

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

ADMINISTRATIVE PROCEEDING
File No. 3-20724

In the Matter of PETROLIA ENERGY CORPORATION, Respondent.

**PETROLIA ENERGY CORPORATION'S REPLY TO
RESPONSE TO DIVISION OF ENFORCEMENT'S
BRIEF IN RESPONSE TO
PETROLIA ENERGY CORPORATION'S SUBMISSION**

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**REPLY TO RESPONSE TO DIVISION OF ENFORCEMENT’S
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Petrolia Energy Corporation (“*BCLS*”) files this Reply to Response to Division of Enforcement’s (“*Division*”) Brief in Response to Petrolia Energy Corporation’s Submission (the “*Division Response*”). Pursuant to the United States Securities and Exchange Commission’s (the “*Commission’s*”) precedent in proceedings pursuant to Section 12(j) of the Securities Exchange Act of 1934 (“*Exchange Act*”), *BCLS* provides responses to the Division’s Response, and demonstrates that based on an application of the factors the Commission set forth in *Gateway International Holdings, Inc.*, Exchange Act Release No 53907, 2006 WL 1506286, at *4 (May 31, 2006), the Commission should deny the Division’s Motion for Summary Disposition.

I. REPLY TO RESPONSE

A. Introduction and Background

The Commission issued an Order Instituting Proceedings Administrative Proceeding (File No. 3-20724)(the “*OIP*”) against *BCLS* on January 28, 2022.

On April 11, 2022, the Division of Enforcement (the “*Division*”) filed a Motion for Summary Disposition seeking revocation of the registration of *BCLS*’s securities (“*Motion for Summary Judgment*”).

On April 28, 2022, BBLs filed a Response to Division of Enforcement’s Motion for Summary Disposition as to Petrolia Energy Corporation and Brief In Support requesting, among other things, that the Commission “defer decision on the motion until [BBLs was] able to reach certain specific benchmarks.”

On April 18, 2023, the Office of the General Counsel (“*General Counsel*”) of the Commission requested BBLs provide the Commission a Brief, describing BBLs’s remedial efforts since the OIP was instituted in January 2022. See Release No. 97320 (April 18, 2023). Specifically, the Commission asked BBLs, in part, to address the extent of BBLs’s efforts to remedy its past violations and ensure future compliance and the credibility of its assurances, if any, against further violations.

On May 15, 2023, BBLs timely filed its Response to the Commission’s Request for Additional Briefing Regarding Respondent’s Remedial Efforts (the “*BBLs Submission*”), providing an update to the extent of its efforts to remedy past violations, including an explanation of why BBLs failed to comply with its originally proposed schedule, including a discussion of steps taken to ensure future compliance, and confirming that its prior delinquencies in filing periodic reports had been cured and that revocation was not warranted.

Subsequent thereto, on June 28, 2023, the Division filed its Brief in Response to BBLs’s Submission (the “*Division Response*”).

In the Division Response, the Division argued that BBLs has a long history of delinquent filings; BBLs’s “curative” filings are late and materially deficient and that the *Gateway* (May 31, 2006) factors give rise to the presumption that revocation is required; BBLs has not rebutted the presumption of revocation; and revocation is required to protect investors. BBLs disagrees with each of those arguments for the reasons set forth below.

II. Facts

1. BBLs Has Cured its Past History of Delinquent Filings

The Division Response focuses, in part, on BBLs’s late periodic filings from April 17, 2017 to December 31, 2021. The Division’s focus and concern here is completely justified. However, the Division fails to note the turnaround in the new management’s colossal effort to catch up and timely file reports with the Securities and Exchange Commission¹.

¹ The Division, a bit disingenuously, writes that “BBLs is a chronically delinquent filer...” The truth is that BBLs was a chronically delinquent filer, but is no longer.

The prior BBLs Chief Executive Officer (CEO), Zel C. Khan, left the company on September 1, 2021, due to a recommendation from the Board of Directors based on improprieties which were discovered by the Board. Further, BBLs's former Controller, Carla Petty, resigned in October 2021, giving no notice to management, and as a result, there was no proper training or transition of responsibilities.

When Zel Khan left the company on September 1, 2021, BBLs was behind in filing one (1) Annual Report on 10-K and four (4) Quarterly Reports on Form 10-Q. New management, led by CEO Mark Allen, has brought, in just 20 months, the filings current. This includes filing three (3) Annual Reports on 10-K and ten (10) Quarterly Reports on Form 10-Q (when including the filings that were deficient when Mr. Khan resigned).

