

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

FORM 10-Q

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

For the quarterly period ended **March 31, 2018**

OR

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

For the transition period from _____ to _____

Commission file number 333-190836



FOOTHILLS EXPLORATION, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

27-3439423

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

**633 17th Street, Suite 1700
Denver, Colorado**

(Address of principal executive offices)

80202

(Zip Code)

(720) 449-7478

(Registrant's telephone number, including area code)

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

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

Title of Each Class
Common Stock, par value \$0.0001 per share

Name of Each Exchange on Which Registered
Otcmarkets.com

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging Growth Company	<input checked="" 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. [X]

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

As of July 20, 2018, there were 15,050,627 shares of common stock outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Interim Consolidated Financial Statements

FOOTHILLS EXPLORATION, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	<u>March 31, 2018</u> (Unaudited)	<u>December 31, 2017</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ -	\$ 555
Restricted cash	240,000	240,000
Accounts receivable - trade	244	747
Accounts receivable – oil and gas	396,384	31,924
Prepaid expenses	28,619	14,721
Total current assets	<u>665,247</u>	<u>287,947</u>
Oil and gas properties, full cost accounting		
Properties not subject to amortization	3,951,665	2,457,218
Properties subject to amortization, net	10,565,491	10,674,918
Support facilities and equipment, net	237,262	121,502
Net oil and gas properties	<u>14,754,418</u>	<u>13,253,638</u>
Property and equipment, net	11,976	13,821
Other assets:		
Surety and performance bonds	295,000	295,000
Total assets	<u>\$ 15,726,641</u>	<u>\$ 13,850,406</u>
Liabilities and Stockholders' (Deficit) Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,883,191	\$ 3,053,050
Accounts payable – related party	711,798	362,714
Deferred rent	14,610	14,487
Accrued interest	109,411	64,380
Accrued interest - related party	208,048	166,438
Notes payable	1,420,629	1,418,365
Notes payable - related party	7,192,866	7,135,732
Convertible note payable, net	181,783	93,272
Derivative Liabilities	413,362	458,387
Other liabilities	327,891	305,935
Total Current Liabilities	<u>15,463,589</u>	<u>13,072,760</u>
Long-Term Liabilities:		
Asset retirement obligation	306,244	303,327
Total Liabilities	<u>15,769,833</u>	<u>13,376,087</u>
Commitment and Contingencies	-	-
Stockholders' (Deficit) Equity:		
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; 14,900,627 and 14,900,627 shares issued and outstanding, respectively	1,490	1,490
Stock payable	198,975	93,900
Additional paid in capital	9,086,653	8,847,394
Accumulated deficit	(9,330,310)	(8,468,465)
Total stockholders' (deficit) equity	<u>(43,192)</u>	<u>474,319</u>
Total Liabilities and Stockholders' (Deficit) Equity	<u>\$ 15,726,641</u>	<u>\$ 13,850,406</u>

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

FOOTHILLS EXPLORATION, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Revenue	\$ 728,230	\$ 73,894
Operating expenses		
Lease operating expense	467,855	-
Selling, general and administrative expense	730,425	831,753
Depreciation, depletion, amortization and accretion expense	114,375	18,369
Impairment of oil and gas properties	-	1,272,753
Total operating expenses	<u>1,312,655</u>	<u>2,122,875</u>
Loss from operations	(584,425)	(2,048,981)
Other income (expenses):		
Interest expense	(339,625)	(110,518)
Other income	17,180	-
Change in derivative	45,025	-
Total other income (expenses)	<u>(277,420)</u>	<u>(110,518)</u>
Net Loss	<u>\$ (861,845)</u>	<u>\$ (2,159,499)</u>
Net loss per share – basic and diluted	<u>(0.06)</u>	<u>(0.15)</u>
Weighted average common shares – basic and diluted	<u>14,900,627</u>	<u>13,970,001</u>

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

FOOTHILLS EXPLORATION, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Cash Flows from Operating Activities		
Net loss	\$ (861,845)	\$ (2,159,499)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation, depletion, amortization and accretion	114,375	18,369
Impairment of assets	-	1,272,753
Amortization of debt discount	147,909	57,134
Change in derivative value	(45,025)	-
Common stock and warrants issued for inducement of the note extension	105,075	-
Common stock and stock payable issued for services and fair value of options	239,259	202,067
Deferred rent	123	-
Changes in operating assets and liabilities:		
Accounts receivable	(363,957)	(21,988)
Prepaid expenses	(13,898)	(117,484)
Accounts payable and accrued liabilities	264,779	(482,263)
Accounts payable and accrued liabilities - related party	390,694	39,886
Other liabilities	21,956	-
Net cash used in operating activities	<u>(555)</u>	<u>(1,191,025)</u>
Cash Flows from Investing Activities		
Payments for acquisition of oil and gas property	-	(1,474,584)
Net cash used investing activities	<u>-</u>	<u>(1,474,584)</u>
Cash Flows from Financing Activities		
Proceeds from notes payable - related party	-	1,250,000
Proceeds from notes payable	-	1,000,000
Net cash provided by financing activities	<u>-</u>	<u>2,250,000</u>
Net increase in cash, cash equivalents and restricted cash	(555)	(415,609)
Cash, cash equivalents and restricted cash, beginning of period	<u>240,555</u>	<u>1,041,377</u>
Cash, Cash Equivalents and Restricted Cash, end of period	<u>\$ 240,000</u>	<u>\$ 625,768</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>
Supplemental Disclosures of Noncash Investing and Financing Activities:		
Prepaid expenses in shares	<u>\$ -</u>	<u>\$ 260,322</u>
Asset Retirement Obligation	<u>\$ -</u>	<u>\$ 291,659</u>
Debt discount	<u>\$ -</u>	<u>\$ 342,804</u>
Unpaid liabilities in acquisition of oil and gas property	<u>\$ 1,830,141</u>	<u>\$ -</u>

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

FOOTHILLS EXPLORATION, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 – Organization

Business

Foothills Exploration, Inc., (“Company”, “Foothills Exploration”, or “Foothills”) 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 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.

Prior to the Share Exchange, the Company had minimal assets and recognized no revenues from operations and was accordingly classified as a shell company. In light of closing the Share Exchange transaction with the shareholders of FPI, the Company became actively engaged in oil and gas operations and is no longer a shell company.

The consolidated balance sheets include the accounts of the Company, and its wholly-owned direct and indirect subsidiaries, Foothills Exploration, Inc. (“FTXP”), Foothills Petroleum, Inc. (“FPI”), Foothills Exploration, LLC (“FEL”), Foothills Petroleum Operating, Inc. (“FPOI”), Foothills Exploration Operating, Inc. (“FEOI”), Tiger Energy Partners International, LLC (“TEPI”), Tiger Energy Operating, LLC (“TEO”), and Tiger Energy Mineral Leasing, LLC (“TEML”).

The Company’s oil and gas operations are conducted by its wholly owned indirect subsidiaries. FEL is a qualified oil and gas operator in the states of Wyoming and Colorado, and TEO is a qualified oil and gas operator in the state of Utah.

The Company’s operating entities have historically employed, and will continue in the future to employ, on an as-needed basis, the services of drilling contractors, other drilling related vendors, field service companies and professional petroleum engineers, geologists, and landmen as required in connection with future drilling and production operations.

Note 2 – Going Concern

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company has incurred recurring losses from inception through March 31, 2018, has a working capital deficit at March 31, 2018, of \$14,798,342, and has limited sources of revenue. These conditions have raised substantial doubt as to the Company’s ability to continue as a going concern for one year from the issuance of the financial statements. These financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

To address these matters, the Company is actively meeting with investors for possible equity investments, including business combinations; investigating other possible sources to refinance our existing debt; and in continuing discussions with various individuals and groups that could be willing to provide capital to fund operations and growth of the Company.

Note 3 – Summary of Significant Accounting Policies

Principles of Consolidation

The financial statements include the accounts of Foothills Exploration, Inc., and all of its direct and indirect wholly-owned subsidiaries including Foothill Petroleum, Inc., Foothills Petroleum Operating, Inc., Foothills Exploration Operating, Inc., Foothills Exploration LLC, Tiger Energy Partners International, LLC, Tiger Energy Operating, LLC and Tiger Energy Mineral Leasing, LLC. Intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation and Functional Currency

Pursuant to the rules and regulations of the Securities and Exchange Commission for Form 10-Q, the unaudited condensed consolidated financial statements, footnote disclosures and other information normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The condensed consolidated financial statements contained in this report are unaudited but, in the opinion of management, reflect all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the consolidated financial statements. All significant inter-company accounts and transactions have been eliminated in consolidation. The results of operations for any interim period are not necessarily indicative of results for the full year. The condensed consolidated balance sheet at December 31, 2017 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

These consolidated financial statements and related notes are presented in accordance with accounting principles generally accepted in the United States of America and are expressed in United States dollars (USD).

Use of Estimates

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.

Reclassifications

Certain reclassifications have been made to amounts in prior year to conform to the current year presentation. All reclassifications have been applied consistently to the periods presented and had no effects on previously reported results of operations.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid debt instruments with maturity of three months or less.

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 consolidated balance sheet. At March 31, 2018 and December 31, 2017, the Company had restricted cash of \$240,000. This amount is being held in escrow for the benefit of the State of Utah for certain properties located in Utah, covered under a certain Modification to Stipulated Order between the Utah Division of Oil, Gas and Mining and TEPI dated August 1, 2014 (Case No. SI/TA-102). These funds held in escrow, will be released to the Company once the Company finishes its reclamation of the various wells in question.

Accounts receivable and allowance for doubtful accounts

Accounts receivable are stated at the historical carrying amount net of an allowance for uncollectible accounts. The carrying amount of the Company's accounts receivable approximates fair value because of the short-term nature of the instruments. The Company routinely assesses the collectability of all material trade and other receivables.

Trade accounts receivable comprise receivables from joint interest owners which are recorded when the Company incurs expenses on behalf of the non-operator interest owners of the properties the Company operates.

The Company's oil and gas revenues receivable comprise receivables from purchasers of the Company's production of oil and gas and other hydrocarbons and from operators of properties in which the Company has a non-operated interest, as well as from joint interest owners of properties the Company operates. As of March 31, 2018, the Company accrued \$396,384 of net revenue receivable from EOG Resources, the operator of two wells in which the Company has a working interest, which the Company has been informed that EOG will apply to unpaid invoices of the Company's share of costs to drill two wells until EOG has recovered those costs. During the three months ended March 31, 2018, those costs were \$1,706,625. See Note 4 – Property and Equipment.

The Company's reported balance of accounts receivable, net of allowance for doubtful accounts, represents management's estimate of the amount that ultimately will be realized in cash or used in the future to offset an operator's joint interest billings.

