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

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: September 30, 2017

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

For the transition period from:

Commission file number: 333-190836

**FOOTHILLS EXPLORATION, INC.**

(Exact Name of Registrant as Specified in Charter)

Delaware

(State or other jurisdiction  
of incorporation)

27-3439423

(IRS Employer  
Identification No.)

**633 17th Street, Suite 1700-A  
Denver, Colorado 80202**

(Address of Principal Executive Offices)

**(720) 449-7478**

(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

Indicate by checkmark whether the registrant has (1) filed all reports required 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 Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by checkmark 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"/>
		Emerging Growth Company	<input type="checkbox"/>

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

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

As of November 14, 2017, the issuer had 14,620,627 shares of its common stock, \$0.0001 par value per share, outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

FOOTHILLS EXPLORATION, INC.  
Condensed Consolidated Balance Sheets

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
	<u>(Unaudited)</u>	
<b><u>Assets</u></b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 71,072	\$ 801,377
Prepaid expenses	236,510	49,140
<b>Total Current Assets</b>	<b>307,582</b>	<b>850,517</b>
<b>Other Assets:</b>		
Fixed assets, net	308,913	353,363
Restricted cash	240,000	240,000
Surety and performance bonds	295,000	295,000
Oil and gas property, net	11,619,589	11,198,411
<b>Total Assets</b>	<b>\$ 12,771,084</b>	<b>\$ 12,937,291</b>
<b><u>Liabilities and Stockholders' Equity</u></b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 1,564,762	\$ 1,710,328
Related party payable	189,600	10,600
Accrued interest	22,398	-
Accrued interest – related party	123,904	-
Notes payable - related party	1,250,000	-
Notes payable (unamortized debt discount of \$277,806 and \$0, respectively)	7,022,194	-
Convertible note payable	50,000	-
Deferred rent	15,497	-
Contingent liabilities	159,965	213,372
<b>Total Current Liabilities</b>	<b>10,398,320</b>	<b>1,934,300</b>
<b>Long-Term Liabilities:</b>		
Long-term debt, net (unamortized debt discount of \$0 and \$0, respectively)	-	6,000,000
Asset retirement obligation	300,410	-
<b>Total Liabilities</b>	<b>10,698,730</b>	<b>7,934,300</b>
<b>Stockholders' Equity:</b>		
Preferred stock, \$0.0001 par value; 25,000,000 shares authorized; no shares outstanding	-	-
Common stock, \$0.0001 par value; 100,000,000 shares authorized; 14,620,627 and 13,779,612 shares issued and outstanding, respectively	1,462	1,378
Stock payable	80,400	51,397
Additional paid in capital	8,439,529	6,924,810
Accumulated deficit	(6,449,037)	(1,974,594)
<b>Total stockholders' equity</b>	<b>2,072,354</b>	<b>5,002,991</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 12,771,084</b>	<b>\$ 12,937,291</b>

See accompanying notes to unaudited condensed consolidated financial statements.

**FOOTHILLS EXPLORATION, INC.**  
Condensed Consolidated Statements of Operations  
(Unaudited)

	<b>For Three Months Ended September 30, 2017</b>	<b>For Three Months Ended September 30, 2016</b>	<b>For Nine Months Ended September 30, 2017</b>	<b>For Nine Months Ended September 30, 2016</b>
<b>Revenue</b>	\$ 573	\$ -	\$ 99,527	\$ -
<b>Operating expenses</b>				
Selling, general and administrative	854,443	504,980	2,800,984	1,365,108
Depreciation, depletion and amortization	18,592	-	55,389	-
Impairment of oil and gas properties	45,419	-	1,328,637	-
Total operating expenses	<u>918,454</u>	<u>504,980</u>	<u>4,185,010</u>	<u>1,365,108</u>
<b>Loss from operations</b>	(917,881)	(504,980)	(4,085,483)	(1,365,108)
<b>Other income (expenses):</b>				
Interest expense	(127,891)	86	(377,566)	(27,924)
Debt forgiveness	48,407	-	48,407	-
Total other expenses	<u>(79,484)</u>	<u>86</u>	<u>(329,159)</u>	<u>(27,924)</u>
<b>Net Loss</b>	<u>\$ (997,365)</u>	<u>\$ (504,894)</u>	<u>\$ (4,414,642)</u>	<u>\$ (1,393,032)</u>
<b>Net loss per share – basic and diluted</b>	<u>\$ (0.07)</u>	<u>\$ (0.04)</u>	<u>\$ (0.31)</u>	<u>\$ (0.19)</u>
<b>Weighted average common shares – basic and diluted</b>	<u>14,618,019</u>	<u>11,536,278</u>	<u>14,270,627</u>	<u>7,376,571</u>

See accompanying notes to unaudited condensed consolidated financial statements.

**FOOTHILLS EXPLORATION, INC.**  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)

	<b>For Nine Months Ended September 30, 2017</b>	<b>For Nine Months Ended September 30, 2016</b>
<b>Cash Flows from Operating Activities</b>		
Net loss	\$ (4,414,642)	\$ (1,393,032)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation, depletion and amortization	55,389	-
Impairment of assets	1,328,637	-
Amortization of debt discount	172,534	-
Accretion of asset retirement obligation	8,751	-
Common stock issued and stock payable for services	848,683	26,872
Deferred rent	15,497	-
Gain on settlement of debt and contingent liability	(48,407)	-
Changes in operating assets and liabilities:		
Prepaid expenses	72,952	125,833
Contingent Liabilities	(35,000)	-
Accounts payable and accrued liabilities	(145,566)	167,294
Accounts payable - related party	179,000	-
Accrued interest	22,398	28,801
Accrued interest – related party	153,904	-
Net cash used in operating activities	<u>(1,785,870)</u>	<u>(1,044,232)</u>
<b>Cash Flows from Investing Activities</b>		
Payments for acquisition of oil and gas property	(1,814,435)	(97,920)
Net cash used in investing activities	<u>(1,814,435)</u>	<u>(97,920)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from notes payable - related party	1,250,000	-
Repayment to notes payable	(1,000,000)	-
Proceeds from notes payable	2,300,000	400,000
Proceeds from convertible note payable	50,000	-
Proceeds from sales of common stock	270,000	2,000,000
Net cash provided by financing activities	<u>2,870,000</u>	<u>2,400,000</u>
Net (decrease) increase in cash and cash equivalents	(730,305)	1,257,848
Cash and Cash Equivalents, beginning of period	<u>801,377</u>	<u>375,000</u>
<b>Cash and Cash Equivalents, end of period</b>	<u>\$ 71,072</u>	<u>\$ 1,632,848</u>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	<u>\$ (20,000)</u>	<u>\$ -</u>
Income tax paid	<u>\$ -</u>	<u>\$ -</u>
<b>Non-cash investing and financing activities:</b>		
Prepaid expenses in shares	<u>\$ 260,322</u>	<u>\$ 2,144</u>
Asset retirement obligation	<u>\$ 291,659</u>	<u>\$ -</u>
Debt discount	<u>\$ 345,340</u>	<u>\$ -</u>
Stock issued for conversion of notes payable	<u>\$ -</u>	<u>\$ 1,000,000</u>
Accrued interest forgiven by related party	<u>\$ -</u>	<u>\$ 28,801</u>
Accounts payable settled with restricted cash	<u>\$ -</u>	<u>\$ 25,000</u>
Fair value of warrants issued with note payable	<u>\$ 105,100</u>	<u>\$ -</u>
Fair value of down-round feature on warrants	<u>\$ 59,801</u>	<u>\$ -</u>

See accompanying notes to unaudited condensed consolidated financial statements.

**FOOTHILLS EXPLORATION, INC.**  
**Notes to the Condensed Consolidated Financial Statements**  
**Three and Nine Months Ended September 30, 2017**  
**(Unaudited)**

**Note 1 – Nature of Operations and Summary of Significant Accounting Policies**

Business

Foothills Exploration, Inc., (“Company”, “Foothills Exploration” or “Foothills”) was incorporated in the State of Delaware on May 13, 2010, under the name of “Key Link Assets Corp.” for the purpose of acquiring a portfolio of heavily discounted real estate properties in the Chicago metropolitan area. The Company changed its focus and planned to acquire small and medium sized grocery stores in non-urban locales that are not directly served by large national supermarket chains.

On May 2, 2016, Foothills Petroleum Inc., a Nevada corporation (“FPI”), acquired over 14.1 million pre-split (56.4 million post-split) shares of the Company’s common stock constituting approximately 96% of our then issued and outstanding shares (“FPI Acquired Shares”). As of May 16, 2016, we effected a 4:1 forward split of our shares of common stock.

On May 27, 2016, the Company entered into a Share Exchange Agreement with shareholders of FPI whereby we acquired all of the outstanding shares of FPI in exchange for 4,500,000 shares of our common stock and also issued 1,503,759 shares of our common stock on automatic conversion of debt (please see discussion below under Overview) for an aggregate of 6,003,759 shares of our common stock (the “Share Exchange”). As a result of the Share Exchange, FPI became our wholly owned subsidiary and the FPI Acquired Shares were returned to treasury and deemed cancelled. For accounting purposes, this transaction is being accounted for as a reverse acquisition and has been treated as a recapitalization of the Company with FPI considered the accounting acquirer, and the financial statements of the accounting acquirer became the financial statements of the registrant. The completion of the Share Exchange resulted in a change of control. The FPI Shareholders obtained approximately 96% of voting control on the date of Share Exchange. FPI was the acquirer for financial reporting purposes and the Company was the acquired company. The condensed consolidated financial statements after the acquisition include the balance sheets of both companies at historical cost, the historical results of FPI and the results of the Company from the acquisition date. All share and per share information in the accompanying condensed consolidated financial statements and footnotes have been retroactively restated to reflect the recapitalization.

Prior to the Share Exchange, the Company had minimal assets and recognized no revenues from operations, and were accordingly classified as a shell company. On June 24, 2016, the Company filed an amendment to our Current Report on Form 8-K originally filed on June 10, 2016, indicating that we were no longer a shell company as defined by Rule 12b-2 of the Exchange Act. In light of closing the Share Exchange transaction with the shareholders of FPI, the Company became actively engaged in oil and gas operations through its wholly owned subsidiary.

On December 12, 2016, the Company entered into a participation agreement with Magna Operating, LLC, a privately held Houston-based independent exploration and production company (“Magna Operating”), in relation to the Labokay prospect, covering approximately 240 acres in Calcasieu Parish, Louisiana. As consideration for an assignment of interest in and to the leases and the prospect, Foothills Petroleum Operating, Inc., a Nevada corporation and indirect wholly-owned subsidiary of the Company (“FPOI”), tendered to Magna Operating the purchase price in the amount of \$144,000. This amount covered FPOI’s share of the land, lease, and administrative costs that Magna Operating incurred in generating and assembling the Labokay prospect as of November 15, 2016. As further consideration for an assignment of working interest in and to the leases, FPOI agreed to participate in the cost, risk, and expense of drilling the Labokay test well. The well was plugged and abandoned in February 2017.

On December 30, 2016, the Company acquired various oil and gas assets in Utah from Total Belief Limited, a wholly owned subsidiary of New Times Energy Corporation Limited. These assets included certain oil and gas wells throughout the Uinta Basin in Utah on acreage with over 30 proven undeveloped drilling locations, additional non-operating interest in other leases, and access to approximately 6,000 acres in the Uinta Basin with proven and probable reserves and existing infrastructure in place. Through the acquisition, Foothills also obtained six shut-in wells in the Natural Buttes Field, Utah. The transaction provides Foothills with the rights to an agreement to acquire up to 6,000+ acres and up to 16 shut-in oil and gas wells with proved and proved undeveloped reserves on Tribal lands in the Uinta Basin. This acquisition delivers to the Company an additional 40% working interest in the Ladysmith Prospect covering 3,060 acres in the Greater Green River Basin, Wyoming, bringing the Company’s total working interest in the prospect from 35% (pre-acquisition) up to 75%.

By this agreement, the Company acquired 13,166,667 shares, constituting 55.63% of the outstanding shares of Grey Hawk Exploration, Inc. (“Grey Hawk”), a British Columbia, Canada company. Grey Hawk owns a non-operated working interest in two non-producing wells in the southern portion of the Natural Buttes Field.

On December 30, 2016, the Company also acquired the remaining 25% membership interest in Tiger Energy Partners International, LLC (“TEPI”) from Green Stone Capital Partners Limited, a Cayman Islands limited liability company, in exchange for assumption of Greenstone’s proportionate share of TEPI obligations and liabilities.

On May 10, 2017, the Company entered into a purchase and sale agreement (PSA), with an undisclosed seller, to acquire 67,330 gross acres (49,600 net acres) held by production in Utah and Colorado. This acquisition was anticipated to close by or before June 30, 2017, such closing being subject to traditional representations, warranties, covenants and adjustments including, but not limited to lien releases, cures of any defective title matters, satisfaction of leases and amendments thereto. In August 2017, the parties by mutual agreement terminated the PSA.

## Nature of Operations

FPI, the Company's main operating subsidiary, was incorporated in Nevada in December 2015. Foothills is an independent oil and gas exploration company with a focus on the acquisition and development of oil and gas properties in the Rockies and Gulf Coast. Foothills seeks to acquire dislocated and underdeveloped oil and gas assets and maximize those assets to create shareholder value (the "Business").

The Company's principal obligations include:

- A debenture in the amount of \$1,250,000, plus interest accruing at a rate of 9% per annum issued to Berwin Trading Limited ("Berwin") with principal and interest due upon maturity on May 6, 2017. On May 5, 2017, the Company and Berwin agreed to extend the maturity date of the debenture to June 20, 2017, in return for an annual interest rate increase from 9% to 13.5% per annum for the life of the debenture. On November 3, 2017, Berwin agreed to defer repayment of this note to a later date, which is as yet undetermined, and acknowledged that the Company is not in default regarding this Debenture. Berwin also reaffirmed its belief that the Company will either extend or repay the obligation to their satisfaction. As partial consideration for the deferment, the Company agreed to issue Berwin 100,000 shares of its restricted common stock.
- A second debenture in the amount of \$1,000,000, plus interest accruing at a rate of 9% issued to Full Wealth Investment Hong Kong Limited ("Full Wealth") with principal and interest due upon maturity on or before May 5, 2017. On May 18, 2017, Full Wealth sold this note to Gold Class Limited, with accrued interest increased from 9% to 13.5% per annum for the life of the debenture. On June 1, 2017, Full Wealth acquired this note back from Gold Class and the Company issued a new debenture with a 60-day term and 10% interest per annum to Full Wealth. On August 14, 2017, we repaid \$1,000,000 in principal and \$20,000 in accrued interest, and recorded remaining accrued interest in amount of \$30,000 as gain on debt forgiveness.
- A promissory note in the amount of \$6,000,000 to Total Belief Limited ("TBL"), a direct wholly-owned subsidiary of New Times Energy Corporation Limited, issued in connection with the assets acquired on December 30, 2016, with a maturity date of June 30, 2018. This promissory note recites that it accrues no interest during its term and is due and payable in full on or before its maturity date.
- A promissory note to Profit Well Limited, a Hong Kong limited liability company, issued on August 9, 2017, in the amount of \$1,050,000. The promissory note bears an annual interest rate of 13.5% and was initially payable on September 8, 2017. The Company received the funds under the foregoing note on August 10, 2017. The funds received pursuant to the note principally have been used to repay the Full Wealth debenture, dated June 1, 2017. On November 3, 2017, Profit Well Limited agreed to defer repayment of this note to a later date, which is as yet undetermined, and acknowledged that the Company is not in default regarding this Debenture. Profit Well Limited also reaffirmed its belief that the Company will either extend or repay the obligation to their satisfaction. As partial consideration for the deferment, the Company agreed to issue Profit Well Limited 100,000 shares of its restricted common stock.
- A promissory note and three tranches of warrants issued on September 29, 2017, to an unaffiliated investor for an aggregate consideration of \$250,000. This promissory note recites that it accrues no interest if paid when due, and is due and payable on January 2, 2018. The obligations under the promissory note were personally guaranteed by Kevin J. Sylla, Executive Chairman of the Company. If principal is not paid on or before January 2, 2018, interest will accrue at the rate of 15% per year until paid. The warrants have the following terms:
  - 375,000 warrants to purchase 375,000 shares of common stock of the Company at a strike price of \$0.665 per share expiring on September 29, 2019,
  - 375,000 warrants to purchase 375,000 shares of common stock of the Company at a strike price of \$1.25 per share expiring on September 29, 2020,
  - 185,000 warrants to purchase 185,000 shares of common stock of the Company at a strike price of \$2.00 per share expiring on September 29, 2020.