In BBLs's Response, BBLs extensively detailed the horrendous problems caused by Mr. Khan's refusal to provide information, or accurate information, to the auditors and the difficulties generated by the abrupt departure of the Controller Carla Petty. However, notably, BBLs has filed the following 10 periodic reports in the last 14 months:

Filing Date	Filing Type	For Period Ending
5/16/2022	Form 10-K	December 31, 2020

6/15/2022	Form 10-Q	March 31, 2021
7/13/2022	Form 10-Q	June 30, 2021
7/29/2022	Form 10-Q	September 30, 2021
12/9/2022	Form 10-K	December 31, 2021
2/17/2023	Form 10-Q	March 31, 2022
3/2/2023	Form 10-Q	June 30, 2022
3/20/2023	Form 10-Q	September 30, 2022
5/12/2023	Form 10-K	December 31, 2022
5/15/2023	Form 10-Q	March 31, 2023
7/28/23	Form 10-Q	June 30, 2023

The Division cites *Natures Sunshine Products, Inc.*, 2009 WL 137145 at *8 (2009), *China-Biotics, Inc.*, Exchange Act Release 70800, 2013 SEC LEXIS 3451, at *37 (Nov. 4, 2013), and *Calais Resources, Inc.*, Exchange Act Release 67312, 2012 WL 2499349 at *7 (June 29, 2012) for the proposition that curing delinquent filings on the eve of a revocation hearing should be given slight consideration by the Commission, if any consideration at all. However, as the above table demonstrates, the monumental mess that Zel Khan left BBLs in has required a dedicated commitment for several months, and over a year of filings, to get current.

2. BBLs Was Unable to Comply With Its Self-Imposed Filing Deadlines

As referenced by the Division, BBLs originally expected that it would be in a position to cure the filing delinquencies by December 31, 2021. Subsequently, BBLs believed it would be able to have all delinquent reports filed by May 31, 2022.

As described in the BBLs Submission, BBLs was unable to meet that deadline, due to (1) the lack of cooperation from its former CEO, Zel C. Khan (BBLs Response at page 5); (2) the lack of the timely assistance of BBLs's auditors (BBLs Response at page 6); and (3) the sudden resignation of BBLs's former controller (BBLs Response at page 6), each of which issues have since been remedied as set forth in the BBLs Response.

BBLs timely filed its Quarterly Report on Form 10-Q for the quarters ended March 31, 2023, and June 30, 2023 (which was filed more than two weeks before the due date). In addition, BBLs expects to timely file all future quarterly and annual reports.

3. BBLs's Deficient Filings Have Been Addressed

The Division, in the Division Response, alleges that BBLs's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2022, June 30, 2022 and September 30, 2022, included material deficiencies. More particularly, the Division concluded that all three quarterly reports for 2022 are materially deficient for one or more of the following reasons: (1) failing to include management's conclusions regarding the effectiveness of BBLs's disclosure controls and procedures in violation of Item 307 of Regulation S-K; (2) failing to include

analysis of changes in each caption of stockholder's equity and noncontrolling interests presented in the balance sheet in violation of Rule 8-03(a)(5) of Regulation S-X; and (3) failing to discuss material changes in the results of BBL's operations in violation of Item 303(c)(2)(ii) of Regulation S-K.

BBL corrected the errors in the 2022 quarterly reports by the filing of amended Quarterly Reports on Form 10-Q/A, which were filed on July 28, 2023.

BBL will file correct and compliant quarterly and annual reports moving forward and has timely filed two consecutive Quarterly Reports on Form 10-Q for 2023.

III. Argument

1. Revoking the Registration of BBL's Common Stock is Not Consistent with the Analysis of the Gateway Factors

Gateway, at *4 (May 31, 2006) (citing *Steadman v. SEC*, 603 F.2d 1126, 1139-40 (5th Cir. 1979)), the Commission established a multi-factor test to use in determining an appropriate sanction when an issuer has failed to make required filings:

“[W]e will consider, among other things, the seriousness of the issuer's violations, the isolated or recurrent nature of the violations, the degree of culpability involved, the extent of the issuer's efforts to remedy its past violations and ensure

future compliance, and the credibility of its assurances, if any, against further violations.”

When a company has filing violations, the Commission should look to see whether there is a compelling showing on remedial efforts and assurances against future violations. See, *Absolute Potential, Inc.*, Exchange Act Release No. 71866, 2014 WL 1338256, at *6 (Apr. 4, 2014).

The new management team of BBLIS has made its reporting compliance its top priority by dedicating nearly all of its efforts to preparing and filing its periodic reports and working to become current in its Commission reporting requirements. The filing of the above reports has taken a near herculean effort and a significant amount of effort from BBLIS’s management, consultants and auditors; but BBLIS has accomplished what BBLIS advised the Commission that BBLIS would do. BBLIS has now timely filed two consecutive quarterly reports, including filing the second quarter report more than two weeks early. BBLIS has demonstrated that management has improved the Company’s process of the preparation of its filings with the Securities and Exchange Commission as well as its ability to timely file such reports.

Thus, there should be no presumption in favor of revocation because BBLIS’s evidentiary showings, especially with respect to the third and fourth *Gateway* (May

31, 2006) factors, do not justify revocation.” *Cf. e.g., Impax Labs., Inc.*, Exchange Act Release No. 57864, 2008 WL 2167956, at *8 (May 23, 2008); *Calais Res., Inc.*, at *4 (June 29, 2012).