The Company reviews the adequacy of the allowance for doubtful accounts on an ongoing basis, using historical payment trends, the age of the receivables and knowledge of the individual customers or joint interest owners. When the analysis indicates, management increases or decreases the allowance accordingly. However, if the financial condition of our customers were to deteriorate, additional allowances might be required.

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 unproved 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.

Support Facilities and Equipment

Our support facilities and equipment are generally located in proximity to certain of our principal fields. Depreciation of these support facilities is calculated on a units-of-production basis.

Maintenance and repair costs that do not extend the useful lives of property and equipment are charged to expense as incurred.

Proved Reserves

Estimates of the Company's proved reserves included in this report are prepared in accordance with US GAAP and guidelines from the United States Securities and Exchange Commission ("SEC"). The Company's engineering estimates of proved oil and natural gas reserves directly impact financial accounting estimates, including depreciation, depletion, and amortization expense and impairment. Proved oil and natural gas reserves are the estimated quantities of oil and natural gas reserves that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under period-end economic and operating conditions. The process of estimating quantities of proved reserves is very complex, requiring significant subjective decisions in the evaluation of all geological, engineering and economic data for each reservoir. The accuracy of a reserves estimate is a function of: (i) the quality and quantity of available data; (ii) the interpretation of that data; (iii) the accuracy of various mandated economic assumptions, and (iv) the judgment of the persons preparing the estimate. The data for a given reservoir may change substantially over time as a result of numerous factors, including additional development activity, evolving production history and continual reassessment of the viability of production under varying economic conditions. Changes in oil and natural gas prices, operating costs, and expected performance from a given reservoir also will result in revisions to the amount of the Company's estimated proved reserves. The Company engages independent reserve engineers to estimate its proved reserves.

Fixed Assets

The Company capitalizes expenditures related to property and equipment not directly associated with our production of oil and gas, 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.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

Office equipment – 3 years

Vehicle(s) – 5 years

Land – not depreciated

Asset Retirement Obligations

The Company follows the provisions of the Accounting Standards Codification ASC 410 - Asset Retirement and Environmental Obligations. The fair value of an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The present value of the estimated asset retirement costs is capitalized as part of the carrying amount of the long-lived asset. The Company's asset retirement obligations relate to the abandonment of oil and gas producing facilities and facilities that support the production of oil and gas. The amounts recognized are based upon numerous estimates and assumptions, including future retirement costs, future inflation rates and the credit-adjusted risk-free interest rate. After recording these amounts, the ARO will be accreted to its future estimated value using the same assumed cost of funds, and the capitalized costs are depreciated on a unit-of-production basis. Both the accretion and the depreciation will be included in depreciation, depletion and amortization expense on our consolidated statements of operations.

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 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: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. The Company considers active markets as those in which transactions for the assets or liabilities occur in sufficient frequency and volume to provide pricing information on an ongoing basis
- Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability. This category includes those derivative instruments that the Company values using observable market data. Substantially all of these inputs are observable in the marketplace throughout the term of the derivative instruments, can be derived from observable data, or supported by observable levels at which transactions are executed in the marketplace.
- Level 3: Measured based on prices or valuation models that require inputs that are both significant to the fair value measurement and less observable from objective sources (i.e. supported by little or no market activity). Level 3 instruments include derivative warrant instruments. The Company does not have sufficient corroborating evidence to support classifying these assets and liabilities as Level 1 or Level 2.

The Company analyzes all financial instruments with features of both liabilities and equity under ASC 480, “Distinguishing Liabilities from Equity,” and ASC 815. The carrying amounts of the Company’s financial assets and liabilities, including cash, prepaid expenses, accounts payable, accrued expenses, and other current liabilities, approximate their fair values because of the short maturity of these instruments. The fair value of notes payable and convertible notes approximates their fair values since the current interest rates and terms on these obligations are the same as prevailing market rates.

Certain of the Company’s debt and equity instruments include embedded derivatives that require bifurcation from the host contract under the provisions of ASC 815-40, Derivatives and Hedging. The estimated fair value of the derivative warrant instruments was calculated using a Black Scholes valuation model.

The following table sets forth by level within the fair value hierarchy our financial assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2018 and December 31, 2017:

	<u>Carrying Value</u>	<u>Fair Value Measurement at</u>		
		<u>March 31, 2018</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Derivative assets, debt and equity instruments	\$ —	\$ —	\$ —	\$ —
Derivative liabilities, debt and equity instruments	413,362	—	—	413,362

	<u>Carrying Value</u>	<u>Fair Value Measurement at</u>		
		<u>December 31, 2017</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Derivative assets, debt and equity instruments	\$ —	\$ —	\$ —	\$ —
Derivative liabilities, debt and equity instruments	458,387	—	—	458,387

The Company did not identify any other assets and liabilities that are required to be presented on the consolidated balance sheet at fair value.

Revenue Recognition

The Company recognizes revenue in accordance with the requirements of ASC 606, which directs that it should recognize revenue when a customer obtains control of promised goods or services for an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. All of our revenue is attributable to sales of oil, gas, and other hydrocarbons which are sold daily, with sales aggregated on a monthly basis. In the case of revenue received for a non-operated working interest, we are paid by the operator, which is a joint interest partner and not the purchaser of the product. In the case of revenue received for an operated working interest, we are paid by the marketer to whom we sell the commodities directly pursuant to contractual arrangements.

Debt Issuance Costs, Debt Discount and Detachable Debt-Related Warrants

Costs incurred to issue debt are deferred and recorded as a reduction to the debt balance in our consolidated balance sheets. We amortize debt issuance costs over the expected term of the related debt using the effective interest method. Debt discounts relate to the relative fair value of warrants issued in conjunction with the debt and are also recorded as a reduction to the debt balance and accreted over the expected term of the debt to interest expense using the effective interest method.

Net Earnings (Loss) Per Common Share

The Company computes earnings per share under ASC 260-10, "Earnings Per Share." The Company's earnings (loss) per share are computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share reflects the potential dilution of securities, if any, that could share in the earnings (loss) of the Company and are calculated by dividing net income by the diluted weighted average number of common shares. The diluted weighted average number of common shares is computed using the treasury stock method for common stock that may be issued for outstanding stock options, warrants, and convertible debt.

	For the Three Months Ended March	
	31,	
	2018	2017
Numerator:		
Net income (loss) available to stockholders	\$ (861,845)	\$ (2,159,499)
Basic net income allocable to participating securities (1)	—	—
Income (loss) available to Foothills Exploration, Inc.'s stockholders	<u>\$ (861,845)</u>	<u>\$ (2,159,499)</u>
Denominator:		
Weighted average number of common shares outstanding-Basic	14,900,627	13,970,001
Effect of dilutive securities:		
Options and warrants (2)	—	—
Stock payable (3)	655,000	240,000
Weighted average number of common shares outstanding-Diluted	<u>15,555,627</u>	<u>14,210,001</u>
Net income (loss) per share:		
Basic	\$ (0.06)	\$ (0.15)
Diluted	\$ (0.06)	\$ (0.15)

- (1) Restricted share awards that contain non-forfeitable rights to dividends are participating securities and, therefore, are included in computing earnings using the two-class method. Participating securities, however, do not participate in undistributed net losses.
- (2) For the three months ended March 31, 2018, "out of the money" stock options representing 2,050,000 shares and warrants representing 2,683,515 shares were antidilutive and, therefore, excluded from the diluted share calculation. For the three months ended March 31, 2017, "out of the money" stock options representing 2,050,000 shares and warrants representing 1,025,000 shares were antidilutive and, therefore, excluded from the diluted share calculation.
- (3) For the three months ended March 31, 2018, stock payable representing 655,000 shares were anti-dilutive. For the three months ended March 31, 2017, stock payable representing 240,000 shares were anti-dilutive.

Stock-Based Compensation

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

The Company accounts for stock, stock options, and stock warrants issued for services and compensation by employees under the fair value method. For non-employees, the fair market value of the Company's stock is measured on the date of stock issuance or the date an option/warrant is granted as appropriate under ASC 718 "Compensation – Stock Compensation". The Company determined the fair market value of the warrants/options issued under the Black-Scholes Pricing Model. Under the provisions ASC 718, share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant).

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 adoption of ASU 2015-17 did not have a material impact on its 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 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 adoption of ASU 2016-09 did not have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASC Update No. 2016-18 (Topic 230) *Statement of Cash Flows – Restricted Cash* (a consensus of the FASB Emerging Issues Task Force). The amendments in this update require that restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Current GAAP does not include specific guidance on the cash flow classification and presentation of changes in restricted cash. The updated guidance is effective for interim and annual periods beginning after December 15, 2017 and is required to be applied using a retrospective transition method to each period presented. The Company implemented this guidance effective January 1, 2018. Implementing this guidance did not have a material impact on the Company's statement of cash flows, as the restricted cash balance did not change during three month ended March 31, 2018.

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 will not have a material impact on the Company’s consolidated financial statements.

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 and may require the services of valuation experts. 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 carry any Goodwill on its Consolidated Balance Sheets and does not anticipate the adoption of ASU 2017-04 will have a material impact on its 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 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 consolidated financial statements.

Note 4 – Property and Equipment

Oil and Gas Properties

The Company’s oil and gas properties at March 31, 2018 and December 31, 2017 are located in the United States of America.

The carrying values of the Company’s oil and gas properties, net of depletion, depreciation, amortization, and impairment at March 31, 2018 and December 31, 2017 are set forth below in the following table:

	March 31, 2018	December 31, 2017
Unproved leasehold (1)	\$ 977,936	\$ 977,936
Proved leasehold	10,094,760	10,094,760
Properties subject to depletion, net of depletion	470,731	580,158
Exploratory wells – construction-in-progress (1) (2)	2,973,729	1,479,282
Total	\$ 14,517,156	\$ 13,132,136

(1) Not subject to depletion;

(2) Expected to be reclassified from exploratory to properties subject to amortization in the second quarter of 2018.

