
SUPERNOVA ENERGY, INC.

Symbol: SPRN

FINANCIAL STATEMENTS

For the
Quarter Ending March 31, 2018

Fiscal Year:
12/31

Address:
265 Sunrise Hwy, Suite 1-276 Rockville Centre, New York 11570

Contents

SUPERNOVA ENERGY, INC.....	3
Balance Sheets	3
Condensed Statements of Operations	5
Statements of Stockholders' Equity.....	6
Condensed Statements of Cash Flows	7
Notes to the Consolidated Financial Statements.....	8
NOTE 1 – NATURE OF BUSINESS	8
NOTE 2 – GOING CONCERN	8
NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	8
NOTE 4 – PROPERTY AND EQUIPMENT	11
NOTE 5 – OIL AND GAS PROPERTIES	11
NOTE 6– NOTES PAYABLE.....	12
NOTE 7 – NOTES PAYABLE - CONVERTIBLE.....	12
NOTE 8 – NOTES PAYABLE – RELATED PARTIES	12
NOTE 9 – PREFERRED STOCK	13
NOTE 10 – COMMON STOCK	13
NOTE 11 – INCOME TAXES	13
NOTE 12– COMMITMENTS AND CONTINGENCIES.....	14
NOTE 13– SUBSEQUENT EVENTS.....	14

SUPERNOVA ENERGY, INC.
Condensed Balance Sheets
(Unaudited)

	March 31, 2018	December 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 13,568	\$ 79
Related-party receivables	-	6,238
Prepaid expenses	500	500
Total Current Assets	14,068	6,817
Property and Equipment		
Oil and gas properties (full cost method)		
Proved	822,897	822,897
Unproved	546,325	546,325
Support equipment	267,631	267,631
Total property, plant and equipment	1,636,853	1,636,853
Accumulated depletion, depreciation, and impairment	(1,231,300)	(1,201,300)
Total oil and gas properties, net	405,553	435,553
TOTAL ASSETS	\$ 419,621	\$ 442,370
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	\$ 488,040	\$ 482,115
Accounts payable and accrued expenses, related parties	68,763	62,075
Notes payable	609,000	574,000
Convertible note payable, net of unamortized discounts of \$23,973	1,027	-
Notes payable - related parties	20,000	20,000
Derivative liabilities	28,275	-
Total Current Liabilities	1,215,105	1,138,190
Long-term liabilities		
Asset retirement obligations, net	157,752	157,752
TOTAL LIABILITIES	1,372,857	1,295,942
SHAREHOLDERS' DEFICIT		

Preferred stock, 2,000,000 shares authorized at par value of \$0.10;

577,600 shares issued and outstanding, respectively	57,760	57,760
Common stock, 100,000,000 shares authorized at par value of \$0.001;		

45,000,572 shares issued and outstanding	45,001	45,001
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Additional paid-in capital	2,919,133	2,919,133
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Accumulated deficit	<u>(3,975,130)</u>	<u>(3,875,466)</u>
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TOTAL SHAREHOLDERS' DEFICIT	<u>(953,236)</u>	<u>(853,572)</u>
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TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$ <u>419,621</u>	\$ <u>442,370</u>
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The accompanying notes are an integral part of these unaudited financial statements

SUPERNOVA ENERGY, INC.
Condensed Statements of Operations
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
Revenues	\$ 18,133	\$ 25,726
OPERATING EXPENSES		
Depletion, depreciation, amortization and accretion expense	30,000	42,000
Lease operating expenses	14,428	69,405
Professional fees	50,150	40,585
General and administrative expenses	<u>10,732</u>	<u>22,728</u>
TOTAL OPERATING EXPENSES	<u>105,310</u>	<u>174,718</u>
Loss from Operations	(87,177)	(148,992)
OTHER INCOME (EXPENSE)		
Change in fair value of derivative liabilities	(3,275)	-
Interest expense	<u>(9,212)</u>	<u>(5,885)</u>
Total other expenses	<u>(12,487)</u>	<u>(5,885)</u>
NET LOSS	(99,664)	(154,877)
NET LOSS PER SHARE, BASIC AND DILUTED	\$ <u>(0.00)</u>	\$ <u>(0.02)</u>
WEIGHTED AVERAGE SHARES OUTSTANDING, BASIC AND DILUTED	<u>45,000,572</u>	<u>8,487,239</u>