Each tranche of warrants is subject to down round adjustment provisions if the Company during the term of that tranche issues additional securities for consideration per share, after giving effect to fees, commission and expenses, that is less, or which on conversion or exercise of the underlying security is less, than \$0.665 per share (as adjusted for any change resulting from forward or reverse splits, stock dividends and similar events).

To satisfy most favored nation provisions in previously entered securities purchase agreements that are triggered by the transaction described above, Company will issue 136,015 shares of common stock and warrants to purchase 136,015 shares of common stock, in the aggregate, to certain investors who purchased units from the Company, at a \$1.00 per unit, with each unit consisting of one share and one warrant. See the Company's Current Report on the Form 8-K filed with the SEC on June 5, 2017. Of this amount, 100,752 shares and warrants to purchase 100,752 shares of common stock will be issued to Wilshire Energy Partners LLC, an entity controlled by Kevin J. Sylla. The exercise price of these investor warrants was adjusted to \$0.665 per share. We measured the value of the effect of the down round feature as the difference between the fair value of the financial instrument at an original exercise price of \$1.50 and an adjusted exercise price of \$0.665 and, as a result, \$59,801 was recorded as down round feature as a dividend under retained earnings under ASC 260-10-30-1. Foothills determined the amount of \$59,801 using the Black-Scholes option-pricing model based on the following assumptions: (i) volatility rate of 94%, (ii) discount rate of 0%, (iii) zero expected dividend yield, and (iv) expected life of 3 years.

From its inception in December 2015 through the period ended September 30, 2017, Foothills produced limited revenues from its business and principal properties and is currently an exploration stage company. Prior to January 2017, Foothills had minimal operations that were

focused mainly on administrative activities connected to the identification and evaluation of potential oil and gas prospects and other potential leasehold acquisitions in our geographical areas of interest. As of September 30, 2017, Foothills had rights to 45,648 acres of oil and gas property in the state of Wyoming, excluding 6,115 acres of the Ironwood prospect that are subject to drilling a well in 2017. Since the Company does not expect to drill a test well on the Ironwood prospect prior to the end of 2017, this acreage will not be earned by the Company.



### Going Concern

The Company's unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report have been prepared assuming that it will continue as a going concern, which contemplates continuity of operations, realization of assets, and liquidation of liabilities in the normal course of business. As reflected in the unaudited condensed consolidated financial statements, the Company had an accumulated deficit of \$6,449,037 at September 30, 2017, and incurred a net loss of \$4,414,642, and utilized net cash of \$1,785,870 in operating activities for the nine-month period then ended. These factors raise substantial doubt about its ability to continue as a going concern. The unaudited condensed consolidated financial statements included elsewhere herein do not include any adjustments related to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Our financial statements reflect that our current liabilities exceed our current assets and it is possible that the historical value of the assets that we record on our books may not be attained on a sale or other disposition for cash. We require substantial additional operating capital to maintain current operations and to implement even a portion of our identified acquisitions and workovers. Additional capital, if available at all, will likely be on onerous terms that are also dilutive to our shareholders. No assurance can be given that we will obtain any additional capital. As a consequence, an investment in our shares or other securities is extremely speculative and may result in a complete loss of your investment.

### Use of Estimate and Assumptions

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date(s) of the financial statements and the reported amounts of revenues and expenses during the reporting period(s). Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable in relation to the financial statements taken as a whole under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Management regularly evaluates the key factors and assumptions used to develop the estimates utilizing currently available information, changes in facts and circumstances, historical experience and reasonable assumptions. After such evaluations, if deemed appropriate, those estimates are adjusted accordingly. Actual results could differ from those estimates. Significant estimates include those related to assumptions used in impairment testing of long term assets, accruals for potential liabilities and valuing equity instruments issued for services. Actual results could differ from those estimates.

### Restricted Cash

Cash and cash equivalents that are restricted as to withdrawal or use under the terms of certain contractual agreements are recorded in restricted cash in the non-current assets section of our condensed consolidated balance sheet. As of September 30, 2017, and December 31, 2016, the Company had restricted cash of \$240,000 and \$240,000, respectively; this amount is being held in escrow for the benefit of the State of Utah for certain properties located in Utah. These funds, currently being held in escrow, will be released to the Company once the Company finishes its reclamation projects.

### Oil and Gas Properties

The Company follows the full cost method of accounting for its investments in oil and gas properties. Under the full cost method, all costs associated with the exploration of properties are capitalized into appropriate cost centers within the full cost pool. Internal costs that are capitalized are limited to those costs that can be directly identified with acquisition, exploration, and development activities undertaken and do not include any costs related to production, general corporate overhead, or similar activities. Cost centers are established on a country-by-country basis.

Capitalized costs within the cost centers are amortized on the unit-of-production basis using proved oil and gas reserves. The cost of investments in unevaluated properties and major development projects are excluded from capitalized costs to be amortized until it is determined whether or not proved reserves can be assigned to the properties. Until such a determination is made, the properties are assessed annually to ascertain whether impairment has occurred. The costs of drilling exploratory dry holes are included in the amortization base immediately upon determination that the well is dry.

For each cost center, capitalized costs are subject to an annual ceiling test, in which the costs shall not exceed the cost center ceiling. The cost center ceiling is equal to: (i) the present value of estimated future net revenues computed by applying current prices of oil and gas reserves (with consideration of price changes only to the extent provided by contractual arrangements) to estimated future production of proved oil and gas reserves as of the date of the latest balance sheet presented, less estimated future expenditures (based on current costs) to be incurred in developing and producing the proved reserves computed using a discount factor of ten percent and assuming continuation of existing economic conditions; plus (ii) the cost of properties not being amortized; plus (iii) the lower of cost or estimated fair value of unproven properties included in the costs being amortized; and less (iv) income tax effects related to differences between the book and tax basis of the properties. If unamortized costs capitalized within a cost center, less related deferred income taxes, exceed the cost center ceiling, the excess is charged to expense and separately disclosed during the period in which the excess occurs.

As of September 30, 2017, the Company determined that no impairment was required for the period then ended based on the guidance in Regulation S-X, Rule 4-10; SAB Topic 12.D; and FRC Section 406.01.c.

### Capitalization of Fixed Assets

The Company capitalizes expenditures related to property and equipment, subject to a minimum rule, that have a useful life greater than one year for: (1) assets purchased; (2) existing assets that are replaced, improved or the useful lives have been extended; or (3) all land, regardless of cost, acquisitions of new assets, additions, replacements and improvements (other than land) costing less than the minimum rule in addition to maintenance and repair costs, including any planned major maintenance activities, are expensed as incurred.

Office equipment – 3 years  
Vehicle(s) – 5 years  
Drilling and production equipment – 7 years  
Oil and gas properties – 20 years

### Asset Retirement Obligations

The asset retirement obligation relates to the plug and abandonment costs when its wells are no longer useful. The Company determines the value of the liability by obtaining quotes for this service and then estimating the increase it will face in the future. The Company then discounts the future value based on an intrinsic interest rate that is appropriate. If costs rise more than what was expected there could be additional future charges, however, Foothills monitors the costs of the abandoned wells and intends to adjust this liability as required.

### Fair Value of Financial Instruments

For certain of the Company's financial instruments, including cash and equivalents, restricted cash, accounts receivable, accounts payable, accrued liabilities and short-term debt, the carrying amounts approximate their fair values due to their short maturities. ASC Topic 820, "Fair Value Measurements and Disclosures," requires disclosure of the fair value of financial instruments held by the Company. ASC Topic 825, "Financial Instruments," defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. The carrying amounts reported in the condensed consolidated balance sheets for receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of their fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The three levels of valuation hierarchy are defined as follows:

- Level 1, defined as observable inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.
- Level 2, defined as inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company analyzes all financial instruments with features of both liabilities and equity under ASC 480, "Distinguishing Liabilities from Equity," and ASC 815.

As of September 30, 2017, the Company did not identify any assets and liabilities that are required to be presented on the balance sheet at fair value.

### Net Earnings (Loss) Per Common Share

The Company computes earnings per share under ASC 260-10, "Earnings Per Share." Basic earnings (loss) per share is computed by dividing the net income (loss) attributable to the common stockholders (the numerator) by the weighted average number of shares of common stock outstanding (the denominator) during the reporting periods. Diluted loss per share is computed by increasing the denominator by the weighted average number of additional shares that could have been outstanding from securities convertible into common stock (using the "treasury stock" method), unless their effect on net loss per share is anti-dilutive. The potential shares are excluded from the determination of basic and diluted net loss per share as their effect is anti-dilutive.

### Stock-Based Compensation

All share-based payments, including grants of stock to employees, directors and consultants, are recognized in the condensed consolidated financial statements based upon their estimated fair values.

The Company's accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows ASC Topic 505. As such, the value of the applicable stock-based compensation is periodically re-measured and income or expense is recognized during their vesting terms. The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is primarily recognized over the term of the consulting agreement. In accordance with FASB guidance, an asset acquired in exchange for the issuance of fully vested, non-forfeitable equity instruments should not be presented or classified as an offset to equity on the grantor's balance sheet once the equity instrument is granted for accounting purposes.

## Recent Accounting Pronouncements

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, *Balance Sheet Classification of Deferred Taxes* (“ASU 2015-17”). ASU 2015-17 requires companies to classify all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. The guidance is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The guidance may be adopted on either a prospective or retrospective basis. The Company does not anticipate the adoption of ASU 2015-17 will have a material impact on its condensed consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases* (Topic 842) (“ASU 2016-02”). ASU 2016-02 addresses the financial reporting of leasing transactions. Under current guidance for lessees, leases are only included on the balance sheet if certain criteria, classifying the agreement as a capital lease, are met. This update will require the recognition of a right-of-use asset and a corresponding lease liability, discounted to the present value, for all leases that extend beyond 12 months. For operating leases, the asset and liability will be expensed over the lease term on a straight-line basis, with all cash flows included in the operating section of the statement of cash flows. For finance leases, interest on the lease liability will be recognized separately from the amortization of the right-of-use asset in the statement of operations and the repayment of the principal portion of the lease liability will be classified as a financing activity while the interest component will be included in the operating section of the statement of cash flows. This guidance is effective for annual and interim reporting periods beginning after December 15, 2018. Early adoption is permitted. The Company has not yet completed the analysis of how adopting this guidance will affect its condensed consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, *Improvements to Employee Share-Based Payment Accounting* (“ASU 2016-09”). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Some of the areas of simplification apply only to nonpublic entities. For public business entities, the amendments in ASU 2016-09 are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company does not anticipate the adoption of ASU 2016-09 will have a material impact on its condensed consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, *Clarifying the Definition of a Business* (“ASU 2017-01”). The standard clarifies the definition of a business by adding guidance to assist entities in evaluating whether transactions should be accounted for as acquisitions of assets or businesses. ASU 2017-01 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Under ASU 2017-01, to be considered a business, the assets in the transaction need to include an input and a substantive process that together significantly contribute to the ability to create outputs. Prior to the adoption of the new guidance, an acquisition or disposition would be considered a business if there were inputs, as well as processes that when applied to those inputs had the ability to create outputs. Early adoption is permitted for certain transactions. Adoption of ASU 2017-01 may have a material impact on the Company’s condensed consolidated financial statements if it enters into future business combinations.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, *Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”). ASU 2017-04 simplifies the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. ASU 2017-04 is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not anticipate the adoption of ASU 2017-04 will have a material impact on its condensed consolidated financial statements.

In July 2017, the FASB issued Accounting Standards Update No. 2017-11, *Accounting for Certain Financial Instruments with Down Round Features* (“ASU 2017-11”). When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity’s own stock. ASU 2017-11 is effective for annual or interim periods within those fiscal years beginning after December 15, 2018, and should be applied on a retrospective basis. Early adoption is permitted for all entities, including adoption in an interim period. The Company adopted ASU 2017-11 on its condensed consolidated financial statements.

Other recent accounting pronouncements issued by the FASB, including its Emerging Issues Task Force, the American Institute of Certified Public Accountants, and the Securities and Exchange Commission did not or are not believed by management to have a material impact on the Company’s present or future condensed consolidated financial statements.

## **Note 2 – Fixed Assets**

As of September 30, 2017, and December 31, 2016, fixed assets consisted of the following:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
	<u>(unaudited)</u>	
Computer equipment and fixtures	\$ 22,453	\$ 22,453
Vehicle	69,446	69,446
Drilling Equipment	265,578	265,578
Accumulated depreciation	(48,564)	(4,114)
Fixed assets, net	<u>\$ 308,913</u>	<u>\$ 353,363</u>

Depreciation and amortization expense for the three months ended September 30, 2017 and 2016 was \$14,945 and \$0, respectively. Depreciation and amortization expense for the nine months ended September 30, 2017 and 2016 was \$44,450 and \$0, respectively.



### Note 3 – Oil and Gas Properties

Upon organization of Foothills Petroleum Inc. (“FPI”), on December 24, 2015, Wilshire Energy Partners, LLC, contributed its 100% membership interest in Foothills Exploration, LLC, a Wyoming limited liability company, to FPI in exchange for 4,500,000 shares of FPI’s common stock. At the time of contribution, Wilshire Energy Partners, LLC, had acquired and owned the rights to 38,120 acres of oil and gas leases in the State of Wyoming. On completion of the Share Exchange, effective May 27, 2016, Wilshire Energy Partners, LLC, exchanged its FPI shares for 4,500,000 shares of the Company’s common stock. As a result, the Company owns 100% of FPI and Foothills Exploration, LLC, is now a wholly owned indirect subsidiary of the Company that retains title to these oil and gas leases. This transaction is treated as the founding transaction by the Company. The asset was valued at \$72,430 at the time of transfer based on costs associated with the payment of lease bonuses, fees and taxes paid during the formation of the asset.