Year Incurred	Acquisition Costs	Exploration and Development Costs	Disposition of Assets	Depreciation, Depletion, Amortization, and Impairment	Total
2016 and prior	\$ 10,252,568	\$ 1,181,421	\$ —	\$ —	\$ 11,433,989
2017	—	3,223,931	—	(1,525,784)	1,698,147
2018	—	1,494,448	—	(109,428)	1,385,020
Total	<u>\$ 10,252,568</u>	<u>\$ 5,899,900</u>	<u>\$ —</u>	<u>\$ (1,635,212)</u>	<u>\$ 14,517,156</u>

- In 2017, the Company acquired a 21.62% non-operated working interest with a 17.1% net revenue interest in two exploratory horizontal gas wells in the Uinta Basin from an undisclosed party, and the Company incurred \$1,479,282 in well costs. During the three months ended March 31, 2018, the company incurred an additional \$1,494,448 of well costs. At March 31, 2018, the Company's share total costs for drilling and completing the two wells was \$3,205,724, and we anticipate incurring additional well costs in the second quarter of 2018. Although these wells produced economic quantities of natural gas liquids and residue gas through March 31, 2018, well completion activities were not completed during the three months ended March 31, 2018, so costs remain classified as construction-in-progress and not subject to depletion through March 31, 2018.
- In 2017, the Company drilled a test well on the Labokay prospect to the total measured depth of 8,795 feet, where hydrocarbons shows were not in commercial quantities to warrant completion. This well was plugged and abandoned. Since the well was not commercially viable the Company's working interest in the underlying mineral lease terminated and we no longer have a right to acquire title to said property. During the year ended December 31, 2017, we incurred costs of \$1,209,675 in the drilling of this well and \$1,352,982 was charged to impairment expense. Civil lawsuits were filed against FPOI arising from unpaid accounts in connection with drilling of this well – see Note 11 – Commitments and Contingencies for additional information on the lawsuits.
- In 2017, the Company worked over two Duck Creek wells obtaining production from the Green River formation. We incurred \$79,989 in capitalized workover costs associated with these wells. The wells require additional workover and were shut-in in July 2017. The Company recorded assets retirement cost of \$291,659 related to Duck Creek wells.
- In 2017, the Company incurred costs of \$22,691 for bonding, legal, title, engineering, geological and surveying in our Ladysmith project in Fremont County, Wyoming.
- In 2017, the Company incurred costs of \$3,750 related to Springs Project. The Company allowed the BLM leases for the Springs project to expire without paying additional delay rental payments. The primary terms on these leases were due to expire in Q4 2018 and in the view of management it was not in the best interest of the Company to continue exploratory efforts on this speculative play. Management concluded that Company resources would be better redirected to continue seeking lower-risk acquisitions of producing oil and gas properties rather than take additional wildcat drilling risk on this prospect. The Company currently no longer owns the mineral rights for this project. As the result, the Company recognized impairment of oil and gas property in amount of \$154,787, during the year ended December 31, 2017.
- In 2017, the Company incurred costs of \$100,191 for exploration and development efforts associated with the proved oil and gas assets in Utah, which were acquired on December 30, 2016, from Total Belief Limited, a wholly owned subsidiary of New Times Energy Corporation Limited. These assets include certain oil and gas wells throughout the Uinta Basin in Utah on acreage with over 30 proved 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. In connection with the TBL acquisition, Foothills entered into a promissory note in the amount of \$6,000,000. This note bears no interest during its term. The Company calculated and recorded \$(342,804) of imputed interest as debt discount.
- In 2017, the Company incurred costs of \$379,498 for exploration and development efforts associated with numerous unproved oil and gas properties in the Company's geographic areas of interest, including farmout properties (Paw Paw and Ironwood) and numerous others being evaluated and considered for a prospective acquisition and/or farmout by the Company.
- In 2017, we recorded depreciation, depletion and amortization cost related to oil and gas properties of \$18,017. During the three months ended March 31, 2018, we recorded depreciation, depletion, amortization costs related to oil and gas properties \$109,428.

Support Facilities and Equipment

The Company's support facilities and equipment serve its oil and gas production activities. The following table summarizes these properties and equipment, together with their estimated useful lives:

	March 31, 2018	December 31, 2017
Tank	\$ 30,000	\$ 30,000
Vehicle	69,446	69,446
Accumulated depreciation	(216)	(31)
Construction in progress (1)	138,032	22,087
Total support facilities and equipment, net	<u>\$ 237,262</u>	<u>\$ 121,502</u>

- (1) Facilities constructed in conjunction with drilling for our two exploratory horizontal wells in Uintah County, Utah, not subject to depreciation. The Company anticipates construction will be completed in the second quarter of 2018, at which time construction-in-progress will be reclassified to Uinta Basin facilities and become eligible for depreciation.

The Company recognized depreciation expense of \$185 and \$0 during the three months ended March 31, 2018 and 2017, respectively.

Office Furniture, Equipment, and Other

As of March 31, 2018 and December 31, 2017, office furniture, equipment, and other consisted of the following:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Computer equipment and fixtures	\$ 22,453	\$ 22,453
Accumulated depreciation	(10,477)	(8,632)
Office furniture, equipment, and other, net	<u>\$ 11,976</u>	<u>\$ 13,821</u>

During the three months ended March 31, 2018 and 2017, we recorded depreciation expense of \$1,846 and \$18,369, respectively.

Note 5 – Asset Retirement Obligation

The following table provides a reconciliation of the changes in the estimated present value of asset retirement obligations for the three months ended March 31, 2018 and December 31, 2017.

	<u>For the period ended</u>	
	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Beginning asset retirement obligations	\$ 303,327	\$ 291,659
Liabilities established	—	—
Accretion expense	2,917	11,668
Ending asset retirement obligations	<u>\$ 306,244</u>	<u>\$ 303,327</u>

Accretion expense for the three months ended March 31, 2018 and 2017 was \$2,917 and \$2,917, respectively.

Note 6 – Notes Payable

A summary of the outstanding amounts of our Notes payable as of March 31, 2018 and December 31, 2017 is as follows:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
9% unsecured note payable due May 6, 2017 (1)	\$ -	\$ -
13.5% unsecured note payable due September 8, 2017 (2)	1,050,000	1,050,000
0% unsecured note payable due January 2, 2018 (3)	250,000	250,000
Less: unamortized discount of imputed interest of 4% (3)	—	(2,264)
12% unsecured note payable June 30, 2018 (4)	<u>120,629</u>	<u>120,629</u>
Total debt	1,420,629	1,418,365
Less: current maturities	<u>1,420,629</u>	<u>1,418,365</u>
Long-term debt, net of current maturities	<u>-</u>	<u>-</u>

At March 31, 2018, the principal amounts due under our debt agreements were all classified as current on our Consolidated Balance Sheets.

- (1) On December 30, 2016, 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 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 reclassified the remaining accrued interest of \$30,000 as a gain on extinguishment of debt.
- (2) 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 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 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 the satisfaction of Profit Well. As partial consideration for the deferment, the Company agreed to issue Profit Well Limited 100,000 shares of its restricted common stock, valued at \$48,000. The issuance of the shares in exchange for the maturity extension was treated as a modification of existing debt pursuant to the guidance of ASC 470-50 “Debt – Modifications and Extinguishments” (“ASC 470-50”). On February 28, 2018, Profit Well and the Company agreed to extend the maturity date of the debenture to June 30, 2018, and as consideration for the extension, the Company agreed to compensate Profit Well with 200,000 shares of restricted common stock valued at \$46,700. The issuance of the shares in exchange for the maturity extension was treated as a modification of existing debt pursuant to the guidance of ASC 470-50 “Debt – Modifications and Extinguishments” (“ASC 470-50”). In addition, the parties agreed that if payment of said principal and interest due and payable is made late, then a penalty payment of \$100,000 shall become due and payable to Profit Well by the Company. The Company and Profit Well are in ongoing discussions to extend the term of this Note and the Company believes it will either extend, rework or repay the obligation to the satisfaction of Profit Well.
- (3) 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. On November 6, 2017, the Company agreed to compensate the investor with 75,000 shares of the Company’s restricted common stock in connection with a more favorable term of a note entered into with FirstFire Global Opportunities Fund, LLC. On December 30, 2017, the Company and the investor agreed to extend the maturity date of this Note to January 23, 2018, in return for a payment at maturity of the principal, accrued interest as provided in the Note, plus 30,000 shares of the Company’s restricted common stock. Because the fair value of the shares was greater than 10% of the present value of the remaining cash flows under the Note, the issuance of the shares in connection with a more favorable term of a note entered with FirstFire Global Opportunities Fund, LLC, was treated as a debt extinguishment and reissuance of a new debt instrument pursuant to the guidance of ASC 470-50 “Debt – Modifications and Extinguishments” (“ASC 470-50”).

Since January 23, 2018, the Company and the investor have been in ongoing discussions to extend the term of this Note. On March 28, 2018, the investor acknowledged that the Company is not in default regarding this Note and reaffirmed its belief that the Company will either extend the Note’s due date or repay its obligation on terms that are mutually satisfactory. 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 of 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 three months ended March 31, 2018, the Company amortized remaining \$2,264 of such discount to interest expense. At December 31, 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, the Company issued 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 interest expense 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.

- (4) A promissory note was issued on November 1, 2017, for services rendered, bearing an interest rate of 12% per annum and with a maturity date of June 30, 2018.

During the three months ended March 31, 2018 and 2017, respectively, we incurred \$87,485 and \$22,438 of interest expense, including amortization of discount of \$2,264 and \$0 and shares issued for extension of \$46,700 and \$0, respectively.

Note 7 – Notes Payable - Related Party

	March 31, 2018	December 31, 2017
13.25% unsecured note payable due May 5, 2017 (1)	\$ 1,250,000	\$ 1,250,000
0% unsecured note payable due June 30, 2018 (2)	6,000,000	6,000,000
Less: unamortized discount of imputed interest of 4% (2)	<u>(57,134)</u>	<u>(114,268)</u>
Total debt	7,192,866	7,135,732
Less: current maturities	<u>7,192,866</u>	<u>7,135,732</u>
Long-term debt, net of current maturities	<u>\$ -</u>	<u>\$ -</u>

- (1) Effective January 5, 2017, Foothills borrowed \$1,250,000 from Berwin Trading Limited that, due to its 20% beneficial ownership in the Company, is a related party. This note called for interest at 9% per annum; but because it was not paid when due interest was to have accrued at a default rate of 11% from the due date of the note. 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 and acknowledged that the Company is not in default regarding this Debenture. As partial consideration for the deferment, the Company issued Berwin 100,000 shares of its restricted common stock, valued at \$48,000. The issuance of the shares in exchange for the maturity extension was treated as a modification of existing debt pursuant to the guidance of ASC 470-50 “Debt – Modifications and Extinguishments” (“ASC 470-50”). On February 28, 2018, Berwin and the Company agreed to extend the maturity date of the debenture to June 30, 2018, and as consideration for the extension, the Company agreed to compensate Berwin with 250,000 shares of restricted common stock valued at \$58,375. (The issuance of the shares in exchange for the maturity extension was treated as a modification of existing debt pursuant to the guidance of ASC 470-50 “Debt – Modifications and Extinguishments” (“ASC 470-50”). In addition, the parties agreed that if payment of said principal and interest due and payable is made late, then a penalty payment of \$125,000 shall become due and payable to Berwin by the Company. The Company and Berwin are in ongoing discussions to extend the term of this Note and the Company believes it will either extend, rework or repay the obligation to the satisfaction of Berwin.

- (2) On December 30, 2016, in connection with the TBL acquisition, Foothills entered into a promissory note in the amount of \$6,000,000. This note bears no interest during its term. The Company calculated and recorded \$342,804 of imputed interest as debt discount.