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

SUPERNOVA ENERGY, INC.
Statements of Stockholders' Equity
(Unaudited)

	Preferred Stock		Common Stock		Additional Paid in	Accumulated	Total Stockholder's
	<u>Shares</u>	<u>Amount</u>	<u>Number of Shares</u>	<u>Amount</u>	<u>Capital</u>	<u>Deficit</u>	<u>Equity</u>
Balance - December 31, 2016	809,400	80,940	6,820,572	6,821	2,709,133	(3,562,072)	(765,178)
Debt converted to common			15,000,000	15,000	135,000	-	150,000
Preferred stock converted to common stock	(231,800)	(23,180)	23,180,000	23,180	75,000	-	75,000
Net loss		-	-	-	-	(313,394)	(313,394)
Balance - December 31, 2017	577,600	\$ 57,760	45,000,572	\$ 45,001	\$ 2,919,133	\$ (3,875,466)	\$ (853,572)
Net loss		-	-	-	-	(99,664)	(99,664)
Balance - March 31, 2018	577,600	\$ 57,760	45,000,572	\$ 45,001	\$ 2,919,133	\$ (3,975,130)	\$ (953,236)

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

SUPERNOVA ENERGY, INC.
Condensed Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$ (99,664)	\$ (154,877)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, depletion, amortization and accretion	30,000	-
Amortization of debt discount	1,027	-
Convertible note issued for service	25,000	-
Change in fair value of derivative liabilities	3,275	-
Changes in operating assets and liabilities:		
Prepaid expenses	-	(1,500)
Accounts receivable	6,238	9,636
Accounts payable and accrued expenses	5,925	119,308
Accounts payable and accrued expenses - related party	6,688	(105,335)
Net cash used in Operating Activities	<u>(21,511)</u>	<u>(132,768)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Oil and gas lease - proved	-	40,000
Net cash provided by investing activities	<u>-</u>	<u>40,000</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from preferred stock	-	75,000
Proceeds from note payable	35,000	80,000
Net cash provided by Financing Activities	<u>35,000</u>	<u>155,000</u>
Net decrease in cash and cash equivalents	13,489	62,232
Cash and cash equivalents, beginning of period	79	7,182
Cash and cash equivalents, end of period	\$ <u><u>13,568</u></u>	\$ <u><u>69,414</u></u>
Supplemental cash flow information		
Cash paid for interest	<u>-</u>	<u>-</u>
Cash paid for taxes	<u>-</u>	<u>-</u>
Non-cash transactions:		
Convertible note recognized as debt discount	\$ <u><u>25,000</u></u>	\$ <u><u>-</u></u>

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

Notes to the Consolidated Financial Statements
(Presented in US dollars)

March 31, 2018

NOTE 1 – NATURE OF BUSINESS

Supernova Energy, Inc. (“the Company”) is an oil and gas exploration and production company incorporated in the state of Nevada on June 22, 2009. On October 21, 2013, the Company elected to change its corporate name from Northumberland Resources, Inc. to Supernova Energy, Inc.

The accompanying financial statements have been prepared by the Company without an audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows at June 30, 2017, and for all periods presented herein, have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company’s December 31, 2017 unaudited financial statements.

NOTE 2 – GOING CONCERN

The Company’s financial statements are prepared using generally accepted accounting principles in the United States of America applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has not yet established an ongoing source of revenues sufficient to cover its operating costs and allow it to continue as a going concern. These conditions raise substantial doubt about the Company’s ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company obtaining adequate capital to fund operating losses until it becomes profitable. If the Company is unable to obtain adequate capital, it could be forced to cease operations.

To continue as a going concern, the Company will need, among other things, additional capital resources. Management’s plan is to obtain such resources for the Company by obtaining capital from management and significant shareholders sufficient to meet its minimal operating expenses and seeking equity and/or debt financing. However, management cannot provide any assurances that the Company will be successful in accomplishing any of its plans.

The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish the plans described in the preceding paragraph and eventually secure other sources of financing and attain profitable operations. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

For the year ending December 31, 2017, the Company incurred net loss of \$313,394. At March 31, 2018, there is an accumulated deficit of \$3,975,130 and the Company has \$1,201,037 of working capital. There are limited assets to fund short term operating cash flow or service debt obligations. There is no assurance that financing will be available in the future. In view of these matters, there is substantial doubt that the Company will continue as a going concern. The Company is currently pursuing sources of short and long-term working capital.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIESCash and Cash Equivalents

The Company considers all highly liquid investments with the original maturities of three months or less to be cash equivalents. The Company had \$13,568 and \$79 of cash and cash equivalents at March 31, 2018 and December 31, 2017, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from

those estimates. Significant estimates made in preparing these financial statements include the estimate of proved oil and gas reserves and related present value estimates of future net cash flows therefrom and the assessment of asset retirement obligations.