On December 24, 2015, Foothills entered into a convertible promissory note in the amount of \$600,000 with Alternus. The two-year note matures on December 23, 2017, and accrues interest at 8% per year. By its terms the note was automatically required to convert the outstanding principal and interest due under the terms of the note upon a merger or other combination occurring between Foothills and an entity with shares listed for trading (“Pubco”). The conversion price in the note was established at \$0.665 per share, (the “Conversion Price”). On April 5, 2016, and under substantially similar terms described herein, Foothills received an additional \$400,000 from Alternus. Under the agreements between Alternus and Foothills, Alternus had the right but not the obligation to subscribe for an aggregate of up to \$3,500,000 of convertible notes which, in the event of that full subscription would convert into not less than 30% of the outstanding shares of Pubco. At May 27, 2016, the date of the Share Exchange, Alternus had invested \$1,000,000 and, based on the Conversion Price, 1,503,759 shares of Common Stock of Pubco (Key Link) were issued in full satisfaction of its two notes.

Alternus transferred to Berwin Trading Limited its right to purchase the remaining \$2,500,000 in equity in the Company at substantially the same terms as the conversion of the convertible note purchase agreement. Berwin agreed to purchase \$2,000,000 or 3,007,519 common shares and completed the documents related to the purchase of equity on June 30, 2016, and funded its investment on July 6, 2016. The additional investment option has expired.

On March 29, 2016, Foothills acquired a 35% working interest in the Ladysmith Anticline prospect that is located in Fremont County, Wyoming. Total acreage position is 3,061 acres located between the Great Divide/Greater Green River Basin and the Wind River Basin, in return for covering certain costs of operation in the amount of \$20,000, and to a share of the working interest in the leases. The primary target zones are the variable Phosphoria and Tensleep sandstone with secondary considerations in the Madison limestone and Flathead sandstone. The prospect generation was based on licensed 2-D seismic comprised of two seismic lines covering the Chevron/Echo – Greater Green River Basin. The asset is valued at \$20,000 based on the agreement and consideration paid by the Company. During the three and nine months ended September 30, 2017, the Company capitalized an additional \$3,750 and \$15,919 in costs related to this asset.

On December 12, 2016, the Company entered into a participation agreement with Magna Operating, LLC, a privately held Houston-based independent exploration and production company (“Magna Operating”), in relation to the Labokay prospect, covering approximately 240 acres in Calcasieu Parish, Louisiana. As consideration for an assignment of interest in and to the leases and the prospect, Foothills Petroleum Operating, Inc., a Nevada corporation and indirect wholly-owned subsidiary of the Company (“FPOI”), tendered to Magna Operating the purchase price in the amount of \$144,000. This amount covered FPOI’s share of the land, lease, and administrative costs that Magna Operating incurred in generating and assembling the Labokay prospect as of November 15, 2016. As further consideration for an assignment of working interest in and to the leases, FPOI agreed to participate in the cost, risk, and expense of drilling the Labokay test well.

During the period ended September 30, 2017, the Company drilled a test well on Labokay to the total measured depth of 8,795 feet, where hydrocarbons shows were present, but not in commercial quantities to warrant completion. The well was plugged and abandoned. The Company recognized impairment of oil and gas property in amount of \$45,419 and \$1,328,637, respectively, during the three and nine months ended September 30, 2017.

On December 30, 2016, the Company acquired various oil and gas assets in Utah from Total Belief Limited, a wholly owned subsidiary of New Times Energy Corporation Limited. These assets included certain oil and gas wells throughout the Uinta Basin in Utah on acreage with over 30 proven undeveloped drilling locations, additional non-operating interest in other leases, and access to approximately 6,000 acres in the Uinta Basin with proven and probable reserves and existing infrastructure in place. This purchase provides us with an entry point into the Uinta Basin and a basis from which to seek other bolt-on acquisition opportunities in the Rockies. The transaction delivers a licensed and bonded operator in Utah having bonds in place with the BLM, State of Utah and BIA. Through the acquisition, Foothills also obtained six shut-in wells in the Natural Buttes Field, Utah. All six (6) wells are currently shut-in and not producing. The Company is working to bring all of these wells back into production during Q4.

The transaction provides Foothills with the rights to an agreement to acquire up to 6,000+ acres and up to 16 shut-in oil and gas wells with proved and proved undeveloped reserves on Tribal lands in the Uinta Basin. These properties provide in-field drilling potential, the ability to bring online shut-in wells and behind pipe development. Five shut-in wells located on fee lands in the Altamont-Bluebell Field that are undergoing title curative also have the potential to achieve near term production with stimulation and the addition of surface equipment. Furthermore, this acquisition delivers to the Company an additional 40% working interest in the Ladysmith Prospect covering 3,060 acres in the Greater Green River Basin, Wyoming, bringing the Company’s total working interest in the prospect from 35% (pre-acquisition) up to 75%. Lastly through this transaction, the Company also acquired 13,166,667 shares of common stock, constituting 55.63% of the outstanding shares of Grey Hawk Exploration, Inc. (“Grey Hawk”), a British Columbia, Canada company. Grey Hawk owns a non-operated working interest in two non-producing wells in the southern portion of the Greater Natural Buttes Field in Utah.

On December 30, 2016, concurrent with the TBL transaction, the Company also acquired the remaining 25% membership interests in TEPI from Green Stone Capital Partners Limited, a Cayman Islands limited liability company, in exchange for assumption of Greenstone’s proportionate share of TEPI obligations and liabilities.



On December 30, 2016, in connection with the TBL acquisition (see Note 1), Foothills entered into a promissory note in the amount of \$6,000,000 with Total Belief Limited. This note matures on June 30, 2018, and recites that no interest accrues during its term. Foothills recorded \$342,804 imputed interest as debt discount. This amount of \$342,804 was determined using the imputed interest method based on the following assumptions: (i) adjusted interest rate 4% (ii) expected life of 1.5 years. During the three and nine months ended September 30, 2017, we amortized \$57,134 and \$171,402 debt discount into interest expense.

On May 10, 2017, the Company entered into a purchase and sale agreement (PSA), with an undisclosed seller, to acquire 67,330 gross acres (49,600 net acres) held by production in Utah and Colorado. This acquisition was anticipated to close by or before June 30, 2017, such closing being subject to traditional representations, warranties, covenants and adjustments including, but not limited to lien releases, cures of any defective title matters, satisfaction of leases and amendments thereto. In August 2017, the parties by mutual agreement terminated the PSA.

During the nine months ended September 30, 2017 and 2016, we capitalized an additional \$1,814,435 and \$97,920 of oil and gas properties, respectively.

#### Note 4 – Asset Retirement Obligation

The Company's asset retirement obligations relate to the abandonment of oil and gas wells. The amounts recognized are based on numerous estimates and assumptions, including future retirement costs, inflation rates and credit adjusted risk-free interest rates. The following shows the changes in asset retirement obligations:

Asset retirement obligations, January 1, 2017	\$	-
Liabilities incurred during the period		291,659
Release of liabilities associated with the sale of oil properties		-
Liabilities settled during the year		-
Accretion		8,751
Asset retirement obligations, September 30, 2017	\$	<u>300,410</u>

Depletion expense for the three and nine months ended September 30, 2017 was \$3,647 and \$10,939, respectively.

#### Note 5 – Notes Payable

On December 30, 2016, in connection with the TBL acquisition (see Note 1), Foothills entered into a promissory note in the amount of \$6,000,000 with Total Belief Limited. This note matures on June 30, 2018, and recites that it accrues no interest during its term. Foothills recorded \$342,804 imputed interest as debt discount. This amount of \$342,804 was determined using the present value method based on the following assumptions: (i) adjusted interest rate 4% (ii) expected life of 1.5 years. During the three months and nine months ended September 30, 2017, we amortized \$57,134 and \$171,402 debt discount into interest expense. The Company has reduced the value of its oil and gas properties in the proportion of the debt discount allocated to the note.

Effective January 5, 2017, Foothills borrowed \$1,000,000 from Full Wealth Investment Hong Kong Limited, a limited liability company organized under the laws of Hong Kong. The Company executed a promissory note, titled as a Debenture, with the lender dated as of December 30, 2016, with proceeds being received by the Company on January 5, 2017. This loan is unsecured, bears interest at 9% per year and is due and payable in 120 days from the receipt of funds. If any amount payable is not paid when due, any such overdue amount shall bear interest at the default rate of 11% from the date of such non-payment until such amount is paid in full. The Company used net proceeds of this loan to satisfy certain obligations under a Purchase and Sale Agreement with Total Belief Limited, dated December 30, 2016, for general working capital and to support certain target drilling activities. On May 18, 2017, Full Wealth Investment Hong Kong Limited sold this note to Gold Class Limited, with accrued interest increased from 9% to 13.5% per annum for the life of the debenture. On June 1, 2017, Full Wealth Investment Hong Kong Limited acquired this note from Gold Class with a 60-day term and 10% interest per annum for the life of the debenture. On August 14, 2017, we repaid \$1,000,000 in principal and \$20,000 in accrued interest, and recorded remaining accrued interest in amount of \$30,000 as gain on debt forgiveness.

Effective August 9, 2017, Foothills borrowed \$1,050,000 from Profit Well Limited, a Hong Kong limited liability company. The Company executed a Bridge Note with an annual percentage interest rate of 13.5% and a maturity date of September 8, 2017. Proceeds of this Bridge Note were received by the Company on August 10, 2017, and were primarily used to repay Full Wealth for the debenture dated June 1, 2017. On November 3, 2017, Profit Well Limited agreed to defer repayment of this note to a later date, which is as yet undetermined, and acknowledged that the Company is not in default regarding this Debenture. Profit Well Limited also reaffirmed its belief that the Company will either extend or repay the obligation to their satisfaction. As partial consideration for the deferment, the Company agreed to issue Profit Well Limited 100,000 shares of its restricted common stock.

On September 29, 2017, the Company, issued to an unaffiliated investor a promissory note and three tranches of warrants for an aggregate consideration of \$250,000. The note recites that it accrues no interest if paid when due, and is due and payable on January 2, 2018. If principal is not paid on or before maturity, interest will accrue at the rate of 15% per year until paid. The warrants have the following terms:

- 375,000 warrants to purchase 375,000 shares of common stock of the Company at a strike price of \$0.665 per share expiring on September 29, 2019;
- 375,000 warrants to purchase 375,000 shares of common stock of the Company at a strike price of \$1.25 per share expiring on September 29, 2020; and



- 185,000 warrants to purchase 185,000 shares of common stock of the Company at a strike price of \$2.00 per share expiring on September 29, 2020.

The aggregate relative fair value of three tranches warrants was determined to be \$105,000 on September 29, 2017, using the Black-Scholes option-pricing model based on the following assumptions: (i) volatility rate of 94%, (ii) discount rate of 0%, (iii) zero expected dividend yield, and (iv) expected life of 2-3 years. \$2,536 imputed interest was recorded as debt discount. \$2,536 was determined using the present value method based on the following assumptions: (i) adjusted interest rate 4% (ii) expected life of 0.26 year. The aggregate value of the warrants and imputed interest of \$107,536 was considered as debt discount upon issuance and will be amortized as interest over the term of the note or in full upon the conversion of the note. During the nine months ended September 30, 2017, the Company amortized \$1,132 of such discount to interest expense, and the unamortized discount as of September 30, 2017 was \$106,404. At September 30, 2017, \$250,000 of principal was outstanding under the Note.

Each tranche of warrants is subject to down round adjustment provisions if the Company during the term of that tranche issues additional securities for consideration per share, after giving effect to fees, commission and expenses, that is less, or which on conversion or exercise of the underlying security is less, than \$0.665 per share (as adjusted for any change resulting from forward or reverse splits, stock dividends and similar events).

To satisfy most favored nation provisions in previously entered securities purchase agreements that are triggered by the transaction described above, Company will issue 136,015 shares of common stock and warrants to purchase 136,015 shares of common stock, in the aggregate, to certain investors who purchased units from the Company, at a \$1.00 per unit, with each unit consisting of one share and one warrant. See the Company's Current Report on the Form 8-K filed with the SEC on June 5, 2017. Of this amount, 100,752 shares and warrants to purchase 100,752 shares of common stock will be issued to Wilshire Energy Partners LLC, an entity controlled by Kevin J. Sylla. The exercise price of these investor warrants was adjusted to \$0.665 per share. We measured the value of the effect of the down round feature as the difference between the fair value of the financial instrument at an original exercise price of \$1.50 and an adjusted exercise price of \$0.665 and, as a result, \$59,801 was recorded as down round feature as a dividend under retained earnings under ASC 260-10-30-1. Foothills determined the amount of \$59,801 using the Black-Scholes option-pricing model based on the following assumptions: (i) volatility rate of 94%, (ii) discount rate of 0%, (iii) zero expected dividend yield, and (iv) expected life of 3 years.

#### **Note 6 – Notes Payable, Related Party**

Effective January 5, 2017, Foothills borrowed \$1,250,000 from Berwin Trading Limited. The Company executed a promissory note, titled as a Debenture, with the lender dated as of December 30, 2016, with proceeds being received by the Company on January 5, 2017. This loan is unsecured, bears interest at 9% per year and is due and payable in 120 days from the receipt of funds. If any amount payable is not paid when due, any such overdue amount shall bear interest at the default rate of 11% from the date of such non-payment until such amount is paid in full. The Company used net proceeds of this loan to satisfy certain obligations under a Purchase and Sale Agreement with Total Belief Limited, dated December 30, 2016, for general working capital and to support certain target drilling activities. On May 4, 2017, the Company and Berwin agreed to extend the maturity date of the debenture to June 20, 2017, in return for an annual interest rate increase from 9% to 13.5% per annum for the life of the debenture. On November 3, 2017, Berwin agreed to defer repayment of this note to a later date, which is as yet undetermined, and acknowledged that the Company is not in default regarding this Debenture. Berwin also reaffirmed its belief that the Company will either extend or repay the obligation to their satisfaction. As partial consideration for the deferment, the Company agreed to issue Berwin 100,000 shares of its restricted common stock. As of September 30, 2017, the balance of accrued interest was \$123,904. During the three months and nine months ended September 30, 2017, the Company recorded interest expense in the amount of \$42,534 and \$123,904, respectively.

#### **Note 7 – Convertible Note Payable**

On May 10, 2017, we entered into a convertible note agreement with an unrelated party, pursuant to which we borrowed \$50,000 at an annual percentage rate of 10% with a term of 12 months, which is due on May 10, 2018. This note may, at the option of the lender, be converted at any time prior to September 7, 2017, into fully-paid, restricted and non-assessable shares of common stock of the Company at a price equal to 100% of the selling price of such common stock in a private placement to institutional and/or accredited investors initiated by the Company during the term of this note. On October 19, 2017, the Company agreed to extend the allowable conversion period provided under this convertible note until May 10, 2018.

#### **Note 8 – Common Stock**

Effective April 1, 2016, Foothills appointed two directors to its board. Each director was granted 125,000 shares of common stock (the "Foothills Directors Shares"), vesting according to the following schedule: (i) 40% vesting ninety (90) days from the appointment date; (ii) 20% vesting one hundred eighty (180) days from the appointment date; (iii) 20% vesting two hundred seventy (270) days following the appointment date; (iv) 20% vesting three hundred sixty (360) days following the appointment date. As of September 30, 2017, 125,000 shares were issued to each director, valued at \$1,250 each. These Foothills Director Shares issued in April 2016 all vested approximately one year later pursuant to the terms and conditions of the grant.