During the three months ended March 31, 2018 and 2017, respectively, we incurred \$157,119 and \$85,182 of interest expense, including amortization of discount of \$57,134 and \$57,134 and shares issued for extension of \$58,375 and \$0, respectively.

Note 8 – Convertible Note Payable

	March 31, 2018	December 31, 2017
10% convertible note payable due May 10, 2018 (1)	\$ 50,000	\$ 50,000
8% convertible note payable due August 16, 2018 (2)	267,500	267,500
Less: unamortized debt discount on convertible notes (1)(2)	<u>(135,717)</u>	<u>(224,228)</u>
Total debt	181,783	93,272
Less: current maturities	<u>181,783</u>	<u>93,272</u>
Long-term debt, net of current maturities	<u>\$ -</u>	<u>\$ -</u>

- (1) 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 convertible note until May 10, 2018. On November 7, 2017, the Company issued 50,000 warrants to purchase 50,000 shares of common stock of the Company at a strike price of \$1.00 per share expiring on May 7, 2019. If the Company fails to pay the principal and accrued unpaid interest due and payable to Lender on or before the due date of the convertible note, then the Lender shall be provided the right to convert at either \$0.665 per share or upon the same terms offered in FirstFire Global Opportunities Fund, LLC Note’s conversion options. The relative fair value of warrant was determined to be \$3,381 on November 7, 2017, using the Black-Scholes option-pricing model based on the following assumptions: (i) volatility rate of 77%, (ii) discount rate of 0%, (iii) zero expected dividend yield, and (iv) expected life of 1.5 years. The issuance of the warrants in exchange for the maturity extension was treated as a modification of existing debt pursuant to the guidance of ASC 470-50 “Debt – Modifications and Extinguishments” (“ASC 470-50”).
- (2) On November 17, 2017, the Company issued to FirstFire Global Opportunities Fund, LLC, an unaffiliated investor, a senior convertible promissory note in the principal amount of \$267,500 and received proceeds of \$250,000 before giving effect to certain transactional costs including legal fees. As part of this transaction the Company also issued (i) warrants having an 18-month term, to purchase 267,500 shares of the Company’s common stock at an exercise price of \$1.00 per share and (ii) 60,000 shares of the Company’s restricted common stock. This note accrues interest of 8% per annum and is due and payable on August 17, 2018. The Note agreements give the lender the right to convert the loan amounts due into common stock at a conversion price of the lower of (i) \$0.665 per share or (ii) 50% of the lowest per share market values during the twenty (20) trading days immediately preceding a conversion date. If the lowest traded price of the Common Stock is less than the Conversion Price on the date following the Conversion Date on which the Holder actually receives from the Company, then the Conversion Price shall be deemed to have been retroactively adjusted, as of the Conversion Date, to a price equal to 75% multiplied by the lowest closing price of the Common Stock on the Free Trading Shares Receipt Date. This note is secured by a personal guaranty from the Company’s Executive Chairman, Kevin Sylla. The net proceeds of this note will be used for general corporate and working capital purposes. The aggregate relative fair value of warrant was determined to be \$10,750 on November 17, 2017, using the Black-Scholes option-pricing model based on the following assumptions: (i) volatility rate of 78%, (ii) discount rate of 0%, (iii) zero expected dividend yield, and (iv) expected life of 1.5 year. Fair value of 60,000 shares of common stock was determined \$18,250 using allocation of proceeds. The Company accounted for the conversion feature as a derivative valued at \$288,964, of which \$67,964 was expensed immediately to interest expense. \$288,964 was determined using the Black-Scholes option-pricing model based on the following assumptions: (i) volatility rate of 78%, (ii) discount rate of 0%, (iii) zero expected dividend yield, and (iv) expected life of 0.75 year. The aggregate value of the original debt discount, warrant, conversion feature and 60,000 shares of common stock of \$267,500 was considered as debt discount upon issuance and is being amortized to interest expense over the term of the Note or in full upon the conversion of the Note. As of December 31, 2017, Company accounted for the conversion feature as a derivative valued at \$458,387 which was determined using the Black-Scholes option-pricing model based on the following assumptions: (i) volatility rate of 77%, (ii) discount rate of 0%, (iii) zero expected dividend yield, and (iv) expected life of 0.6 year. As of March 31, 2018, Company accounted for the conversion feature as a derivative valued at \$413,362 which was determined using the Black-Scholes option-pricing model based on the following assumptions: (i) volatility rate of 144%, (ii) discount rate of 0%, (iii) zero expected dividend yield, and (iv) expected life of 0.4 year.

During the three months ended March 31, 2018 and 2017, respectively, we incurred \$95,021 and \$0 of interest expense, including amortization of discount of \$88,511 and \$0, respectively.

Note 9 – Common Stock

During the three months ended March 31, 2018, the Company did not issue common stock.

As of March 31, 2018, the Company had 14,900,627 shares of common stock issued and outstanding.

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 above 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.

On November 7, 2017, the Company issued 50,000 warrants to purchase 50,000 shares of common stock of the Company at a strike price of \$1.00 per share expiring on May 7, 2019 in connection with a senior convertible promissory note in the principal amount of \$50,000. If the Company fails to pay the principal and accrued unpaid interest due and payable to Lender on or before the due date of the convertible note, then the Lender shall be provided the right to convert at either \$0.665 per share or upon the same terms offered in FirstFire Global Opportunities Fund, LLC Note’s conversion options. The relative fair value of warrant was determined to be \$3,381 on November 7, 2017, using the Black-Scholes option-pricing model based on the following assumptions: (i) volatility rate of 77%, (ii) discount rate of 0%, (iii) zero expected dividend yield, and (iv) expected life of 1.5 years.

On November 17, 2017, the Company issued an unaffiliated investor warrants to purchase 267,500 shares of the Company's common stock at an exercise price of \$1.00 per share and expires in 18 months, in connection with a senior convertible promissory note in the principal amount of \$267,500. The aggregate relative fair value of warrant was determined to be \$10,750 on November 17, 2017, using the Black-Scholes option-pricing model based on the following assumptions: (i) volatility rate of 78%, (ii) discount rate of 0%, (iii) zero expected dividend yield, and (iv) expected life of 1.5 year.

The following table summarizes all stock warrant activity for the three months ended March 31, 2018:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Balance outstanding, December 31, 2017	2,683,515	\$ 1.56	2.65
Granted	-	-	-
Exercised	-	-	-
Cancelled or expired	-	-	-
Balance outstanding, March 31, 2018	2,683,515	\$ 1.56	2.65
Exercisable, March 31, 2018	2,683,515	\$ 1.56	2.65

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.

During the three months ended March 31, 2018 and 2017, we recorded \$239,259 and \$68,861 option expense. As of March 31, 2018, the unamortized option expense was \$1,547,559.

The following table summarizes all stock option activity for the three months ended March 31, 2018:

	<u>Number of Option</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>
Balance outstanding, December 31, 2017	2,050,000	\$ 2.21	6.26
Granted	-	-	-
Exercised	-	-	-
Cancelled or expired	-	-	-
Balance outstanding, March 31, 2018	<u>2,050,000</u>	<u>\$ 2.21</u>	<u>6.26</u>
Exercisable, March 31, 2018	<u>-</u>	<u>\$ -</u>	<u>-</u>

Note 10– Other Related Party Transactions

Wilshire Energy Partners, LLC

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. During the three months ended March 31, 2018 and 2017, Wilshire advanced the Company \$55,210 and \$0 for operating purposes, respectively.

Note 11 – Commitments and Contingencies

Contractual Obligations

Operating Leases

Effective May 1, 2017, the Company entered into a 39-month lease, expiring July 31, 2020, for its Denver, Colorado, corporate office at a total rental of approximately \$10,051 per month. During the three months ended March 31, 2018, the Company paid \$0 for its Denver office space, redeemed unused allowance for tenant improvements which was contractually allowed to offset monthly rental payments of \$17,180 and recorded \$17,180 as other income.

On October 5, 2016, the Company launched its Exploration Division and opened a new office in Houston, Texas, to support the division's staff, at a monthly rental amount of \$2,298. On March 27, 2018, the Company closed that office. During the three months ended March 31, 2018 and 2017, the Company accrued \$6,366 and \$3,600 in rent expense and paid \$0 and \$2,400 for its Houston office space.

The Company leases a copier at monthly rental of \$135 through September 23, 2020, for its Denver, Colorado, office. During the three months ended March 31, 2018, the Company accrued \$405 and paid \$0 in rental for the copier.

Information regarding all the Company's contractual lease obligations, at March 31, 2018, is set forth in the following table.

	<u>Operating Leases</u>
2018 (9 Months)	\$ 93,109
2019	125,816
2020	74,347
2021 and thereafter	—
Total	<u>\$ 293,272</u>

Legal proceedings

The Company has determined that judgments rendered in the first quarter of 2018 in connection with all but four of the following legal proceedings against the Company are Type 1 subsequent events that provide additional evidence with respect to conditions that existed at the date of the balance sheet. Therefore, the financial statements reflect the effects of prejudgment judgments awards to plaintiffs as through March 31, 2018, noted below in accordance with Auditing Standard 2801.03.

Utah Wells

Graco Fishing & Rental Tools, Inc. vs. Tiger Energy Operating LLC (Case No. 160800005 8th Judicial District Court, Duchesne County, State of Utah)

Plaintiff in this case sought collection of unpaid debt incurred by TEO for services rendered in connection with its workover of wells in Duchesne County, Utah. On June 1, 2016, a default judgment of \$159,965 was obtained against TEO by Plaintiff. Graco 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 executing on properties not owned by us. A Motion to Set Aside the sheriff's sale of these properties was filed with the court based on the fact that TEO was not the owner of these properties. A hearing for this matter was held on May 1, 2017, in Duchesne County, Utah, at which time 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 Graco. A writ of execution was issued to seize the property subject of litigation on March 8, 2018.

Graco had scheduled certain foreclosure sales of TEO's interests in various oil and gas wells to take place on May 3, 2018 (the "Sales"). On April 27, 2018, the parties reached a settlement and release agreement whereby TEO agreed to make five (5) payments totaling \$163,964.59 to Graco. The first payment due on May 9, 2018, has already been made to the judgment holder. The second payment of \$32,792.92 is due on July 9, 2018; the third payment of \$32,792.92 is due on September 9, 2018; the fourth payment of \$32,792.92 is due on November 9, 2018; and fifth and final payment of \$32,792.92 is due on January 9, 2019. If any of the above payments are not made when due, Grace will have the right to immediately execute the Sales. Graco will maintain and apply liens and notices of its judgment until the total payment has been paid in full by TEO. TEO shall be provided with a 10-day period within which to cure any default under the settlement agreement, other than making the first payment described above. TEO made its second payment of \$32,793 on July 19, 2018, within the 10-day cure period provided in the settlement agreement.