Recent Accounting Pronouncements

The Company has evaluated recent accounting pronouncements and their adoption has not had or is not expected to have a material impact on the Company's financial position or statements.

Oil and Gas Properties

The Company uses the full cost method of accounting for oil and natural gas properties. Under this method, all acquisition, exploration and development costs, including certain payroll, asset retirement costs, other internal costs, and interest incurred for finding oil and natural gas reserves, are capitalized. Internal costs that are capitalized are directly attributable to acquisition, exploration and development activities and do not include costs related to production, general corporate overhead or similar activities. Costs associated with production and general corporate activities are expensed in the period incurred. Proceeds from the sale of oil and natural gas properties are applied to reduce the capitalized costs of oil and natural gas properties unless the sale would significantly alter the relationship between capitalized costs and proved reserves, in which case a gain or loss is recognized.

Capitalized costs associated with impaired properties and capitalized costs related to properties having proved reserves, plus the estimated future development costs, and asset retirement costs under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 410 "Asset Retirement and Environmental Obligations" (FASB ASC 410), are amortized using the unit-of-production method based on proved reserves. Capitalized costs of oil and natural gas properties, net of accumulated amortization and deferred income taxes, are limited to the total of estimated future net cash flows from proved oil and natural gas reserves, discounted at ten percent, plus the cost of unevaluated properties.

There are many factors, including global events that may influence the production, processing, marketing and price of oil and natural gas. A reduction in the valuation of oil and natural gas properties resulting from declining prices or production could adversely impact depletion rates and capitalized cost limitations. Capitalized costs associated with properties that have not been evaluated through drilling or seismic analysis, including exploration wells in progress, are excluded from the unit-of-production amortization. Exclusions are adjusted annually based on drilling results and interpretative analysis.

Sales of oil and natural gas properties are accounted for as adjustments to the net full cost pool with no gain or loss recognized, unless the adjustment would significantly alter the relationship between capitalized costs and proved reserves. If it is determined that the relationship is significantly altered, the corresponding gain or loss will be recognized in the statements of operations.

Costs of oil and gas properties are depleted using the unit-of-production method. For the three months ended March 31, 2018, the Company recognized \$30,000 of depletion expense related to oil and gas production.

Ceiling Test – In applying the full cost method and in accordance with ASC 932, the Company performs an impairment test (ceiling test) at each reporting date, whereby the carrying value of property and equipment is compared to the value of its proved reserves discounted at a ten percent interest rate of future net revenues, based on current economic and operating conditions, plus the cost of Properties not being amortized, plus the lower of cost or fair market value of unproved properties included in costs being amortized, less the income tax effects related to book and tax basis differences of the properties. During the years ended December 31, 2017 and 2016, no impairment expense was recorded in connection with the full cost ceiling test calculation.

Revenue Recognition – Revenues from the sale of oil and natural gas are recognized when the product is delivered at a fixed or determinable price, title has transferred, and collectability is reasonably assured. For oil sales, this occurs when the customer takes delivery of oil from the operators' storage tanks.

Asset Retirement Obligations

The Company records the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. If the liability is settled for an amount other than the recorded amount, a gain or loss is recognized.

Long-Lived Assets

Long-lived assets include equipment and intangible assets other than those with indefinite lives. We assess the carrying value of our long-lived asset groups when indicators of impairment exist and recognize an impairment loss when the carrying amount of a long-lived asset is not recoverable from the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Indicators of impairment include significant underperformance relative to historical or projected future operating results, significant changes in our use of the assets or in our business strategy, loss of or changes in customer relationships and significant negative industry or economic trends. When indications of impairment arise for a particular asset or group of assets, we assess the future recoverability of the carrying value of the asset (or asset group) based on an undiscounted cash flow analysis. If carrying value exceeds projected, net, undiscounted cash flows, an additional analysis is performed to determine the fair value of the asset (or asset group), typically a discounted cash flow analysis, and an impairment charge is recorded for the excess of carrying value over fair value.