On May 2, 2016, FPI acquired 14,112,250 pre-split shares of the common stock of Key Link Assets Corp. ("Key Link" or the "Company") from five persons constituting approximately 96% of our issued and outstanding shares (the "FPI Acquired Shares"). These shares were acquired for cash of \$316,035, which was expensed in the period it was incurred.

As of May 16, 2016, Foothills effected a 4:1 forward split of its shares of common stock. All references to the number of shares issued and outstanding in these financial states have been retrospectively restated for the forward split.

The 14,112,250 pre-split shares were converted into 56,449,000 shares post-split, and were returned to treasury for cancellation. A total of 2,360,000 shares remained outstanding held by the shareholders of the merged public company post the reverse merger acquisition.

On May 2, 2016, after obtaining the FPI Acquired Shares, FPI caused the Company to appoint its two non-executive directors to the Board of the Company. These directors exchanged their rights to the FPI Directors Shares for Company shares having substantially the same terms and provisions. On May 2, 2016, the Company also granted 150,000 restricted shares of its common stock to its CEO as a part of his compensation package. The shares have the same vesting schedule as directors' shares described above. These shares issued in May 2016 all vested approximately one year later pursuant to the terms and conditions of the grant.

On May 27, 2016, we entered into a Share Exchange Agreement with the shareholders of FPI whereby we acquired all of the outstanding shares of FPI for an aggregate of 6,003,759 shares of our common stock, of which 4,500,000 shares of our common stock were issued to Wilshire Energy Partners, LLC, ("Wilshire") and 1,503,759 of our shares of common stock were issuable to Alternus ("Share Exchange"). As a result of the Share Exchange, FPI became our wholly owned subsidiary and the FPI Acquired Shares were returned to treasury, deemed canceled and no longer outstanding. We also exchanged warrants to purchase 700,000 shares of Foothills' common stock, that were issued to Wilshire on May 4, 2016, for a like amount of warrants to purchase shares of the Company's common stock (the "Wilshire Warrants"). The Wilshire Warrants:

- have a term of five years;
- are exercisable at \$1.25 per share as to 100,000 shares;
- are exercisable at \$2.00 per share as to 200,000 shares;
- are exercisable at \$3.00 per share as to 400,000 shares;
- do not have a cashless exercise feature; and
- were not exercisable for one year.

On June 30, 2016, we entered into a Securities Purchase Agreement with Berwin Trading Limited, a British Virgin Islands company ("Berwin"), pursuant to which we sold and agreed to issue 3,007,519 shares of our common stock, \$0.0001 par value, at a purchase price of \$0.665 per share for an aggregate amount of \$2,000,000.

On December 30, 2016, we issued 2,083,334 shares of common stock in connection with the TBL acquisition (see Note 6), at a purchase price of \$1.83 per share for an aggregate amount of \$3,812,500.

On May 31, 2017, we entered into a Securities Purchase Agreement with Wilshire Energy Partners, LLC, a principal shareholder, pursuant to which we sold and agreed to issue 200,000 units at a purchase price of \$1.00 per unit for an aggregate amount of \$200,000. Each unit consisted of one share of the Company's common stock and one warrant to purchase a share of the Company's common stock, exercisable for a period of three years from the date of original issuance at an exercise price of \$1.50 per share. Wilshire Energy Partners, LLC, is controlled by Kevin J. Sylla, our Executive Chairman and Chief Executive Officer of FPI, and has been determined to be a Related Party. See the Company's 8-K filed June 5, 2017 with the Commission and exhibit thereto. On September 29, 2017, we issued 100,752 additional shares of common stock and amended warrants to purchase 300,752 shares of common stock of the Company at a strike price of \$0.665 per share due to down round feature triggered by warrant issued at a strike price of \$0.665 per share on the day of trigger.

On June 15, 2017, we entered into a Securities Purchase Agreement with Zhuge Liang, LLC, pursuant to which we sold and agreed to issue 20,000 units at a purchase price of \$1.00 per unit for an aggregate amount of \$20,000. Each unit consisted of one share of the Company's common stock and one warrant to purchase one additional share of the Company's common stock, exercisable for a period of three years from the date of original issuance at an exercise price of \$1.50 per share. We received the initial \$10,000 on June 15, 2017, and the balance of the subscribed amount in July 2017. On September 29, 2017, we issued 10,075 additional shares of common stock and amended warrants to purchase 30,075 shares of common stock of the Company at a strike price of \$0.665 per share due to a down round feature triggered by a warrant issued at a strike price of \$0.665 per share on the day of trigger.

On June 30, 2017, we entered into a Securities Purchase Agreement with a third party investor, pursuant to which we sold and agreed to issue 25,000 units at a purchase price of \$1.00 per unit for an aggregate amount of \$25,000. Each unit consisted of one share of the Company's common stock and one warrant to purchase one additional share of the Company's common stock, exercisable for a period of three years from the date of original issuance at an exercise price of \$1.50 per share. On September 29, 2017, we issued 12,594 additional shares of common stock and amended warrants to purchase 37,594 shares of common stock of the Company at a strike price of \$0.665 per share due to a down round feature triggered by a warrant issued at a strike price of \$0.665 per share on the day of trigger.

On July 10, 2017, we entered into a Securities Purchase Agreement pursuant to which we sold 25,000 units at a purchase price of \$1.00 per unit for an aggregate amount of \$25,000. Each unit consisted of one share of the Company's common stock and one warrant to purchase a share of the Company's common stock, exercisable for a period of three years from the date of original issuance at an exercise price of \$1.50 per share.

On September 29, 2017, we issued 12,594 additional shares of common stock and amended warrants to purchase 37,594 shares of common stock of the Company at a strike price of \$0.665 per share due to a down round feature triggered by the warrant issued at a strike price of \$0.665 per share on the day. We measured the value of the effect of the down round feature as the difference between the fair value of the financial instrument at an original exercise price of \$1.50 and an adjusted exercise price of \$0.665 and, as a result, \$59,801 was recorded as down round feature as a dividend under retained earnings under ASC 260-10-30-1. Foothills determined the amount of \$59,801 using the Black-Scholes option-pricing model based on the following assumptions: (i) volatility rate of 94%, (ii) discount rate of 0%, (iii) zero expected dividend yield, and (iv) expected life of 3 years.

Each of the purchasers is an accredited investor within the meaning of the federal securities laws. The Company paid no brokerage, commission or finder's fee in connection with these transactions. These transactions were exempt from registration under Section 4(a)(2) of the Securities Act of 1933.

During the nine months ended September 30, 2017, the Company issued 275,000 shares of common stock to various third parties for services, valued at \$453,500.

As of September 30, 2017, the Company had 14,620,627 shares of common stock issued and outstanding.

#### Restricted Stock Units (RSUs)

Effective August 11, 2016, and on August 15, 2016, Foothills granted one of its executive officers, Mr. R. Lanclos, 100,000 restricted stock units (RSUs) of the Company of which (i) 20,000 vested 180 days from August 15, 2016, (ii) another 20,000 shall vest 270 days from August 15, 2016, and (iii) the remaining 60,000 vested 365 days from August 15, 2016. The Company has a right, but not an obligation to repurchase all or any portion of RSUs granted to the executive at a purchase price of \$0.665 per share if the executive's employment with the Company is terminated for any reason within 30 months of start of employment on August 15, 2015. These RSUs were valued at \$67,000 on the grant day. As of September 30, 2017, 100,000 shares were vested, 40,000 shares were issued to Mr. Lanclos valued at \$26,800, and the remaining balance in the amount of \$40,200 was recorded as stock payable.

On August 15, 2016, Foothills also granted one of its executive officers, Mr. E. Ovalle, 100,000 restricted stock units (RSUs) of the Company of which (i) 20,000 vested 180 days from August 15, 2016, (ii) another 20,000 vested 270 days from August 15, 2016, and (iii) the remaining 60,000 vested 365 days from August 15, 2016. The Company has a right, but not an obligation to repurchase all or any portion of RSUs granted to the executive at a purchase price of \$0.665 per share if executive's employment with the Company is terminated for any reason within 30 months of start of employment on August 15, 2015. These RSUs were valued at \$67,000 on the grant day. As of September 30, 2017, 100,000 shares were vested, 40,000 shares were issued to Mr. Ovalle valued at \$26,800, and the remaining balance in the amount of \$40,200 was recorded as stock payable.

#### Warrants

On May 27, 2016, the Company granted to Wilshire Energy Partners, LLC, warrants ("Wilshire Warrants") to purchase (i) 100,000 common shares at a strike price of \$1.25 per share, (ii) 200,000 common shares at a strike price of \$2.00 per share and (iii) 400,000 common shares at a strike price of \$3.00 per share. The Wilshire Warrants commence to be exercisable on the earlier of (i) 12-month anniversary of the closing of a going public transaction or (ii) June 30, 2017, and expire on June 1, 2021.

On May 27, 2016, the Company granted to an unrelated party warrants to purchase (i) 125,000 common shares at a strike price of \$1.25 per share, (ii) 100,000 common shares at a strike price of \$2.00 per share and (iii) 100,000 common shares at a strike price of \$3.00 per share. The warrants commence to be exercisable on the earlier of (i) 12-month anniversary of the closing of a going public transaction or (ii) June 30, 2017, and expire on June 1, 2021.

The fair value of all warrants was determined to be \$2,144 on May 27, 2016, using the Black-Scholes option-pricing model based on the following assumptions: (i) volatility rate of 120%, (ii) discount rate of 0%, (iii) zero expected dividend yield, and (iv) expected life of 5 years.

The following table summarizes all stock warrant activity for the nine months ended September 30, 2017:

	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>
Balance outstanding, December 31, 2016	1,025,000	\$ 2.32	4.42
Granted	1,341,015	1.01	2.62
Exercised	-	-	-
Cancelled or expired	-	-	-
Balance outstanding, September 30, 2017	<u>2,366,015</u>	<u>\$ 1.58</u>	<u>3.08</u>
Exercisable, September 30, 2017	<u>-</u>	<u>\$ -</u>	<u>-</u>

## Options

On May 19, 2016, the Company granted to each of its then three directors options to purchase (i) 50,000 common shares at a strike price of \$2 per share, vesting when the Company achieves and maintains a total average daily production level of 100 barrels of oil equivalent per day (“boe/d”) for at least 30 days, (ii) 50,000 common shares at a strike price of \$3 per share, vesting when the Company achieves and maintains a total average daily production level of 200 boe/d for at least 60 days, and (iii) 50,000 common shares at a strike price of \$4 per share, vesting when the Company achieves and maintains a total average daily production level of 500 boe/d for at least 90 days.

On February 27, 2017, the Company granted to Mr. Christopher Jarvis, currently an officer and director, options to purchase 400,000 common shares at a strike price of \$1.99 per share, vesting quarterly over two years commencing with the first quarter following the 90-day probationary period.

The fair value of 400,000 options was determined to be \$616,055 on February 27, 2017, using the Black-Scholes option-pricing model based on the following assumptions: (i) volatility rate of 129%, (ii) discount rate of 0%, (iii) zero expected dividend yield, and (iv) expected life of 5 years.

On February 27, 2017, the Company granted to Mr. Kevin Sylla, currently our Executive Chairman of the Board, options to purchase 1,200,000 common shares at a strike price of \$1.99 per share, vesting quarterly over the term of three years.

The fair value of 1,200,000 options was determined to be \$1,986,902 on February 27, 2017, using the Black-Scholes option-pricing model based on the following assumptions: (i) volatility rate of 129%, (ii) discount rate of 0%, (iii) zero expected dividend yield, and (iv) expected life of 7 years.

## **Note 9 – Related Party Transactions**

### *Alternus Capital Holdings Limited*

On December 24, 2015, FPI entered into a convertible promissory note in the amount of \$600,000 with Alternus. The two-year note originally matured on December 23, 2017, and accrued interest at 8% per year. By its terms the note was automatically required to convert the outstanding principal and interest due under the terms of the note upon a merger or other combination occurring between FPI and an entity with shares listed for trading, which occurred on May 27, 2016. The conversion price of the note was established at \$0.665 per share (the “Conversion Price”), subject to adjustment as described below. On April 5, 2016, and under substantially similar terms described herein, FPI received an additional \$400,000 from Alternus. Under the agreements between Alternus and Foothills, Alternus had the right but not the obligation to subscribe for an aggregate of up to \$3,500,000 of convertible notes, which, in the event of that full subscription, would convert into not less than 30% of the then outstanding shares of the “public” company. Through May 27, 2016, the date the Share Exchange, Alternus had invested \$1,000,000 and based on the Conversion Price was issued 1,503,759 shares of the Company’s common stock in full satisfaction of its two notes. All accrued interest was waived and recorded as additional paid in capital.

On December 30, 2016, Foothills, through its indirect wholly owned subsidiary Foothills Exploration Operating, Inc. (“FEOI”), entered into a purchase and sale agreement with Total Belief Limited (see Note 1). As a result of the purchase and sale agreement the Company acquired a \$10,600 related party payable due to Equipment Solutions, Inc., which is owned by a director of the Company, Alex Hemb. As of September 30, 2017, the balance was paid.

### *Berwin Trading Limited*

Effective January 6, 2017, the Company borrowed \$1,250,000 from Berwin Trading Limited, a British Virgin Islands limited liability company. The Company executed a promissory note, titled as a Debenture, with the lender dated as of December 30, 2016, with proceeds being received by the Company on January 6, 2017. This loan is unsecured, bears interest at 9% per year and is due and payable in 120 days from the receipt of funds. If any amount payable is not paid when due, any such overdue amount shall bear interest at the default rate of 11% from the date of such non-payment until such amount is paid in full. The Company used net proceeds of this loan to satisfy certain obligations under a Purchase and Sale Agreement with Total Belief Limited, dated December 30, 2016, for general working capital and to support certain target drilling activities. As of September 30, 2017, the balance of accrued interest was \$123,904. During the three and nine months ended September 30, 2017, we recorded interest expense in the amount of \$42,534 and \$123,904, respectively.

On May 5, 2017, the Company and Berwin agreed to extend the maturity date of the debenture to June 20, 2017, in return for an annual interest rate increase from 9% to 13.5% per annum for the life of the debenture. On November 3, 2017, Berwin agreed to defer repayment of this note to a later date, which is as yet undetermined, and acknowledged that the Company is not in default regarding this Debenture. Berwin also reaffirmed its belief that the Company will either extend or repay the obligation to their satisfaction. As partial consideration for the deferment, the Company agreed to issue Berwin 100,000 shares of its restricted common stock.

