PEDEVCO CORP
Form 10-Q
July 31, 2018

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: June 30, 2018

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: 001-35922

PEDEVCO CORP.
(Exact name of registrant as specified in its charter)

Texas	22-3755993
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

4125 Blackhawk Plaza Circle, Suite 201
Danville, California 94506
(Address of Principal Executive Offices)

(855) 733-2685
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has 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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

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

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

At July 27, 2018, there were 14,827,119 shares of the Registrant's common stock outstanding.

PEDEVCO CORP.
For the Three and Six Months Ended June 30, 2018

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PEDEVCO CORP.
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(amounts in thousands, except share and per share data)

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash	$546	$917
Accounts receivable – oil and gas	646	301
Prepaid expenses and other current assets	130	176
Total current assets	1,322	1,394
Oil and gas properties:		
Oil and gas properties, subject to amortization, net	33,664	34,922
Oil and gas properties, not subject to amortization, net	-	-
Total oil and gas properties, net	33,664	34,922
Other assets	85	85
Total assets	$35,071	$36,401
Liabilities and Shareholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$345	$101
Accrued expenses	283	2,126
Revenue payable	654	557
Convertible notes payable – Bridge Notes, net of premiums of $-0- and $113, respectively	-	588
Total current liabilities	1,282	3,372
Long-term liabilities:		
Accrued expenses	-	1,462
Accrued expenses – related party	-	1,733
Notes payable – Secured Promissory Notes, net of debt discount of $-0- and $2,603, respectively	-	34,159
Notes payable – Secured Promissory Notes – related party, net of debt discount of $-0- and $1,148, respectively	-	15,930
Notes payable – Subordinated – related party	-	11,483
Notes payable – other	-	4,925
Notes payable – related party, net of debt discount of $185 and $-0-, respectively	7,515	-

Asset retirement obligations	502	477
Total liabilities	9,299	73,541
Commitments and contingencies		
Shareholders’ equity (deficit):		
Series A convertible preferred stock, $0.001 par value, 100,000,000 shares authorized, 66,625 and 66,625 shares issued and outstanding, respectively	-	-
Common stock, $0.001 par value, 200,000,000 shares authorized; 7,989,602 and 7,278,754 shares issued and outstanding, respectively	8	7
Additional paid-in capital	101,809	100,954
Accumulated deficit	(76,045)	(138,101)
Total shareholders’ equity (deficit)	25,772	(37,140)
Total liabilities and shareholders’ equity (deficit)	$35,071	$36,401

See accompanying notes to unaudited consolidated financial statements.

PEDEVCO CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(amounts in thousands, except share and per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
Revenue:	2018	2017	2018	2017
Oil and gas sales	$898	$812	$1,542	$1,546
Operating expenses:				
Lease operating costs	417	397	729	727
Exploration expense	28	-	38	-
Selling, general and administrative expense	616	694	1,354	1,494
Depreciation, depletion, amortization and accretion	701	873	1,283	1,553
Total operating expenses	1,762	1,964	3,404	3,774
Operating income (loss)	(864)	(1,152)	(1,862)	(2,228)
Other income (expense):				
Interest expense	(3,155)	(3,162)	(6,391)	(6,258)
Gain on debt restructuring	70,309	-	70,309	-
Total other income (expense)	67,154	(3,162)	63,918	(6,258)
Net income (loss)	$ 66,290	$(4,314)	$ 62,056	$(8,486)
Earnings (loss) per common share:				
Basic	$ 9.01	$(0.76)	$ 8.48	$(1.52)
Diluted	$ 4.73	$-	$ 4.44	$-
Weighted average number of common shares outstanding:				
Basic	7,357,234	5,687,690	7,318,211	5,590,938
Diluted	14,026,722	-	13,982,684	-

See accompanying notes to unaudited consolidated financial statements.

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PEDEVCO CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(amounts in thousands)

	For the Six Months Ended June 30,	
	2018	2017
Cash Flows From Operating Activities:		
Net income (loss)	$ 62,056	$(8,486)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Stock-based compensation expense	349	517
Depreciation, depletion and amortization	1,283	1,553
Interest expense deferred and capitalized in debt restructuring	3,803	3,384
Gain on debt restructuring	(70,309)	-
Amortization of debt discount	1,391	1,643
Changes in operating assets and liabilities:		
Accounts receivable	-	25
Accounts receivable - oil and gas	(345)	23
Prepaid expenses and other current assets	46	63
Accounts payable	244	(23)
Accrued expenses	1,109	537
Accrued expenses - related parties	-	524
Revenue payable	97	7
Net cash used in operating activities	(276)	(233)
Cash Flows From Investing Activities:		
Net cash used in investing activities	-	-
Cash Flows From Financing Activities:		
Proceeds from notes payable	7,700	-
Repayment of notes payable	(7,795)	(30)
Proceeds from issuance of common stock, net of issuance costs	-	495
Net cash provided by (used in) financing activities	(95)	465
Net increase (decrease) in cash	(371)	232
Cash at beginning of period	917	659
Cash at end of period	$546	$891

Supplemental Disclosure of Cash Flow Information

Cash paid for:		
Interest	$-	$-
Income taxes	$-	$-
Noncash Investing and Financing Activities:		
Changes in estimates of asset retirement obligations	$7	$1
Common stock issued as debt inducement	$185	$-

See accompanying notes to unaudited consolidated financial statements.

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PEDEVCO CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 – BASIS OF PRESENTATION

The accompanying consolidated financial statements of PEDEVCO CORP. ("PEDEVCO" or the "Company"), have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and the rules of the Securities and Exchange Commission ("SEC") and should be read in conjunction with the audited financial statements and notes thereto contained in PEDEVCO's latest Annual Report filed with the SEC on Form 10-K. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements that would substantially duplicate disclosures contained in the audited financial statements for the most recent fiscal year, as reported in the Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 29, 2018, have been omitted.

The Company's consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and subsidiaries in which the Company has a controlling financial interest. All significant inter-company accounts and transactions have been eliminated in consolidation.

The Company's future financial condition and liquidity will be impacted by, among other factors, the success of our exploration and appraisal drilling program, the number of commercially viable oil and natural gas discoveries made and the quantities of oil and natural gas discovered, the speed with which we can bring such discoveries to production, and the actual cost of exploration, appraisal and development of our prospects.