Conquest Well Servicing, LLC vs. Foothills Exploration Operating, Inc. (Case No. 179800421 8th Judicial District Court in and for Uintah County, State of Utah)

Plaintiff filed this action on September 11, 2017, for collection of unpaid services and materials in the amount of \$49,689 in connection with a workover of wells in Uintah County, Utah. A Settlement Agreement and Stipulation to Entry of Judgment was agreed to by the parties and filed with the court on October 10, 2017. Judgment in the amount of \$54,937.10 including \$5,248.10 in pre-judgment interest was filed on December 18, 2017. An order requesting company asset inquiry was issued on February 20, 2018. As of July 26, 2018, no further action has been taken. As of March 31, 2018, we recorded \$6,621.59 of prejudgment interest expense.

Peak Well Service, LLC v. Tiger Energy Operating, LLC (Case No. 2:16-CV-00957-EJF United States District Court for the District of Utah Court)

Peak Well Service, LLC ("Peak"), filed mechanics and materialman's liens against the Wilkins, Rust 2 Well, Dye Hall 2, Rust 3, and Josie 1 wells operated by TEO for unpaid accounts in connection with work on these wells. A settlement was reached between TEO and Peak pursuant to a confidential settlement agreement. Pursuant to the settlement agreement, lien releases on each of these well liens were filed on February 8, 2017. This settlement is a final resolution of this creditor claim.

BIA Administrative Appeal – Tiger Energy Partners International, LLC

Notice of Appeal:	Dated May 8, 2013
Appellant:	Tiger Energy Partners International, LLC
Appellee:	Superintendent Uintah and Ouray Agency
Decision	April 12, 2013
Concerning:	Notice of Expiration of Oil and Gas Leases

This Administrative appeal concerns the ownership and validity of Northern Ute (the “Tribe”) Tribal leases acquired by Tiger Energy Partners International, LLC (TEPI) in a transaction with Mountain Oil and Gas and its affiliated companies. Pursuant to the Global Settlement Agreement (GSA) negotiated between the Tribe and TEPI, the Company proposes to resolve any issues regarding the ownership of the subject leases and other lands thus acquired. The status of the appeal by TEPI remained unchanged at December 31, 2017, awaiting decision by the Regional Director of the BIA on the merits of the appeal. The decision of the Regional Director is stayed by the parties having entered into the GSA. The Tribe and Tiger remain in discussion regarding approval of the Global Settlement Agreement by the Regional Director.

Labokay Well – Parish of Calcasieu, State of Louisiana

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 amounts incurred by FPOI for services performed by plaintiff in the amount of \$72,495 in connection with drilling the Labokay test well in Calcasieu Parish, Louisiana.

A judgment was entered on January 22, 2018, in the County Court of Adams County, Mississippi in the principal amount of \$72,495.00, plus pre-judgment interest in the amount of \$12,763, plus attorney’s fees in the amount of \$18,124, plus costs in the amount of \$196, for a total amount of \$103,578, plus post-judgment interest at the rate of 8% per annum. On May 9, 2018, District Court for the City and County of Denver, Colorado, granted plaintiff with an order granting their petition to domesticate this foreign judgment with the Denver District Court, which now has the same effect and is subject to the same procedures, defenses, and proceedings for reopening, vacating, or staying as a judgment from the Denver District Court, and may be enforced or satisfied in like manner.

Performance Drilling Company, LLC vs. Foothills Petroleum Operating, Inc. (Case No. 2017-3916 DIV G 14th Judicial District Court in Parish of Calcasieu, State of Louisiana)

This case was filed on September 25, 2017, for payment of services performed by plaintiff in the amount of \$205,251 for unpaid accounts in connection with its drilling of the Labokay test well. On January 16, 2018, a default judgment was entered against FPOI, in the amount of \$205,251.24; together with accrued interest of \$29,861 from March 18, 2017, through December 31, 2017; plus, additional interest from January 1, 2018, at the rate of one and one-half percent (1.5%) per month until paid (a per diem rate of \$103.69); plus, an additional sum for reasonable attorney’s fees of \$2,500, and all costs of the court proceedings. As of March 31, 2018, we recorded \$39,097.74 of prejudgment interest expense.

Monster Rentals, LLC dba Deepwell Equipment Rentals vs. Foothills Petroleum Operating, Inc. (Case No. 2017-11013 DIV E – 15th Judicial District Court in Parish of Acadia, State of Louisiana)

This case was filed on October 24, 2017 and concerns the collection of amounts incurred by FPOI for services performed by plaintiff in the amount of \$53,943.53 in connection with the Labokay test well in Calcasieu Parish, Louisiana.

Canal Petroleum Products, Inc. vs. Foothills Petroleum Operating, Inc. (Case No. 2017-6574; DIV. C – 15TH Judicial District Court, Lafayette Parish, Louisiana)

This case was filed on November 14, 2017 and concerns the collection of amounts incurred by FPOI for services performed by plaintiff in the amount of \$35,981 for unpaid accounts in connection with its drilling of the Labokay test well.

On January 25, 2018, a default judgment was entered against FPOI in the amount of \$35,981 inclusive of interest as of September 6, 2017; plus, finance charges to accrue after September 6, 2017, of one and one-half percent per month (18% per annum) until paid on the unpaid principal amount of \$32,956; plus, legal fees of \$8,239 together with related court costs.

As of March 31, 2018, we recorded \$6,485 of prejudgment interest expense.

Smith International, Inc. vs. Foothills Petroleum Operating, Inc. (Case No. 2017-004617; DIV. E – 14th Judicial District Court, Calcasieu Parish, Louisiana)

This case was filed on November 7, 2017 and concerns the collection of amounts incurred by FPOI for services performed by plaintiff in the amount of \$30,244 in connection with its drilling of the Labokay test well.

On March 23, 2018, the court issued a preliminary judgement in favor of plaintiff in the amount of \$30,244, plus interest in the contractual amount of 18% per annum from the date the payment was originally due until the judgment date, plus legal interest from the judgment date until amounts are paid, plus reasonable attorneys' fees. As of March 31, 2018, we recorded \$3,474.28 of prejudgment interest expense.

M-I, L.L.C. d/b/a MI-SWACO vs. Foothills Petroleum Operating, Inc. (Case No. 2017-004616; DIV. G – 14th Judicial District Court, Calcasieu Parish, Louisiana)

This case was filed on November 7, 2017 and concerns the collection of amounts incurred by FPOI for services performed by plaintiff in the amount of \$51,275 in connection with the Labokay test well.

On March 23, 2018, the court issued a preliminary judgment in favor of plaintiff in the amount of \$51,275, plus interest in the contractual amount of 1.5% per month from the date the payment was originally due until the judgement date, plus legal interest from the judgment date until amounts are paid, plus reasonable attorney's fees expended in the prosecution and collection of debt. As of March 31, 2017, we recorded \$3,845 of prejudgment interest expense.

Schlumberger Technology Corporation vs. Foothills Petroleum Operating, Inc. (Case No. 2017-004618; DIV. E – 14th Judicial District Court, Calcasieu Parish, Louisiana)

This case was filed on November 7, 2017 and concerns the collection of amounts incurred by FPOI for services performed by plaintiff in the amount of \$28,904 for unpaid accounts in connection with its drilling of the Labokay test well in Calcasieu Parish, Louisiana.

On March 23, 2018, the court issued a preliminary judgment in favor of plaintiff in the amount of \$28,904, plus interest in the contractual amount of 1.5% per month from the date the payment was originally due until the judgment date, plus legal interest from the judgment date until amounts are paid, plus reasonable attorney's fees expended in the prosecution and collection of debt.

As of March 31, 2018, and December 31, 2017, the balance of contingent liabilities was \$327,891 and \$305,935, respectively. During the three months ended March 31, 2018 and 2017, we recorded \$21,956 and \$0 in contingent liabilities.

Note 12 – Subsequent Events

Completion of two non-operated exploratory wells

In Q2 2018, the two non-operated exploratory wells in which the Company has a 21.62% working interest and 17.1% net revenue interest were completed, and the costs shown as "construction in progress" will be reclassified to oil and gas properties subject to amortization in the second quarter of 2018. See Note 4 – Property and Equipment.

Extension of Debt Maturity

13.5% unsecured note payable due September 8, 2017

The Company and Profit Well are in ongoing discussions to extend the term of this Note and the Company believes it will either extend, rework or repay the obligation to the satisfaction of Profit Well. On July 29, 2018, as partial consideration for the deferral, the Company agreed to issue Profit Well 100,000 shares of its restricted common stock.

8% convertible note payable due August 16, 2018

In June 2018, the Company made a principal payment in the amount of \$100,000. Furthermore, the Company agreed to pay the remaining balance of \$229,025 on or before thirty-five (35) days from June 5th, 2018. The Note may be converted if the Note Balance is not paid on or before thirty-five (35) days from June 5th 2018. FirstFire agreed that the Note is not in default. As consideration for agreeing to provide the Company with this extension of time to pay, the Company issued the investor 150,000 shares of restricted common stock, valued at \$18,000.

Extension of Debt Maturity – Related Party

13.25% unsecured note payable due May 5, 2017

The Company and Berwin are in ongoing discussions to extend the term of this Note and the Company believes it will either extend,

rework or repay the obligation to the satisfaction of Berwin. On July 29, 2018, as partial consideration for the deferral, the Company agreed to issue Berwin 100,000 shares of its restricted common stock.

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

This report contains forward-looking statements. All statements other than statements of historical facts included in this Quarterly Report on Form 10-Q, including without limitation, statements in this Management’s Discussion and Analysis of Financial Condition and Results of Operations regarding our financial position, estimated working capital, business strategy, the plans and objectives of our management for future operations and those statements preceded by, followed by or that otherwise include the words “believe,” “expects,” “anticipates,” “intends,” “estimates,” “projects,” “target,” “goal,” “plans,” “objective,” “should” or similar expressions or variations on such expressions are forward-looking statements. We can give no assurances that the assumptions upon which the forward-looking statements are based will prove to be correct. Because forward-looking statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by the forward-looking statements. There are a number of risks, uncertainties and other important factors that could cause our actual results to differ materially from the forward-looking statements, including, but not limited to, our inability to obtain adequate financing, insufficient cash flows and resulting illiquidity, our inability to expand our business, government regulations, lack of diversification, volatility in the price of oil and/or natural gas, increased competition, results of arbitration and litigation, stock volatility and illiquidity, our failure to implement our business plans or strategies and general economic conditions. A description of some of the risks and uncertainties that could cause our actual results to differ materially from those described by the forward-looking statements in this Quarterly Report on Form 10-Q appears in the section captioned “Risk Factors” in our 2017 Amendment No. 1 to our Annual Report on Form 10-K/A.

Except as otherwise required by the federal securities laws, we disclaim any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained in this Quarterly Report on Form 10-Q to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

History

Foothills Exploration, Inc. (the “Company”) 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, 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 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 consolidated financial statements and footnotes have been retroactively restated to reflect the recapitalization.

