employment period is terminated prior to the conclusion of the initial 24-month term.

In the event Mr. Khan's employment is terminated for any reason other than without cause by the Company, he is to receive the compensation earned by him as of such termination date and is required to return the pro rata portion of the one million shares of common stock issued to him as described above for the applicable remaining period of the initial twenty-four (24) month term. In the event Mr. Khan's employment is terminated by the Company without cause, he is required to receive severance pay equal to two months of his base salary. "Cause" means (i) the commission of a felony or other crime involving moral turpitude or the commission of any other act or omission involving misappropriation, dishonesty, unethical business conduct, disloyalty, fraud or breach of fiduciary duty, (ii) reporting to work under the influence of alcohol, (iii) the use of illegal drugs (whether or not at the workplace) or other conduct, which could reasonably be expected to, or which does, cause the Company or any of its affiliates public disgrace or disrepute or economic harm, (iv) repeated failure to perform duties as reasonably directed by the Board of Directors, (v) gross negligence or willful misconduct with respect to the Company or its affiliates or in the performance of Mr. Khan's duties under the agreement, (vi) obtaining any personal profit not thoroughly disclosed to and approved by the board in connection with any transaction entered into by, or on behalf of, the Company or any of its affiliates, or (vii) violating any of the terms of the Company's or its affiliates' rules or policies applicable to Mr. Khan which, if curable, is not cured to the board's reasonable satisfaction within fifteen (15) days after written notice thereof to Mr. Khan, or any other material breach of the agreement or any other agreement between Mr. Khan and the Company or any of its affiliates which, if curable, is not cured to the board's reasonable satisfaction within fifteen (15) days after written notice thereof to Mr. Khan.

The employment agreement includes a non-solicitation/non-interference clause which applies for two years after the termination date of the employment agreement. The employment agreement also requires Mr. Khan to submit to the board all business, commercial and investment opportunities or offers presented to Mr. Khan or of which Mr. Khan becomes aware which relate to the business of the Company or its affiliates.

There are no family relationships between Mr. Khan and any of our other directors or executive officers.

The following shows the amount of time Mr. Khan expects to devote to our business:

<u>Name</u>	<u>Percent</u>
Zel C. Khan	90%

Paul Deputy (CFO)

On July 1, 2016, Paul Deputy, entered into an employment agreement with the Company effective July 1, 2016 to serve as our Chief Financial Officer for an initial term of twelve (12) months (automatically renewable thereafter for additional one year terms). The agreement provides that the Company will pay Mr. Deputy an annual base salary of \$140,000, with a provision for deferral of 90 days. After the 90 days Mr. Deputy is issued one warrant for each dollar of gross salary that is deferred. The exercise price of the warrants is the market price of the Company's shares at each quarter end.

Mr. Deputy also received a one-time grant of warrants to purchase five hundred fifty thousand (550,000) shares of the Company's common stock (the "Shares"), effective July 1, 2016. These warrants will be exercisable for a three year period beginning July 1, 2016 at a strike price of \$0.07 cents.

In the event Mr. Deputy's employment is terminated for any reason other than without cause by the Company, he is to receive the compensation earned by him as of such termination date. In the event Mr. Deputy's employment is terminated by the Company without cause, he is required to receive severance pay equal to two months of his base salary. "Cause" means (i) the commission of a felony or other crime involving moral turpitude or the commission of any other act or omission involving misappropriation, dishonesty, unethical business conduct, disloyalty, fraud or breach of fiduciary duty, (ii) reporting to work under the influence of alcohol, (iii) the use of illegal drugs (whether or not at the workplace) or other conduct, which could reasonably be expected to, or which does, cause the Company or any of its affiliates public disgrace or disrepute or economic harm, (iv) repeated failure to perform duties as reasonably directed by the Board of Directors, (v) gross negligence or willful misconduct with respect to the Company or its affiliates or in the performance of Mr. Deputy's duties under the agreement, (vi) obtaining any personal profit not thoroughly disclosed to and approved by the board in connection with any transaction entered into by, or on behalf of, the Company or any of its affiliates, or (vii) violating any of the terms of the Company's or its affiliates' rules or policies applicable to Mr. Deputy which, if curable, is not cured to the board's reasonable satisfaction within fifteen (15) days after written notice thereof to Mr. Deputy, or any other material breach of the agreement or any other agreement between Mr. Deputy and the Company or any of its affiliates which, if curable, is not cured to the board's reasonable satisfaction within fifteen (15) days after written notice thereof to Mr. Deputy.

Lee Lytton (Corporate Secretary)

The Company does not have an employment agreement in place with Mr. Lytton.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors and executive officers and persons who beneficially own more than ten percent of a registered class of the Company’s equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Officers, directors and greater than ten percent beneficial shareholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

Based solely upon a review by us of Forms 3 and 4 relating to fiscal year 2016 as furnished to us under Rule 16a-3(d) under the Securities Act, and Forms 5 and amendments thereto furnished to us with respect to fiscal year 2016, we believe that during fiscal 2016, that no director, executive officer, or beneficial owner of more than 10% of our common stock failed to file a report on a timely basis during 2016, except for: (i) Joel Oppenheim, who inadvertently failed to timely report nine transactions on Form 4; (ii) Zel C. Khan, who inadvertently failed to timely report four transactions on Form 4; (iii) Lee Lytton, who inadvertently failed to timely report three transactions on Form 4; (iv) Leo B. Womack, who inadvertently failed to timely report seven transactions on Form 4; and (v) Quinten Beasley and Paul Deputy, who both inadvertently failed to timely file Form 3s.

Pursuant to SEC rules, we are not required to disclose in this filing any failure to timely file a Section 16(a) report that has been disclosed by us in a prior annual report or proxy statement.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth information concerning the compensation of (i) all individuals serving as our principal executive officer or acting in a similar capacity during the last completed fiscal year (“PEO”), regardless of compensation level; (ii) our two most highly compensated executive officers other than the PEO who were serving as executive officers at the end of the last completed fiscal year and who were paid more than \$100,000 of total compensation; and (iii) up to two additional individuals for whom disclosure would have been provided pursuant to paragraph (ii) but for the fact that the individual was not serving as an executive officer at the end of the last completed fiscal year (collectively, the “Named Executive Officers”).

The following table summarizes all compensation paid or accrued to our former or current executive officers during the years ended December 31, 2016 and December 31, 2015

Name and Principal Position	Fiscal Year	All Other Compensation					Total
		Salary (1)	Bonus (2)	Stock Awards (3)	Option Awards (4)	(5)	
Zel Khan (Current Principal Executive Officer) (7)	2016	\$ 194,000	\$ —	\$ —	\$ 18,757	\$ —	\$ 212,757
	2015	\$ 26,667	\$ —	\$ 8,500	\$ 2,900	\$ —	\$ 38,067
Paul Deputy (Current Principal Financial and Accounting Officer) (8)	2016	\$ 78,616	\$ —	\$ —	\$ 7,090	\$ 77,126	\$ 162,832
David Baker (Former Principal Executive Officer) (6)	2015	\$ 10,000	\$ —	\$ 33,778	\$ —	\$ —	\$ 43,778

Does not include perquisites and other personal benefits, or property, unless the aggregate amount of such compensation is more than \$10,000. None of our executive officers received any change in pension value and nonqualified deferred compensation earnings during the periods presented.

- (1) The dollar value of base salary (cash and non-cash) earned. Executive salaries in 2016 were accrued but not paid.
- (2) The dollar value of bonus (cash and non-cash) earned.
- (3) The fair value of stock issued for services computed in accordance with ASC 718 on the date of grant
- (4) The fair value of options granted computed in accordance with ASC 718 in the date of grant.
- (5) All other compensation received that we could not properly report in any other column of the table.
- (6) Resigned as Chief Executive Officer effective February 28, 2015. One March 1, 2015, Mr. Zel C. Khan was appointed as President and Chief Executive Officer of the Company.
- (7) Appointed as President and Chief Executive Officer effective February 28, 2015. Mr. Khan’s signing bonus is recognized when it is earned. During 2016, \$34,000 was earned and added to his accrued salary amount.
- (8) Appointed as Chief Financial Officer July 1, 2016. Mr. Deputy converted a significant portion of his salary to shares during 2016, thereby reducing his salary balance. The converted value is included in All Other Compensation.

We do not provide our officers or employees with pension, stock appreciation rights, long-term incentive, profit sharing, retirement or other plans, although we may adopt one or more of such plans in the future.

We do not maintain any life or disability insurance on any of our officers.

Director Compensation

The table below summarizes all compensation of our directors as of December 31, 2016

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash (1)	Stock Awards (2)	Option Awards (3)	Non-Equity Incentive Plan Compensation	Non-Qualified Deferred Compensation Earnings	All Other Compensation	Total (\$)
Leo Womack	\$ 48,000	\$ —	\$ 57,522	\$ —	\$ —	\$ —	\$ 105,522
Lee H Lytton	24,000	—	28,761	—	—	—	52,761
Joel Oppenheim	24,000	—	51,789	—	—	—	75,789
Quinten Beasley (4)	1,250	—	41,891	—	—	133,591	176,732

The notes below summarizes all compensation of our directors as of December 31, 2016.

- (1) Fees earned due to retainers, meetings, committees and chairman services. Fees of \$49,250 were paid for Director fees while \$48,000 was paid for Chairman services. These fees were not paid in cash but were accrued.
- (2) The fair value of stock issued for services computed in accordance with ASC 718 on the date of grant.
- (3) The fair value of options granted computed in accordance with ASC 718 on the date of grant.

The fair value of stock issued for services computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 on the date of grant. See also “Narrative Disclosure to the Director Compensation Table” below.

Narrative Disclosure to the Director Compensation Table

On September 23, 2015, the Board of Directors granted Leo B. Womack, the Chairman of the Board of Directors of the Company an option to purchase 1 million shares of the Company’s common stock at an exercise price of \$0.06 per share, which vests on January 1, 2016, and is exercisable for 36 months thereafter. The Board also granted Lee Lytton and Joel Oppenheim, members of the Board of Directors each an option to purchase 500,000 shares of the Company’s common stock at an exercise price of \$0.06 per share, which vested on January 1, 2016, and is exercisable for 36 months thereafter. The fair value of the options granted on September 23, 2015 is \$129,126.

On March 11, 2016, the Board of Directors granted Leo B. Womack, the Chairman of the Board of Directors of the Company an option to purchase 1 million shares of the Company’s common stock at an exercise price of \$0.06 per share, which vests on January 1, 2017, and is exercisable for 36 months thereafter. The Board also granted Lee Lytton, Quinten Beasley and Joel Oppenheim, members of the Board of Directors each an option to purchase 500,000 shares of the Company’s common stock at an exercise price of \$0.06 per share, which vests on January 1, 2017, and is exercisable for 36 months thereafter. The fair value of the options granted on March 11, 2016 is \$156,936.