Subject to the availability of the additional funding, which is not currently in place but is being currently being negotiated with SK Energy LLC, the Company's current senior lender, which is owned and controlled by Dr. Simon Kukes, its Chief Executive Officer and director, the Company plans to make capital expenditures, excluding capitalized interest and general and administrative expense, of up to approximately $8.37 million during the period from January 1, 2018 to December 31, 2018 (none of which has been expended to date) in order to achieve its plans (with an additional 6.4 net wells to be drilled and completed in 2019 for a combined total 2018-2019 drilling capital budget of $34.85 million). The Company expects that it will have sufficient cash available to meet its needs over the twelve months following the issuance of these financial statements, which cash the Company anticipates being available from (i) its projected cash flow from operations, (ii) its existing cash on hand, (iii) the issuance of its common shares through National Securities Corporation under our current "at the market offering" (of which $1.359 million remains available for issuance, subject to limitation under the SEC's "Baby Shelf Rules") and other potential equity funding opportunities, and (iv) potential loans (which may be convertible) made available by its senior lender, SK Energy LLC, which is owned and controlled by Dr. Simon Kukes, the Company's Chief Executive Officer and director, which funds may not be available on favorable terms, if at all. In addition, the Company may seek additional funding through asset sales, farm-out arrangements, lines of credit, or public or private debt or equity financings to fund additional 2018-2019 capital expenditures and/or repay or refinance a portion or all of our outstanding debt.

Management has concluded that the previously reported substantial doubt as to the Company's ability to continue as a going concern has been alleviated by management's plans as described above.

NOTE 2 – DESCRIPTION OF BUSINESS

PEDEVCO’s primary business plan is engaging in the acquisition, exploration, development and production of oil and natural gas shale plays in the United States, with a secondary focus on conventional oil and natural gas plays. The Company’s principal operating properties are located in the Wattenberg, Wattenberg Extension, and Niobrara formation in the Denver-Julesburg Basin (the “D-J Basin” and the “D-J Basin Asset”) in Weld County, Colorado, all of which properties are owned by the Company through its wholly-owned subsidiary, Red Hawk Petroleum, LLC (“Red Hawk”).

The Company plans to focus on the development of shale oil and gas assets held by the Company in its D-J Basin Asset, and opportunistically seek additional acreage proximate to the Company’s currently held core acreage, as well as other attractive onshore oil and gas assets elsewhere in the U.S., that Company management believes can be acquired at attractive prices, developed using its operating expertise, and be accretive to shareholder value.

The Company plans to seek additional shale oil and gas and conventional oil and gas asset acquisition opportunities in the U.S. utilizing its strategic relationships and technologies that may provide the Company a competitive advantage in accessing and exploring such assets. Some or all of these assets may be acquired by existing subsidiaries or other entities that may be formed at a future date.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation. The consolidated financial statements herein have been prepared in accordance with GAAP and include the accounts of the Company and those of its wholly and partially-owned subsidiaries as follows: (i) Blast AFJ, Inc., a Delaware corporation; (ii) Pacific Energy Development Corp. (“PEDCO”), a Nevada corporation; (iii) Pacific Energy & Rare Earth Limited, a Hong Kong company (dissolved on August 11, 2017); (iv) Blackhawk Energy Limited, a British Virgin Islands company (which is currently in the process of being dissolved); (v) Red Hawk Petroleum, LLC, a Nevada limited liability company; and (vi) White Hawk Energy, LLC, a Delaware limited liability company, formed on January 4, 2016 in connection with the contemplated reorganization transaction with GOM Holdings, LLC (“GOM”), which reorganization transaction has since been terminated (dissolved in March 2018). All significant intercompany accounts and transactions have been eliminated.

Use of Estimates in Financial Statement Preparation. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as certain financial statement disclosures. While management believes that the estimates and assumptions used in the preparation of the financial statements are appropriate, actual results could differ from these estimates. Significant estimates generally include those with respect to the amount of recoverable oil and gas reserves, the fair value of financial instruments, oil and gas depletion, asset retirement obligations, and stock-based compensation.

Cash and Cash Equivalents. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. As of June 30, 2018, and December 31, 2017, cash equivalents consisted of money market funds and cash on deposit.

Concentrations of Credit Risk. Financial instruments which potentially subject the Company to concentrations of credit risk include cash deposits placed with financial institutions. The Company maintains its cash in bank accounts which, at times, may exceed federally insured limits as guaranteed by the Federal Deposit Insurance Corporation ("FDIC"). At June 30, 2018, approximately $151,000 of the Company's cash balances were uninsured. The Company has not experienced any losses on such accounts.

Sales to one customer comprised 66% of the Company's total oil and gas revenues for the six months ended June 30, 2018. Sales to one customer comprised 56% of the Company's total oil and gas revenues for the six months ended June 30, 2017. The Company believes that, in the event that its primary customers are unable or unwilling to continue to purchase the Company's production, there are a substantial number of alternative buyers for its production at comparable prices.

Accounts Receivable. Accounts receivable typically consist of oil and gas receivables. The Company has classified these as short-term assets in the balance sheet because the Company expects repayment or recovery within the next 12 months. The Company evaluates these accounts receivable for collectability considering the results of operations of these related entities and, when necessary, records allowances for expected unrecoverable amounts. To date, no allowances have been recorded. Included in accounts receivable - oil and gas is $20,000 related to receivables from joint interest owners.

Bad Debt Expense. The Company's ability to collect outstanding receivables is critical to its operating performance and cash flows. Accounts receivable are stated at an amount management expects to collect from outstanding balances. The Company extends credit in the normal course of business. The Company regularly reviews outstanding receivables and when the Company determines that a party may not be able to make required payments, a charge to bad debt expense in the period of determination is made. Though the Company's bad debts have not historically been significant, the Company could experience increased bad debt expense should a financial downturn occur.

Equipment. Equipment is stated at cost less accumulated depreciation and amortization. Maintenance and repairs are charged to expense as incurred. Renewals and betterments which extend the life or improve existing equipment are capitalized. Upon disposition or retirement of equipment, the cost and related accumulated depreciation are removed and any resulting gain or loss is reflected in operations. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which are 3 to 10 years.

Oil and Gas Properties, Successful Efforts Method. The successful efforts method of accounting is used for oil and gas exploration and production activities. Under this method, all costs for development wells, support equipment and facilities, and proved mineral interests in oil and gas properties are capitalized. Geological and geophysical costs are expensed when incurred. Costs of exploratory wells are capitalized as exploration and evaluation assets pending determination of whether the wells find proved oil and gas reserves. Proved oil and gas reserves are the estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, (i.e., prices and costs as of the date the estimate is made). Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

Exploratory wells in areas not requiring major capital expenditures are evaluated for economic viability within one year of completion of drilling. The related well costs are expensed as dry holes if it is determined that such economic viability is not attained. Otherwise, the related well costs are reclassified to oil and gas properties and subject to

impairment review. For exploratory wells that are found to have economically viable reserves in areas where major capital expenditure will be required before production can commence, the related well costs remain capitalized only if additional drilling is under way or firmly planned. Otherwise the related well costs are expensed as dry holes.