Property and equipment are recorded at historical cost less accumulated depreciation, unless impaired. Depreciation is charged to operations over the estimated useful lives of the assets using the straight-line. Upon retirement or sale, the historical cost of assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized. Expenditures for repairs and maintenance are charged to expense as incurred.

Income Taxes

Income taxes are provided in accordance with FASB Codification Topic 740, *Accounting for Income Taxes*. A deferred tax asset or liability is recorded for all temporary differences between financial and tax reporting and net operating loss-carry forwards.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or the entire deferred tax asset will not be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment.

The asset and liability approach is used to account for income taxes by recognizing deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. The Company records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized.

Fair Value Measurements

The fair value of a financial instrument is the amount that could be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. A fair value hierarchy is used to prioritize the quality and reliability of the information used to determine fair values. Categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is defined into the following three categories:

Fair Value Measurements (Continued)

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or inputs that are corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data

The Company has a derivative liability in connection with the conversion feature of the convertible debt, classified as a level 3 liability, is the only financial liability measured at fair value on a recurring basis.

The following table summarizes fair value measurement by level at March 31, 2018, measured at fair value on a recurring basis:

March 31, 2018	Level 1	Level 2	Level 3	Total
Assets				
None	-	-	-	-
Liabilities				
Derivative liabilities	-	-	28,275	28,275

The change in the level 3 financial instrument is as follows:

Balance - December 31, 2017	\$	-
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Addition of new derivative	30,517
Loss (Gain) on change in fair value of the derivative	(2,242)
Balance – March 31, 2018	<u>\$ 28,275</u>

Basic and Diluted Loss per Share

Basic and diluted loss per share is calculated by dividing the Company's net loss applicable to common shareholders by the weighted average number of common shares during the period. Diluted earnings per share is calculated by dividing the Company's net income available to common shareholders by the diluted weighted average number of shares outstanding during the year. The diluted weighted average number of shares outstanding is the basic weighted number of shares adjusted for any potentially dilutive debt or equity. There were -0- and -0- such common stock equivalents outstanding as of December 31, 2017 and 2016, respectively.

NOTE 4 – PROPERTY AND EQUIPMENT

As of March 31, 2018, and December 31, 2017, the Company's oil and gas pumping and support equipment consisted of the following:

	March 31, 2018	December 31, 2017
Oil and gas pumping and support equipment	\$ 267,631	\$ 267,631
Accumulated depreciation	(267,631)	(267,631)
Net	<u>\$ -</u>	<u>\$ -</u>

During the three months ended March 31, 2018, \$0 was depreciated.

NOTE 5 – OIL AND GAS PROPERTIES

On January 29, 2015, the registrant entered into a Drilling Agreement with an unrelated third party whereby the Company will pay \$100,000 to drill the well and \$50,000 to complete the well. In return, the Company will receive a 100% working interest and an 80% net revenue interest in the well. During the year ended December 31, 2015 the \$50,000 paid for drilling costs was repaid to the Company.

On January 28, 2015, the registrant entered an Assignment of Oil & Gas Lease with an unrelated third party whereby the Company was assigned the entire 80% working interest in and to certain leaseholds in Russell County, Kentucky.

During the year ending December 31, 2015, the Company impaired the value of its proven and unproven reserves and support equipment of \$329,023 due to lower oil prices. For the year ending December 31, 2016, the Company reversed the impairment in the amount of \$329,023 made in 2015 of its proven and unproven reserves because of the recommencement of production and improved oil prices. The Company also acquired new leases and title at a cost of \$41,500. During March 2017, the Company sold the Dannebohm lease for \$40,000. During the year ended December 31, 2017 \$60,000 of upgrades were completed and capitalized to Proved producing properties.

	March 31, 2018	December 31, 2017
Proved producing properties	\$ 822,897	\$ 822,897
Proved non-producing properties	-0-	-0-
Unproved properties	396,325	396,325
Unproved purchase OMR Drilling	150,000	150,000
Accumulated depletion	<u>(963,699)</u>	<u>(933,669)</u>
Net Oil and Gas Properties	<u>\$ 405,553</u>	<u>\$ 435,553</u>

NOTE 6– NOTES PAYABLE

During the year ending December 31, 2016 the Company borrowed a total \$346,500 from unrelated third parties pursuant to three note agreements. The notes bear interest at a rate of 5% per annum and are due one year from the date of issuance.