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

The following table shows, as of April 17, 2017, information with respect to those persons owning beneficially 5% or more of our common stock and the number and percentage of outstanding shares owned by each of our officers and directors and by all officers and directors as a group. Unless otherwise indicated, each owner has sole voting and investment powers over his shares of common stock.

<u>Title of class</u>	<u>Name and address of beneficial owner</u>	<u>Amount of beneficial ownership (1)</u>	<u>Percent of class (2)</u>
Executive Officers & Directors:			
Common	Quinten Beasley	29,991,166 shares (3)	37.6%
Common	Paul Deputy	6,184,964 shares (4)	7.6%
Common	Leo Womack	4,703,000 shares (5)	5.8%
Common	Joel Oppenheim	3,005,000 shares (6)	3.7%
Common	Zel C Khan	2,800,000 shares (7)	3.5%
Common	Lee Lytton	2,196,800 shares (8)	2.7%
		48,881,264 shares	
Total of All Directors and Executive Officers:			
More Than 5% Beneficial Owners:			
Jovian Petroleum Corporation	(9)	25,297,136 shares (10)	26.2%
Blue Sky New Mexico Inc	(11)	7,968,750 shares (12)	8.3%
Rick Wilber	(13)	5,403,333 shares (14)	5.6%

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

- (1) Under Rule 13d-3 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), a beneficial owner of a security includes any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares: (i) voting power, which includes the power to vote, or to direct the voting of shares, and/or (ii) investment power, which includes the power to dispose or direct the disposition of shares. . Also under this rule, certain shares may be deemed to be beneficially owned by more than one person (if, for example, persons share the power to vote or the power to dispose of the shares). In addition, shares are deemed to be beneficially owned by a person if the person has the right to acquire shares (for example, upon exercise of an option or warrant) within 60 days of the date as of which the information is provided. In computing the percentage ownership of any person, the amount of shares is deemed to include the amount of shares beneficially owned by such person by reason of such acquisition rights. As a result, the percentage of outstanding shares of any person as shown in the following table does not necessarily reflect the person’s actual voting power at any particular date.
- (2) Except as otherwise indicated, all shares are owned directly and the percentage shown is based on 79,034,505 shares of common stock.
- (3) Includes 4,074,030 shares held by Mr. Beasley directly. Includes ownership of the securities held by Jovian Petroleum Corporation, which securities Mr. Beasley is deemed to beneficially own due to his position as President and CEO of Jovian (see footnotes 9 and 10). Includes 100,000 shares issuable upon exercise of warrants, which have an exercise price of \$0.12 per share and expire on August 5, 2018. Includes warrants to purchase 500,000 shares of Company common stock at an exercise price of \$0.06 per share, which expire on April 18, 2019. Includes warrants to purchase 10,000 shares of Company common stock at an exercise price of \$0.06 per share, which expire on September 13, 2019. Includes warrants to purchase 100,000 shares of Company common stock at an exercise price of \$0.12 per share, which expire on August 5, 2018.
- (4) Includes 4,262,048 shares held by Mr. Deputy. Includes 100,000 shares issuable upon exercise of warrants, which have an exercise price of \$0.12 per share and expire on August 31, 2018. Includes 1,100,000 shares issuable upon exercise of warrants, which have an exercise price of \$0.10 per share and expire on August 31, 2018. Includes 10,000 shares issuable upon exercise of warrants, which have an exercise price of \$0.10 per share and expire on February 1, 2019. Includes 100,000 shares issuable upon exercise of warrants, which have an exercise price of \$0.09 per share and expire on June 17, 2019. Includes 10,000 shares issuable upon exercise of warrants, which have an exercise price of \$0.059 and expire on September 13, 2019. Includes 550,000 shares issuable upon exercise of warrants, which have an exercise price of \$0.077 and expire on July 1, 2019. Includes 6,250 shares issuable upon exercise of warrants, which have an exercise price of \$0.12 and expire on September 26, 2019. Includes 11,666 shares issuable upon exercise of warrants, which have an exercise price

of \$0.14 and expire on September 30, 2019. Includes 35,000 shares issuable upon exercise of warrants, which have an exercise price of \$0.16 and expire on December 31, 2019.

- (5) Includes 2,196,667 shares held by the Leo B. Womack Family Trust, which Mr. Womack is deemed to beneficially own (the "Trust"). Includes 166,667 shares issuable upon the exercise of warrants, which have an exercise price of \$0.75 per share and an expiration date of August 5, 2019, held by the Trust. Includes 300,000 shares issuable upon the exercise of warrants, which have an exercise price of \$0.12 per share and an expiration date of August 5, 2018, held by the Trust. Includes 1,000,000 shares issuable upon the exercise of options, which have an exercise price of \$0.06 per share, and have a term of three years from their vesting date. Includes 1,000,000 shares issuable upon the exercise of options, which have an exercise price of \$0.06 per share, and have a term of three years from their vesting date. Includes warrants to purchase 10,000 shares of Company common stock at an exercise price of \$0.10 per share, which expire on February 1, 2019. Includes warrants to purchase 20,000 shares of Company common stock at an exercise price of \$0.09 per share, which expire on August 10, 2019. Includes warrants to purchase 10,000 shares of Company common stock at an exercise price of \$0.06 per share, which expire on September 13, 2019.
- (6) Includes 1,250,000 shares held by Joel Oppenheim. Includes 500,000 shares issuable upon the exercise of options, which have an exercise price of \$0.06 per share, vest on January 1, 2016, and have a term of three years from their vesting date. Includes 500,000 shares issuable upon the exercise of options, which have an exercise price of \$0.06 per share, vest on January 1, 2017, and have a term of three years from their vesting date. Includes warrants to purchase 100,000 shares of Company common stock at an exercise price of \$0.75 per share, which expire on August 5, 2019. Includes warrants to purchase 300,000 shares of Company common stock at an exercise price of \$0.12 per share, which expire on August 5, 2018. Includes warrants to purchase 200,000 shares of Company common stock at an exercise price of \$0.10 per share, which expire on September 1, 2018. Includes warrants to purchase 10,000 shares of Company common stock at an exercise price of \$0.10 per share, which expire on September 1, 2018. Includes warrants to purchase 12,500 shares of Company common stock at an exercise price of \$0.06 per share, which expire on September 13, 2019. Includes warrants to purchase 6,250 shares of Company common stock at an exercise price of \$0.06 per share, which expire on September 13, 2019. Includes warrants to purchase 50,000 shares of Company common stock at an exercise price of \$0.09 per share, which expire on June 20, 2019. Includes warrants to purchase 10,000 shares of Company common stock at an exercise price of \$0.09 per share, which expire on August 5, 2019. Includes warrants to purchase 55,000 shares of Company common stock at an exercise price of \$0.09 per share, which expire on August 23, 2019. . Includes warrants to purchase 10,000 shares of Company common stock at an exercise price of \$0.06 per share, which expire on September 14, 2019. . Includes warrants to purchase 300,000 shares of Company common stock at an exercise price of \$0.08 per share, which expire on August 18, 2019. Includes warrants to purchase 6,250 shares of Company common stock at an exercise price of \$0.06 per share, which expire on September 30, 2019.
- (7) Includes 1,800,000 shares held by Mr. Khan. Includes 800,000 shares issuable upon exercise of warrants, which have an exercise price of \$0.10 per share and expire on August 31, 2018. Includes 40,000 shares issuable upon exercise of warrants, which have an exercise price of \$0.20 per share and expire on December 31, 2018. Includes 40,000 shares issuable upon exercise of warrants, which have an exercise price of \$0.20 per share and expire on March 31, 2019. Includes 40,000 shares issuable upon exercise of warrants, which have an exercise price of \$0.20 per share and expire on June 30, 2019. Includes 40,000 shares issuable upon exercise of warrants, which have an exercise price of \$0.20 per share and expire on September 30, 2019. Includes 40,000 shares issuable upon exercise of warrants, which have an exercise price of \$0.20 per share and expire on December 31, 2019. Note that Mr. Khan has a 25% ownership interest in Jovian Petroleum Corporation.
- (8) Includes 610,000 shares held by Mr. Lytton. Includes 500,000 shares issuable upon the exercise of options, which have an exercise price of \$0.06 per share, and have a term of three years from their vesting date.. Includes 500,000 shares issuable upon the exercise of options, which have an exercise price of \$0.06 per share, and have a term of three years from their vesting date. Includes warrants to purchase 33,400 shares of Company common stock at an exercise price of \$0.75 per share, which expire on August 5, 2019. Includes warrants to purchase 300,000 shares of Company common stock at an exercise price of \$0.12 per share, which expire on August 5, 2018. Includes warrants to purchase 200,000 shares of Company common stock at an exercise price of \$0.10 per share, which expire on September 1, 2018. Includes warrants to purchase 10,000 shares of Company common stock at an exercise price of \$0.10 per share, which expire on February 1, 2019. Includes warrants to purchase 10,000 shares of Company common stock at an exercise price of \$0.06 per share, which expire on September 14, 2019.
- (9) Address: 710 N. Post Oak Rd., Suite 550, Houston, Texas 77024. Shares held by Jovian Petroleum Corporation are beneficially owned by Quinten Beasley, President and CEO.
- (10) Includes 25,197,136 shares held by Jovian Petroleum Corporation. Includes 100,000 shares issuable upon the exercise of warrants, which have an exercise price of \$0.12 per share and an expiration date of August 5, 2018.
- (11) Address: 320 Gold Avenue SW, Suite 1000, Albuquerque, New Mexico 87102. The shares held by Blue Sky NM, Inc. are beneficially owned by Fulucal Productions Ltd. and Mohammad Fazil, its CEO and President.
- (12) Includes 10,686,805 shares issued in the purchase of the SUDS working interest by the Company. Includes 500,000 shares issued for the extension of the note payable to BSNM for the purchase of Twin Lakes.
- (13) Address: 10360 Kestrel Street, Plantation, Florida 33324.

- (14) Includes shares issuable upon conversion of \$550,000 in convertible notes which are convertible into shares of the Company's common stock at a conversion price of \$0.30 per share. Also includes 1,570,000 shares issuable upon exercise of warrants to purchase shares of Company common stock at an exercise price of \$0.80 per share, which expire on September 20, 2023 (570,000 warrants) and June 17, 2023 (1,000,000 warrants). Includes 500,000 shares issuable upon exercise of warrants to purchase shares of Company stock at an exercise price of \$0.15 per share which expire December 31, 2022.

Changes in Control

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

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

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

On May 1, 2015, the Company began a new private offering of "Units" (each consisting of 100,000 shares of restricted common stock and a warrant to purchase an additional 100,000 shares of common stock at an exercise price of \$0.12 per share at any time prior to August 5, 2018), with each unit being sold for \$10,000 per Unit. The Company sold a total of 22 Units before terminating the offering. Included as purchasers in the offering were Lee H. Lytton, our Corporate Secretary and Director, who purchased one Unit for an aggregate of \$10,000; The Oppenheimer Group, an entity affiliated with Joel Oppenheim, our Director, which acquired three Units; Jovian Petroleum Corporation, affiliated with Zel C. Khan, our Chief Executive Officer and President, which acquired one Unit; The Leo B. Womack Family Trust, which is beneficially owned by our Chairman, Leo Womack, which acquired three Units; and Quinten Beasley, a director who acquired one Unit.