Exploration and evaluation expenditures incurred subsequent to the acquisition of an exploration asset in a business combination are accounted for in accordance with the policy outlined above.

Depreciation, depletion and amortization of capitalized oil and gas properties is calculated on a field by field basis using the unit of production method. Lease acquisition costs are amortized over the total estimated proved developed and undeveloped reserves and all other capitalized costs are amortized over proved developed reserves.

Impairment of Long-Lived Assets. The Company reviews the carrying value of its long-lived assets annually or whenever events or changes in circumstances indicate that the historical cost-carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of the asset by estimating the future net undiscounted cash flows expected to result from the asset, including eventual disposition. If the future net undiscounted cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and estimated fair value.

Asset Retirement Obligations. If a reasonable estimate of the fair value of an obligation to perform site reclamation, dismantle facilities or plug and abandon wells can be made, the Company will record a liability (an asset retirement obligation or "ARO") on its consolidated balance sheet and capitalize the present value of the asset retirement cost in oil and gas properties in the period in which the retirement obligation is incurred. In general, the amount of an ARO and the costs capitalized will be equal to the estimated future cost to satisfy the abandonment obligation assuming the normal operation of the asset, using current prices that are escalated by an assumed inflation factor up to the estimated settlement date, which is then discounted back to the date that the abandonment obligation was incurred using an assumed cost of funds for the Company. 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 over the estimated proved developed reserves. Both the accretion and the depreciation will be included in depreciation, depletion and amortization expense on our consolidated statements of operations.

The following table describes changes in our asset retirement obligations during the six months ended June 30, 2018 and 2017 (in thousands):

	2018	2017
Asset retirement obligations at January 1	$477	$246
Accretion expense	32	33
Obligations incurred for acquisition	-	-
Changes in estimates	(7)	(1)
Asset retirement obligations at June 30	$502	$278

Revenue Recognition. ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)", supersedes the revenue recognition requirements and industry-specific guidance under Revenue Recognition (Topic 605). Topic 606 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. The Company adopted Topic 606 on January 1, 2018, using the modified retrospective method applied to contracts that were not completed as of January 1, 2018. Under the modified retrospective method, prior period financial positions and results will not be adjusted. The cumulative effect adjustment recognized in the opening balances included no significant changes as a result of this adoption. While the Company does not expect 2018 net earnings to be materially impacted by revenue recognition timing changes, Topic 606 requires certain changes to the presentation of revenues and related expenses beginning January 1, 2018. Refer to Note 4 – Revenue from Contracts with Customers for additional information.

The Company’s revenue is comprised entirely of revenue from exploration and production activities. The Company’s oil is sold primarily to marketers, gatherers, and refiners. Natural gas is sold primarily to interstate and intrastate natural-gas pipelines, direct end-users, industrial users, local distribution companies, and natural-gas marketers. NGLs are sold primarily to direct end-users, refiners, and marketers. Payment is generally received from the customer in the month following delivery.

Contracts with customers have varying terms, including month-to-month contracts, and contracts with a finite term. The Company recognizes sales revenues for oil, natural gas, and NGLs based on the amount of each product sold to a customer when control transfers to the customer. Generally, control transfers at the time of delivery to the customer at a pipeline interconnect, the tailgate of a processing facility, or as a tanker lifting is completed. Revenue is measured based on the contract price, which may be index-based or fixed, and may include adjustments for market differentials and downstream costs incurred by the customer, including gathering, transportation, and fuel costs.

Revenues are recognized for the sale of the Company's net share of production volumes. Sales on behalf of other working interest owners and royalty interest owners are not recognized as revenues.

Income Taxes. The Company utilizes the asset and liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for operating loss and tax credit carry-forwards and for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that the value of such assets will be realized.

Stock-Based Compensation. The Company utilizes the Black-Scholes option pricing model to estimate the fair value of employee stock option awards at the date of grant, which requires the input of highly subjective assumptions, including expected volatility and expected life. Changes in these inputs and assumptions can materially affect the measure of estimated fair value of our share-based compensation. These assumptions are subjective and generally require significant analysis and judgment to develop. When estimating fair value, some of the assumptions will be based on, or determined from, external data and other assumptions may be derived from our historical experience with stock-based payment arrangements. The appropriate weight to place on historical experience is a matter of judgment, based on relevant facts and circumstances.

The Company estimates volatility by considering the historical stock volatility. The Company has opted to use the simplified method for estimating expected term, which is generally equal to the midpoint between the vesting period and the contractual term.

Earnings (Loss) per Common Share. Basic earnings (loss) per share ("EPS") is computed by dividing net income (loss) available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS give effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used to determine the number of shares assumed to be purchased from the exercise of stock options and/or warrants. Diluted EPS excluded all dilutive potential shares if their effect is anti-dilutive. For the six months ended June 30, 2018, the dilutive potential common shares outstanding during the period included only the convertible preferred stock using the if-converted method. The potentially issuable shares of common stock related to options and warrants were not included as they were anti-dilutive. The payment of the Bridge Notes occurred before June 30, 2018 and so they were not included.

Basic net loss per share is based on the weighted average number of common and common-equivalent shares outstanding. The Company incurred a net loss for the six months ended June 30, 2017, and therefore, basic and diluted loss per share for the period ending June 30, 2017 is the same as all potential common equivalent shares would be anti-dilutive. The Company excluded 451,614 potentially issuable shares of common stock related to options, 1,248,045 potentially issuable shares of common stock related to warrants and 144,822 potentially issuable shares of common stock related to the conversion of Bridge Notes due to their anti-dilutive effect for the six months ended June

30, 2017. Potential common shares includable in the computation of fully-diluted per share results are not presented in the consolidated financial statements for the six-month period ended June 30, 2017 as their effect would be anti-dilutive.

The anti-dilutive shares of common stock outstanding for the three and six months ended June 30, 2018 and 2017 were as follows (amounts in thousands, except share and per share data):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
Numerator:	2018	2017	2018	2017
Net income (loss)	$66,290	$(4,314)	$62,056	$(8,486)
Effect of common stock equivalents	-	-	-	-
Net income (loss) adjusted for common stock equivalents	$66,290	$(4,314)	$62,056	$(8,486)
Denominator:				
Weighted average – basic	7,357,234	5,687,690	7,318,211	5,590,938
Earnings (loss) per share – basic	9.01	(0.76)	8.48	(1.52)
Dilutive effect of common stock equivalents:				
Options	6,988	-	1,973	-
Preferred Stock	6,662,500	-	6,662,500	-
Denominator:				
Weighted average shares – diluted	14,026,722	-	13,982,684	-
Earnings per share – diluted	4.73	-	4.44	-

Fair Value of Financial Instruments. The Company follows Fair Value Measurement (“ASC 820”), which clarifies fair value as an exit price, establishes a hierarchal disclosure framework for measuring fair value, and requires extended disclosures about fair value measurements. The provisions of ASC 820 apply to all financial assets and liabilities measured at fair value.