Effective as of December 18, 2015, in connection with the then formation and organization of Foothills Petroleum Inc., Wilshire Energy Partners, LLC (“Wilshire”), an entity controlled by Kevin J. Sylla, Aegis International, LLC (“Aegis”), and Foothills entered into a Business Development Services Agreement (“BDSA”). Under the BDSA the parties agreed that:

1. Wilshire would transfer its 100% membership interest in Foothills Exploration LLC, a Wyoming limited liability company (“FEL”) to Foothills, and that Foothills would issue 4.5 million shares of its common stock to Wilshire on its organization or as soon thereafter as may be practicable.
2. Wilshire would endeavor in good faith, with the assistance of Aegis, to obtain \$3 million to \$3.5 million of financing in the form of equity and/or convertible notes to implement the business plan that was under formation on behalf of Foothills.
3. Aegis would perform the following business development services:
  - provide senior management principally in the form of services of B.P. Allaire;
  - deliver or oversee administrative services on day to day basis;
  - assist in securing a chief financial officer;
  - formulate, craft and deliver a detailed business plan including forecasts;
  - formulate or assist in formulating, budgets and other financial information;
  - recruit or assist in recruiting experienced executive directors with proven track records whose backgrounds will be attractive to the oil and gas community and potential investors;
  - create and deliver a website that depicts the Foothills operations; and
  - provide such other services as may be appropriate and necessary to implement and execute upon the business plan of Foothills.
4. For its services as outlined under the BDSA, Foothills would pay to Aegis from funds received, \$150,000 through December 31, 2016, (the “Foothills Initial Organizational Term”). As of December 31, 2016, this payment was made in full.
5. Following the Foothills Initial Organizational Term, Foothills on an at-will basis shall pay B.P. Allaire \$5,000 per month for his services as chief operating officer and executive director, on terms subject to cancellation, on 30 days’ notice, by either of Foothills or B.P. Allaire. Effective September 1, 2016, the Company increased Mr. Allaire’s salary to \$7,000 per month.
6. Wilshire would assign, effective no later than December 29, 2015, all right, title and interest in FEL in exchange for 4.5 million shares of common stock of Foothills.

In furtherance of the Business Development Services Agreement, Wilshire assigned Foothills Exploration, LLC, (“FEL”) to Foothills on its organization in exchange for 4.5 million shares of Foothills, and Foothills thereby acquired control of the Springs Prospect, owned by FEL, consisting of 38,120 contiguous acres. Foothills regards the Springs Prospect as a valuable multiple objective oil resource play in the Greater Green River Basin of Wyoming. Through Wilshire’s assistance, Foothills entered into two agreements with Alternus, whereby Foothills obtained a total of \$1,000,000 of financing in the form of convertible notes that upon completion of the Share Exchange were converted, at \$0.665 per share, into 1,503,759 shares of the Company’s common stock.

In connection with the hiring of Ritchie Lanclos as Executive Vice President of the Company and Vice President of Exploration of FPI, and Eleazar Ovalle as Executive Vice President of the Company and Vice President of Geology and Geophysical of FPI, FPI agreed to pay Wilshire, one of our principal shareholders, pursuant to a Services Agreement entered into by and between FPI and Wilshire, a fee of 25% of the gross annual salary, including all cash and equity compensation, but excluding any bonuses to be received by Mr. Lanclos and Mr. Ovalle. In the event either of Mr. Lanclos or Mr. Ovalle leaves FPI of his own volition or is terminated for cause within 90 days from August 15, 2016 or August 11, 2016, respectively, the commencement days of their employment, Wilshire agreed to refund FPI 100% of fees received, minus \$2,500.

On May 31, 2017, we entered into a Securities Purchase Agreement with Wilshire, pursuant to which we sold and agreed to issue 200,000 units at a purchase price of \$1.00 per unit for an aggregate amount of \$200,000. Each unit consisted of one share of the Company’s common stock and one warrant to purchase a share of the Company’s common stock, exercisable for a period of three years from the date of original issuance at an exercise price of \$1.50 per share. Wilshire Energy Partners, LLC, is controlled by Kevin J. Sylla, our Executive Chairman and Chief Executive Officer of FPI, and has been determined to be a Related Party. See the Company’s 8-K filed June 5, 2017 with the Commission and exhibit thereto. On September 29, 2017, we issued 100,752 additional shares of common stock and amended warrants to purchase 300,752 shares of common stock of the Company at a strike price of \$0.665 per share due to down round feature triggered by warrant issued at a strike price of \$0.665 per share on the day of trigger.

## **Note 10 – Commitments and Contingencies**

### *Management Additions and Changes*

On March 3, 2017, the Company announced the appointment of Christopher Jarvis and Kevin J. Sylla to its senior management team. Mr. Jarvis is a current Director of Foothills Exploration and FPI and has taken on the full-time role of Executive Vice President of Finance for the Company and Vice President of Risk Management for FPI. Mr. Sylla was appointed Director and Chief Executive Officer of FPI, which oversees the Company's oil and gas operations.

On June 1, 2017, the Company announced appointment of Kevin J. Sylla as Executive Chairman of the Company. Mr. Sylla continues to serve as Director and Chief Executive Officer of FPI and manager of the Company's indirect subsidiaries Tiger Energy Operating, LLC, Tiger Energy Partners International, LLC, and Tiger Energy Mineral Leasing, LLC.

### *Legal proceedings*

#### SCI Welding & Oilfield Service vs. Tiger Energy Operating LLC. (Case Number 169000023, Eighth District Court-Roosevelt Duchesne County, State of Utah)

This case concerns the collection of unpaid debt owed by Tiger Energy Operating, LLC (TEO) when acquired on December 30, 2016, concerning the workover of wells in Duchesne County, Utah, in the amount of \$64,470. The Company and SCI Welding reached an agreement to settle the matter for \$35,000. SCI Welding has received these settlement funds. Prior to October 10, 2017, the parties had agreed that a Stipulated Motion to Dismiss was to have been filed by opposing counsel. Upon filing this Motion, all claims against Tiger Energy Operating in the underlying case no. 169000023 will have been resolved with no further judicial intervention required.

#### Graco Fishing & Rental Tools, Inc. vs. Tiger Energy Operating LLC. (Case No. 160800005 Eighth Judicial District Court in and for Duchesne County, State of Utah)

This case concerns the collection of unpaid debt owed by TEO for services performed by plaintiff, which existed at the time of acquisition. A default judgment in the amount of \$159,965 was obtained on June 1, 2016, against TEO, for unpaid accounts in connection with its workover of wells in Duchesne County, Utah. Graco has filed a writ of execution against the A Rust 2, Dye-Hall 2-21 A1, Wilkins 1-24 A5 and Rust 3-22A-4 wells located in Duchesne County. A Motion to Set Aside a sheriff's sale concerning these properties was filed based on the fact that TEO is not the owner of these properties. A hearing for this matter was held on May 1, 2017, in Duchesne County, Utah, at which a Company representative was present to comply with the court's order to produce documents. Prior to the hearing, TEO made an initial settlement offer, which was eventually rejected by the Plaintiffs. The matter remains unresolved as of the filing of this report. As of September 30, 2017, the Company recorded a contingent liability in the amount of \$159,965. The Company and Graco are in negotiations to settle this matter but as of the date of this report no firm settlement agreement had yet been reached by the parties.

#### Conquest Well Servicing, LLC vs. Foothills Exploration Operating, Inc. (Case No. 179800421 Eighth Judicial District Court in and for Uintah County, State of Utah)

This case was filed on September 11, 2017 and concerns the collection of unpaid debt owed by Foothills Exploration Operating, Inc., a wholly-owned subsidiary of the Company, for services performed by plaintiff in the amount of \$49,689 for unpaid accounts in connection with its workover of wells in Uintah County, Utah. A Settlement Agreement and Stipulation to Entry of Judgement for the full amount of the suit was agreed to by the parties and filed with the court on or around October 10, 2017.

In February 2017, the Company drilled a test well on the Labokay prospect to the total measured depth of 8,795 feet, where hydrocarbons shows were present, but not in commercial quantities to warrant completion. Consequently, the Labokay test well was plugged and abandoned in February 2017. Since the well was not commercially viable, the Company's working interest in the underlying mineral lease terminated and we no longer have title to said property.

The three civil suits filed below were all filed against Foothills Petroleum Operating, Inc. ("FPOI"), a wholly-owned subsidiary of the Company, and all stem from unpaid accounts in connection with drilling of the Labokay test well.

#### R.W. Delaney Construction Company vs Foothills Petroleum Operating, Inc. (Cause No. 2017-CV-0330 – County Court of Adams County, Mississippi)

This case was filed on September 18, 2017, and concerns the collection of unpaid debt owed by FPOI for services performed by plaintiff in the amount of \$72,495.00 for unpaid accounts in connection with its drilling of the Labokay test well in Calcasieu Parish, Louisiana. The Company is in the process of retaining counsel and plans to file a response with the court in the near future.

#### Performance Drilling Company, LLC vs Foothills Petroleum Operating, Inc. (Case No. 2017-3916 G Fourteenth Judicial District Court in Parish of Calcasieu, State of Louisiana)

This case was filed on September 25, 2017, and concerns the collection of unpaid debt owed by FPOI for services performed by plaintiff in the amount of \$205,251.24 for unpaid accounts in connection with its drilling of the Labokay test well in Calcasieu Parish, Louisiana. The Company is in the process of retaining counsel and plans to file a response with the court in the near future.

This case was filed on October 24, 2017, and concerns the collection of unpaid debt owed by FPOI for services performed by plaintiff in the amount of \$53,943.53 for unpaid accounts in connection with its drilling of the Labokay test well in Calcasieu Parish, Louisiana. The Company is in the process of retaining counsel and plans to file a response with the court in the near future.

**Note 11 – Subsequent Events**

On October 19, 2017, the Company announced the acquisition of 21% working interest in two horizontal gas wells in the Uinta Basin from an undisclosed party. Both wells will be operated by EOG Resources. The Stagecoach 111-20H was spudded on September 15, 2017, and is currently still drilling and the second well was recently spudded. Both wells have been classified as confidential with the State of Utah Division of Oil, Gas and Mining. Drilling activities are inherently speculative and no assurance can be given that these wells will result in commercial production of gas or other hydrocarbons.

On November 3, 2017, Berwin agreed to defer repayment of the \$1,250,000 note which was entered on May 5, 2017 to a later date, which is as yet undetermined, and acknowledged that the Company is not in default regarding this Debenture. Berwin also reaffirmed its belief that the Company will either extend or repay the obligation to their satisfaction. As partial consideration for the deferment, the Company agreed to issue Berwin 100,000 shares of its restricted common stock.

On November 3, 2017, Profit Well Limited agreed to defer repayment of the 1,050,000 note which was entered on August 9, 2017 to a later date, which is as yet undetermined, and acknowledged that the Company is not in default regarding this Debenture. Profit Well Limited also reaffirmed its belief that the Company will either extend or repay the obligation to their satisfaction. As partial consideration for the deferment, the Company agreed to issue Profit Well Limited 100,000 shares of its restricted common stock.



## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion should be read in conjunction with our financial statements, including the notes thereto, appearing elsewhere in this Report. The discussions of results, causes and trends should not be construed to imply any conclusion that these results or trends will necessarily occur. This discussion includes forward-looking statements that involve risks and uncertainties. As a result of many factors, such as those set forth under "Risk Factors" and elsewhere in this Report, our actual results may differ materially from those anticipated in these forward-looking statements.*

### FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2 of Part I of this report include forward-looking statements. Additionally, forward-looking statements may be made orally or in press releases, conferences, reports, on our website or otherwise, in the future, by us or on our behalf. Such statements are generally identifiable by the terminology used such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "potential," "predict," "project," "should" or other similar words.

By their very nature, forward-looking statements require us to make assumptions that may not materialize or that may not be accurate. Forward-looking statements are subject to known and unknown risks and uncertainties and other factors that may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Such factors include, among others: changes in oil or natural gas prices, the success of our drilling programs, the timing of planned capital expenditures, availability of acquisitions, uncertainties in estimating proved reserves and forecasting production results, operational factors affecting the commencement or maintenance of producing wells, the condition of the capital markets generally, as well as our ability to access them, the proximity to and capacity of transportation facilities, uncertainties regarding environmental regulations or litigation and other legal or regulatory developments affecting our business, and the other factors discussed below and elsewhere in this prospectus and in other documents that we file with or furnish to the SEC, all of which are difficult to predict. Forward-looking statements may include statements about:

- our business strategy;
- our reserves that may expect to be developed;
- our cash flows and liquidity;
- our financial strategy, budgets, projections and operating results;
- oil and natural gas prices that we may realize;
- the timing and amount of future production of oil and natural gas;
- the availability of drilling and production equipment;
- the availability of oil field labor;
- the amount, nature and timing of capital expenditures, including future exploration and development costs;
- the availability and terms of additional capital that we currently require and that in the future we will need to obtain;
- our drilling of wells;
- government regulation and taxation of the oil and natural gas industry;
- our marketing of oil and natural gas;
- our exploitation projects or our ability to make property acquisitions on terms that meet our acquisition criteria;
- our costs of exploiting and developing our properties and conducting other operations;
- general economic conditions;
- competition in the oil and natural gas industry;
- the effectiveness of our risk management and hedging activities;
- environmental liabilities;
- our future operating results;
- estimated future reserves and the present value thereof; and
- our plans, objectives, expectations and intentions contained in this report that are not historical.



Although we believe that the expectations conveyed by the forward-looking statements are reasonable based on information available to us on the date such forward-looking statements were made, no assurances can be given as to future results, levels of activity, achievements or financial condition.

You should not place undue reliance on any forward-looking statement and should recognize that the statements are predictions of future results, which may not occur as anticipated. Actual results could differ materially from those anticipated in the forward-looking statements and from historical results, due to the risks and uncertainties described above, as well as others not now anticipated. The impact of any one factor on a particular forward-looking statement is not determinable with certainty as such factors are interdependent upon other factors. The foregoing statements are not exclusive and further information concerning us, including factors that potentially could materially affect our financial results, may emerge from time to time. We do not intend to update forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements, except as required by law, including the securities laws of the United States and the rules and regulations of the SEC.

Unless otherwise noted, the terms “Foothills Exploration”, the “Company”, “we”, “us”, and “our” refer to the ongoing business operations of Foothills Exploration, Inc. and our wholly-owned subsidiary, Foothills Petroleum, Inc., as well as, the past operations of Foothills Petroleum, Inc. The terms “Key Link Assets Corp.” or “Key Link” refer to the operations of Key Link Assets Corp. prior to May 27, 2016.

## **History**

Foothills Exploration, Inc. was incorporated in the State of Delaware on May 13, 2010, under the name “Key Link Assets Corp.” for the purpose of acquiring a portfolio of heavily discounted real estate properties in the Chicago metropolitan area. The Company changed its focus and planned to acquire small and medium sized grocery stores in non-urban locales that are not directly served by large national supermarket chains.

On May 2, 2016, Foothills Petroleum Inc., a Nevada corporation (“FPI”) acquired approximately 14.1 million pre-split (56.4 million post-split) shares of the Company’s common stock constituting approximately 96% of our then issued and outstanding shares (“FPI Acquired Shares”). As of May 16, 2016, we effected a 4:1 forward split of our shares of common stock. On May 27, 2016, we entered into a Share Exchange Agreement with the shareholders of FPI, whereby we acquired all of the outstanding shares of FPI for 4,500,000 shares and also issued 1,503,759 shares on automatic conversion of debt (please see discussion below under Overview) for an aggregate of 6,003,759 shares of our common stock (the “Share Exchange”). As a result of the Share Exchange, FPI became our wholly owned subsidiary and the FPI Acquired Shares were returned to treasury and deemed cancelled.

Prior to the Share Exchange, we had minimal assets and recognized no revenues from operations, and were accordingly classified as a shell company. On June 24, 2016, we filed an amendment to our Current Report on Form 8-K originally filed on June 10, 2016, indicating that we were no longer a shell company as defined by Rule 12b-2 of the Exchange Act. In light of closing of the Share Exchange transaction with FPI, the Company became actively engaged in oil and gas operations through its wholly owned subsidiary.