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. If full payment is not made by December 31, 2016, the buyer extended the Note to June 30, 2017 by making a \$10,000 payment. The Promissory Note is secured by a 12.5% undivided working interest in the SUDS field. In the event the Company closes any financing related to the SUDS field, 50% of the net proceeds received from the financing will be applied to pay the Note.

On June 11, 2015, our Board of Directors increased the size of our Board of Directors from two to three members and appointed Joel Oppenheim to our Board of Directors to fill the newly created vacancy. On June 11, 2015, our Board of Directors agreed to issue Joel Oppenheim 100,000 shares of our restricted common stock in consideration for agreeing to serve on our Board of Directors.

On September 1, 2015, the Company began a new private offering of "Units" (each consisting of 100,000 shares of restricted common stock and a warrant to purchase an additional 100,000 shares of common stock at an exercise price of \$0.10 per share at any time prior to August 31, 2018), with each unit being sold for \$6,000 per Unit. To date the Company has sold 28 Units (2.8 million restricted shares of common stock and warrants to purchase 2.8 million shares of common stock) for aggregate consideration of \$168,000. Included as purchases in the offering were Lee H. Lytton, our Corporate Secretary and Director, who purchased two Units for an aggregate of \$12,000; The Oppenheimer Group, an entity affiliated with Joel Oppenheim, our Director, which acquired two Units; and Zel C. Khan, our Chief Executive Officer and President, which acquired eight Units for \$48,000.

On September 23, 2015, we entered into a Purchase and Sale Agreement with SUDS Properties, LLC ("SUDS" and the "Purchase Agreement"). SUDS is 100% owned by Jovian Resources LLC ("Jovian"). Mr. Zel C. Khan, our Chief Executive Officer and President, is the former manager of Jovian and Quinten Beasley, our Director is the President and CEO of Jovian. Pursuant to the Purchase Agreement, we acquired a 10% working interest in the SUDS field located in Creek County Oklahoma, in exchange for 10,586,805 shares of restricted common stock, representing 33% of our outstanding common stock. Such shares were calculated based on the relative 1P reserves currently owned by us and the P1 reserves being acquired through the transaction without regard to our common share price. Based on the then current market value of our stock at \$0.06 per share, the price paid was \$719,903 or \$4.77 per barrel of oil (Bbl). Through this transaction, the Company increased its reserve base by approximately 151,000 Bbls of (1P) proven reserves. The acquisition will be effective October 1, 2015 for all purposes. Concurrently with the purchase, Jovian agreed to assign to the Company all rights to be the operator of the SUDS unit under a standard operating agreement.

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On September 23, 2015, our Board of Directors agreed to issue Mr. Zel C. Khan, the Chief Executive Officer and President of the Company, 1,000,000 shares of the Company's restricted common stock in consideration for entering into the employment agreement as described above under "[Employment Agreements](#)".

On September 23, 2015, the Board of Directors agreed to pay:

- (a) Leo B. Womack, the Chairman of the Board of Directors of the Company, \$4,000 per month in consideration for his services on the Board of Directors, and to grant him an option to purchase 1 million shares of the Company's common stock at an exercise price of \$0.06 per share, which vests on January 1, 2016, and is exercisable for 36 months thereafter; and
- (b) Lee Lytton and Joel Oppenheim, members of the Board of Directors, each \$2,000 per month in consideration for their service on the Board of Directors, and to grant each of them an option to purchase 500,000 shares of the Company's common stock at an exercise price of \$0.06 per share, which vest on January 1, 2016, and are exercisable for 36 months thereafter (collectively with the options granted to Mr. Womack as described above, the "Director Options");
- (c) Provided that the cash fees due to the directors as described above shall only be payable out of 10% of the positive cash flow (if any) of the Company as of any fiscal quarter ("Positive Cash Flow"), and any other fees due such directors shall accrue until such time as the Company has Positive Cash Flow.

Effective October 1, 2015, all five (5) employees of Jovian became employees of the Company and the Company became operator of all properties acquired pursuant to the Purchase Agreement.

Beginning February 1, 2016, the Company sponsored the SUDS 1% Term Overriding Royalty Interest ("PORRI") offering on behalf of the SUDS field to raise \$300,000. Under the terms of the Company offering, investors will receive 1% of the gross revenue from the field monthly, based on their investment of \$20,000 until such time as they receive a cumulative revenue amount of \$30,000. With each unit purchased, a warrant to purchase 10,000 shares of Company's common stock was granted with an exercise price of \$0.10 per share, and an expiration date of February 28, 2019. At the end of the second quarter of 2016, the \$300,000 offering had been received which resulted in the granting of warrants to purchase 150,000 shares of common stock. The following affiliated investors each purchased one (1) unit in the offering: Joel Oppenheim, Jovian, Lee Lytton, Paul Deputy and Leo Womack. The fair value of all 150,000 SUDS related warrants was \$14,336, over a 3 year term. This fair value was accounted for as a loss on the conveyance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Review, Approval and Ratification of Related Party Transactions

Given our small size and limited financial resources, we have not adopted formal policies and procedures for the review, approval or ratification of transactions, such as those described above, with our executive officers, directors and significant stockholders. However, all of the transactions described above were approved and ratified by the Board of Directors and one or more officers of the Company. In connection with the approval of the transactions described above, the Board of Directors took into account several factors, including its fiduciary duty to the Company; the relationships of the related parties described above to the Company; the material facts underlying each transaction; the anticipated benefits to the Company and related costs associated with such benefits; whether comparable products or services were available; and the terms the Company could receive from an unrelated third party.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

MaloneBailey, LLP (“MaloneBailey”) served as our independent registered public accounting firm for the years ended December 31, 2016 and 2015. The following table shows the aggregate fees billed to us for these years by MaloneBailey.

	Year Ended December 31,	
	2016	2015
Audit Fees	\$ 66,500	\$ 34,000
Audit-Related Fees	—	—
Tax Fees	2,500	2,500
All Other Fees	—	—
Total	\$ 69,000	\$ 36,500

Audit fees represent amounts billed for professional services rendered for the audit of our annual consolidated financial statements and the reviews of the financial statements included in our Form 10-Q reports. Prior to contracting with MaloneBailey to render audit or non-audit services, each engagement was approved by our directors.

It is the policy of our Board of Directors that all services to be provided by our independent registered public accounting firm, including audit services and permitted audit-related and non-audit services, must be pre-approved by our Board of Directors. Our Board of Directors pre-approved all services, audit and non-audit related, provided to us by MaloneBailey for 2016 and 2015.

In order to assure continuing auditor independence, the Board of Directors periodically considers the independent auditor’s qualifications, performance and independence and whether there should be a regular rotation of our independent external audit firm.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

INDEX TO FINANCIAL STATEMENTS

Audited Financial Statements for Years Ended December 31, 2016 and 2015

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Notes to Consolidated Financial Statements	F-7

(2) Financial Statement Schedules

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

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

Exhibit Number	Description
2.1	Purchase and Sale Agreement effective October 1, 2015, by and between SUDS Properties, LLC and the Company (1)
3.1	Original Colorado Articles of Incorporation (2)
3.2	Amended and Restated Colorado Articles of Incorporation (2)
3.3	Amendment to Colorado Articles of Incorporation (3)
3.4	Texas Certificate of Conversion Converting From Rockdale Resources Corporation (Colorado) to Petrolia Energy Corporation (Texas) filed with the Secretary of State of Texas on June 15, 2016 (4) Certificate of Correction to Texas Certificate of Formation filed with the Secretary of State of Texas on August 24, 2016 (4)
3.5	Statement of Conversion as filed with the Secretary of State of Colorado on August 30, 2016 (4)
3.6	Bylaws of Petrolia Energy Corporation (Texas) (4)
3.7	Bylaws of Petrolia Energy Corporation (Texas) (4)
10.1***	Employment Agreement with Mr. Zel C. Khan dated September 23, 2015 (1)
10.2***	Form of Warrant Agreement for the deferral of Mr. Khan's salary (1)
10.3	Memorandum of Agreement dated November 4, 2015, by and between Blue Sky NM, Inc. and the Company, relating to the 15% Net Working Interest in the Twin Lakes San Andres Unit (5)
10.4	\$146,875 Promissory Note with Financial Assurance & Bonds dated November 4, 2015, owed by the Company to Blue Sky NM, Inc. (5) Memorandum of Agreement dated November 4, 2015, by and between Blue Sky NM, Inc. and the Company, relating to the acquisition of a \$1.3 million promissory note in connection with the Bankruptcy of Orbit Petroleum, Inc. (5)
10.5	\$1.3 million Installment Promissory Note due from Canyon E&P Company dated September 24, 2010 (5)
10.6	2015 Stock Incentive Plan (5)
10.7***	Agreement for Share Exchange, dated January 29, 2016 and effective February 1, 2016 between the Company and Askarii Resources, LLC (6)
10.8	Employment Agreement dated August 17, 2016, with Paul M. Deputy as Chief Financial Officer (7)
10.9***	Option Agreement with Paul M. Deputy dated August 17, 2016 (7)
10.10***	Rick Wilber Note Extension Agreement dated June 30, 2016 (7)
10.11	Purchase and Sale Agreement effective September 1, 2016, by and between Whistler Ventures, LLC and Petrolia Energy Corporation, relating to the 25% Net Working Interest in the Twin Lakes San Andres Unit (8)
10.12	Assignment and Transfer of Interest effective September 1, 2016 between Petrolia Energy Corporation and Whistler Ventures LLC (8)
10.13	Purchase and Sale Agreement effective September 28, 2016, by and between Jovian Petroleum Corporation and Petrolia Energy Corporation, relating to the 50% Net Working Interest in the Slick Unit Dutcher Sands (9)
10.14	Assignment and Transfer of Interest (50%) effective September 28, 2016 between Petrolia Energy Corporation and Jovian Petroleum Corporation (9)
10.15	Share Exchange Agreement effective September 28, 2016, by and between Jovian Petroleum Corporation and Petrolia Energy Corporation, relating to the 40% Net Working Interest in the Slick Unit Dutcher Sands (9)
10.16	

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10.17	Promissory Note (\$1M) effective September 28, 2016, by and between Jovian Petroleum Corporation and Petrolia Energy Corporation, relating to the 50% Net Working Interest in the Slick Unit Dutcher Sands (9)
10.18	Production Payment Note (\$3M) effective September 28, 2016, by and between Jovian Petroleum Corporation and Petrolia Energy Corporation, relating to the 50% Net Working Interest in the Slick Unit Dutcher Sands (9)
10.19	Settlement Agreement effective February 12, 2017 between Petrolia Energy Corporation and Dead Aim Investments (10)
10.20	Quitclaim Deed effective February 12, 2017 by and between Dead Aim Investments and Petrolia Energy Corporation, relating to the 60% Net Working Interest in the Twin Lakes San Andres Unit (10)
14.1	Code of Ethical Business Conduct (11)
21.1	Subsidiaries
23.1*	Consent of MKM Engineering
31.1*	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1**	Oil and gas reserve report
99.2	Second Amendment to Rick Wilber Note Agreement
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

* Filed herewith

** Furnished herewith

*** Indicates management contract or compensatory plan or arrangement.

(1) Filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on September 28, 2015 (File Number 000-52690) and incorporated by reference herein.