As defined in ASC 820, fair value, clarified as an exit price, represents the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As a result, fair value is a market-based approach that should be determined based on assumptions that market participants would use in pricing an asset or a liability.

As a basis for considering these assumptions, ASC 820 defines a three-tier value hierarchy that prioritizes the inputs used in the valuation methodologies in measuring fair value.

Level 1 – Quoted prices in active markets for identical assets or liabilities.
Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Recently Issued Accounting Pronouncements. In February 2016, the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-02, a new lease standard requiring lessees to recognize lease assets and lease liabilities for most leases classified as operating leases under previous U.S. GAAP. The guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company will be required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company has evaluated the adoption of the standard and, due to there being only one operating lease currently in place, there will be minimal impact of the standard on its consolidated financial statements.

In April 2016, the FASB issued ASU No. 2016-09, "Compensation – Stock Compensation" (Topic 718). The FASB issued this update to improve the accounting for employee share-based payments and affect all organizations that issue share-based payment awards to their employees. Several aspects of the accounting for share-based payment award transactions are simplified, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. The updated guidance is effective for annual periods beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption of the update is permitted. The Company adopted the standard as of January 1, 2017. There was no impact of the standard on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). ASU 2016-15 will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017. The new standard will require adoption on a retrospective basis unless it is impracticable to apply, in which case it would be required to apply the amendments prospectively as of the earliest date practicable. There was no impact of the standard on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230)", requiring that the statement of cash flows explain the change in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This guidance is effective for fiscal years, and interim reporting periods therein, beginning after December 15, 2017, with early adoption permitted. The provisions of this guidance are to be applied using a retrospective approach which requires application of the guidance for all periods presented. There was no impact of the standard on its consolidated financial statements.

In September 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses. ASU 2016-13 was issued to provide more decision-useful information about the expected credit losses on financial instruments and changes the loss impairment methodology. ASU 2016-13 is effective for reporting periods beginning after December 15, 2019 using a modified retrospective adoption method. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. The Company is currently assessing the impact this accounting standard will have on its financial statements and related disclosures.

The Company does not expect the adoption of any recently issued accounting pronouncements to have a significant impact on its financial position, results of operations, or cash flows.

Subsequent Events. The Company has evaluated all transactions through the date the consolidated financial statements were issued for subsequent event disclosure consideration.

NOTE 4 – REVENUE FROM CONTRACTS WITH CUSTOMERS

Change in Accounting Policy. The Company adopted ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)", on January 1, 2018, using the modified retrospective method applied to contracts that were not completed as of January 1, 2018. Refer to Note 3 – Summary of Significant Accounting Policies for additional information.

Exploration and Production. There were no significant changes to the timing or valuation of revenue recognized for sales of production from exploration and production activities.

Disaggregation of Revenue from Contracts with Customers. The following table disaggregates revenue by significant product type for the three and six months ended June 30, 2018 (in thousands):

	Three months ended June 30, 2018	Six months ended June 30, 2018
Oil sales	$830	1,379
Natural gas sales	45	94
Natural gas liquids sales	23	69
Total revenue from customers	$898	1,542

There were no significant contract liabilities or transaction price allocations to any remaining performance obligations as of December 31, 2017 or June 30, 2018.

NOTE 5 – OIL AND GAS PROPERTIES

The following table summarizes the Company’s oil and gas activities by classification for the six months ended June 30, 2018 (in thousands):

	Balance at December 31,				Balance at June 30,
	2017	Additions	Disposals	Transfers	2018
Oil and gas properties, subject to amortization	$68,306	$-	$-	$-	$68,306
Oil and gas properties, not subject to amortization	-	-	-	-	-
Asset retirement costs	260	(7)	-	-	253
Accumulated depreciation, depletion and impairment	(33,644)	(1,251)	-	-	(34,895)
Total oil and gas assets	$34,922	$(1,258)	$-	$-	$33,664

The depletion recorded for production on proved properties for the three and six months ended June 30, 2018 and 2017, amounted to $688,000 compared to $862,000, and $1,251,000 compared to $1,520,000, respectively.

NOTE 6 – ACCOUNTS RECEIVABLE

On November 19, 2015, the Company entered into a Letter Agreement with certain parties including Dome Energy, pursuant to which Dome Energy agreed to acquire the Company’s interests in eight wells and fully fund the Company’s proportionate share of all the corresponding working interest owner expenses with respect to these eight wells. The Company assigned its interests in these wells to Dome Energy effective November 18, 2015, and Dome Energy assumed all amounts owed for the drilling and completion costs corresponding to these interests acquired from the Company. As part of this transaction, Dome Energy also agreed to pay an additional $250,000 to the Company in the

event the anticipated merger was not consummated. In connection with the assignment of these well interests, Dome Energy issued a contingent promissory note to the Company, dated November 19, 2015 (the “Dome Promissory Note”), with a principal amount of $250,000, which was due to mature on December 29, 2015, upon the termination of the anticipated merger with Dome Energy.

On March 24, 2015, Red Hawk and Dome Energy entered into a Service Agreement, pursuant to which Red Hawk agreed to provide certain human resource and accounting services to Dome Energy, of which $156,000 remained due and payable by Dome Energy to Red Hawk as of December 31, 2015. On March 29, 2016, the Company entered into a Settlement Agreement with Dome Energy and certain of its affiliated entities, pursuant to which the Company and Dome Energy agreed to terminate and cancel the Service Agreement and settle a number of outstanding matters, with Dome Energy agreeing to pay to Red Hawk $50,000 on May 2, 2016, in full satisfaction of the amounts due under the Service Agreement, with all remaining amounts owed forgiven by Red Hawk. As of December 31, 2015, the receivable due from Dome Energy totaled $406,000. During the year ended December 31, 2016, the net receivable created by the Dome Promissory Note was reduced to $25,000 by (i) the collection of the $250,000 as described above, (ii) forgiveness by the Company of $106,000 due from Dome Energy pursuant to the Settlement Agreement, and (iii) the recording of an allowance of $25,000 as a doubtful account (which was recognized as bad debt expense in selling, general and administrative expense on the Company's income statement). As of December 31, 2016, the $50,000 was still due from Dome to Red Hawk as a part of the Settlement Agreement. The Company recorded an allowance for doubtful accounts as of December 31, 2016 of $25,000 related to this outstanding amount, as $25,000 of the $50,000 was collected in early 2017. During the three months ended March 31, 2017, the net receivable created by the Dome Promissory Note was equal to $25,000 due to (i) the collection of the $25,000 in January 2017, and (ii) the reversal of the allowance of $25,000 as a doubtful account (and credited to bad debt expense in selling, general and administrative expense on the Company's income statement) due to the collection in April 2017 of the final $25,000 that had been due (the Company had no allowance for doubtful accounts as of March 31, 2017). As of December 31, 2017 and June 30, 2018, the net receivable created by the Dome Promissory Note was $-0-.