On June 30, 2016, we completed a sale of 3,007,519 shares of our common stock to a single investor for proceeds totaling \$2,000,000. For a more complete description of this transaction please see our Form 8-K filed with the SEC on July 7, 2016.

On August 4, 2016, we were advised that the Financial Industry Regulatory Association had approved (i) our name change from Key Link Assets Corp. to Foothills Exploration, Inc., and (ii) a change of trading symbol from KYLK to FTXP. Please see our Form 8-K filed with the SEC on August 9, 2016.

On October 5, 2016, the Company launched its Exploration Division and opened a new office in Houston to support the division’s staff. The Company’s Exploration Division consists of geologists and petroleum engineers engaged in the exploration and development of hydrocarbons and tasked with building a portfolio of high impact exploration projects in the Gulf Coast region.

## **Overview**

Foothills Exploration is an independent oil and gas exploration company engaged in the acquisition and development of oil and natural gas properties, mainly through its wholly-owned subsidiary, Foothills Petroleum, Inc. (“FPI”). FPI is focused on acquiring producing and developmental properties in the Rockies. FPI seeks to acquire non-core, dislocated and underdeveloped oil and gas assets and maximize those assets to create shareholder value (the “Business”).

On December 31, 2015, FPI acquired the rights to 38,120 acres of oil and gas property in the state of Wyoming, through Foothills Exploration, LLC, a wholly owned subsidiary acquired by FPI upon its organization in December 2015.

The Company's principal obligations include:

- A debenture in the amount of \$1,250,000, plus interest accruing at a rate of 9% per annum issued to Berwin Trading Limited ("Berwin") with principal and interest due upon maturity on May 6, 2017. On May 5, 2017, the Company and Berwin agreed to extend the maturity date of the debenture to June 20, 2017, in return for an annual interest rate increase from 9% to 13.5% per annum for the life of the debenture. On November 3, 2017, Berwin agreed to defer repayment of this note to a later date, which is as yet undetermined, and acknowledged that the Company is not in default regarding this Debenture. Berwin also reaffirmed its belief that the Company will either extend or repay the obligation to their satisfaction. As partial consideration for the deferment, the Company agreed to issue Berwin 100,000 shares of its restricted common stock.
- A second debenture in the amount of \$1,000,000, plus interest accruing at a rate of 9% issued to Full Wealth Investment Hong Kong Limited ("Full Wealth") with principal and interest due upon maturity on or before May 5, 2017. On May 18, 2017, Full Wealth sold this note to Gold Class Limited, with accrued interest increased from 9% to 13.5% per annum for the life of the debenture. On June 1, 2017, Full Wealth acquired this note back from Gold Class and the Company issued a new debenture with a 60-day term and 10% interest per annum to Full Wealth. On August 14, 2017, we repaid \$1,000,000 in principal and \$20,000 in accrued interest, and recorded remaining accrued interest in amount of \$30,000 as gain on debt forgiveness.
- A promissory note in the amount of \$6,000,000 to Total Belief Limited ("TBL"), a direct wholly-owned subsidiary of New Times Energy Corporation Limited, issued in connection with the assets acquired on December 30, 2016, with a maturity date of June 30, 2018. This promissory note recites that it accrues no interest during its term and is due and payable in full on or before its maturity date.
- A promissory note to Profit Well Limited, a Hong Kong limited liability company, issued on August 9, 2017, in the amount of \$1,050,000. The promissory note bears an annual interest rate of 13.5% and was initially payable on September 8, 2017. The Company received the funds under the foregoing note on August 10, 2017. The funds received pursuant to the note principally have been used to repay the Full Wealth debenture, dated June 1, 2017. On November 3, 2017, Profit Well Limited agreed to defer repayment of this note to a later date, which is as yet undetermined, and acknowledged that the Company is not in default regarding this Debenture. Profit Well Limited also reaffirmed its belief that the Company will either extend or repay the obligation to their satisfaction. As partial consideration for the deferment, the Company agreed to issue Profit Well Limited 100,000 shares of its restricted common stock.
- A promissory note and three tranches of warrants issued on September 29, 2017, to an unaffiliated investor for an aggregate consideration of \$250,000. This promissory note recites that it accrues no interest if paid when due, and is due and payable on January 2, 2018. The obligations under the promissory note were personally guaranteed by Kevin J. Sylla, Executive Chairman of the Company. If principal is not paid on or before January 2, 2018, interest will accrue at the rate of 15% per year until paid. The warrants have the following terms:
  - 375,000 warrants to purchase 375,000 shares of common stock of the Company at a strike price of \$0.665 per share expiring on September 29, 2019,
  - 375,000 warrants to purchase 375,000 shares of common stock of the Company at a strike price of \$1.25 per share expiring on September 29, 2020,
  - 185,000 warrants to purchase 185,000 shares of common stock of the Company at a strike price of \$2.00 per share expiring on September 29, 2020.

Each tranche of warrants is subject to down round adjustment provisions if the Company during the term of that tranche issues additional securities for consideration per share, after giving effect to fees, commission and expenses, that is less, or which on conversion or exercise of the underlying security is less, than \$0.665 per share (as adjusted for any change resulting from forward or reverse splits, stock dividends and similar events).

To satisfy most favored nation provisions in previously entered securities purchase agreements that are triggered by the transaction described above, Company will issue 136,015 shares of common stock and warrants to purchase 136,015 shares of common stock, in the aggregate, to certain investors who purchased units from the Company, at a \$1.00 per unit, with each unit consisting of one share and one warrant. See the Company's Current Report on the Form 8-K filed with the SEC on June 5, 2017. Of this amount, 100,752 shares and warrants to purchase 100,752 shares of common stock will be issued to Wilshire Energy Partners LLC, an entity controlled by Kevin J. Sylla. The exercise price of these investor warrants was adjusted to \$0.665 per share. We measured the value of the effect of the down round feature as the difference between the fair value of the financial instrument at an original exercise price of \$1.50 and an adjusted exercise price of \$0.665 and, as a result, \$59,801 was recorded as down round feature as a dividend under retained earnings under ASC 260-10-30-1. Foothills determined the amount of \$59,801 using the Black-Scholes option-pricing model based on the following assumptions: (i) volatility rate of 94%, (ii) discount rate of 0%, (iii) zero expected dividend yield, and (iv) expected life of 3 years.

From its inception in December 2015 through September 30, 2017, Foothills generated \$99,527 in revenue from its principal business operations and is currently still an exploration stage company. Prior to January 2016, Foothills' operations were focused mainly on administrative activities connected to the identification and evaluation of potential oil and gas prospects and other potential leasehold acquisitions in our geographical areas of interest.

On December 30, 2016, the Company acquired various oil and gas assets in Utah from a subsidiary of New Times Energy Corporation Limited ("New Times"). These assets included certain oil and gas wells throughout the Uinta Basin in Utah, on acreage with

over 30 proven undeveloped drilling locations, additional non-operating interest in other leases, and access to approximately 6,000 acres in the Uinta Basin with proven and probable reserves and existing infrastructure in place. This purchase provides the Company with an entry point into the Uinta Basin and a basis from which to seek other bolt-on acquisition opportunities in the Rockies. The transaction delivers to the Company a licensed and bonded operator in Utah having bonds in place with the Bureau of Land Management (BLM), State of Utah and Bureau of Indian Affairs (BIA).

Through this acquisition from New Times, the Company also obtained six shut-in wells in the Natural Buttes Field, Utah. After the acquisition, these wells were worked over and brought back online with production averaging around 183 barrels per month in Q2 2017. The Company plans to work over the remaining three wells in the coming months.

The transaction provides the Company with the rights to an agreement to acquire up to 6,000+ acres and up to 16 shut-in oil and gas wells with proved and proved undeveloped reserves on Ute Tribal lands in the Uinta Basin. These properties provide in-field drilling potential, the ability to bring online shut-in wells and behind pipe development. Five shut-in wells located on fee lands in the Altamont-Bluebell Field that are undergoing title curative have the potential to achieve near term production with stimulation and the addition of surface equipment.

Furthermore, this acquisition delivered to the Company an additional 40% working interest in the Ladysmith Prospect, covering 3,060 acres in the Greater Green River Basin, Wyoming, increasing the Company's pre-acquisition working interest of 35% up to a total of 75%.

Lastly, through this acquisition, the Company also acquired 13,166,667 shares of common stock, constituting 55.63% of the outstanding shares of Grey Hawk Exploration, Inc. ("Grey Hawk"), a British Columbia, Canada company. Grey Hawk owns a non-operated working interest in two wells in the southern portion of the Greater Natural Buttes Field in Utah. These two wells are not currently producing.

A third party independent study conducted on behalf of the Company in Q4 2016 estimates a total of 1.28 million barrels of net proved reserves for the Uinta Basin properties from the Green River and Wasatch Formations.

To acquire these assets, the Company paid a total consideration of \$10.75 million in a combination of cash, stock and promissory note consisting of:

- \$750,000 cash;
- 2,083,334 shares of the Company's restricted common stock valued by the parties at \$4,000,000 at an agreed upon price per share of \$1.92; and a
- Promissory note in the principal amount of \$6,000,000 due and payable in full 18 months from December 30, 2016 and accruing no interest during its term.

For financial accounting purposes the 2,083,334 shares were valued at the closing market price on the day of the transaction, which was \$1.83, accordingly the shares were presented at a value of \$3,812,501 on the Company's financial statements on December 30, 2016.

Our financial statements reflect that our current liabilities exceed our current assets and it is possible that the historical value of the assets that we record on our books may not be attained on a sale or other disposition for cash. We require substantial additional operating capital to maintain current operations and to implement even a portion of our identified acquisitions and workovers. Additional capital, if available at all, will likely be on onerous terms that are also dilutive to our shareholders. No assurance can be given that we will obtain any additional capital. As a consequence, an investment in our shares or other securities is extremely speculative and may result in a complete loss of your investment.

### **Market Environment**

The U.S. energy markets continued to see improved fundamentals for both crude oil and natural gas markets during 3Q17, as prices remained in a tight range for both products and volatility at the low end of the range relative to historic averages. Looking ahead at the remainder of the year and into 2018, we believe the U.S. energy markets are poised for a major price move for both crude oil and natural gas prices as well as a significant uptick in price volatility. Our bias remains moderately bullish for both WTI and natural gas prices going forward and we are looking for a breakout above the current trading ranges that has dominated year-to-date.

**Oil** - As disclosed in our previous Form 10-Q Quarterly Report for period ended June 30, 2017, OPEC and Non-OPEC producing nations' production cuts announced earlier in the year have reportedly begun to reduce global oil supplies. We are now seeing that in the global pricing structure as Brent crude oil price is now trading at roughly a \$6 premium to the WTI crude oil price. We believe that the catalyst for the widening spread is twofold: 1) U.S. shale production continued to grow reportedly reaching 9.2 million barrels per day, its highest level since November 2015 and 2) global oil supplies reportedly are falling, highlighted by a 14.2 million barrel drop in August 2017. We believe that when Brent trades at a \$4 premium or greater to WTI, U.S. oil becomes a more attractive export, resulting in greater U.S. oil exports in 2017. We expect that this trend likely may continue in 2018. In short, robust U.S. oil exports coupled with strong U.S. demand for refined products, should accelerate in our view the decline rate for U.S. oil supplies and be supportive of oil prices moving forward.

Global demand for crude oil continues grow at a steady pace. The International Energy Agency (IEA) in its most recent monthly oil market report for October 2017 forecasted global demand for crude oil growing by 1.6 million barrels per day (bpd) in 2017 and by 1.4 million bpd in 2018. The IEA also estimates that global oil demand will reach 100.0 million barrels per day in Q4 2018, which would set a record that in our view will become a key psychological level for the oil markets. In the U.S., the IEA forecasts gasoline demand will average 9.3 million barrels per day in 2017, and 9.4 million barrels per day in 2018, an annual increase of 1%. Reported global demand for oil and refined products are at or near record levels, which is alleviating the supply overhang and in our view supporting a bullish outlook heading into the end of the year and into 2018.

**Natural Gas** - After being in a bear market for nearly a decade, we believe that commodity fundamentals have significantly improved over the course of 2017 to date. With LNG exports and exports to Mexico reportedly at record levels, the U.S. appears slated to become a net exporter of natural gas for the first time since 1957. We expect U.S. dry gas production to be roughly 71 BCF per day in 2017, while demand and export growth should average about 76 BCF per day. Given this, the natural gas storage glut has been significantly

reduced with current storage levels now at the trailing 5-year average as we head into the heating/withdrawal season. A stronger-than-expected heating season driven by colder than average temperatures in key heating regions could send natural gas prices above \$4.00 MMBtu.

## **Our Strategy**

Foothills' strategic objective is to build a portfolio of producing properties that have relatively low operating costs, long lived reserves and upside development potential. The Company's goal is to build a land bank of over 200,000 acres of proven, probable and prospective reserves during this period of relatively low commodity pricing. Foothills intends to accomplish this by acquiring oil and gas properties with attractive valuation metrics and attractive geological risk/reward profiles that are well positioned to benefit from an improvement in commodity prices. No assurance can be given that we will be able to achieve this objective.

The Company's primary focus is the Rocky Mountain region, where its consultants and technical staff have conducted oil and gas operations and collectively have in our view developed significantly material operating experience. Management believes that the Company's tight geographical focus and regional experience, coupled with our strategic industry relationships may advantageously position Foothills to acquire high quality oil and gas assets at attractive valuations in the current environment.

The Company's acquisitions and roll up strategy is based on identifying undercapitalized, yet attractive oil and gas assets selling at what we anticipate to be a discount to intrinsic value. Foothills focuses on acquiring oil and gas assets that have existing production, with existing infrastructure in place and future developmental potential. Once we acquire oil and gas assets, management expects to target adjacent oil and gas properties with similar characteristics for bolt on acquisitions to increase our geographical acreage position. By consolidating and exploiting additional acreage as part of its rollup strategy, management intends to achieve operating efficiencies to maximize shareholder value.

## **Wyoming Properties**

The principal Wyoming assets owned by the Company consist of non-producing, yet prospective mineral leases spread across four key projects: (i) Springs, (ii) Ladysmith, and (iii) Paw Paw.

### *Springs Project*

Consisting of 38,120 contiguous acres, the Springs project is a multiple objective oil resource play in the Greater Green River Basin. The prospect's unconventional target is a Niobrara and Mowry fractured shale. Numerous oil and gas shows in the Niobrara and Mowry shales surround the prospect acreage. Foothills has also identified and mapped several conventional drilling targets in the Muddy and Tensleep throughout the prospect area. The Springs project has been reevaluated as a Paleozoic stacked carbonate, dolostone, sandstone resource play dominated by pressure and thermal maturity. The Company is currently working on a proposed unit outline for the BLM, which it plans to submit during Q4.

### *Tiger Energy Operating, LLC*

Tiger Energy Operating, LLC, ("TEO") is a licensed and bonded oil and gas operator in the state of Utah. TEO is the operator of record for a total of six oil and gas wells situated on 280 acres in the Duck Creek area of the Altamont Bluebell field. In late 2015 and early 2016 these wells were shut-in due to financial issues with the previous owner. Recent work over operations have yielded oil production from the Green River formation from three wells brought back online in Q1 2017, which delivered total revenues of about \$96,991 during nine months ended September 30, 2017. However, at the present time, all six (6) wells are currently shut-in and not producing. The Company is working to bring all of these wells back into production during Q4. TEO has cash and surety bonds in place with the Bureau of Land Management, Bureau of Indian Affairs and Utah Department of Natural Resources Division of Oil, Gas and Mining that are valued at about \$295,000.