(2) Incorporated by reference to the same exhibits filed with the Company's registration statement on Form SB-2 (Commission File No. 333-136012) filed on July 25, 2006.

(3) Incorporated by reference to the same exhibits filed the Company's registration statement on Form S-1 (File No. 333-184575) filed on October 24, 2012.

(4) Filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on September 12, 2016 (File Number 000-52690) and incorporated by reference herein.

(5) Filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on November 10, 2015 (File Number 000-52690) and incorporated by reference herein.

(6) Filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on February 9, 2016 (File Number 000-52690) and incorporated by reference herein.

(7) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2016, filed with the Commission on August 23, 2016 (File Number 000-52690) and incorporated by reference herein.

(8) Filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on September 22, 2016 (File Number 000-52690) and incorporated by reference herein.

(9) Filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on October 5, 2016 (File Number 000-52690) and incorporated by reference herein.

(10) Filed as an exhibit to the Company's Current Report on Form 8-K, filed with the Commission on February 21, 2017 (File Number 000-52690) and incorporated by reference herein).

(11) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2016, filed with the Commission on November 23, 2016 (File Number 000-52690) and incorporated by reference herein.

SIGNATURES

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

PETROLIA ENERGY CORPORATION

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

Date: April 17, 2017

By: /s/ Paul Deputy
Paul Deputy
Chief Financial Officer
(Principal Financial/Accounting Officer)

Date: April 17, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Zel C Khan</u> Zel C. Khan	Chief Executive Officer Principal Executive, and Director	April 17, 2017
<u>/s/ Leo Womack</u> Leo Womack	Chairman	April 17, 2017
<u>/s/ Lee Lytton</u> Lee Lytton	Director	April 17, 2017
<u>/s/ Joel Oppenheim</u> Joel Oppenheim	Director	April 17, 2017
<u>/s/ Quinten Beasley</u> Quinten Beasley	Director	April 17, 2017

**PETROLIA ENERGY CORPORATION
FINANCIAL STATEMENTS**

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Petroliia Energy Corporation
Houston, TX

We have audited the accompanying consolidated balance sheets of Petroliia Energy Corporation and its subsidiary (collectively, the “Company”) as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in stockholders’ equity and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiary as of December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred losses from operation since inception and has a net working capital deficiency. These factors raise substantial doubt about the Company’s ability to continue as a going concern. Management’s plans in regard to this matter are described in Note 3. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ MaloneBailey, LLP
www.malone-bailey.com
Houston, Texas
April 17, 2017

PETROLIA ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
ASSETS		
Current assets		
Cash	\$ 68,648	\$ 3,091
Accounts receivable	199,003	48,633
Other current assets	31,192	31,049
Total current assets	<u>298,843</u>	<u>82,773</u>
Property & equipment		
Oil and gas, on the basis of full cost accounting		
Evaluated properties	13,465,387	4,733,853
Furniture, equipment & software	200,416	108,234
Less accumulated depreciation	(1,119,708)	(1,045,644)
Net property and equipment	<u>12,546,095</u>	<u>3,796,443</u>
Other Assets		
Intangible assets	49,886	—
Note receivable	316,800	316,800
Total Assets	<u>\$ 13,211,624</u>	<u>\$ 4,196,016</u>
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 352,241	\$ 169,564
Accrued liabilities	494,983	133,398
Debt short term	275,000	
Convertible debt - related party (net of unamortized discount \$0, \$171,573)	550,000	378,427
Current maturities of installment notes payable	26,186	21,144
Note payable – related parties	1,287,980	192,875
Total current liabilities	<u>2,986,390</u>	<u>895,408</u>
Asset retirement obligations	322,710	213,328
Installment note payable	---	6,652
Note payable to related party – long term	2,904,020	--
Total Liabilities	<u>6,213,120</u>	<u>1,115,388</u>
Stockholders' Equity		
Preferred stock, \$.10 par value; 1,000,000 shares authorized; No shares issued & outstanding	—	—
Common stock, \$.001 par value; 150,000,000 shares authorized; 79,034,505 and 42,839,958 shares issued and outstanding	79,034	42,840
Additional paid in capital	14,887,090	9,129,629
Accumulated deficit	(7,967,620)	(6,091,841)
Total Stockholders' Equity	<u>6,998,504</u>	<u>3,080,628</u>
Total Liabilities and Stockholders' Equity	<u>\$ 13,211,624</u>	<u>\$ 4,196,016</u>

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

PETROLIA ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	<u>Year ended December 31, 2016</u>	<u>Year ended December 31, 2015</u>
Oil and gas sales	\$ 123,246	\$ 187,976
Equipment sales to related party	198,000	--
Total Revenue	<u>321,246</u>	<u>187,976</u>
Operating expenses		
Cost of equipment sold	33,330	--
Lease operating expense	304,199	250,303
General and administrative expenses	1,433,182	706,456
Depreciation, depletion and amortization	74,065	94,964
Asset retirement obligation accretion	38,998	11,856
Impairment of oil & gas properties	--	668,073
Total Operating Expense	<u>1,883,774</u>	<u>1,731,652</u>
Loss from Operations	<u>(1,562,528)</u>	<u>(1,543,676)</u>
Interest (expense)	(359,239)	(241,778)
Other income (expense)	60,324	38,719
Loss on warrants issued for PORRI	(14,336)	---
Loss on conversion of debt	---	(109,879)
Total other income (expense)	<u>(313,251)</u>	<u>(312,938)</u>
Net loss from continuing operations before taxes	<u>(1,875,779)</u>	<u>(1,856,614)</u>
Income tax provision (benefit)	<u>—</u>	<u>—</u>
Net Loss	<u>\$ (1,875,779)</u>	<u>\$ (1,856,614)</u>
Loss per share (Basic and fully diluted)	<u>\$ (0.03)</u>	<u>\$ (0.07)</u>
Weighted average number of common shares outstanding, basic and diluted	<u>54,541,922</u>	<u>24,875,600</u>

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

PETROLIA ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31, 2016</u>	<u>Year Ended December 31, 2015</u>
<i>Cash Flows from Operating Activities</i>		
Net Loss	\$ (1,875,779)	\$ (1,856,614)
Adjustment to reconcile net loss to net cash Used in operating activities:		
Depreciation and amortization	74,065	94,964
Accretion of debt discount	171,573	152,980
Finance fee for extension on note payable	79,223	37,500
Impairment of oil & gas properties	---	668,073
Loss on conversion of debt		109,879
Cost of warrants issued for PORRI	14,336	---
Loss on disposal of assets	---	497
Debt Issuance costs	38,622	---
Asset retirement obligation accretion	38,998	11,856
Stock-based compensation expense-employees	150,790	185,395
Stock-based compensation expense-consultants and directors	209,125	--
Changes in operating assets and liabilities		
Accounts receivable	(150,370)	(22,457)
Inventory	33,330	---
Other assets	(143)	9,752
Accounts payable	302,821	70,139
Accrued liabilities	161,586	81,707
Deferred salaries	200,000	40,000
Net cash used in operating activities	<u>(551,823)</u>	<u>(416,329)</u>
<i>Cash Flows from Investing Activities</i>		
Cash acquired from investment in Askarii	114	---
Proceeds from sale of property and equipment	30,000	4,029
Purchase of fixed assets	(93,476)	(19,854)
Cash used in investing activities	<u>(63,362)</u>	<u>(15,825)</u>
<i>Cash Flows from Financing Activities</i>		
Proceeds from shareholder advances	388,000	134,000
Proceeds from issuance of common stock	111,352	302,000
Payments of shareholder advances	(92,000)	(8,000)
Payments on notes payable	(1,610)	(17,443)
Proceeds from short term loans	275,000	---
Cash provided by financing activities	<u>680,742</u>	<u>410,557</u>
Net change in cash and cash equivalents	65,557	(21,597)
Cash and cash equivalents		
Beginning of period	<u>3,091</u>	<u>24,688</u>
End of period	<u>\$ 68,648</u>	<u>\$ 3,091</u>

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

	Year Ended December 31, 2016	Year Ended December 31, 2015
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$ 33,088	\$ 5,660
Income taxes paid	—	—
NON-CASH INVESTING AND FINANCIAL DISCLOSURES		
Settlement of accrued accounts payable through share issuance	120,146	—
Initial recognition of asset retirement obligations	70,384	26,201
Change in estimated cash flows from asset retirement obligation	---	75,096
Fair value of stock issued for oil properties	4,773,186	719,903
Fair value of stock issued for extinguishment of debt	146,875	316,800
Shares issued in payment of shareholder advance	150,000	130,000
Note payable for oil & gas properties	\$ 4,000,000	\$ ---

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

PETROLIA ENERGY CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Stockholders' Equity (Deficit)
	Shares	Amount			
Balance at December 31, 2014	19,353,152	\$ 19,353	\$ 7,351,640	\$ (4,235,227)	\$ 3,135,766
Shares issued for services	1,100,000	1,100	52,178	—	53,278
Stock based compensation - directors	—	—	132,117	—	132,117
Repurchase and cancellation of common shares	(400,000)	(400)	400	—	—
Shares issued related to acquisitions	10,586,806	10,587	709,316	—	719,903
Shares issued for note receivable	6,000,000	6,000	310,800	—	316,800
Shares issued for note extension	500,000	500	37,000	—	37,500
Shares issued for cash	4,100,000	4,100	297,900	—	302,000
Shares issued for conversion of shareholder advances	1,600,000	1,600	238,278	—	239,878
Net Loss	—	—	—	(1,856,614)	(1,856,614)
Balance at December 31, 2015	42,839,958	\$ 42,840	\$ 9,129,629	\$ (6,091,841)	\$ 3,080,628
Shares issued for settlement of payables	1,581,098	1,581	118,565	—	120,146
Stock based compensation - directors	---	---	209,125	—	209,125
Stock based compensation – employees	800,000	800	149,990	—	150,790
Shares issued for issuance of common stock for cash	1,625,000	1,625	109,727	—	111,352
Shares issued related to acquisitions	28,808,985	28,809	4,744,377	—	4,773,186
Warrants issued for note extension	---	---	79,223	—	79,223
Warrants issued for loans	---	---	38,622	—	38,622
Shares issued for conversion of shareholder advances	1,910,714	1,910	148,090	—	150,000
Warrants issued for PORRI equity offering	---	---	14,336	—	14,336
Shares issued for extinguishment of debt	1,468,750	1,469	145,406	---	146,875
Net Loss	—	—	—	(1,875,779)	(1,875,779)
Balance at December 31, 2016	<u>79,034,505</u>	<u>\$ 79,034</u>	<u>\$ 14,887,090</u>	<u>\$ (7,967,620)</u>	<u>\$ 6,998,504</u>

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

PETROLIA ENERGY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1. ORGANIZATION

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

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

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

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

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

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

Under full cost accounting rules for each cost center, capitalized costs of evaluated oil and gas properties, including asset retirement costs, less accumulated amortization and related deferred income taxes, may not exceed an amount (the “cost ceiling”) equal to the sum of (a) the present value of future net cash flows from estimated production of proved oil and gas reserves, based on current prices and operating conditions, discounted at ten percent (10%), plus (b) the cost of properties not being amortized, plus (c) the lower of cost or estimated fair value of any unproved properties included in the costs being amortized, less (d) any income tax effects related to differences between the book and tax basis of the properties involved. If capitalized costs exceed this limit, the excess is charged to operations. For purposes of the ceiling test calculation, current prices are defined as the un-weighted arithmetic average of the first day of the month price for each month within the 12 month period prior to the end of the reporting period. Prices are adjusted for basis or location differentials. Unless sales contracts specify otherwise, prices are held constant for the productive life of each well. Similarly, current costs are assumed to remain constant over the entire calculation period. There was no impairment during the year ended December 31, 2016. In 2015, there was an impairment of \$668,073 which was primarily due to the decrease in oil prices during the year.