NOTE 7 – OTHER CURRENT ASSETS

On September 11, 2013, the Company entered into a Shares Subscription Agreement ("SSA") to acquire an approximate 51% ownership in Asia Sixth Energy Resources Limited ("Asia Sixth"), which held an approximate 60% ownership interest in Aral Petroleum Capital Limited Partnership ("Aral"), a Kazakhstan entity. In August 2014 the SSA was restructured (the "Aral Restructuring"), in connection with which the Company received a promissory note in the principal amount of $10.0 million from Asia Sixth (the "A6 Promissory Note"), which was to be converted into a 10.0% interest in Caspian Energy, Inc. ("Caspian Energy"), an Ontario, Canada company listed on the NEX board of the TSX Venture Exchange, upon the consummation of the Aral Restructuring. The Aral Restructuring was consummated on May 20, 2015, upon which date the A6 Promissory Note was converted into 23,182,880 shares of common stock of Caspian Energy. In addition, on the date of conversion of the A6 Promissory Note, Mr. Frank Ingriselli, our Chairman and then Chief Executive Officer, was appointed as a non-executive director of Caspian Energy and currently serves as the Chairman of its Board of Directors.

In February 2015, the Company expanded its D-J Basin position through the acquisition of acreage from Golden Globe Energy (US), LLC ("GGE") (the "GGE Acquisition" and the "GGE Acquired Assets"). In connection with the GGE Acquisition, on February 23, 2015, the Company provided GGE an option to acquire its interest in Caspian Energy for $100,000 payable upon exercise of the option (which expires the same date as the RJC Subordinated Note, as defined below) recorded in prepaid expenses and other current assets. As a result, the carrying value of the 23,182,880 shares of common stock of Caspian Energy which were issued upon conversion of the A6 Promissory Note at December 31, 2015 was $100,000. The $100,000 option is classified as part of other current assets as of June 30, 2018 and December 31, 2017.

NOTE 8 – NOTES PAYABLE

Debt Restructuring

On June 26, 2018, the Company borrowed $7.7 million from SK Energy LLC, which is 100% owned and controlled by Dr. Simon Kukes, the Company's Chief Executive Officer and director ("SK Energy"), under a Promissory Note dated June 25, 2018, in the amount of $7.7 million (the "SK Energy Note"), the terms of which are discussed below.

Also on June 25, 2018, the Company entered into Debt Repayment Agreements (the "Repayment Agreements", each described in greater detail below) with (i) the holders of our outstanding Tranche A Secured Promissory Notes ("Tranche A Notes") and Tranche B Secured Promissory Notes ("Tranche B Notes"), which the Company entered into pursuant to the terms of the May 12, 2016 Amended and Restated Note Purchase Agreement, (ii) RJ Credit LLC ("RJC"), which held a subordinated promissory note issued by the Company pursuant to that certain Note and Security Agreement, dated April 10, 2014, as amended (the "RJC Subordinated Note"), and (iii) MIE Jurassic Energy Corporation, which held a subordinated promissory note issued by the Company pursuant to that certain Amended and Restated Secured Subordinated Promissory Note, dated February 18, 2015, as amended (the "MIEJ Note", and together with the "Tranche B Notes," the "Junior Notes"), pursuant to which, on June 26, 2018, the Company retired all of the then outstanding Tranche A Notes, in the aggregate amount of approximately $7,260,000 in exchange for cash paid of $3,800,000 and all of the then outstanding Junior Notes, in the aggregate amount of approximately $70,299,000, in exchange for an aggregate amount of cash paid of $3,876,000.

As part of the same transactions, and as required conditions to closing the sale of the SK Energy Note, SK Energy entered into a Stock Purchase Agreement with GGE, the holder of the Company's then outstanding 66,625 shares of Series A Convertible Preferred Stock (convertible pursuant to their terms into 6,662,500 shares of the Company's common stock – approximately 47.6% of the Company's then outstanding shares post-conversion), pursuant to which, SK Energy purchased, for $100,000, all of the Series A Convertible Preferred Stock (the "Stock Purchase Agreement").

Additionally, on June 25, 2018, the Company entered into a Debt Repayment Agreement (the "Bridge Note Repayment Agreement") with all of the holders of its convertible subordinated promissory notes issued pursuant to the Second Amendment to Secured Promissory Notes, dated March 7, 2014, originally issued on March 22, 2013 (the "Bridge Notes"), pursuant to which all the holders, holding in aggregate $475,000 of outstanding principal amount under the Bridge Notes, agreed to the payment and full satisfaction of all outstanding amounts (including accrued interest and additional payment-in-kind) for 25% of the principal amounts owed thereunder, or an aggregate amount of cash paid of $119,000.

The result of the above transactions was a net reduction of liabilities of approximately $70,728,000 that were removed from the Company's balance sheet as of June 25, 2018. For the three and six months ended June 30, 2018, a gain on the settlement of all of these debts in the amount of $70,309,000 was recorded ($70,631,000, net of the expense related to the issuance of warrants to certain of the Tranche A Note holders with an estimated fair value of $322,000 based on the Black-Scholes option pricing model). See the table below for a summary (amounts in thousands).

Debt and accrued interest retired as part of debt restructuring	$78,331
New debt recorded under troubled debt restructuring	(7,700)
Expense for issuance of warrants	(322)
Net gain on troubled debt restructuring	$70,309

The three-year promissory note of $7.7 million in principal with an 8% annual interest rate was recorded at $7,700,000 (and shown on the balance sheet as Note Payable – Related Party), net of debt discount from the issuance of 600,000 shares of common stock (as described below) with a fair value of $185,000 based on the market price at the issuance date. The Company accounted for the debt reduction as a troubled debt restructuring as the debt balance, which the Company did not currently have the funds to repay, was now to be classified as current due to the principal and accumulated interest being due in May 2019. It is probable that the Company would have been in payment default in the foreseeable future without this restructuring modification. As indicated in previous SEC financial filings, the Company had indicated that there was doubt before the restructuring as to whether the Company would be able to continue to operate as a going concern. In recognition of this, the creditors granted a concession on the debt balance that was paid and considered payment in full on June 25, 2018. The warrants were issued as an inducement for the previous creditors to cancel a significant portion of the debt were an integral part of this troubled debt restructuring and therefore were included as a reduction to the gain recognized on the restructuring.