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 No. 1 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 the closing of the Share Exchange, the Company became actively engaged in oil and gas operations.

On August 4, 2016, the Financial Industry Regulatory Association (“FINRA”) approved our name change from Key Link Assets Corp. to Foothills Exploration, Inc., and a change of trading symbol from KYLK to FTXP.

On October 5, 2016, the Company launched its Exploration Division and opened a new office in Houston to support the division’s staff. That division consisted of geologists and petroleum engineers engaged in the exploration and development of hydrocarbons who were tasked with building a portfolio of high impact exploration projects in the Gulf Coast region. On March 27, 2018, we closed that office.

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. The Company has no immediate plans to engage in further exploration and development activities in the U.S. Gulf Coast region.

On December 30, 2016, the Company acquired various oil and gas assets (the “Uinta Agreement”). These assets included certain oil and gas wells throughout the Uinta Basin in Utah on acreage with over 30 proved undeveloped drilling locations, additional non-operated interest in other leases, and access to approximately 5,600 acres in the Uinta Basin with proved 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 provided Foothills with the rights to an agreement to acquire up to 5,600+ 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 delivered 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%.

Pursuant to the Uinta Agreement the Company acquired 13,166,667 shares, constituting 55.6% 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 acquired the remaining 25% membership interest 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.

Effective August 28, 2017, the Company acquired a 21.6% working interest, with a 17.1% net revenue interest, in two (2) exploratory, horizontal wells in Uintah County, Utah, from an undisclosed party. These wells were drilled through an existing wellbore into an unproved reservoir. Both wells are operated by EOG Resources, Inc. (NYSE: EOG) (“EOG”). At March 31, 2018, total well costs for our working interest share in both wells amounted to \$3,205,724. These wells align with the Company’s overall growth strategy for the basin and provide us with the ability to gain insight from a world-class operator. The Stagecoach 111-20H and Stagecoach 117-20H horizontal wells both commenced producing natural gas liquids, and residue gas in commercial quantities in December 2017, despite the wells having not yet been completed. These two successful horizontal wells are expected to generate production and net cash flow for the Company subject to the Company’s payment to EOG of the Company’s share of costs incurred in the drilling and completion of the wells.

Our principal office is located at 633 17th Street, Suite 1700, Denver, Colorado 80202. Our telephone number is (720) 449-7478. Our website address is www.foothillspetro.com.

Overview and Going Concern

The Company is an exploration stage company engaged in the acquisition and development of oil and natural gas properties. The Company is focused on acquiring producing and developmental properties in the U.S. Rocky Mountain region. The Company seeks to acquire non-core, dislocated, underdeveloped, and underexplored oil and gas assets and maximize those assets to create shareholder value.

Going Concern

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company has incurred recurring losses from inception through March 31, 2018, has a working capital deficit at March 31, 2018, of \$14,798,342, and has limited sources of revenue. These conditions have raised substantial doubt as to the Company's ability to continue as a going concern for one year from the issuance of the financial statements. These financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

To address these matters, the Company is actively meeting with investors for possible equity investments, including business combinations; investigating other possible sources to refinance our existing debt; and in continuing discussions with various individuals and groups that could be willing to provide capital to fund operations and growth of the Company.

Wyoming Properties

The principal Wyoming assets that we own currently consist of non-producing, prospective mineral leases in the Ladysmith and Paw Paw projects. Our Wyoming properties are located in Fremont and Big Horn Counties, Wyoming.

Ladysmith Project

We own a 75% working interest in the Ladysmith Anticline prospect that is located in Fremont County, Wyoming. Total acreage position is 3,061 gross acres located between the Great Divide/Greater Green River Basin and the Wind River Basin. 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 comprising two seismic lines covering the Chevron/Echo – Greater Green River Basin.

Paw Paw Project

The Paw Paw project is a 3-D seismic defined prospect, which covers 4,467 net acres and is a direct analog to the highly productive Tensleep Formation "Enigma" Field (EUR 3.7 million barrels of oil) located only two miles to the south. We own 100% working interest in 2,560 net acres of this project before Payout and this working interest is reduced to 75% after Payout. The Tensleep Formation has a history of prolific area production with two nearby analogous reservoirs. The Paw Paw project has potential from primary and secondary recovery of up to 2 million barrels of oil. On December 11, 2016, the Company completed drilling operations on the Paw Paw Federal #1 test well. The Big Horn County Wyoming test well reached total depth in the Madison Formation and the Company successfully logged and acquired valid data to further evaluate the project's potential.

The Paw Paw Federal #1 test well reached total depth of 4,500 feet in the Madison Formation after drilling an anticipated stratigraphic section and thrust fault. Oil shows were found in the Muddy, Phosphoria, and Madison formations. The Phosphoria is a regionally productive formation and could end up being the secondary zone in sidetrack operations should that type of operation be deemed commercially economic.

As used herein, the term “Payout” shall be deemed to occur at 7:00 a.m. on the first day in which Foothills recovers out of its share of production from the Paw Paw Federal #1 (“Test Well”), after deduction of all royalties, existing overriding royalties, production or severance taxes, and any other burdens or taxes measured by or payable out of production, a sum equal to the aggregate of the following:

- the aggregate costs and expenses of drilling, testing and completing the Test Well into the tanks or the pipeline to which the Test Well is connected, including the costs of all surface equipment attached or connected to the wellhead; and
- the costs and expenses of operating during the Payout period (items i. and ii. shall be calculated and governed by the terms and provisions of the accounting procedure attached to the Paw Paw Unit Operating Agreement).

Utah Properties

The Utah properties are located in Uintah and Duchesne Counties, comprising operated and non-operated working interests as well as rights and interests in a project for future development.

The Company operates through TEO six oil and gas wells situated on 280 gross acres (224 net) in the Duck Creek area of the Altamont Bluebell field located in Uintah County, Utah, in which the Company has a 100% working interest with an 80% net revenue interest.

The Company owns all rights and interests pertaining to the Global Settlement Agreement (“GSA”) for the Uintah and Ouray Reservation among Mountain Oil & Gas, Inc (“MOG”) and entities associated with MOG and the Ute Indian Tribe of the Uintah and Ouray Reservation, dated December 22, 2014. The Company 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. The Company expects to move forward with this transaction in 2018 via a revised Global Settlement Agreement with the parties to said agreement.

The Company owns a very small (under 1%) non-operated working interest in certain leases located in Duchesne County, Utah. The Company recognized approximately \$4,532 in net revenues during 2017 from this non-operated working interest.

On August 28, 2017, the Company acquired a 21.6% non-operated working interest with a 17.1% net revenue interest in two horizontal wells in the Uintah Basin (“Basin”). First sales from the two wells were made in December 2017, and the well was expected to be completed in Q2 2018.

Results of Operations

Three months ended March 31, 2018 compared to three months ended March 31, 2017

Revenue

The following table summarizes our revenues from commodity sales during the three months ended March 31, 2018 and 2017.

	Three Months Ended		Difference	Percentage Change
	March 31,			
	2018	2017		
Revenues				
Oil	\$ 1,870	\$ 73,894	\$ (72,024)	(97)%
Natural gas	187	-	187	100%
Natural gas liquids	90,950	-	90,950	100%
Residue Gas	635,223	-	635,223	100%
Total	\$ 728,230	\$ 73,894	\$ 654,336	886%
Sales volumes				
Oil (Bbls)	35	1,271	(1,236)	(97)%
Natural gas (MCF)	69	-	69	100%
Natural gas liquids (Bbls)	4,583	-	4,583	100%
Residue Gas (MCF)	240,913	-	240,913	100%
Total BOE	44,770	1,271	43,498	3422%
Total BOE/D	115	14	119	844%
Average prices				
Oil (per Bbl)	\$ 53.91	\$ 46.46	\$ 7.45	16%
Natural gas (per MCF)	2.72	-	2.72	100%
Natural gas liquids (per BOE)	19.85	-	19.85	100%
Residue gas (per MCF)	2.64	-	2.64	100%
Total per BOE	\$ 70.26	\$ 46.46	\$ 70.26	151%

Operating Expenses

Operating expenses for the three months ended March 31, 2018 and 2017, are set forth in the table below.

	Three Months Ended		Difference	Percentage
	March 31,			
	2018	2017		Change
Costs and Expenses				
Lease operating expense (1)	\$ 467,044	\$ -	\$ 467,044	100%
Production and ad valorem taxes (2)	811	-	811	100%
Depletion, depreciation, amortization, accretion, and impairment expense (3)	114,375	1,291,122	(1,176,747)	(91)%
General and administrative expense (4)	730,425	831,753	(101,328)	(12)%
Total operating expenses	<u>\$ 1,312,655</u>	<u>\$ 2,122,875</u>	<u>\$ (810,220)</u>	<u>-38%</u>

- 1) Stagecoach wells producing in first quarter of 2018 which had not been drilled in Q1 of 2017.
- 2) Stagecoach wells producing in first quarter of 2018 which had not been drilled in Q1 of 2017.
Q1 2017 impairment of \$1,272,753. Q1 2018 DD&A exceeds Q1 2017 DD&A of \$18,369 due to addition of Stagecoach wells which
- 3) had not been drilled in Q1 of 2017.
- 4) Reduction of activities during Q1 2018.

Operating expenses expressed in BOE for the three months ended March 31, 2018 and 2017 are set forth in the table below:

	Three Months Ended		Difference	Percentage Change
	March 31,			
	2018	2017		
Costs and Expenses				
Lease operating expense	\$ 10.43	-	10.43	100%
Production and ad valorem taxes	0.02	-	0.02	100%
Depletion, depreciation, amortization, accretion, and impairment expense	2.55	1,015.68	(1,013.13)	(100)%
General and administrative expense	16.32	654.32	(638.00)	(98)%
Total operating expenses	<u>\$ 29.32</u>	<u>1,670.00</u>	<u>(1,640.68)</u>	<u>(98)%</u>

Interest Expense

Interest expense for the three months ended March 31, 2018 and 2017, was \$339,625 and \$110,518, respectively. The increase in interest expense is primarily attributed to additional compensation related to notes payable extension during the three months ended March 31, 2018.

Gain on Change in Derivative Value

Gain on change in derivative value for the three months ended March 31, 2018 and 2017, was \$45,025 and \$0, respectively. The change in derivative value is primarily attributed to an additional convertible note entered into during November 2017.

Other Income

Other income for the three months ended March 31, 2018 and 2017, was \$17,180 and \$0, respectively. The increase in other income is primarily attributed to a credit provided by the lessor of our Denver office for an unused allowance for tenant improvements which was contractually allowed to offset monthly rental payments for the three months ended March 31, 2018.

Net Loss

As a result of the foregoing, our net loss for the three months ended March 31, 2018, was \$861,845 (\$0.06) per basic and diluted common share). Our net loss for the three months ended March 31, 2017, was \$2,159,499 (\$0.15) per basic and diluted common share).