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

Revenue Recognition — Revenues from the sale of crude oil, natural gas, and natural gas liquids are recognized when the product is delivered at a fixed or determinable price, title has transferred; collectability is reasonably assured and evidenced by a contract. The Company follows the sales method of accounting for its oil and natural gas revenue, so it recognizes revenue on all crude oil, natural gas, and natural gas liquids sold to purchasers, regardless of whether the sales are proportionate to its ownership in the property. A receivable or liability is recognized only to the extent that the Company has an imbalance on a specific property greater than the expected remaining proved reserves. The Company had no imbalance positions at December 31, 2016 or 2015. Charges for gathering and transportation are included in production expenses.

Receivables and allowance for doubtful accounts — Oil revenues receivable do not bear any interest. These receivables are primarily comprised of joint interest billings. Early in 2017, \$117K of these receivables were provided as consideration towards the purchase of the 60% WI in TLSAU (see Note 13 for further explanation). We regularly review collectability and establish or adjust an allowance for uncollectible amounts as necessary using the specific identification method. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Management has determined that a reserve for uncollectible amounts was not required in the periods presented.

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

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

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

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

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

Uncertain tax positions are recognized in the financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. The Company recognizes interest and penalties related to uncertain tax positions in the income tax provision. There are currently no unrecognized tax benefits that if recognized would affect the tax rate. There was no interest or penalties recognized for the twelve months ended December 31, 2016 and 2015.

The Company is required to file federal income tax returns in the United States and in various state and local jurisdictions. The Company's tax returns filed since the 2012 tax year are subject to examination by taxing authorities in the jurisdictions in which it operates in accordance with the normal statutes of limitations in the applicable jurisdiction.

Furniture, equipment, and software — Furniture, equipment, and software are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related asset, generally three to five years. Fully depreciated assets are retained in property and accumulated depreciation accounts until they are removed from service. We perform ongoing evaluations of the estimated useful lives of the property and equipment for depreciation purposes. Maintenance and repairs are expensed as incurred. We periodically review our long-lived assets, other than oil and gas property, for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. We recognize an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset's estimated fair value and its book value. We recorded no impairment on our non-oil and gas long-lived assets during the years ended December 31, 2016 and 2015, respectively.

Earnings (Loss) Per Share — Basic earnings (loss) per share have been calculated based upon the weighted-average number of common shares outstanding. The weighted-average number of common shares outstanding used in the computations of earnings (loss) per share was 54,541,922 for 2016 and 24,875,600 for 2015. Diluted earnings per share (EPS) amounts would include the effect of outstanding stock options, warrants, and other convertible securities if including such potential shares of common stock is dilutive. Basic and diluted earnings per share are the same in all periods presented because losses are anti-dilutive.

Concentration of Credit Risk — The Company is subject to credit risk resulting from the concentration of its oil receivables with significant purchasers. Two purchasers accounted for all of the Company's oil sales revenues for 2016 and 2015. The Company does not require collateral. While the Company believes its recorded receivable will be collected, in the event of default the Company would follow normal collection procedures. The Company does not believe the loss of a purchaser would materially impact its operating results as oil is a fungible product with a well-established market and numerous purchasers.

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

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

Related Party — The Board approves all material related party transactions. The Board is provided with the details of each new, existing or proposed related party transaction, including the terms of the transaction, the business purpose of the transaction, and the benefits to the Company and the relevant related party. In determining whether to approve a related party transaction, the following factors are considered: (1) if the terms are fair to the Company, (2) if there are business reasons to enter into the transaction, (3) if the transaction would impair independence of an outside Director, (4) if the transaction would present an improper conflict of interest for any Director or executive officer. Any member of the Board who has an interest in the transaction will abstain from voting on the approval of the related party transaction.

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

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

Recent Accounting Pronouncements

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

NOTE 3. GOING CONCERN

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

NOTE 4. NOTE RECEIVABLE

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

On November 4, 2015, the note was past due and is considered to be in default. In February 2017, the Company included the note as consideration for the purchase of a 60% working interest in TLSAU, so it is no longer outstanding. See Note 13 for further explanation.

NOTE 5. RELATED PARTY TRANSACTIONS

During 2015, shareholder advances of \$184,000 were made to the Company (\$134,000 in cash, \$50,000 in a non-cash part of the Twin Lakes purchase). During 2015, \$8,000 of those advances were repaid in cash. The \$50,000 non-cash payment resulted from the issuance of 800,000 shares at a price of \$0.06 per share. At year end, the balance of \$46,000 remained outstanding but was repaid during the first quarter of 2016. See Note 6 for table that reports 2016 balances and activity.

The Company has granted 488,895 restricted shares to David N. Baker, former CEO and Director of the Company, which were not vested on December 31, 2014. After his resignation on February 28, 2015, 400,000 of these shares were voided and returned to the treasury.

Stock based compensation of \$33,778 was recorded related to shares issued to David N. Baker, former CEO and Director of the Company, during the three months ended March 31, 2015.

On May 1, 2015, the Company commenced a private offering of its securities under Regulation D to accredited investors and twenty two (22) total units were sold to accredited investors and related parties. Mr. Leo Womack, Chairman of the Company, Mr. Lee Lytton, a Director of the Company and Mr. Joel Oppenheim, a Director of the Company purchased shares to offset advances. See Note 6 for financial related details related to all purchases.

On June 11, 2015, our board of directors agreed to issue Joel Oppenheim 100,000 shares of our restricted common stock at a price of \$0.11 per share in consideration for agreeing to serve on our board of directors

On September 1, 2015, the Company commenced a private offering of its securities under Regulation D to accredited investors. Each unit is comprised of 100,000 shares of common stock at a price of \$0.06 cents per share and one warrant to purchase an additional 100,000 shares of common stock at a price of \$0.10 cents per share at any time prior to August 31, 2018. As of December 31, 2015 twenty seven (27) units had been subscribed for and 2,700,000 shares of common stock had been purchased. Included in the twenty seven units was a purchase of 200,000 shares by Mr. Joel Oppenheim, 200,000 shares by Mr. Lee Lytton, and 800,000 shares by Mr. Zel C. Khan, the CEO of the Company. Mr. Khan's shares were valued at \$48,000 and 800,000 warrants were valued at \$21,107 resulting in a loss on conversion of \$19,079. This offering was closed on May 31, 2016.

On September 23, 2015, the Board of Directors granted Leo B. Womack, the Chairman of the Board of Directors of the Company an option to purchase 1 million shares of the Company's common stock at an exercise price of \$0.06 per share, which vests on January 1, 2016, and is exercisable for 36 months thereafter. The Board also granted Lee Lytton and Joel Oppenheim, members of the Board of Directors each an option to purchase 500,000 shares of the Company's common stock at an exercise price of \$0.06 per share, which vest on January 1, 2016, and are exercisable for 36 months thereafter. The fair value of the options granted on September 23, 2015 is \$129,216. The total amount of the options was expensed in 2015.

On September 23, 2015, the Company's Board of Directors agreed to issue Mr. Zel C. Khan, the CEO and President of the Company, 1,000,000 shares of the Company's restricted common stock in consideration for entering into an employment agreement with the Company. The value of the award on the issuance date was \$68,000. In 2015, \$8,500 of this award was expensed in 2015. In 2016, \$34,000 of this award was expensed. The remaining award amount at 2016 year end is \$25,500. The Company will issue one warrant to purchase one share of the Company's restricted common stock at an exercise price of \$0.20 cents per share for each dollar of Mr. Khan's gross salary that is deferred. The Warrants will have a term of 36 months from date of grant, which will be issued quarterly. During 2015, 40,000 warrants were issued related to the gross salary deferral. During 2016, 160,000 warrants at a fair value of \$17,704 were issued related to the gross salary deferral. At December 31, 2016, a cumulative balance of 200,000 warrants had been issued to Mr. Khan's relating to his gross salary deferral.

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). Concurrently with the purchase, Jovian agreed to assign to the Company all rights to be the operator of the SUDS unit under a standard operating agreement.

During 2015, a total of 1,600,000 shares were issued through the conversion of debt, along with 1,600,000 warrants with an exercise price of \$0.10 per share. These conversions resulted in a total of \$130,000 being repaid through the issuance of the equity. The total corresponding loss on conversion of the debt was \$109,879, which was primarily resulting from the valuation of the warrants. (See Note 7. EQUITY for the details of these transactions)

On November 4, 2015, the Company acquired a 15% net working interest in the TLSAU field located in Chavez County, New Mexico (the "Net Working Interest") and all operating equipment on the field. The total purchase price for the acquisition of the Net Working Interest and equipment rights was \$196,875. In addition, a \$1.3 M face value BSNM note was purchased for \$316,800 (6,000,000 shares or .0528 per share).

Beginning February 1, 2016, the Company sponsored the SUDS 1% Term Overriding Royalty Interest ("PORRI") offering on behalf of the SUDS field to raise \$300,000. Under the terms of the Company offering, investors will receive 1% of the gross revenue from the field monthly, based on their investment of \$20,000 until such time as they receive a cumulative revenue amount of \$30,000. With each unit purchased, a warrant to purchase 10,000 shares of Company's common stock was granted with an exercise price of \$0.10 per share, and an expiration date of February 28, 2019. At the end of the second quarter of 2016, the \$300,000 offering had been received which resulted in the granting of warrants to purchase 150,000 shares of common stock. The following affiliated investors each purchased one (1) unit in the offering: Joel Oppenheim, Jovian, Lee Lytton, Paul Deputy and Leo Womack, cumulatively receiving 50,000 warrants. The fair value of all 150,000 SUDS related warrants was \$14,336 based on a \$0.06 per share valuation, volatility of 235%, a discount rate of 1.09%, over a 3 year term. This fair value was accounted for as a loss on the conveyance. In addition, to properly account for the Company's 10% working interest owner in the SUDS field, \$30,000 was offset against the full cost pool of Oil & Gas Properties.