Also, BBLs has a low degree of culpability. Once the new management took over in late 2021, BBLs undertook an immediate campaign to cure the 10-Q and 10-K filing deficiencies. While BBLs’s filing violations were not accidental, BBLs has not persisted in noncompliance after receiving the delinquency letter, in fact, quite the opposite, BBLs has focused its time and financial resources on full compliance. See, e.g. *China-Biotics, Inc.*, at *37 (Nov. 4, 2013). BBLs has materially adhered to its prior schedule.

Now that BBLs can focus on one periodic report at a time, BBLs believes that it will be able to timely file each periodic report due in the future. BBLs does not expect any future violations relating to failure to timely file periodic reports for the reasons above.

2. BBLs Has Taken Meaningful Remedial Steps to Ensure Future Compliance

As noted in prior filings in the case at bar, BBLs’s assurances that it will continue to be compliant are credible for two reasons: (1) BBLs believes that it has met the majority of its self-imposed deadlines; and (2) BBLs has sufficient resources

to prepare future filings. BBLs is not a shell company. BBLs now has operating revenue sufficient to pay its outside accountants, to review and audit, as necessary, future filings with the Commission.

3. BBLs Has Provided Credible Assurances Against Further Violations

As discussed in the BBLs Response, BBLs is under contract with its current independent registered accounting firm, has incentivized its current management with equity grants to ensure continued compliance and has implemented procedures, such as integrated spreadsheets which have reduced the cycle time required to produce the audit and review documentation for periodic reports and plans to hire additional contract staff in the future to assist with audit and review activities, if required.

For the reasons above, and those set forth in the BBLs Response, BBLs does not expect any future violations relating to failure to timely file periodic reports.

4. Revoking the Registration of BBLs's Common Stock Would Not be in the Best Interests of the Public or Shareholders

Revoking the registration of BBLs's common stock registered pursuant to Section 12 of the Exchange Act would not be in the public's interest, or the best interests of current shareholders or prospective shareholders of BBLs.

Such suspension would effectively result in hundreds of shareholders of BBLs not being able to freely increase or liquidate their holdings, and prospective shareholders not being able to freely purchase shares in BBLs. Additionally, if the Commission revokes the registration of BBLs's securities, shareholders of BBLs would no longer be required to receive material information regarding BBLs's operations and financial condition, which could materially adversely affect the value of BBLs's securities and would prevent current and prospective shareholders receipt of information necessary to ascertain the true value of such securities.

If the Commission were to revoke the registration of BBLs's securities under the Exchange Act, it would signal to reporting companies that the Commission will impose a sanction regardless of a company's efforts to regain compliance and would discourage other companies from trying to remedy filing deficiencies if they cannot be remedied expeditiously. Imposing a sanction on BBLs after it has worked diligently to file deficient reports, all with the intended purpose of becoming current in its SEC filings and remaining in compliance with the reporting provisions of the Exchange Act thereafter, does not benefit investors.

IV. Conclusion

The new management team at BBLs has worked diligently over the last 20 months to honor its commitments to the Commission and its investors and to meet its obligations as an Exchange Act, Section 12 registrant. As of the date of this Reply, BBLs is current in its Commission filings and will remain current moving forward.

For the reasons set forth above, BBLs requests that the Commission:

(1) not suspend or revoke the registration of its common stock registered pursuant to Section 12 of the Exchange Act; and

(2) deny the Division's Motion For Summary Judgment.

RESPECTFULLY SUBMITTED, this 28th day of July 2023.

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CERTIFICATE OF COMPLIANCE

In accordance with Rule 154 of the Commission's Rules of Practice, I hereby certify that the respondent's Reply to Response to Division of Enforcement's Brief in Response to Petrolia Energy Corporation's Submission ("**Reply**") relating to Petrolia Energy Corporation, Administrative Proceeding No. 3-20724, complies with the length limitations set forth in Rule 154(c), exclusive of pages containing the table of contents, table of authorities, and addendums that consist solely of exhibits. The Reply contains 2,911 words, based on the word processing program used to prepare the document. This brief is printed in a proportionally spaced typeface using Times New Roman 14-point font in text and Times New Roman 12-point font in footnotes produced by Microsoft Word software.

/s/ David Loev

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CERTIFICATE OF SERVICE

In accordance with SEC Rules of Practice 150 and 151, 17 C.F.R. §§201.150 and 151, I certify that a copy of the Reply to Response to Division of Enforcement's Brief in Response to Petrolia Energy Corporation's Submission relating to Petrolia Energy Corporation, Administrative Proceeding File No. 3-20724, was (a) filed on July 28, 2023, through the Commission's Electronic Filings in Administrative Proceedings (eFAP) system; and (b) was served on the following persons on July 28, 2023, via email at the email addresses indicated:

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