During the year ending December 31, 2016 the Company borrowed a total \$177,500 from an unrelated party. The amounts bear interest at a rate of 5% per annum and are due one year from the date of issuance.

For the year ended December 31, 2017 the Company borrowed a total of \$50,000 from two unrelated parties, which bear interest at a rate of 8% per annum. The notes are due one year from the date of issuance.

During the three months ended March 31, 2018, the Company borrowed \$35,000 from unrelated third parties pursuant to two note agreements. The notes bear interest at a rate of 8% per annum and are due one year from the date of issuance.

NOTE 7 – NOTES PAYABLE - CONVERTIBLE

On January 29, 2015, the Company entered into a Promissory Note in the amount of \$150,000 with an unrelated third party whereby the Company will pay interest in the amount of 10% annually and the note is due June 29, 2015. The proceeds were paid directly to the third party. The lender has the option to convert any remaining outstanding balance after the due date to preferred shares of the registrant at the price of \$1.00 per share. As the conversion price is fixed the Company has determined there is no embedded financial derivative. The Company recorded beneficial conversion feature debt discount of \$150,000 related to the conversion option. This debt discount has been fully amortized during the year ending December 31, 2016 to interest expense. During the year ended December 31, 2017, the \$150,000 note was converted into stock for a total of 15,000,000 common shares being issued at \$0.01.

On March 16, 2018, the Company issued a \$25,000 convertible promissory note. The note matures twelve months after issuance, accrues interest at 10% per annum, and is convertible at 60% of the lowest trading price during the twenty days preceding the conversion. A debt discount of \$25,000 was recorded at issuance. As of March 31, 2018, the note is presented net of a debt discount of \$23,897.

NOTE 8 – DERIVATIVE LIABILITY

The Company analyzed the conversion options for derivative accounting consideration under ASC 815, Derivatives and Hedging, and hedging, and determined that the instrument should be classified as a liability when the conversion option becomes effective.

The table below shows the Black-Scholes option-pricing model inputs used by the Company to value the derivative liability at each measurement date:

	Three months ended March 31, 2018	Year ended December 31, 2017
Expected term	.96 years	-
Expected average volatility	163%	-
Expected dividend yield	-	-
Risk-free interest rate	2.09%	

NOTE 9 – NOTES PAYABLE – RELATED PARTIES

On August 21, 2013, the Company borrowed \$5,000 from a related party, with principal due in full on August 21, 2014, along with an additional \$500 in accrued interest. As of March 31, 2018 the note is in default.

On November 20, 2014, the Company entered into a promissory note agreement with a related party. Pursuant to the terms of the note, the Company borrowed \$15,000, which accrues interest at a rate of five percent per annum. The note is unsecured and was due in full, along with all accrued interest, on November 20, 2015. The note is currently in default.

The principal on all Notes Payable – Related Parties was \$20,000 at March 31, 2018.

NOTE 10 – PREFERRED STOCK

The Company is authorized to issue 2,000,000 shares of preferred stock at a par value of \$0.10. As of March 31, 2018, and December 31, 2017, there was 577,600 and 577,600 shares of preferred stock issued and outstanding, respectively.

On February 26, 2014, the Company issued 65,000 shares of preferred stock for cash at \$1.00 per share, resulting in total cash proceeds of \$65,000. The preferred shares have 1:100 conversion and voting rights. As the conversion price is fixed the Company has determined there is no embedded financial derivative.

On February 4, 2015, the holder of 65,000 shares of preferred stock converted 65,000 shares of preferred stock into 6,500,000 shares of common stock.

On March 8, 2017, the Company signed a subscription agreement for the purchase of 75,000 preferred shares at \$1.00 per share. On March 29, 2017, the \$75,000 was received by the Company. These shares have not yet been issued.

During the year ended December 31, 2017, 231,800 preferred shares were converted into 23,180,000 common shares.

NOTE 11 – COMMON STOCK

The total number of shares of capital stock which the Company shall have authority to issue is 100,000,000 common shares with a par value of \$0.001. At March 31, 2018 and December 31, 2018, there are 45,000,572 and 45,000,572 common shares issued and outstanding, respectively

On October 21, 2013, the Company elected to reduce its authorized number of common shares from 200,000,000 to 100,000,000. On September 15, 2013, the Company authorized a reverse-split of its common stock on a one-share-for-two-shares basis. All references to common stock have been restated to retroactively incorporate the effects of this transaction.