### *Tiger Energy Partners International, LLC*

Tiger Energy Partners International, LLC, ("TEPI") owns all rights and interests pertaining to the Global Settlement Agreement ("GSA") for the Uintah and Ouray Reservation between Mountain Oil & Gas, Inc. and the MOG Entities (Craig Phillips) and the Ute Indian Tribe (the "Tribe") of the Uintah and Ouray Reservation, dated December 22, 2014. This GSA is the subject of an administrative approval request made to the BIA, and if approved, as to which no assurance can be given, TEPI will need to obtain substantial additional funds to satisfy its obligations described in the GSA. TEPI also owns all rights and interests acquired in the Purchase and Sale Agreements between TEPI and Mountain Oil & Gas, Inc. dated April 16, 2012, and December 18, 2012. This GSA is currently being renegotiated by the parties and is expected to be finalized sometime during the following quarter. The Company is bound by confidentiality provisions in the GSA and as such is prohibited from disclosing any additional details.

### *Tiger Energy Mineral Leasing, LLC*

Tiger Energy Mineral Leasing, LLC ("TEML") owns certain non-operating working interests, with Rig II, LLC, as the operator, in leases located in Duchesne County, Utah. The non-operated working interest currently has two producing wells, which generated revenues of approximately \$1,746 during Q2. In addition, TEML also owns a 40% working interest, in the Ladysmith prospect, which increases the Company's total working interest in this prospect to 75%. TEML also owns all rights and interests pertaining to the Rio Capital Acquisition dated September 25, 2014, pertaining to oil and gas leases in the Altamont-Bluebell field located in Duchesne and Uintah Counties, Utah.

## **Gulf Coast Properties**

On December 15, 2016, the Company announced a Participation Agreement with Magna Operating, LLC, in relation to the Labokay prospect, covering 240 acres in Calcasieu Parish, Louisiana.

### *Labokay Prospect*



Labokay is an “amplitude *versus* offset” (“AVO”) oil play in Southwestern Louisiana targeting the Frio Nododaria Blanpiedi Sand. On February 14, 2017, the Company announced that it had reached total depth in its Labokay Prospect well located in Calcasieu Parish, Louisiana. The well was drilled to a total measured depth of 8,795 feet where hydrocarbon shows were present, but not in commercial quantities to warrant completion. The well has been plugged and abandoned as required. The Company estimates well costs incurred or to be incurred for the Labokay at approximately \$1.3 million, including plugging and abandonment liability.

## **Plan of Operations**

Current energy prices have exposed attractive U.S. based assets that are poorly capitalized and neglected, which are now selling at discounted prices, providing multiple entry points to acquire attractive oil and gas assets. Foothills intends to acquire dislocated and non-core oil and gas assets from larger exploration and production companies.

Foothills is focused on acquiring and rolling up smaller operators in a considerably fragmented oil and gas market and through consolidation, management believes Foothills can effectively scale its production and acreage position and collectively unlock value in the acquired oil and gas assets to create shareholder value. No assurance can be given that the Company will acquire adequate cash or other resources to be able to attain any of these objectives.

### **Acquiring additional assets and companies in the Rockies**

The Company is targeting acquisitions in a tightly defined geographical area of interest, which meet certain metrics and future development potential. The Company anticipates that these acquisitions will be funded through the sale of common stock, debt and cash generated from the Company's financing activities, including public, private and possible institutional offerings in capital market transactions and future reserve based lending activities. Subject to the securing of additional capital, the Company anticipates making additional bolt-on acquisitions of producing properties, which can potentially be leveraged and optimized by applying its technical capabilities and improving operational efficiencies. Although the Company is currently evaluating several prospective acquisitions, which meet its criteria, no assurance can be given that it will be successful in any of these endeavors.

### **Retain Operational Control and Significant Working Interest**

In its principal acquisition and development targets, the Company aims to preserve operational control of its development and drilling activities. As the operator for its projects, the Company retains more control over the timing, selection and process of drilling prospects and completion design, which enhances its ability to maximize the return on invested capital and gives greater control over the timing, allocation and amounts of capital expenditures.

### **Leasing of Prospective Acreage**

In the course of our day-to-day business, the Company regularly identifies drilling and development opportunities on additional acreage in its areas of interest that have not yet been leased. Subject to securing additional capital, the Company may take the initiative to lease prospective acreage in our areas of interest and may sell all or any portion of our leased acreage to other companies seeking to participate in the drilling and development of the prospect acreage.

## **Government Regulations**

### *Governmental Regulation and Environmental Consideration*

The oil and gas business in the United States is subject to regulation by both federal and state authorities, particularly with respect to pricing, allowable rates of production, marketing and environmental matters. The production of crude oil and gas has, in recent years, been the subject of increasing state and federal controls. No assurance can be given that newly imposed or changed federal laws will not adversely affect the economic viability of any oil and gas properties we currently own and/or may acquire in the future. Federal income and "windfall profit" taxes have in the past affected the economic viability of such properties. The following discussion provides a brief overview of potential state and federal regulations. Because Foothills to date has acquired specific properties, and because of the wider range of activities in which the Company expects to participate, management believes that it is not practical currently to set forth in detail the potential impact federal and state regulations may have on our operations.

### *The Department of Energy*

The Department of Energy Organization Act (Pub. L. No. 95-91) became effective October 1, 1977. Under this Act various agencies, including the Federal Energy Administration (FEA) and the Federal Power Commission (FPC), have been consolidated to constitute the cabinet-level Department of Energy (DOE). The Economic Regulatory Administration (ERA), a semi-independent administration within the DOE, now administers most of the regulatory programs formerly managed by the FEA, including oil pricing and allocation. The Federal Energy Regulatory Commission (FERC), an independent agency within the DOE, has assumed the FPC's responsibility for natural gas regulation.

## *Crude Oil and Natural Gas Liquids Price and Allocation Regulation*

Pursuant to Executive Order Number 12287, issued January 28, 1981, President Reagan lifted all existing federal price and allocation controls over the sale and distribution of crude oil and natural gas liquids. Executive Order Number 12287 was made effective as of January 28, 1981, and consequently, sales of crude oil and natural gas liquids after January 27, 1981 are free from federal regulation. The price for such sales and the supplier-purchaser relationship will be determined by private contract and prevailing market conditions. Because of this action, oil that may be sold by us will be sold at deregulated or free market prices. At various times, certain groups have advocated the reestablishment of regulations and control on the sale of domestic oil and gas.

## *State Regulations*

Foothills' production of oil and gas, if any, will be subject to regulation by state regulatory authorities in the states in which we may produce oil and gas. In general, these regulatory authorities are empowered to make and enforce regulations to prevent waste of oil and gas and to protect correlative rights and opportunities to produce oil and gas as between owners of a common reservoir. Some regulatory authorities may also regulate the amount of oil and gas produced by assigning allowable rates of production.

## *Environmental Laws*

Oil and gas exploration and development are specifically subject to existing federal and state laws and regulations governing environmental quality and pollution control. Such laws and regulations may substantially increase the costs of exploring for, developing, or producing oil and gas and may prevent or delay the commencement or continuation of a given operation.

All of our operations involving the exploration for or the production of any minerals are subject to existing laws and regulations relating to exploration procedures, safety precautions, employee health and safety, air quality standards, pollution of streams and fresh water sources, odor, noise, dust, and other environmental protection controls adopted by federal, state and local governmental authorities as well as the right of adjoining property owners. We may be required to prepare and present to federal, state or local authorities data pertaining to the effect or impact that any proposed exploration for or production of minerals may have upon the environment. All requirements imposed by any such authorities may be costly, time consuming, and may delay commencement or continuation of exploration or production operations.

It may be anticipated that future legislation will significantly emphasize the protection of the environment, and that, as a consequence, our activities may be more closely regulated to further the cause of environmental protection. Such legislation, as well as future interpretation of existing laws, may require substantial increases in equipment and operating costs to us and delays, interruptions, or a termination of operations, the extent to which cannot now be predicted.

## *Title to Properties*

Foothills owns the interest in its properties and also at times relies on contracts with the owner or operator of the property, pursuant to which, among other things, the Company has the right to have its interest placed of record. As is customary in the oil and gas industry, we anticipate that a preliminary title examination will be conducted at the time unproved properties or interests are acquired by us. Prior to commencement of drilling operations on such acreage and prior to the acquisition of proved properties, Foothills will conduct a title examination and attempt to cure materially significant defects before proceeding with operations or the acquisition of proved properties, as it may deem appropriate. Foothills properties are subject to royalty, overriding royalty and other interests customary in the industry, liens incident to agreements, current taxes and other burdens, minor encumbrances, easements and restrictions. Foothills' Utah properties acquired from Total Belief Limited on December 30, 2016, are subject to a certain Bureau of Indian Affairs ("BIA") Administrative Appeal and a Ute Indian Tribe Global Settlement Agreement, each of which does or may affect title to some, all or none of the properties acquired. Foothills is currently attempting to cure title on these properties, subject to the outcome of the BIA Administrative Appeal, which is still ongoing as of November 14, 2017. To the extent that such defects or disputes exist and cannot be cured, Foothills would suffer title failures, which could result in property valuation impairments and other material adverse consequences to the operations of the Company.

## **Corporate Headquarters and Subsidiary Locations**

We are headquartered in Denver, Colorado, where we have a 4,295 square feet of corporate office space. We also have a 1,532-square foot division office in Houston, Texas, and our indirect subsidiary also maintains a 1,500-square foot office in Woodland Hills, California. Effective May 1, 2017, we signed a 39-month lease for our Denver corporate office and effective April 1, 2017, we signed a 37-month lease for our Houston division office. Our California offices are rented on a month-to-month basis. Total combined rent for all three locations is approximately \$16,577 per month and the Company deems them to be adequate for our current operations.

## Results of Operations

### Three months ended September 30, 2017 compared to three months ended September 30, 2016

#### Revenue

We had revenue of \$573 for the three months ended September 30, 2017, and no revenues for the three months ended September 30, 2016. We can provide no assurance that we will continue drilling and revenue producing operations or that such drilling and revenue operations, if continued, will be successful.

#### Operating Expenses

Selling, general and administrative expenses consist primarily of salaries and related expenses for our management and personnel, and professional fees, such as accounting, consulting and legal. During the three months ended September 30, 2017 and 2016, we incurred \$854,443 and \$504,980 in selling, general and administrative expenses, \$18,592 and \$0 in depreciation, depletion and amortization and \$45,419 and \$0 in impairment of oil and gas properties related to abandonment of Labokay, respectively. The increase in selling and administrative expenses is primarily attributed to the increase of development of newly acquired wells on December 30, 2016, and the Company's ongoing evaluation of prospective acquisitions.

#### Other Expenses

Interest expense (income) for the three months ended September 30, 2017 and 2016, was \$127,891 and \$(86), respectively. The increase in interest expense is primarily attributed to new notes entered into in 2017.

#### Debt forgiveness

Gain on extinguishment of debt for the three months ended September 30, 2017 and 2016, were \$48,407 and \$0, respectively. The increase in gain on extinguishment of debt is primarily attributed to a legal settlement and accrued interest forgiven under a note which was paid off during the three months ended September 30, 2017.

#### Net Loss

As a result of the foregoing, during the three months ended September 30, 2017 and 2016, we recorded a net loss of \$997,365 and \$504,894, respectively.

### Nine months ended September 30, 2017 compared to nine months ended September 30, 2016

#### Revenue

We had revenue of \$99,527 for the nine months ended September 30, 2017, and no revenues for the nine months ended September 30, 2016. We can provide no assurance that we will continue drilling and revenue producing operations or that such drilling and revenue operations, if continued, will be successful.

#### Operating Expenses

Selling, general and administrative expenses consist primarily of salaries and related expenses for our management and personnel, and professional fees, such as accounting, consulting and legal. During the nine months ended September 30, 2017 and 2016, we incurred \$2,800,984 and \$1,365,108 in selling, general and administrative expenses, \$55,389 and \$0 in depreciation, depletion and amortization and \$1,328,637 and \$0 in impairment of oil and gas properties related to abandonment of Labokay, respectively. The increase in selling and administrative expenses is primarily attributed to the increase of development of newly acquired wells on December 30, 2016.

#### Other Expenses

Interest expenses for the nine months ended September 30, 2017 and 2016, were \$377,566 and \$27,924, respectively. The increase in interest expense is primarily attributed to new notes entered into for the nine months ended September 30, 2017.

#### Debt forgiveness

Gain on extinguishment of debt for the three months ended September 30, 2017 and 2016, was \$48,407 and \$0, respectively. The increase in gain on extinguishment of debt is primarily attributed to a legal settlement and accrued interest forgiven under a note which was paid off during the nine months ended September 30, 2017.

#### Net Loss

As a result of the foregoing, during the nine months ended September 30, 2017 and 2016, we recorded a net loss of \$4,414,642 and \$1,393,032, respectively.

## Liquidity and Capital Resources

As shown in the accompanying financial statements, we incurred an accumulated loss of \$6,449,037 through September 30, 2017, and have a working capital deficit of \$10,075,738 at September 30, 2017. The Company is subject to those risks associated with exploration stage companies. The Company has sustained losses since inception and additional debt and equity financing will be required by the Company to fund its development activities and to monetize economically recoverable oil and gas reserves.

On September 30, 2016, we entered into a Securities Purchase Agreement to sell 3,007,519 shares of our common stock to a single investor for proceeds totaling \$2,000,000.

On May 10, 2017, we entered into a convertible note agreement with an unrelated party, pursuant to which we borrowed \$50,000 at an annual percentage rate of 10% with a term of 12 months. This note may, at the option of the Lender, be converted at any time prior to September 7, 2017, into fully-paid, restricted and non-assessable shares of common stock of the Company at a price equal to 100% of the selling price of such common stock in a private placement to institutional and/or accredited investors initiated by the Company during the term of this note.

On May 31, 2017, we entered into a Securities Purchase Agreement with Wilshire Energy Partners, LLC, a principal shareholder, pursuant to which we sold and agreed to issue 200,000 units at a purchase price of \$1.00 per unit for an aggregate amount of \$200,000. Each unit consisted of one share of the Company's common stock and one warrant to purchase a share of the Company's common stock, exercisable for a period of three years from the date of original issuance at an exercise price of \$1.50 per share. Wilshire Energy Partners, LLC, is controlled by Kevin J. Sylla, our Executive Chairman and Chief Executive Officer of FPI, and has been determined to be a Related Party. See the Company's 8-K filed June 5, 2017 with the Commission and exhibit thereto. On September 29, 2017, we issued 100,752 additional shares of common stock and amended warrants to purchase 300,752 shares of common stock of the Company at a strike price of \$0.665 per share due to down round feature triggered by warrant issued at a strike price of \$0.665 per share on the day.