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

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

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

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

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

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

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

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

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

In association with Mr. Deputy's employment agreement dated July 1, 2016, the Company issued one warrant to purchase one share of the Company's restricted stock at the exercise price at quarter end for each dollar of Mr. Deputy's deferred gross salary for the year ended 2016. Mr. Deputy's total accrued salary at December 31, 2016 was \$52,520. The Company granted warrants to purchase 46,666 shares of common shares for year ended 2016. The warrants have a term of 36 months from their issuance date. The fair value of all four quarter's warrants was \$7,090, based on a \$0.14 price per share valuation, volatility of 317%, a discount rate of 1.09% and a 3 year term. The warrants were recognized as stock compensation expense.

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

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

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

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

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

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

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

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

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

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

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

On December 31, 2016, the Company issued warrants to purchase 500,000 shares of Company common stock to extend the due date on Rick Wilber's Notes, based on the Amendment to the Agreement. (See Exhibit 99.2) These warrants were valued at \$79,223 and have an exercise price of \$0.15 and expire on December 31, 2021.

NOTE 6. NOTES PAYABLE

Convertible Debt – Related Party

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

On September 30, 2013, the Company entered into a Convertible Secured Note and Warrant Purchase Agreement (the "September Purchase Agreement") with Rick Wilber. Pursuant to the September Purchase Agreement, the Company agreed to sell, and Mr. Wilber agreed to buy, for aggregate consideration of \$100,000, a convertible secured promissory note in the principal amount of \$100,000 (the "September Note") convertible at \$0.30 per share, and a warrant to purchase 285,000 shares of the Company's common stock (the "September Warrant") at an exercise price of \$0.80 per share. The September Warrant vests immediately and has a term of 10 years. The relative fair value of the September Warrant was determined to be \$46,022 which was recorded as a debt discount. The intrinsic value of the beneficial conversion feature of the September Note was determined to be \$46,022 and was recorded as a debt discount. The debt discounts are being amortized over the life of the September Note using the effective interest method. The effective interest rate was 119.7%. The \$100,000 balance is due September 30, 2016. The September Note's due date has been extended to June 30, 2017. In order to extend the September Note's due date and based on the Amendment to the Agreement, warrants to purchase 500,000 shares of Company common stock were issued by the Company. (See Exhibit 99.2) These warrants were valued at \$79,223 and have an exercise price of \$0.15 and expire on December 31, 2021.

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

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

Convertible Debt – (non related parties)

Convertible Bridge Notes

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

Promissory Notes – non convertible (related parties)

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

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

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

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. If full payment is not made by December 31, 2016, the buyer extended the Note to June 30, 2017 by making a \$10,000 payment in cash. The Promissory Note is secured by a 12.5% undivided working interest in the SUDS field. In the event the Company closes any financing related to the SUDS field, 50% of the net proceeds received from the financing will be applied to pay the Note.

Production Payment Note

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

Bridge Loan – Working Capital

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

Rig Loan

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

Promissory Notes – (non related parties)Short Term Debt

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

Installment Notes

On May 8, 2014, the Company entered into an installment note with CNH Industrial Capital in the amount of \$57,613 for a term of three years at 2.9% APR. Principal payments of \$1,610 were made during 2016, leaving a remaining balance of \$26,186 at year end All of the remaining \$26,186 balance is due for payment during 2017.

	Amount
Shareholder Advances (Related Party Only)	
Balance at December 31, 2015	\$ 46,000
Additions	
Rig Loan (1)	60,000
Bridge loan – Working Capital (2)	230,000
Advance (3)	98,000
Total Additions	388,000
Payments	
Debt Conversion to Shares (4)	150,000
Cash (5)	92,000
Total Payments	242,000
Balance at December 31, 2016	<u>\$ 192,000</u>

- (1) Represents funds that were provided to purchase a pulling rig for maintenance work on the Company's wells
- (2) Funds that were provided as pre-bridge working capital loans. These loans earn interest at 10% and are due in 60 days from issuance.
- (3) Funds that were provided by related parties as shareholder advances.
- (4) Shares were issued to extinguish outstanding liabilities of the Company. These liabilities could be outstanding shareholder advances, pre-bridge working capital loans or service related accounts payable.
- (5) Funds that were paid in cash by the Company to various related parties to reimburse for funds that were previously loaned as a shareholder advances.

Five Year Maturity

As of December 31, 2016, future maturities on our notes payable, which include the \$550,000 convertible notes payable-related party, \$1,000,000 Promissory Note, \$3,000,000 Production Payment Note, \$200,000 Short Term Notes, \$192,000 Related Party Notes, \$75,000 Investor Notes, and the \$26,186 remaining balance of the installment note described above, were as follows:

Fiscal year ending:	
2017	\$ 2,139,166
2018	922,608
2019	1,121,267
2020	860,145
Total	<u>\$ 5,043,186</u>

Of the total future maturities, \$550,000 relates to the convertible debt with Mr. Wilber, which all comes due in 2017.

NOTE 7. EQUITY

Preferred Stock – 1,000,000 shares authorized, none issued or outstanding.

Common Stock –

On May 1, 2015, the Company commenced a private offering of its securities under Regulation D to accredited investors. Each unit is comprised of 100,000 shares of common stock at a price of \$0.10 per share and one warrant to purchase an additional 100,000 shares of common stock at a price of \$0.12 per share at any time prior to August 5, 2018. As of December 31, 2015 fourteen (14) units had been subscribed for and 1,400,000 shares of common stock had been purchased by various accredited investors. See Note 6 for financial related details on all purchases.

On September 1, 2015, the Company commenced a private offering of its securities under Regulation D to accredited investors. Each unit is comprised of 100,000 shares of common stock at a price of \$0.06 per share and one warrant to purchase an additional 100,000 shares of common stock at a price of \$0.10 per share at any time prior to August 31, 2018. As of December 31, 2015 twenty seven (27) units had been subscribed for and 2,700,000 shares of common stock had been purchased. Seven (7) of those units were purchased by accredited investors. This offering was closed on May 31, 2016.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Summary information regarding common stock warrants issued and outstanding as of December 31, 2016, is as follows:

	Warrants	Weighted Average Exercise Price	Aggregate intrinsic value	Weighted average remaining contractual life (years)
Outstanding at year ended December 31, 2014	4,170,111	\$ 0.77	\$ —	6.1
Granted	7,740,000	0.10	—	2.6
Exercised	—	—	—	
Expired	—	—	—	
Outstanding at year ended December 31, 2015	<u>11,910,111</u>	<u>0.33</u>	<u>—</u>	<u>3.5</u>
Granted	5,740,416	0.09	—	2.6
Exercised	(825,000)	—	—	
Expired	—	—	—	
Outstanding at year ended December 31, 2016	<u>16,825,527</u>	<u>\$ 0.25</u>	<u>\$ —</u>	<u>3.2</u>

	Year Ended December 31,	
	2016	2015
Warrants Granted		
Board of Director Service	2,500,000	2,000,000
PORRI	150,000	
Deferred Salary – CEO, CFO	206,666	40,000
Providing Bond Related Collateral	31,250	
Pre-bridge Loans	290,000	
Short-term Debt	100,000	
Advisory Board	262,500	
Deferred loan penalty	10,000	
Consulting Agreements	340,000	
Rick Wilber Loan	500,000	
Signing Bonus – CEO, CFO	550,000	
Private Placement Memo (Sept 2015)	800,000	3,500,000
Private Placement Memo (May 2015)		2,200,000
Total	<u>5,740,416</u>	<u>7,740,000</u>

NOTE 8. COMMITMENTS AND CONTINGENCIES

Environmental Matters – The Company, as a lessee of oil and gas properties, is subject to various federal, state and local laws and regulations relating to discharge of materials into, and protection of, the environment. These laws and regulations may, among other things, impose liability on the lessee under an oil and gas lease for the cost of pollution clean-up resulting from operations and subject the lessee to liability for pollution damages. In some instances, the Company may be directed to suspend or cease operations in the affected area. The Company is not aware of any environmental claims existing as of December 31, 2016, which have not been provided for, covered by insurance or otherwise have a material impact on its financial position or results of operations. There can be no assurance, however, that current regulatory requirements will not change, or past noncompliance with environmental laws will not be discovered on the Company's properties.

Office Lease – As of December 31, 2016, the Company has one annually renewable office lease in Houston at a cost of \$1,650 per month.

During 2016, one Director and the CFO provided personal guarantees to the bank. The bank, relying on those guarantees, issued letters of credit to bonding authorities to meet regulatory bonding requirements.

NOTE 9. OIL AND GAS ACQUISITIONS

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

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

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

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

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

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

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

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

	December 31, 2016 Petrolia Combined	December 31, 2015 Petrolia Combined
Oil and Gas Sales	361,991	328,301
Net Loss	(1,960,188)	(1,989,642)
Loss per share	(0.03)	(0.04)

NOTE 10. ASSET RETIREMENT OBLIGATIONS

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

	December 31, 2016
Inflation rate (avg.)	2.1%
Estimated asset life	23 years

The following table shows the change in the Company's ARO for 2016 and 2015:

Asset retirement obligations at December 31, 2014	\$ 100,175
Obligations assumed in acquisitions	26,201
Additional retirement obligations incurred	---
Change in estimate	75,096
Accretion expense	11,856
Settlements	—
Asset retirement obligations at December 31, 2015	<u>\$ 213,328</u>
Obligations assumed in acquisition	70,384
Additional retirement obligations incurred	---
Change in estimate	---
Accretion expense	38,998
Settlements	—
Asset retirement obligations at December 31, 2016	<u>\$ 322,710</u>

NOTE 11. INCOME TAXES

There was no provision for income taxes for 2016 and 2015 due to a net operating losses and doubt as to the entity's ability to continue as a going concern resulting in a 100% valuation allowance. Years from 2012 forward are open to IRS examination.