During the year ended December 31, 2013 the Company issued 1,100 shares of common stock upon the conversion of a \$100,000 convertible note payable and related accrued interest payable. The Company also issued 5,021 shares of common stock for cash at \$93 per share, resulting in total cash proceeds of \$465,000.

On July 21, 2014, the Company elected to perform a reverse-split of its common stock on a one-share-for-one-hundred-share basis, with no change to the authorized common shares. All references to common stock activity in these financial statements have been retroactively restated to incorporate the effects of this reverse-stock-split.

On February 4, 2015, the holder of 65,000 shares of preferred stock converted 65,000 shares of preferred stock into 6,500,000 shares of common stock.

On February 21, 2017, the Company converted the \$150,000 promissory note into stock for a total of 15,000,000 common shares being issued at \$0.01.

During the year ended December 31, 2017, 231,800 preferred shares were converted into 23,180,000 common shares.

NOTE 12 – INCOME TAXES

The Company accounts for income taxes in accordance with ASC 740, Income Taxes, which requires the recognition of deferred tax liabilities and assets at currently enacted tax rates for the expected future tax consequences of events that have been included in the financial statements or tax returns. A valuation allowance is recognized to reduce the net deferred tax asset to an amount that is more likely than not to be realized.

ASC 740 provides guidance on the accounting for uncertainty in income taxes recognized in a company's financial statements. ASC 740 requires a company to determine whether it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. If the more likely-than-not threshold is met, a company must measure the tax position to determine the amount to recognize in the financial statements.

Net deferred tax assets consist of the following components as of December 31, 2017 and December 31, 2016:

	December 31, 2017	December 31, 2016
Book income (loss) from operations (at 34% Federal rate)	<u>\$(106,554)</u>	<u>\$(2,390)</u>
Change in derivative liability	—	—
Change in valuation allowance	106,554	2,390
Total provision for income taxes	<u>\$---</u>	<u>\$—</u>

The income tax provision differs from the amount of income tax determined by applying the estimated U.S. federal and state income tax rates of 34 percent to pretax income from continuing operations for the year ended December 31, 2017 and 2016 due to the following:

	December 31, 2017	December 31, 2018
Loss carry forwards (expire through 2033)	<u>\$1,317,658</u>	<u>\$1,211,104</u>
Effect of change in the statutory rate	(503,810)	—
Valuation allowance	(813,848)	(1,211,104)
Net deferred taxes	<u>\$—</u>	<u>\$—</u>

At December 31, 2017, the Company had net operating loss carry forwards of approximately \$1,317,658 through 2033. No tax benefit has been reported in the December 31, 2017 financial statements since the potential tax benefit is offset by a valuation allowance of the same amount. Due to the change in ownership provisions of the Tax Reform Act of 1986, net operating loss carry forwards for Federal income tax reporting purposes are subject to annual limitations. Should a change in ownership occur, net operating loss carry forwards may be limited as to use in future years.

In accordance with generally accepted accounting principles, the Company has analyzed its filing positions in all jurisdictions where it is required to file income tax returns for the open tax years in such jurisdictions. The Company has identified its federal income tax returns for the previous five years remain subject to examination. The Company's income tax returns in state income tax jurisdictions also remain subject to examination for the previous five years. The Company currently believes that all significant filing positions are highly certain and that all its significant income tax filing positions and deductions would be sustained upon audit. Therefore, the Company has no significant reserves for uncertain tax positions, and no adjustments to such reserves were required by generally accepted accounting principles. No interest or penalties have been levied against the Company and none are anticipated, therefore no interest or penalty has been included in the provision for income taxes in the consolidated statements of operations.

NOTE 13– COMMITMENTS AND CONTINGENCIES

Compensation to Directors – The Company has entered into an employee contract with its officer and director for \$2,500 per month

NOTE 14– SUBSEQUENT EVENTS

In accordance with ASC 855-10, the Company's management has reviewed all material events and there are no additional material subsequent events to report, other than those disclosed below.

On May 9, 2018, the Company entered into a two separate Lease and Well Purchase agreements whereby the Company will purchase a total of 36.8% working interest in the related lease and wells of approximately 160 acres in Kansas. The Company agrees to pay \$40,000 within 90 days and 40,000 newly issued preferred shares of the Company in accordance with the terms of the agreement.