On June 15, 2017, we entered into a Securities Purchase Agreement with Zhuge Liang, LLC, pursuant to which we sold and agreed to issue 20,000 units at a purchase price of \$1.00 per unit for an aggregate amount of \$20,000. Each unit consisted of one share of the Company's common stock and one warrant to purchase one additional share of the Company's common stock, exercisable for a period of three years from the date of original issuance at an exercise price of \$1.50 per share. We received initial \$10,000 on June 15, 2017, and the balance of the subscribed amount in July 2017. On September 29, 2017, we issued 10,075 additional shares of common stock and amended warrants to purchase 30,075 shares of common stock of the Company at a strike price of \$0.665 per share due to down round feature triggered by warrant issued at a strike price of \$0.665 per share on the day.

On June 30, 2017, we entered into a Securities Purchase Agreement with a third party investor, pursuant to which we sold and agreed to issue 25,000 units at a purchase price of \$1.00 per unit for an aggregate amount of \$25,000. Each unit consisted of one share of the Company's common stock and one warrant to purchase one additional share of the Company's common stock, exercisable for a period of three years from the date of original issuance at an exercise price of \$1.50 per share. On September 29, 2017, we issued 12,594 additional shares of common stock and amended warrants to purchase 37,594 shares of common stock of the Company at a strike price of \$0.665 per share due to down round feature triggered by warrant issued at a strike price of \$0.665 per share on the day.

On July 10, 2017, we entered into a Securities Purchase Agreement pursuant to which we sold 25,000 units at a purchase price of \$1.00 per unit for an aggregate amount of \$25,000. Each unit consisted of one share of the Company's common stock and one warrant to purchase a share of the Company's common stock, exercisable for a period of three years from the date of original issuance at an exercise price of \$1.50 per share. On September 29, 2017, we issued 12,594 additional shares of common stock and amended warrants to purchase 37,594 shares of common stock of the Company at a strike price of \$0.665 per share due to down round feature triggered by warrant issued at a strike price of \$0.665 per share on the day.

Management believes that its existing cash on hand will only be sufficient to fund its operations for a short period of time. The Company also continues to search for producing and/or additional productive properties and seeks to strategically lease additional acreage positions adjoining leases currently owned by the Company. There can be no assurance that the Company's efforts will be successful in any of these endeavors, or that those efforts will translate in a beneficial manner to the Company. The accompanying statements do not include any adjustments relating to the recoverability and classification of assets and/or liabilities that might be necessary, should the Company be unable to continue as a going concern.

### *Operating Activities*

During the nine months ended September 30, 2017 and 2016, we used \$1,785,870 and \$1,044,232 of cash in operating activities, respectively. Non-cash adjustments included \$1,328,637 and \$0 related to assets written off, \$848,683 and \$26,872 related to stock compensation expense, \$15,497 and \$0 in deferred rent, \$172,534 and \$0 related to amortization of debt discount, \$55,389 and \$0 in depreciation and amortization, \$8,751 and \$0 related to accretion of asset retirement obligation, gain on settlement of debt and contingent liability of \$48,407 and \$0 and net changes in operating assets and liabilities of \$247,688 and \$321,928, respectively.

### *Investing Activities*

During the nine months ended September 30, 2017, we used \$1,814,435 net cash in investing activities for acquisition of an oil and gas property. During the nine months ended September 30, 2016, we acquired \$97,920 in oil and gas property.

## *Financing Activities*

During the nine months ended September 30, 2017, we received \$2,870,000 net cash from financing activities, which includes \$1,250,000 in proceeds from the issuance of related party notes payable, \$2,300,000 in proceeds from the issuance of unrelated party notes payable, \$1,000,000 in repayments to notes payable, \$50,000 in proceeds from the issuance of convertible note payable and \$270,000 in proceeds from issuance of 270,000 units at a purchase price of \$0.665 per unit. Each unit consisted of one share of the Company's common stock and one warrant to purchase one additional share of the Company's common stock, exercisable for a period of three years from the date of original issuance at an exercise price of \$0.667 per share. During the nine months ended September 30, 2016, we received \$2,400,000 net cash from financing activities, which includes \$2,000,000 in proceeds from sales of common stock and \$400,000 in proceeds from issuance of notes payable.

### **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, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

### **Critical Accounting Policies**

Our discussion and analysis of our results of operations, liquidity and capital resources are based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In accordance with GAAP, we are required to make estimates and assumptions that affect the reported amounts included in our financial statements. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. On an ongoing basis, management reviews and refines those estimates.

Management's judgments are based on information including, but not limited to, historical experience, industry trends, conventional practices, expert opinions, terms of existing agreements and information from outside sources. Judgments are subject to an inherent degree of uncertainty, and therefore actual results could differ from these estimates.

### **Item 3. QUANTITATIVE AND QUALITATIVE ANALYSIS ABOUT MARKET RISK**

As a "smaller reporting company" as defined by Item 10 of Regulation S-K, the Company is not required to provide the information required by this Item.

### **Item 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our 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 our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), our management carried out an evaluation, with the participation of our Chief Executive and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective at the reasonable assurance level.

A material weakness is a control deficiency (within the meaning of the Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 2) or combination of control deficiencies that result in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management has identified the following two material weaknesses in our disclosure controls and procedures:

1. We do not have written documentation of our internal control policies and procedures. Written documentation of key internal controls over financial reporting is a requirement of Section 404 of the Sarbanes-Oxley Act. Management evaluated the impact of our failure to have written documentation of our internal controls and procedures on our assessment of our disclosure controls and procedures and has concluded that the control deficiency that resulted represented a material weakness.
2. We do not have sufficient segregation of duties within accounting functions, which is a basic internal control. Due to our size and nature, segregation of all conflicting duties may not always be possible and may not be economically feasible. However, to the extent possible, the initiation of transactions, the custody of assets and the recording of transactions should be performed by separate individuals. Management evaluated the impact of our failure to have segregation of duties on our assessment of our disclosure controls and procedures and has concluded that the control deficiency that resulted represented a material weakness.

To address these material weaknesses, management performed additional analyses and other procedures to ensure that the financial statements included herein fairly present, in all material respects, our financial position, results of operations and cash flows for

the periods presented.

**Changes in Internal Controls**

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

From time to time, we may be involved in routine legal proceedings, as well as demands, claims and threatened litigation that arise in the normal course of our business. The ultimate amount of liability, if any, for any claims of any type (either alone or in the aggregate) may materially and adversely affect our financial condition, results of operations and liquidity. In addition, the ultimate outcome of any litigation is uncertain. Any outcome, whether favorable or unfavorable, may materially and adversely affect us due to legal costs and expenses, diversion of management attention and other factors. We expense legal costs in the period incurred. We cannot assure you that additional contingencies of a legal nature or contingencies having legal aspects will not be asserted against us in the future, and these matters could relate to prior, current or future transactions or events.

We are currently a party to the following legal proceedings:

SCI Welding & Oilfield Service vs. Tiger Energy Operating LLC. (Case Number 169000023, Eighth District Court-Roosevelt Duchesne County, State of Utah)

This case concerns the collection of unpaid debt owed by Tiger Energy Operating, LLC (TEO), concerning the workover of wells in Duchesne County, Utah, in the amount of \$64,470. The Company and SCI Welding reached an agreement to settle the matter for \$35,000. SCI Welding is in receipt of such settlement funds. Prior to October 10, 2017, the parties had agreed that a Stipulated Motion to Dismiss was to have been filed by opposing counsel. Upon filing this Motion, all claims against Tiger Energy Operating in the underlying case no. 169000023 will have been resolved with no further judicial intervention required.

Graco Fishing & Rental Tools, Inc. vs. Tiger Energy Operating LLC., (Case No. 160800005 Eighth Judicial District Court in and for Duchesne County, State of Utah)

This case concerns the collection of unpaid debt owed by TEO for services performed by plaintiff, which existed at the time of acquisition. A default judgment in the amount of \$159,965 was obtained on June 1, 2016, against TEO, for unpaid accounts in connection with its workover of wells in Duchesne County, Utah. Graco has filed a writ of execution against the A Rust 2, Dye-Hall 2-21 A1, Wilkins 1-24 A5 and Rust 3-22A-4 wells located in Duchesne County. A Motion to Set Aside a sheriff's sale concerning these properties was filed based on the fact that TEO is not the owner of these properties. A hearing for this matter was held on May 1, 2017, in Duchesne County, Utah, at which a Company representative was present to comply with the court's order to produce documents. Prior to the hearing, TEO made an initial settlement offer, which was eventually rejected by the Plaintiffs. The matter remains unresolved as of the filing of this report. The Company and Graco are in negotiations to settle this matter but as of the date of this report no firm settlement agreement had yet been reached by the parties.

Conquest Well Servicing, LLC vs. Foothills Exploration Operating, Inc. (Case No. 179800421 Eighth Judicial District Court in and for Uintah County, State of Utah)

This case was filed on September 11, 2017 and concerns the collection of unpaid debt owed by Foothills Exploration Operating, Inc., a wholly-owned subsidiary of the Company, for services performed by plaintiff in the amount of \$49,689 for unpaid accounts in connection with its workover of wells in Uintah County, Utah. A Settlement Agreement and Stipulation to Entry of Judgement for the full amount of the suit was agreed to by the parties and filed with the court on or around October 10, 2017.

In February 2017, the Company drilled a test well on the Labokay prospect to the total measured depth of 8,795 feet, where hydrocarbons shows were present, but not in commercial quantities to warrant completion. Consequently, the Labokay test well was plugged and abandoned in February 2017. Since the well was not commercially viable, the Company's working interest in the underlying mineral lease terminated and we no longer have title to said property.

The three civil suits filed below were all filed against Foothills Petroleum Operating, Inc. ("FPOI"), a wholly-owned subsidiary of the Company, and all stem from unpaid accounts in connection with drilling of the Labokay test well.

R.W. Delaney Construction Company vs Foothills Petroleum Operating, Inc. (Cause No. 2017-CV-0330 – County Court of Adams County, Mississippi)

This case was filed on September 18, 2017, and concerns the collection of unpaid debt owed by FPOI for services performed by plaintiff in the amount of \$72,495.00 for unpaid accounts in connection with its drilling of the Labokay test well in Calcasieu Parish, Louisiana. The Company is in the process of retaining counsel and plans to file a response with the court in the near future.



Performance Drilling Company, LLC vs Foothills Petroleum Operating, Inc. (Case No. 2017-3916 G Fourteenth Judicial District Court in Parish of Calcasieu, State of Louisiana)

This case was filed on September 25, 2017, and concerns the collection of unpaid debt owed by FPOI for services performed by plaintiff in the amount of \$205,251.24 for unpaid accounts in connection with its drilling of the Labokay test well in Calcasieu Parish, Louisiana. The Company is in the process of retaining counsel and plans to file a response with the court in the near future.

Monster Rentals, LLC dba Deepwell Equipment Rentals vs Foothills Petroleum Operating, Inc. (Case No. 201711013-E – Fifteenth Judicial District Court in Parish of Acadia, State of Louisiana)

This case was filed on October 24, 2017, and concerns the collection of unpaid debt owed by FPOI for services performed by plaintiff in the amount of \$53,943.53 for unpaid accounts in connection with its drilling of the Labokay test well in Calcasieu Parish, Louisiana. The Company is in the process of retaining counsel and plans to file a response with the court in the near future.

**Item 1A. RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1, “Risk Factors” in our Current Report on Form 10-K filed on April 14, 2017, which could materially affect our business, financial condition or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. Our financial statements reflect that our current liabilities exceed our current assets and it is possible that the historical value of the assets that we record on our books may not be attained on a sale or other disposition for cash. We require substantial additional operating capital to maintain current operations and to implement even a portion of our identified acquisitions and workovers. Additional capital, if available at all, will likely be on onerous terms that are also dilutive to our shareholders. No assurance can be given that we will obtain any additional capital. As a consequence, an investment in our shares or other securities is extremely speculative and may result in a complete loss of your investment.

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

During the nine months ended September 30, 2017, the Company issued 406,015 shares of common stock to various parties for cash, in the amount of \$270,000. The Company utilized these proceeds for general operating purposes.

During the nine months ended September 30, 2017, the Company issued 275,000 shares of common stock to various third parties for services, valued at \$453,500.

During the nine months ended September 30, 2017, the Company issued 160,000 shares of common stock for services to CEO and directors in the amount of \$3,541.

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**Item 4. MINE SAFETY DISCLOSURES**

Not Applicable.

**Item 5. OTHER INFORMATION**

None.

**Item 6. EXHIBITS**

<b>No.</b>	<b>Description</b>
3.1	<a href="#">Certificate of Amendment of Certificate of Incorporation of Foothills Exploration, Inc. **</a>
3.2	Bylaws of Foothills Exploration, Inc., as currently in effect
10.1	<a href="#">Share Exchange Agreement between Registrant and Foothills Petroleum, Inc., dated May 27, 2016**</a>
10.2	<a href="#">Securities Purchase Agreement between Registrant and Berwin Trading Limited dated June 30, 2016**</a>
10.3	<a href="#">Securities Purchase Agreement between Registrant and Alternus Capital Holdings Ltd. dated December 23, 2015**</a>
10.4	<a href="#">Securities Purchase Agreement between Registrant and Alternus Capital Holdings Ltd. dated April 5, 2016**</a>
10.5	<a href="#">Form of Convertible Promissory Note**</a>
10.5	<a href="#">Form of Wilshire Warrant**</a>
10.6	<a href="#">Form of Zhuge Liang Warrant **</a>



- 10.7 [Business Development Services Agreement with Wilshire Energy Partners LLC and Aegis International LLC\\*\\*](#)
- 10.8 [Executive Director Agreement between Foothills Petroleum, Inc. and Alex M. Hemb dated March 24, 2016\\*\\*](#)
- 10.9 [Executive Director Agreement between Foothills Petroleum, Inc. and Christopher Jarvis dated March 24, 2016\\*\\*](#)
- 10.10 [Executive Employment Agreement between registrant and Ritchie Lanclos dated August 11, 2016\\*\\*](#)
- 10.11 [Executive Employment Agreement between registrant and Eleazar Ovalle dated August 15, 2016\\*\\*](#)
- 31.1 [Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\\*](#)
- 31.2 [Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\\*](#)
- 32.1 [Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\\*](#)
  
- 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 Extension Presentation Linkbase Document\*\*\*

\* Filed herewith.

\*\* Previously filed.

\*\*\* Pursuant to Rule 406T of Regulation S-T, the interactive files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

**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.

Date: November 14, 2017

**FOOTHILLS EXPLORATION, INC.**

By: /s/ B.P. Allaire

B.P. Allaire  
Chief Executive Officer



**CERTIFICATION  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, B.P. Allaire, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Foothills Exploration, Inc.;
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. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) 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 disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2017

/s/ B.P. Allaire

B.P. Allaire

Chief Executive Officer

(Principal Executive Officer and Principal Financial Officer)

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**CERTIFICATION PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, B.P. Allaire, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Foothills Exploration, Inc.;
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. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) 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 disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2017

/s/ B.P. Allaire

B.P. Allaire  
Interim Chief Financial Officer  
(Principal Financial Officer)

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

In connection with the quarterly report of Foothills Exploration, Inc., a Delaware corporation (the "Company"), on Form 10-Q for the three and nine months ended September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, as Principal Executive Officer and Principal Financial Officer, hereby certifies pursuant to 18 U.S.C. Sec. 1350 as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 that, to the undersigned's knowledge:

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

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: November 14, 2017

*/s/ B.P. Allaire*

B.P. Allaire

Chief Executive Officer (Principal Executive Officer) and Interim  
Chief Financial Officer (Principal Financial Officer)

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