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

	Fiscal Year Ended December 31, 2016	Fiscal Year Ended December 31, 2015
Income tax expense computed at statutory rates	\$ (656,523)	\$ (649,815)
Non-deductible items	219,438	66,313
Change in valuation allowance	<u>437,085</u>	<u>583,502</u>
Total	<u>\$ —</u>	<u>\$ —</u>

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

	December 31, 2015	
	Gross Values	Tax Effect
Deferred tax assets		
Book impairment	\$ 668,073	\$ 233,826
Net operating loss carryforwards	5,911,319	2,068,962
Asset retirement obligation	—	—
Other	—	—
Total deferred tax assets	<u>6,579,392</u>	<u>2,302,788</u>
Deferred tax liabilities		
O&G Properties	(2,211,892)	(774,162)
Other	—	—
Total deferred tax liabilities	<u>(2,211,892)</u>	<u>(774,162)</u>
Less: Valuation allowance	(4,367,500)	(1,528,626)
Net deferred tax assets (liabilities)	<u>\$ —</u>	<u>\$ —</u>
	December 31, 2016	
	Gross Values	Tax Effect
Deferred tax assets		\$
Book Impairment	\$ 668,073	\$ 233,825
Net operating loss carryforwards	7,120,879	2,492,308
Asset retirement obligation	—	—
Other	—	—
Total deferred tax assets	<u>7,788,952</u>	<u>2,726,133</u>
Deferred tax liabilities		
O&G Properties	(6,496,717)	(2,273,851)
Other	—	—
Total deferred tax liabilities	<u>(6,496,717)</u>	<u>(2,273,851)</u>
Less: Valuation allowance	(1,292,235)	(452,282)
Net deferred tax assets (liabilities)	<u>\$ —</u>	<u>\$ —</u>

A valuation allowance has been established to offset deferred tax assets. The Company's accumulated net operating losses were approximately \$7.8 million at December 31, 2016 and begin to expire if not utilized beginning in the year 2032.

NOTE 12. SUPPLEMENTAL INFORMATION RELATING TO OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED)

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

In 2015, the Company incurred capital costs related to non-production related repairs of \$65,450 on the Noack's lease. In addition, they purchased ownership interests in the SUDS and TLSAU fields.

	Fiscal Year Ended December 31, 2016	Fiscal Year Ended December 31, 2015
Property acquisitions	\$ 8,723,186	\$ 769,916
Unevaluated	—	—
Evaluated	—	—
Exploration	—	—
Development	—	---
Total Costs Incurred	\$ 8,723,186	\$ 769,916

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

	December 31, 2016	December 31, 2015
Capitalized costs		
Unevaluated properties	\$ —	\$ —
Evaluated properties	13,092,012	4,586,992
	<u>13,092,012</u>	<u>4,586,992</u>
Less: Accumulated DD&A	(1,042,545)	(996,863)
Net capitalized costs	\$ 12,049,467	\$ 3,590,129

Oil and Gas Reserve Information. MKM Engineering, an independent engineering firm, prepared the estimates of the proved reserves, future production, and income attributable to the leasehold interests as of December 31, 2016 and 2015. The estimated proved net recoverable reserves presented below include only those quantities that were expected to be commercially recoverable at prices and costs in effect at the balance sheet dates under the then existing regulatory practices and with conventional equipment and operating methods. Proved Developed Reserves represent only those reserves estimated to be recovered through existing wells. Proved Undeveloped Reserves include those reserves that may be recovered from new wells on undrilled acreage or from existing wells on which a relatively major expenditure for recompletion or secondary recovery operations is required. All of the Company's Proved Reserves are located onshore in the continental United States of America.

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

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

	Oil (Bbls)
December 31, 2014	301,900
Revisions of prior estimates	(99,207)
Purchases of reserves in place	536,140
Production	(4,313)
December 31, 2015	<u>734,520</u>
Revisions of prior estimates	(58,297)
Purchases of reserves in place	1,557,660
Production	(6,643)
December 31, 2016	<u><u>2,227,240</u></u>

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Estimated Quantities of Proved Developed Reserves – Oil (Bbls)	1,206,010	287,780
Estimated Quantities of Proved Undeveloped Reserves – Oil (Bbls)	1,021,230	446,740

The net increase –after production of 6,643 bbls– of “Total Proved Reserves” in the amount of 1,492,720 bbls from December 31, 2015 to December 31, 2016 was primarily because the Company acquired reserves in TSLAU and SUDS fields. This was offset by a reduction in reserve estimates by 58,297 barrels of oil. This resulted in an overall increase of 1,492,720 barrels of oil of “net proved reserves”.

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

Proved developed producing and non-producing reserve	Oil (bbls)
December 31, 2015	287,780
Acquired Reserves	989,403
Revision of prior estimates	(64,530)
Production	(6,643)
December 31, 2016	<u>1,206,010</u>
Proved undeveloped reserves	Oil (bbls)
December 31, 2015	446,740
Acquired Reserves	568,257
Revisions to prior estimates	6,233
December 31, 2016	<u>1,021,230</u>

The increases in Proved Undeveloped (PUD) reserves were all due to the SUDS and TSLAU acquisitions.

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

Standardized Measure of Oil and Gas

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Future cash inflows	\$ 90,265,000	\$ 35,738,970
Future production costs	(47,050,770)	(17,472,870)
Future development costs	(10,396,000)	(4,955,500)
Future income taxes	—	—
Future net cash flows	32,818,230	13,310,600
Discount of future net cash flows at 10% per annum	(19,253,750)	(7,090,100)
Standardized measure of discounted future net cash flows	<u>\$ 13,564,480</u>	<u>\$ 6,220,500</u>

Changes in standardized measure of discounted future cash flows

	<u>12/31/16</u>	<u>12/31/15</u>
Beginning of year	\$ 6,220,500	\$ 6,303,880
Sales and transfers of oil & gas produced, net of production costs	175,048	40,633
Net changes in prices and production costs	(1,917,506)	(3,346,089)
Changes in estimated future development costs	(673,960)	360,790
Acquisitions of minerals in place, net of production costs	9,941,241	4,851,420
Revision of previous estimates	(544,877)	(1,477,073)
Change in discount	817,235	630,388
Change in production rate or other	(453,201)	(1,143,449)
End of year	<u>\$ 13,564,480</u>	<u>\$ 6,220,500</u>

NOTE 13. BUSINESS SEGMENTS

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

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

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Revenues		
Oil & Gas	\$ 123,246	\$ 187,976
Oil field services	198,000	---
Total Revenues	<u>321,246</u>	<u>187,976</u>
Net Income		
Oil & Gas	(2,052,004)	(1,856,614)
Oil field services	176,225	---
Total Net Income	<u>(1,875,779)</u>	<u>(1,856,614)</u>
Assets		
Oil & Gas	13,026,082	4,196,016
Oil field services	185,542	---
Total Assets	<u>13,211,624</u>	<u>4,196,016</u>
Accounts Receivable		
Oil & Gas	199,003	48,633
Oil field services	---	---
Total Accounts Receivable	<u>\$ 199,003</u>	<u>\$ 48,633</u>

All segment expenses incurred by the oil and gas segment except the cost of equipment sold of \$33,330 which was incurred in the nine months ended September 30, 2016 by the oil field services segment.

NOTE 14. SUBSEQUENT EVENTS

On February 13, 2017, the Board of Directors approved the increase of board membership from its current five-member board to a seven-member board.

Effective February 12, 2017, the Company acquired an additional 60% net working interest in the “Twin Lakes San Andres Unit” or “TLSAU” field located in Chaves County, New Mexico (the “Net Working Interest”) resulting from the execution of a Settlement Agreement on February 12, 2016. The agreement assigned Dead Aim Investments’ (“Dead Aim”) 60% ownership interests to the Company. As a result of this transaction, Petrolia now owns 100% ownership interest in TLSAU. Consideration of \$639,675 was given in exchange for Dead Aim’s working interest. The consideration includes the forgiveness of the Orbit Petroleum Inc Bankruptcy Estate (“OPBE”) note of \$316,800 (with a \$1.3 M face value) and the write off of \$116,700 of Dead Aim’s outstanding accounts receivable to Petrolia. Dead Aim assumed liability for the OPBE note that Petrolia purchased.

SUBSIDIARIES

Askarii Resources, LLC, wholly-owned

CONSENT OF PETROLEUM ENGINEERS

We consent to the references to our firm in the form and context in which they appear in the Annual Report on Form 10-K of Petrolia Energy Corporation (the "Company") for the year ended December 31, 2016 (including, but not limited to, the notes to the financial statements included therein) (the "Annual Report").

We further consent to the inclusion and use in the Annual Report of our report dated February 16, 2017, relating to an estimate of certain hydrocarbon reserves owned by Petrolia Energy Corporation (the "Report"), and the information from our Report contained in the Annual Report and the filing of the Report as Exhibit 99.1 to the Annual Report.

MKM ENGINEERING
State of Texas Registration No. F-009733

By: /s/Michele Mudrone
Name: Michele Mudrone, P.E.
Title: Petroleum Engineer

Date: February 16, 2017

CERTIFICATION

I, Zel C. Khan, certify that:

1. I have reviewed this annual report on Form 10-K 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 and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or cause 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. I have disclosed, based on my most recent evaluation of the 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 significant role in the registrant's internal control over financial reporting.

April 17, 2017

/s/ Zel C. Khan

Zel C. Khan, Chief Executive Officer (Principal Executive and Financial/Accounting Officer)

CERTIFICATION

I, Paul Deputy, certify that:

1. I have reviewed this annual report on Form 10-K 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(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or cause 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(s) and I have disclosed, based on our most recent evaluation of the 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 significant role in the registrant's internal control over financial reporting.

April 17, 2017

/s/ Paul Deputy

Paul Deputy, Chief Financial Officer (Principal Financial/Accounting Officer)

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

In connection with the Annual Report of Petrolia Energy Corporation (the "Company") on Form 10-K for the period ending December 31, 2016 as filed with the Securities and Exchange Commission (the "Report"), Zel C. Khan, the Company's Principal Executive and Financial/Accounting Officer, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

- (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 the Company.

April 17, 2017

/s/ Zel C. Khan

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

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

In connection with the Annual Report of Petrolia Energy Corporation (the "Company") on Form 10-K for the period ending December 31, 2016 as filed with the Securities and Exchange Commission (the "Report"), Paul Deputy, the Company's Chief Financial Officer, certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

- (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 the Company.

April 17, 2017

/s/ Paul Deputy

Paul Deputy, Chief Financial Officer (Principal Financial/Accounting Officer)

MKM ENGINEERING
Oil and Gas Consulting Services
3905 Sagamore Hill Court
Plano, Texas 75025

February 16, 2017

Mr. Zel C. Khan
Petroliia Energy Corporation
710 N. Post Oak Road, Suite 512
Houston, TX 77024

Dear Mr. Khan:

As requested, an estimate has been made of certain hydrocarbon reserves owned by Petroliia Energy Corporation (hereinafter referred to as "Petroliia"). The appraised properties are located in Chaves County, New Mexico, Creek County, Oklahoma, and Milam County, Texas. Production data was generally available through December 2016. This appraisal evaluates Petroliia's Proved Developed Producing (PDP), Proved Developed Behind Pipe (PBP), Proved Developed Non-Producing (PNP), Proved Undeveloped (PUD), and Probable Behind Pipe (PrBP) reserves. The effective date of this report is January 1, 2017.