SK Energy Note Terms

The SK Energy Note accrues interest monthly at 8% per annum, payable quarterly (beginning October 15, 2018), in either cash or shares of common stock (at the option of the Company), or, with the consent of SK Energy, such interest may be accrued and capitalized. Additionally, in the event that the Company is prohibited from paying the interest payments due on the SK Energy Note in cash pursuant to the terms of its senior debt and/or the requirement that the Company obtain shareholder approval for the issuance of shares of common stock in lieu of interest due under the SK Energy Note due to the Share Cap (described and defined below), such interest will continue to accrue until such time as the Company can either pay such accrued interest in cash or stock.

If interest on the SK Energy Note is paid in common stock, SK Energy will be due that number of shares of common stock as equals the amount due divided by the average of the closing sales prices of the Company's common stock for the ten trading days immediately preceding the last day of the calendar quarter prior to the applicable payment date, rounded up to the nearest whole share of common stock (the "Interest Shares"). The SK Energy Note is due and payable on June 25, 2021, but may be prepaid at any time, without penalty. Other than in connection with the Interest Shares, the principal amount of the SK Energy Note is not convertible into common stock of the Company. The SK Energy Note contains standard and customary events of default, and, upon the occurrence of an event of default, the amount owed under the SK Energy Note accrues interest at 10% per annum.

As additional consideration for SK Energy agreeing to the terms of the SK Energy Note, the Company agreed to issue SK Energy 600,000 shares of common stock (the "Loan Shares"), with a fair value of $185,000 based on the market price on the date of issuance that was accounted for as a debt discount and is being amortized over the term of the note. The SK Energy Note includes a share issuance limitation preventing the Company from issuing Interest Shares thereunder, if such issuance, together with the number of Loan Shares, plus such number of Interest Shares issued previously, as of the date of such new issuance, totals more than 19.99% of the Company's outstanding shares of common stock as of June 25, 2018 (i.e., 1,455,023 shares) (the "Share Cap").

Repayment Agreement Terms

As described above, pursuant to the Repayment Agreements, the holders of the Company's outstanding Tranche A Notes and Junior Notes retired all of the then outstanding Tranche A Notes, in the aggregate amount of $7,260,000, in exchange for an aggregate of $3,800,000 of cash and all of the then outstanding Junior Notes, in the aggregate amount of $70,299,000, in exchange for an aggregate of $3,876,000 of cash. The note holders also agreed to forgive all amounts owed under the terms of the Tranche A Notes and Junior Notes, as applicable, other than the amounts paid. The Tranche A Note Repayment Agreement was entered into by and between the Company and each of the then holders of the Company's Tranche A Notes, BBLN-PEDCO Corp., BHLN-PEDCO Corp. and PBLA ULICO 2017 (collectively, the "Tranche A Noteholders"). The Tranche B Note Repayment Agreement was entered into by and between the Company and each of the then holders of the Company's Tranche B Notes, Senior Health Insurance Company of Pennsylvania, Bankers Conseco Life Insurance Company, Washington National Insurance Company, Principal Growth Strategies, LLC, Cadle Rock IV, LLC, and RJ Credit LLC, and holders of the RJC Subordinated Note held by RJ Credit LLC and the MIEJ Note held by MIE Jurassic Energy Corporation (collectively, the "Junior Noteholders"). Pursuant to the terms of the Repayment Agreement relating to the Tranche B Notes, in addition to the cash consideration due to the Tranche B Noteholders, as described above, the Company agreed to grant to certain of the Junior Noteholders their pro rata share of warrants to purchase an aggregate of 1,448,472 shares of common stock of the Company (the "Tranche B Warrants"). The Tranche B Warrants have a term of three years, an exercise price equal to $0.328 per share, and the estimated fair value of $322,000 was based on the Black-Scholes option pricing model.

Amendment to Series A Convertible Preferred Stock Designation; Rights of Shareholders

In connection with the Stock Purchase Agreement, and immediately following the closing of the acquisition described in the Stock Purchase Agreement (discussed above), the Company and SK Energy, as the then holder of all of the then outstanding shares of Series A Convertible Preferred Stock, agreed to the filing of an Amendment to the Amended and Restated Certificate of Designations of PEDEVCO Corp. Establishing the Designations, Preferences, Limitations and Relative Rights of Its Series A Convertible Preferred Stock (the "Preferred Amendment"), which amended the designation of our Series A Convertible Preferred Stock (the "Designation") to remove the beneficial ownership restriction contained therein, which prevented any holder of Series A Convertible Preferred Stock from converting such Series A Convertible Preferred Stock into shares of common stock of the Company if such conversion would result in the holder thereof holding more than 9.9% of the Company's then outstanding common stock.

The Company filed the Preferred Amendment with the Secretary of State of Texas on June 26, 2018.

As a result of the Stock Purchase Agreement (i.e., the sale of the Series A Convertible Preferred Stock to a party other than GGE), automatic termination, pursuant to the terms of the Designation, of the right of GGE, upon notice to the Company, voting the Series A Convertible Preferred Stock separately as a single class, to appoint designees to fill up to two (2) seats on our Board of Directors, one of which must be an independent director as defined by applicable rules was triggered. As such, effective upon the closing of the Stock Purchase Agreement, the Company's common stockholders have the right to appoint all members of our Board of Directors via plurality vote.

Note Purchase Agreement and Sale of Secured Promissory Notes

On March 7, 2014, the Company entered into a $50 million financing facility (the "Notes Purchase Agreement") between the Company, BRe BCLIC Primary, BRe BCLIC Sub, BRe WNIC 2013 LTC Primary, BRe WNIC 2013 LTC Sub, and RJC, as investors (collectively, the "Investors"), and BAM Administrative Services LLC, as agent for the Investors (the "Agent"). The Company issued the Investors Secured Promissory Notes in the aggregate principal amount of $34.5 million (the "Initial Notes"). On March 19, 2015, BRe WNIC 2013 LTC Primary transferred a portion of its Initial Note to HEARTLAND Bank, and effective April 1, 2015, BRe BCLIC Primary transferred its Initial Note to Senior Health Insurance Company of Pennsylvania ("SHIP"), with each of HEARTLAND Bank and SHIP becoming an "Investor" for purposes of the discussion below. Effective March 9, 2018, CadleRock IV, LLC acquired all of HEARTLAND's interests in the Senior Notes, becoming an "Investor" for purposes of the discussion below.