Liquidity and Capital Resources

Overview

As of March 31, 2018, the Company had a working capital deficit of \$14,798,342. As of December 31, 2017, the Company had a working capital deficit of \$13,024,813. The increase of \$2,013,529, in the working capital deficit was attributable as follows:

Increase in current assets of which \$555 was decreased cash	\$ (377,300)
Increase in accounts payable and accrued liabilities	1,875,295
Increase in accounts payable and accrued liabilities – related party (1)	447,828
Increase in current portion of notes payable and convertible notes payable	90,775
Decrease in derivative liabilities	(45,025)
Increase in contingent liabilities primarily associated with legal proceedings	21,956
Sum of changes in working capital	<u>\$ 2,013,529</u>

- (1) Accrued payable to management for unpaid compensation of \$293,874.

Cash, Cash equivalents, restricted cash and Accounts Receivable

As of March 31, 2018, the Company had cash of \$0, compared to \$555 at December 31, 2017.

As of March 31, 2018, the Company has restricted cash of \$240,000, compared to \$240,000 at December 31, 2017.

As of March 31, 2018, the Company had accounts receivable of \$396,628, compared to \$32,671 at December 31, 2017. This increase in accounts receivable is due primarily to production of two horizontal wells.

Liabilities

As of March 31, 2018, the outstanding balance of principal and accrued interest on debt was \$9,305,587 a net increase of \$86,641 from the outstanding balance of \$9,218,947 as of December 31, 2017. This net increase was due to accrued interest on notes payable.

Accounts payable and accrued expenses increased by \$2,265,989 to \$5,927,058 at March 31, 2018, from \$3,661,068 at December 31, 2017. Included in accounts payable and accrued expenses are \$711,798 and \$362,714 as of the three months ended March 31, 2018 and three months ended December 31, 2017, respectively, primarily associated with accrued payable to management for unpaid compensation. These unpaid liabilities are aged from 1 days to 455 days, and the Company lacks the liquidity to pay them until it obtains additional capital.

Management knows that its existing cash on hand is insufficient to fund its current operations. The Company is currently in discussions with multiple parties interested in providing additional capital investment to fund the Company's current operations, development plans for current assets, and acquisitions of producing properties presently under consideration. 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 three months ended March 31, 2018 and 2017, the Company used \$555 and \$1,191,025 of cash in operating activities, respectively. Non-cash adjustments included \$0 and \$1,272,753 related to assets written off, \$239,259 and \$202,067 related to stock compensation expense, \$123 and \$0 in deferred rent, \$147,909 and \$57,134 related to amortization of debt discount, \$114,375 and \$18,369 in depreciation, depletion, amortization and accretion, common stock and warrants issued for inducement of the note extension of \$105,075 and \$0, change in derivative liabilities of \$45,025 and \$0, and net changes in operating assets and liabilities of \$299,574 and \$581,849, respectively.

Investing Activities

During the three months ended March 31, 2018 and 2017, respectively, \$0 and \$1,474,584 net cash was used in investing activities, a decrease of \$1,474,584. This decrease is primarily due to lack of operation funds.

Financing Activities

During the three months ended March 31, 2018 and 2017, \$0 and \$2,250,000 net cash provided by financing activities, a decrease of \$2,250,000. This change is primarily due to notes payable entered into during January 2017.

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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

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

ITEM 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures.

The Company is required to maintain “disclosure controls and procedures” as such term is defined in Rule 13a-15(e) under the Act. Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, B.P. Allaire, who is both the Chief Executive Officer and Interim Chief Financial Officer, has concluded that the Company’s disclosure controls and procedures were not effective to ensure that the information relating to our company, required to be disclosed in our Securities and Exchange Commission reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure as a result of material weaknesses in our internal control over financial reporting. Notwithstanding the existence of the material weaknesses discussed below, our management, including our CEO/CFO, has concluded that the consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in this Quarterly Report on Form 10-Q in conformity with GAAP.

This quarterly report does not include an attestation report from the Company’s independent registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s independent registered public accounting firm pursuant to the Jumpstart Our Business Startups Act (the “JOBS Act”). Under the JOBS Act the Company is not required to comply with Section 404(b) because it is an “emerging growth company.”

Management’s Report on Internal Control over Financial Reporting.

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Act. The Company’s internal control over financial reporting is designed 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. The Company’s internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company’s assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that the Company’s receipts and expenditures are being made only in accordance with authorizations of the Company’s management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisitions, use or disposition of the Company’s assets that could have a material effect on the financial statements.

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

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of March 31, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013). Management's assessment included an evaluation of the design of the Company's internal control over financial reporting and testing of the operational effectiveness of these controls. Based on this assessment, the Company's management has concluded that as of March 31, 2018, the Company's internal control over financial reporting was not effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles as a result of material weaknesses.

The Company has identified the following factors that have led management to determine that material weaknesses exist in the Company's internal control over financial reporting as of March 31, 2018:

1. The Company does not have written documentation of its 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 the Company's failure to have written documentation of its internal controls and procedures on its assessment of our disclosure controls and procedures and has concluded that the control deficiency that resulted represented a material weakness.
2. The Company does 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 the Company's failure to have segregation of duties on the Company's assessment of its disclosure controls and procedures and has concluded that the control deficiency that resulted represented a material weakness.

These factors represent material weaknesses in the Company's internal controls over financial reporting. Although the Company believes the possibility of errors in its financial statements is remote and expects to continue to use a third party accountant to address shortfalls in staffing and to assist the Company with accounting and financial reporting responsibilities in an effort to mitigate the lack of segregation of duties, until such time as the Company hires a full time principal financial officer and expands its staff with qualified personnel, the Company expects to continue to report material weaknesses in our internal control over financial reporting.

Changes in Internal Control over Financial Reporting.

There have been no changes in the Company's internal control over financial reporting during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls.

The design of any system of control is based upon certain assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated objectives under all future events, no matter how remote, or that the degree of compliance with the policies or procedures may not deteriorate. Because of its inherent limitations, disclosure controls and procedures may not prevent or detect all misstatements. Accordingly, even effective disclosure controls and procedures can provide only reasonable assurance of achieving their control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

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, could 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.

At March 31, 2018, our indirect subsidiaries were parties to the following contested matters:

Utah Wells

Graco Fishing & Rental Tools, Inc. vs. Tiger Energy Operating LLC (Case No. 160800005 8th Judicial District Court, Duchesne County, State of Utah)

Plaintiff in this case sought collection of unpaid debt incurred by TEO for services rendered in connection with its workover of wells in Duchesne County, Utah. On June 1, 2016, a default judgment of \$159,965 was obtained against TEO by Plaintiff. Graco 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 executing on properties not owned by us. A Motion to Set Aside the sheriff's sale of these properties was filed with the court based on the fact that TEO was not the owner of these properties. A hearing for this matter was held on May 1, 2017, in Duchesne County, Utah, at which time 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 Graco. A writ of execution was issued to seize the property subject of litigation on March 8, 2018.

Graco had scheduled certain foreclosure sales of TEO's interests in various oil and gas wells to take place on May 3, 2018 (the "Sales"). On April 27, 2018, the parties reached a settlement and release agreement whereby TEO agreed to make five (5) payments totaling \$163,964.59 to Graco. The first payment due on May 9, 2018, has already been made to the judgment holder. The second payment of \$32,792.92 is due on July 9, 2018; the third payment of \$32,792.92 is due on September 9, 2018; the fourth payment of \$32,792.92 is due on November 9, 2018; and fifth and final payment of \$32,792.92 is due on January 9, 2019. If any of the above payments are not made when due, Grace will have the right to immediately execute the Sales. Graco will maintain and apply liens and notices of its judgment until the total payment has been paid in full by TEO. TEO shall be provided with a 10-day period within which to cure any default under the settlement agreement, other than making the first payment described above. TEO made its second payment of \$32,793 on July 19, 2018, within the 10-day cure period provided in the settlement agreement.

Conquest Well Servicing, LLC vs. Foothills Exploration Operating, Inc. (Case No. 179800421 8th Judicial District Court in and for Uintah County, State of Utah)

Plaintiff filed this action on September 11, 2017, for collection of unpaid services and materials in the amount of \$49,689 in connection with a workover of wells in Uintah County, Utah. A Settlement Agreement and Stipulation to Entry of Judgment was agreed to by the parties and filed with the court on October 10, 2017. Judgment in the amount of \$54,937.10 including \$5,248.10 in pre-judgment interest was filed on December 18, 2017. An order requesting company asset inquiry was issued on February 20, 2018. As of July 26, 2018, no further action has been taken. As of March 31, 2018, we recorded \$6,621.59 of prejudgment interest expense.

Peak Well Service, LLC v. Tiger Energy Operating, LLC (Case No. 2:16-CV-00957-EJF United States District Court for the District of Utah Court)

Peak Well Service, LLC (“Peak”), filed mechanics and materialman’s liens against the Wilkins, Rust 2 Well, Dye Hall 2, Rust 3, and Josie 1 wells operated by TEO for unpaid accounts in connection with work on these wells. A settlement was reached between TEO and Peak pursuant to a confidential settlement agreement. Pursuant to the settlement agreement, lien releases on each of these well liens were filed on February 8, 2017. This settlement is a final resolution of this creditor claim.

BIA Administrative Appeal – Tiger Energy Partners International, LLC

Notice of Appeal:	Dated May 8, 2013
Appellant:	Tiger Energy Partners International, LLC
Appellee:	Superintendent Uintah and Ouray Agency
Decision	April 12, 2013
Concerning:	Notice of Expiration of Oil and Gas Leases

This Administrative appeal concerns the ownership and validity of Northern Ute (the “Tribe”) Tribal leases acquired by Tiger Energy Partners International, LLC (TEPI) in a transaction with Mountain Oil and Gas and its affiliated companies. Pursuant to the Global Settlement Agreement (GSA) negotiated between the Tribe and TEPI, the Company proposes to resolve any issues regarding the ownership of the subject leases and other lands thus acquired. The status of the appeal by TEPI remained unchanged at December 31, 2017, awaiting decision by the Regional Director of the BIA on the merits of the appeal. The decision of the Regional Director is stayed by the parties having entered into the GSA. The Tribe and Tiger remain in discussion regarding approval of the Global Settlement Agreement by the Regional Director.

Labokay Well – Parish of Calcasieu, State of Louisiana

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 amounts incurred by FPOI for services performed by plaintiff in the amount of \$72,495 in connection with drilling the Labokay test well in Calcasieu Parish, Louisiana.