The table below summarizes Petroliia's net oil and gas reserves and cash flows generated using the requested price deck. Results shown below are presented for your information and should not be construed as our estimate of fair market value. As of January 1, 2017, Petroliia's net total proved and probable reserves have been estimated to be as follows:

Reserve Category	Net Reserves as of January 1, 2017		Future Net Income, \$	Present Worth of Future Net Income Discounted @ 10%/Annum, \$
	Hydrocarbon Liquids (Bbl)	Natural Gas (Mcf)		
Proved Developed Producing	445,470	0	12,023,410	5,000,640
Proved Developed Behind Pipe	128,570	0	3,145,260	2,160,280
Proved Developed Non Producing	631,970	0	7,812,410	2,604,480
Proved Undeveloped	1,021,230	0	9,837,160	3,799,080
Total Proved	2,227,240	0	32,818,240	13,564,480
Probable Behind Pipe	127,520	0	1,823,510	511,270
Total Probable	127,520	0	1,823,510	511,270
Total Proved + Probable	2,354,760	0	34,641,750	14,075,750

FNI is after deducting estimated operating and future development costs, severance and ad valorem taxes, but before Federal income taxes. Total net Proved and Probable Reserves are defined as those natural gas and hydrocarbon liquid Reserves to Petroliia's interests after deducting all shrinkage, royalties, overriding royalties, and reversionary interests owned by outside parties that become effective upon payout of specified monetary balances. All Reserves estimates have been prepared using standard engineering practices generally accepted by the petroleum industry and conform to guidelines developed and adopted by the Society of Petroleum Engineers ("SPE"), American Association of Petroleum Geologists ("AAPG"), World Petroleum Council ("WPC"), and the Society of Petroleum Evaluation Engineers ("SPEE"). All hydrocarbon liquid Reserves are expressed in United States barrels ("bbl") of 42 gallons. Natural gas Reserves are expressed in thousand standard cubic feet ("Mcf") at the contractual pressure and temperature bases.

RESERVE ESTIMATE METHODOLOGY

The Reserves estimates contained in this report have been prepared using standard engineering practices generally accepted by the petroleum industry. Decline curve analysis was used to estimate the remaining Reserves of pressure depletion reservoirs with enough historical production data to establish decline trends. Reservoirs under non-pressure depletion drive mechanisms and non-producing Reserves were estimated by volumetric analysis, research of analogous reservoirs, or a combination of both. The maximum remaining Reserves life assigned to wells included in this report is 40 years. This report does not include any gas sales imbalances.

FUTURE PRODUCTION RATES

Initial production rates are based on current producing rates for those wells now on production. If a decline trend has been established, this trend was used as the basis for estimating future production rates. If no production decline trend has been established, future production rates were held constant, or adjusted for market conditions where appropriate, until a decline in ability to produce was anticipated. An estimated rate of decline was then applied to depletion of the reserves. For reserves not yet on production, test data and other related information were used to estimate anticipated initial production rates and sales were estimated to commence at a date deemed reasonable based on our experience and judgment.

RESERVE CLASSIFICATION

The Reserves estimates included in this report conform to the guidelines specified by the SPE, AAPG, WPC, and SPEE. For more information regarding Reserves classification definitions see Appendix A. A complete discussion of the Reserves classification definitions can be found on the SPE website (www.spe.org).

COMMODITY PRICES

Future hydrocarbon revenues were estimated using the New York Mercantile Exchange (“NYMEX”) prices outlined below:

NYMEX PRICES		
Dates	Base Price \$/Bbl	Base Price \$/MMBtu
2017	42.75	2.49
2018	42.75	2.49
2019	42.75	2.49
2020	42.75	2.49
2021	42.75	2.49
2022	42.75	2.49
2023	42.75	2.49
2024	42.75	2.49
2025	42.75	2.49
2026	42.75	2.49
Thereafter	42.75	2.49

Historical hydrocarbon liquid prices were indexed to the monthly average of the daily closing prices received at the Cushing, Oklahoma delivery point. The average difference between the wellhead oil price and the NYMEX price represents adjustments for crude quality, marketing fees, BS&W, transportation costs and purchaser bonuses. These adjustments were applied to the NYMEX prices listed in table above.

Historical natural gas prices were indexed to the monthly Henry Hub prices posted in the Inside FERC publication. The average difference between the wellhead price and the NYMEX price represents adjustments for BTU content, marketing, and transportation costs. These adjustments were applied to the NYMEX prices listed in table above.

Revenue accounting data for the period of January 2016 through December 2016 was used in this evaluation.

OPERATING EXPENSES & CAPITAL COSTS

In most cases, the lease operating costs used in this evaluation represent the average of recent historical monthly operating costs. In cases where historical costs were not available or deemed to be unreliable, operating costs were estimated based on knowledge of analogous wells producing under similar conditions. The lease operating expenses in this report represent field level operating costs and include COPAS charges.

Where available, capital costs were estimated using recent historical information reported for analogous expenditures. Where recent historical information was not available Authority for Expenditure (“AFE”) documents were used to estimate capital costs. AFE documents provided by the operator have been checked for reasonableness. Abandonment costs were not included for the properties.

Revenue accounting data for the period of January 2016 through December 2016 was used in this evaluation. Operating expenses and capital costs were held constant in this evaluation.

DISCLAIMERS

All information pertaining to the operating expenses, prices, and the interests of Petrolia in the properties appraised has been accepted as represented. It was not considered necessary to make a field examination of the appraised properties. Data used in performing this appraisal were obtained from Petrolia, public sources, and our own files. Supporting work papers pertinent to the appraisal are retained in our files and are available to you or designated parties at your convenience.

It was beyond the scope of this MKM Engineering report to evaluate the potential environmental liability costs from the operation and abandonment of these properties. In addition, no evaluation was made to determine the degree of operator compliance with current environmental rules, regulations, and reporting requirements. Therefore, no estimate of the potential economic liability, if any, from environmental concerns is included in the forecasts presented herein.

The Proved and Probable Reserves presented in this report are estimates only and should not be construed as being exact quantities. They may or may not be actually recovered; and, if recovered, the revenues therefrom and the actual costs related thereto could be more or less than the estimated amounts. Because of governmental policies and uncertainties of supply and demand, the product prices and the costs incurred in recovering these Reserves may vary from the price and cost assumptions in this report. In any case, quantities of Proved and Probable Reserves may increase or decrease as a result of future operations.

Reserves estimates for individual properties included in this report are only valid when considered within the context of the overall report and should not be considered independently. The future net income and net present value estimates contained in this report do not represent an estimate of fair market values.

MKM Engineering is independent with respect to Petrolia Resources Corporation as provided in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers.

CONCLUSIONS

Attached are summary tables of economic analysis of predicted future performance. Other tables identify the properties appraised with summary Reserves and the economic factors applicable to each. A list of tables is included. Reserves identified for this report are not risked.

We appreciate this opportunity to have been of service and hope that this report will fulfill your requirements.

Respectfully submitted,

MKM ENGINEERING
F-009733

Michele K. Mudrone, P.E.

Attachments

SECOND AMENDMENT
TO ROCKDALE RESOURCES CORPORATION
CONVERTIBLE SECURED PROMISSORY NOTES

This Amendment to Rockdale Resources Corporation Convertible Secured Promissory Notes (the "Amendment") is entered by and between Petrolia Energy Corporation formally Rockdale Resources Corporation, a Texas corporation (the "Company") and Rick Wilber ("Holder"), effective as of December 31, 2016 (the "Effective Date").

WHEREAS, The Companies shareholders have approved resolutions at the Shareholders meeting held on April 14, 2016 changing then domicile of the Company from Colorado to Texas and the name of the Company to Petrolia Energy Corporation. These changes in no way affect the assets or liabilities of the Company and specifically the liabilities noted herein.

WHEREAS, the Company and Holder previously signed and entered into a Convertible Secured Promissory Note on June 17, 2013, in the original principal amount of \$350,000.00; and

WHEREAS, the Company and Holder previously signed and entered into an Amended and Restated Convertible Secured Promissory Note on December 30, 2013, in the original principal amount of \$200,000.00;

WHEREAS, the HOLDER is the current owner and holder of the above described two (2) promissory notes (collectively, herein called the "Notes"); and

WHEREAS, the Company and Holder previously executed an amendment to the convertible secured promissory Notes dated June 30, 2016 extending the maturity of the notes to December 31, 2016 and modifying certain provisions of the Notes all of which are incorporated into this document for all intents and purposes,

NOW THEREFORE, for value received, the Company and the Holder hereby mutually agree to amend the Notes and the First Amendment to the Notes, as more particularly set forth below:

1. The maturity date of both Notes is and shall be extended to June 30, 2017.
2. The Company shall make the interest payments on the consolidated principal balance of the Notes on December 31, 2016 and then at the rate of 10% per annum on March 31, 2017 and from March 31, 2017 to June 31, 2017 at the rate of 12% per annum.
3. If at any time prior to June 30, 2017, the Company pays to Holder the principal amount of \$500,000.00 on the Notes (together with all accrued interest), the Company shall automatically receive a discount of \$50,000.00 on the principal amount, thereby automatically reducing the principal amount of the Notes from \$550,000.00 to \$500,000.00.
4. Upon execution of this Second Amendment, the Company will issue new warrants to the Holder providing for the purchase of 500,000 shares of common stock at \$.15 cents per share at any time for the following five (5) years from date of issuance of the new warrants.

Additionally, beginning January 31, 2017 and each month thereafter that the Notes remain unpaid the Company shall issue additional warrants to the Holder providing for the purchase of 80,000 shares of common stock for a period of five years at a price of \$.15 cents per share.

5. If the Company fails to pay to the Holder the principal amount of \$550,000.00 prior to June 30, 2017, this amendment shall be null and void, and the original terms of the original Notes shall be reinstated, meaning both Notes will be past due and bear interest at the default rate provided in the Notes. Additionally, the Holder shall be entitled to receive new warrants equal to and under the same terms and provisions as provided for in the original Notes.
6. This Amendment embodies the entire agreement between the Company and the Holder with respect to the amendment of the Notes. In the event of any conflict or inconsistency between the provisions of the Notes and this Amendment, the provisions of this Amendment shall control and govern.



7. Except as specifically modified and amended herein, all of the terms, provisions, requirements and specifications contained in the Notes are and shall remain in full force and effect.
8. Except as otherwise expressly provided herein, the parties do not intend to, and the execution of this Amendment shall not, in any manner whatsoever impair the Notes, the purpose of this Amendment being simply to amend and ratify the Agreement, as hereby amended and ratified, and to confirm and carry forward the Agreement, as hereby amended, in full force and effect.
9. This Amendment may be executed in counterparts, but all counterparts shall constitute one and the same document. Electronic or facsimile signatures on this Amendment shall be accepted and deemed valid for all purposes as if an original signed signature.

IN WITNESS WHEREOF, the Company and the Holder have executed this Amendment, effective as of the Effective Date, defined above.

PETROLIA ENERGY CORPORATION

Name:

/s/Paul Deputy
Paul Deputy
Petroliia Energy CFO

12/27/16

Date

/s/Rick Wilber
Rick Wilber

12/17/16

Date