2016 Senior Note Restructuring

On May 12, 2016 (the "Closing Date"), the Company entered into an Amended and Restated Note Purchase Agreement (the "Amended NPA"), with existing lenders SHIP, BRe BCLIC Sub, BRe WINIC 2013 LTC Primary, BRe WNIC 2013 LTC Sub, Heartland Bank (assigned to CadleRock IV, LLC in March 2018), and RJC, and new lenders BHLN-Pedco Corp. ("BHLN") and BBLN-Pedco Corp. ("BBLN," and together with BHLN and RJC, the "Tranche A Investors") (the investors in the Tranche B Notes (defined below) and the Tranche A Investors, collectively, the "Lenders"), and the Agent, as agent for the Lenders. The Amended NPA amended and restated the Senior Notes held by the Investors, and the Company issued new Senior Secured Promissory Notes to each of the Investors (collectively, the "Tranche B Notes") in a transaction that qualified as a troubled debt restructuring. RJC is also a party to the RJC Junior Note (discussed below under Notes Payable - Related Party Financings - Subordinated Note Payable Assumed).

Subsequently, certain of the Lenders transferred some or all of the principal outstanding under the New Senior Notes (as defined below) held by them and the term Lenders as used herein refers to the current holders of the New Senior Notes, as applicable.

The Amended NPA created and issued to the Tranche A Investors new "Tranche A Notes," in substantially the same form and with similar terms as the Tranche B Notes, except as discussed below, consisting of a term loan issuable in tranches with a maximum aggregate principal amount of $25,960,000, with borrowed funds accruing interest at 15% per annum, and maturing on May 11, 2019 (the "Tranche A Maturity Date") (the "Tranche A Notes," and together with the Tranche B Notes, the "New Senior Notes").

On June 25, 2018, the Company entered into Debt Repayment Agreements (the "Repayment Agreements", each described in greater detail above), pursuant to which, the holders of our outstanding Tranche A Notes and Junior Notes retired all of the then outstanding Tranche A Notes, in the aggregate amount of $7,260,000, in exchange for an aggregate of $3,800,000 of cash and all of the then outstanding Junior Notes, in the aggregate amount of $70,299,000, in exchange for an aggregate of $3,876,000 in cash. The note holders also agreed to forgive all amounts owed under the terms of the Tranche A Notes and Junior Notes, as applicable, other than the amounts paid.

The amount of interest deferred under the Tranche A and Tranche B Notes as of June 25, 2018 and December 31, 2017 equaled $4,125,000 and $3,195,000, respectively, and was previously accounted for on the balance sheet under long-term accrued expenses and accrued expenses - related party.

All debt discount amounts were amortized using the effective interest rate method. The total amount of the remaining debt discount reflected on the accompanying balance sheet as of June 30, 2018 was $-0-. As of June 25, 2018 and December 31, 2017, the remaining unamortized debt discount was $2,359,000 and $3,751,000, respectively. Amortization of debt discount and total interest expense for the notes (New Senior Notes – Tranche A and Tranche B Notes and the Junior Notes) was $1,391,000 and $4,732,000, respectively, for the six months ended June 30, 2018 and $1,643,000 and $3,278,000, respectively, for the six months ended June 30, 2017.

Amortization of debt discount and total interest expense for the notes was $679,000 and $2,346,000, respectively, for the three months ended June 30, 2018, and was $812,000 and $1,674,000, respectively, for the three months ended June 30, 2017.

Bridge Note Financing

On June 25, 2018, the Company entered into a Debt Repayment Agreement (the “Bridge Note Repayment Agreement”) with all of the holders of its convertible subordinated promissory notes issued pursuant to that certain Second Amendment to Secured Promissory Notes, dated March 7, 2014, originally issued on March 22, 2013 (the “Bridge Notes”), which notes had an aggregate principal balance of $475,000, plus accrued interest of $258,000 and additional payment-in-kind (“PIK”) of $48,000, as of June 25, 2018, pursuant to which all the holders agreed to the payment and full satisfaction of all outstanding amounts (including accrued interest and additional payment-in-kind) for 25% of the principal amounts owed thereunder, or an aggregate of $119,000.

The unamortized debt premium on the Convertible Bridge Notes as of June 25, 2018 and December 31, 2017, was $113,000. The gain recorded in the three and six months ending June 30, 2018 on the settlement of the bridge note debt was $775,000.

The interest expense related to these notes for the three and six months ended June 30, 2018 and 2017 was $13,000 compared to $14,000, and $27,000 compared to $28,000, respectively.

MIE Jurassic Energy Corporation

On February 14, 2013, PEDCO entered into a Secured Subordinated Promissory Note with MIE Jurassic Energy Corp. (“MIEJ”) (as amended from time to time, the “MIEJ Note”).

In February 2015, the Company and PEDCO entered into a Settlement Agreement with MIEJ and issued a new promissory note in the amount of $4.925 million to MIEJ (the “NEW MIEJ Note”). The Settlement Agreement related to the February 2015 disposition of the Company’s interest in Condor Energy Technology, LLC, a joint venture previously owned 20% by the Company and 80% by MIEJ. As of June 25, 2018, the principal amount outstanding under the MIEJ Note was $4,925,000 with accrued interest of $1,718,000.

As described above, on June 25, 2018, the Company entered into Repayment Agreements, with various parties, including MIEJ, pursuant to which the Company retired all of the then outstanding MIEJ debt in exchange for an aggregate of $320,000 in cash. As described above, pursuant to the Repayment Agreements, the note holders also agreed to forgive all amounts owed under the terms of the Junior Notes, as applicable, other than the amounts paid. The gain recorded in the three and six months ending June 30, 2018 on the settlement of the MIEJ debt was $6,323,000.

The interest expense related to this note for the three and six months ended June 30, 2018 and 2017 was $118,000 compared to $123,000 and $241,000, compared to $246,000, respectively, with the total cumulative interest equal to $1,718,000 through June 25, 2018.

Subordinated Note Payable Assumed

In 2015, the Company assumed approximately $8.35 million of subordinated note payable from GGE in the acquisition of the GGE Acquired Assets (the “RJC Junior Note”). The amount outstanding on the RJC Junior Note as of June 25, 2018 and December 31, 2017 was $12,173,000 and $11,483,000, respectively. The lender under the RJC Junior Note is RJC, which is one of the lenders under the Senior Notes and is an affiliate of GGE.

As described above, on June 25, 2018, the Company entered into Repayment Agreements with various parties, including RJ Credit LLC, pursuant to which, on June 26, 2018, the Company retired all of the then outstanding Junior Notes, in exchange for an aggregate of $3,876,000 in cash.

As described above, pursuant to the Repayment Agreements, the note holders also agreed to forgive all amounts owed under the terms of the Junior Notes, as applicable, other than the amounts paid.