A judgment was entered on January 22, 2018, in the County Court of Adams County, Mississippi in the principal amount of \$72,495.00, plus pre-judgment interest in the amount of \$12,763, plus attorney’s fees in the amount of \$18,124, plus costs in the amount of \$196, for a total amount of \$103,578, plus post-judgment interest at the rate of 8% per annum. On May 9, 2018, District Court for the City and County of Denver, Colorado, granted plaintiff with an order granting their petition to domesticate this foreign judgment with the Denver District Court, which now has the same effect and is subject to the same procedures, defenses, and proceedings for reopening, vacating, or staying as a judgment from the Denver District Court, and may be enforced or satisfied in like manner.

Performance Drilling Company, LLC vs. Foothills Petroleum Operating, Inc. (Case No. 2017-3916 DIV G 14th Judicial District Court in Parish of Calcasieu, State of Louisiana)

This case was filed on September 25, 2017, for payment of services performed by plaintiff in the amount of \$205,251 for unpaid accounts in connection with its drilling of the Labokay test well. On January 16, 2018, a default judgment was entered against FPOI, in the amount of \$205,251.24; together with accrued interest of \$29,861 from March 18, 2017, through December 31, 2017; plus, additional interest from January 1, 2018, at the rate of one and one-half percent (1.5%) per month until paid (a per diem rate of \$103.69); plus, an additional sum for reasonable attorney’s fees of \$2,500, and all costs of the court proceedings. As of March 31, 2018, we recorded \$39,097.74 of prejudgment interest expense.

Monster Rentals, LLC dba Deepwell Equipment Rentals vs. Foothills Petroleum Operating, Inc. (Case No. 2017-11013 DIV E – 15th Judicial District Court in Parish of Acadia, State of Louisiana)

This case was filed on October 24, 2017 and concerns the collection of amounts incurred by FPOI for services performed by plaintiff in the amount of \$53,943.53 in connection with the Labokay test well in Calcasieu Parish, Louisiana.

Canal Petroleum Products, Inc. vs. Foothills Petroleum Operating, Inc. (Case No. 2017-6574; DIV. C – 15TH Judicial District Court, Lafayette Parish, Louisiana)

This case was filed on November 14, 2017 and concerns the collection of amounts incurred by FPOI for services performed by plaintiff in the amount of \$35,981 for unpaid accounts in connection with its drilling of the Labokay test well.

On January 25, 2018, a default judgment was entered against FPOI in the amount of \$35,981 inclusive of interest as of September 6, 2017; plus, finance charges to accrue after September 6, 2017, of one and one-half percent per month (18% per annum) until paid on the unpaid principal amount of \$32,956; plus, legal fees of \$8,239 together with related court costs.

As of March 31, 2018, we recorded \$6,485 of prejudgment interest expense.

Smith International, Inc. vs. Foothills Petroleum Operating, Inc. (Case No. 2017-004617; DIV. E – 14th Judicial District Court, Calcasieu Parish, Louisiana)

This case was filed on November 7, 2017 and concerns the collection of amounts incurred by FPOI for services performed by plaintiff in the amount of \$30,244 in connection with its drilling of the Labokay test well.

On March 23, 2018, the court issued a preliminary judgement in favor of plaintiff in the amount of \$30,244, plus interest in the contractual amount of 18% per annum from the date the payment was originally due until the judgment date, plus legal interest from the judgment date until amounts are paid, plus reasonable attorneys' fees. As of March 31, 2018, we recorded \$3,474.28 of prejudgment interest expense.

M-I, L.L.C. d/b/a MI-SWACO vs. Foothills Petroleum Operating, Inc. (Case No. 2017-004616; DIV. G – 14th Judicial District Court, Calcasieu Parish, Louisiana)

This case was filed on November 7, 2017 and concerns the collection of amounts incurred by FPOI for services performed by plaintiff in the amount of \$51,275 in connection with the Labokay test well.

On March 23, 2018, the court issued a preliminary judgment in favor of plaintiff in the amount of \$51,275, plus interest in the contractual amount of 1.5% per month from the date the payment was originally due until the judgement date, plus legal interest from the judgment date until amounts are paid, plus reasonable attorney's fees expended in the prosecution and collection of debt. As of March 31, 2017, we recorded \$3,845 of prejudgment interest expense.

Schlumberger Technology Corporation vs. Foothills Petroleum Operating, Inc. (Case No. 2017-004618; DIV. E – 14th Judicial District Court, Calcasieu Parish, Louisiana)

This case was filed on November 7, 2017 and concerns the collection of amounts incurred by FPOI for services performed by plaintiff in the amount of \$28,904 for unpaid accounts in connection with its drilling of the Labokay test well in Calcasieu Parish, Louisiana.

On March 23, 2018, the court issued a preliminary judgment in favor of plaintiff in the amount of \$28,904, plus interest in the contractual amount of 1.5% per month from the date the payment was originally due until the judgment date, plus legal interest from the judgment date until amounts are paid, plus reasonable attorney's fees expended in the prosecution and collection of debt.

We currently are not a party to any other material legal proceedings. However, legal claims are inherently uncertain, and we cannot assure you that we will not be adversely affected in the future by legal proceedings.

ITEM 1A. Risk Factors

No material changes in risk factors as previously disclosed in Amendment No. 1 to the Company's annual report on Form 10-K/A have occurred.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

ITEM 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

ITEM 6. Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
2.1	<u>Share Exchange Agreement between Registrant and Foothills Petroleum, Inc., dated May 27, 2016 (Incorporated by reference from the Current Report on Form 8-K filed with the SEC on June 10, 2016)</u>
3.1	<u>Certificate of Incorporation of the registrant as amended (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on August 9, 2016)</u>
3.2	<u>Bylaws of the Company (incorporated by reference to the Company's Registration Statement on Form S-1 filed with the SEC on August 27, 2013)</u>
10.1	<u>Form of Executive Employment Agreement between registrant and Ritchie Lanclos dated August 15, 2016 (Incorporated by reference from the Current Report on Form 8-K filed with the SEC on August 19, 2016)</u>
10.2	<u>Form of Executive Employment Agreement between registrant and Eleazar Ovalle dated August 15, 2016 (Incorporated by reference from the Current Report on Form 8-K filed with the SEC on August 19, 2016)</u>
10.3	<u>Services Agreement between registrant and Wilshire Energy Partners dated August 15, 2016 (Incorporated by reference from the Current Report on Form 8-K filed with the SEC on August 19, 2016)</u>
10.4	<u>Securities Purchase Agreement between Registrant and Alternus Capital Holdings Ltd. dated December 23, 2015**</u>
10.5	<u>Securities Purchase Agreement between Registrant and Alternus Capital Holdings Ltd. dated April 5, 2016**</u>

- 10.6 [Securities Purchase Agreement between Registrant and Berwin Trading Limited dated June 30, 2016 \(Incorporated by reference from the Current Report on Form 8-K filed with the SEC on July 7, 2016\)](#)
- 10.7 [Form of Convertible Promissory Note**](#)
- 10.8 [Form of Wilshire Warrant**](#)
- 10.9 [Business Development Services Agreement with Wilshire Energy Partners LLC and Aegis International LLC**](#)
- 10.10 [Executive Director Agreement between Foothills Petroleum, Inc. and Alex M. Hemb dated March 24, 2016**](#)
- 10.11 [Executive Director Agreement between Foothills Petroleum, Inc. and Christopher Jarvis dated March 24, 2016**](#)
- 10.12 [Form of Stock Purchase Agreement, dated as of May 2, 2016, between Shawn Clark, Christopher J. Dunkel, Glenn Petersen, Dena M. Womack, Tysen J. Kamin and Foothills Petroleum, Inc. \(Incorporated by reference from the Current Report on Form 8-K filed with the SEC on May 6, 2016\)](#)
- 10.13 [Participation Agreement between registrant and Magna Operating, LLC \(Incorporated by reference from the Current Report on Form 8-K filed with the SEC on December 16, 2016\)](#)
- 10.14 [Purchase and Sale Agreement between Total Belief Limited and Foothills Exploration Operating, Inc.***](#)
- 10.15 [Form of Promissory Note issued to Total Belief Limited by registrant***](#)
- 10.16 [Form of Note Transfer and Assumption Agreement***](#)
- 10.17 [Purchase and Sale Agreement between Green Stone Capital Partners Limited and Foothills Exploration Operating, Inc.***](#)
- 10.18 [Debenture - Berwin Trading Limited \(Incorporated by reference from the Current Report on Form 8-K filed with the SEC on January 11, 2017\)](#)
- 10.19 [Debenture - Full Wealth Investment Hong Kong Limited \(Incorporated by reference from the Current Report on Form 8-K filed with the SEC on January 11, 2017\)](#)
- 10.20 [Offer Letter between registrant and Christopher Jarvis \(Incorporated by reference from the Current Report on Form 8-K filed with the SEC on March 6, 2017\)](#)
- 10.21 [Offer Letter between registrant and Kevin J. Sylla \(Incorporated by reference from the Current Report on Form 8-K filed with the SEC on March 6, 2017\)](#)
- 21.1 Subsidiaries and indirect subsidiaries of Registrant
- 31.1* [Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 31.2* [Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 32.1* [Certification of Chief Executive Officer pursuant to Section 906 Certifications under Sarbanes-Oxley Act of 2002](#)
- 101.INS* XBRL Instance Document
- 101.SCH* XBRL Taxonomy Extension Schema
- 101.CAL* XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF* XBRL Taxonomy Extension Definition Linkbase
- 101.LAB* XBRL Taxonomy Extension Label Linkbase
- 101.PRE* XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

** Incorporated by reference to the registrant's 8-K filed with the Securities and Exchange Commission on June 10, 2016

*** Incorporated by reference to the registrant's 8-K filed with the Securities and Exchange Commission on January 6, 2017

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.

FOOTHILLS EXPLORATION, INC.

Dated: August 9, 2018

By: /s/ B. P. Allaire

Name: B. P. Allaire

Title: Chief Executive Officer and Interim Chief Financial Officer
(Principal Executive Officer and Principal Financial and
Accounting Officer)

CERTIFICATIONS

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 the Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal controls 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 controls over financial reporting.

August 9, 2018

/s/ B. P. Allaire

B. P. Allaire

Chief Executive Officer

(Principal Executive Officer)

CERTIFICATIONS

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 the Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal controls 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 controls over financial reporting.

August 9, 2018

/s/ B. P. Allaire

B. P. Allaire

Interim Chief Financial Officer

Principal Financial and Accounting Officer

Certifications of Principal Executive Officer and Principal Financial Officer
Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To
Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned, B. P. Allaire, Chief Executive Officer (Principal Executive Officer and Principal Financial and Accounting Officer) of Foothills Exploration, Inc., (the "Company") hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Quarterly Report on Form 10-Q (the "Report") of the Company for the quarter ended March 31, 2018, fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, 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 operations of the Company at the dates and for periods indicated.

Dated: August 9, 2018

By: /s/ B. P. Allaire

Name: B. P. Allaire

Title: Chief Executive Officer and Interim Chief Financial Officer
(Principal Executive Officer and Principal Financial and
Accounting Officer)