The interest expense related to this note for the three and six months ended June 30, 2018 and 2017 was $342,000 compared to $322,000, and $690,000 compared to $630,000, respectively.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Office Lease

In June 2018, the Company entered into a third lease addendum to the original lease agreement signed in July 2012, the first lease addendum signed in May 2016, and the second lease addendum signed in July 2017, as amended, which extends the term of the lease by an additional year, now ending in July 2019, for its corporate office space located in Danville, California. The total current obligation (thirteen months), including this one-year lease extension for the remainder of the lease through July 2019, is $62,000.

Leasehold Drilling Commitments

The Company’s oil and gas leasehold acreage is subject to expiration of leases if the Company does not drill and hold such acreage by production or otherwise exercises options to extend such leases, if available, in exchange for payment of additional cash consideration. In the D-J Basin Asset, 7 net acres are due to expire during the six months remaining in 2018 (1,354 net acres did expire during the six months ended June 30, 2018), 125 net acres expire in 2019, 329 net acres expire thereafter (net to our direct ownership interest only). The Company plans to hold significantly all of this acreage through a program of drilling and completing producing wells. If the Company is not able to drill and complete a well before lease expiration, the Company may seek to extend leases where able. As of June 30, 2018, the Company had fully impaired its unproved leasehold costs based on management’s revised re-leasing program.

Other Commitments

Although the Company may, from time to time, be involved in litigation and claims arising out of its operations in the normal course of business, the Company is not currently a party to any material legal proceeding. In addition, the Company is not aware of any material legal or governmental proceedings against it, or contemplated to be brought against it.

As part of its regular operations, the Company may become party to various pending or threatened claims, lawsuits and administrative proceedings seeking damages or other remedies concerning its commercial operations, products, employees and other matters.

Although the Company provides no assurance about the outcome of these or any other pending legal and administrative proceedings and the effect such outcomes may have on the Company, the Company believes that any ultimate liability resulting from the outcome of such proceedings, to the extent not otherwise provided for or covered by insurance, will not have a material adverse effect on the Company’s financial condition or results of operations.

NOTE 10 – SHAREHOLDERS' EQUITY (DEFICIT)

PREFERRED STOCK

At June 30, 2018, the Company was authorized to issue 100,000,000 shares of preferred stock with a par value of $0.001 per share, of which 25,000,000 shares have been designated "Series A" preferred stock.

On February 23, 2015, the Company issued 66,625 Series A Convertible Preferred Stock shares to GGE as part of the consideration paid for the GGE Acquired Assets. The grant date fair value of the Series A Convertible Preferred Stock was $28,402,000, based on a calculation using a binomial lattice option pricing model.

On November 23, 2015, the Company lost the right to redeem any of the Series A Convertible Preferred Stock and the holder also lost the right to force any redemption because, pursuant to the Series A Certificate of Designations, the Company did not repurchase any shares within nine months of the initial Series A issuance. Accordingly, the Series A Convertible Preferred Stock is no longer redeemable.

As part of the required conditions to closing the sale of the SK Energy Note as described further in Note 8, SK Energy entered into a Stock Purchase Agreement with GGE, pursuant to which, SK Energy purchased, for $100,000, all of the Series A Convertible Preferred Stock (the "Stock Purchase Agreement").

In connection with the Stock Purchase Agreement, and immediately following the closing of the acquisition described in the Stock Purchase Agreement, the Company and SK Energy, as the then holder of all of the outstanding shares of Series A Convertible Preferred Stock, agreed to the filing of an Amendment to the Amended and Restated Certificate of Designations of PEDEVCO Corp. Establishing the Designations, Preferences, Limitations and Relative Rights of Its Series A Convertible Preferred Stock (the "Preferred Amendment"), which amended the designation of our Series A Convertible Preferred Stock (the "Designation") to remove the beneficial ownership restriction contained therein, which prevented any holder of Series A Convertible Preferred Stock from converting such Series A Convertible Preferred Stock into shares of common stock of the Company if such conversion would result in the holder thereof holding more than 9.9% of the Company's then outstanding common stock. The Company filed the Preferred Amendment with the Secretary of State of Texas on June 26, 2018.

The transactions affected pursuant to the Stock Purchase Agreement (i.e., the sale of the Series A Convertible Preferred Stock to a party other than GGE), triggered the automatic termination, pursuant to the terms of the Designation, of the right of GGE, upon notice to us, voting the Series A Convertible Preferred Stock separately as a single class, to appoint designees to fill up to two (2) seats on our Board of Directors, one of which must be an independent director as defined by applicable rules. As such, effective upon the closing of the Stock Purchase Agreement, our common stockholders have the right to appoint all members of our Board of Directors via plurality vote.

As of June 30, 2018 and December 31, 2017, there were 66,625 shares of the Company's Series A Convertible Preferred Stock outstanding.

COMMON STOCK

At June 30, 2018, the Company was authorized to issue 200,000,000 shares of its common stock with a par value of $0.001 per share.

During the three and six months ended June 30, 2018, the Company issued shares of common stock and restricted common stock as follows: 600,000 shares of common stock issued to SK energy with a fair value of $185,000 based on the market price on the date of issuance, 80,000 shares of restricted stock were issued to the CEO with a fair value of $27,000 based on the market price on the date of issuance, and 30,848 shares were issued to employees for the cashless exercise of options. The 80,000 shares of restricted stock were issued in consideration for Mr. Ingriselli rejoining the Company as its President and Chief Executive Officer in May 2018, with 60,000 shares vesting on December 1, 2018 and 20,000 of the shares vesting on March 1, 2019, subject to his continued service as an employee or consultant of the Company on such vesting dates.

As of June 30, 2018, there were 7,989,602 shares of common stock outstanding.

Stock-based compensation expense recorded related to the vesting of restricted stock for the three and six months ended June 30, 2018 and 2017 was $148,000 compared to $214,000, and $314,000 compared to $462,000, respectively. The remaining unamortized stock-based compensation expense at June 30, 2018 related to restricted stock was $121,000.

NOTE 11 – STOCK OPTIONS AND WARRANTS

Blast 2003 Stock Option Plan and 2009 Stock Incentive Plan

Prior to June 2005, the Company was known as Blast Energy Services, Inc. (“Blast”). Under Blast’s 2003 Stock Option Plan and 2009 Stock Incentive Plan, options to acquire 298 and 343 shares of common stock were granted and remained outstanding and exercisable as of June 30, 2018 and December 31, 2017, respectively. No new options were issued under these plans in 2018 or 2017.

2012 Incentive Plan

On July 27, 2012, the shareholders of the Company approved the 2012 Equity Incentive Plan (the “2012 Incentive Plan”), which was previously approved by the Board of Directors on June 27, 2012, and authorizes the issuance of various forms of stock-based awards, including incentive or non-qualified options, restricted stock awards, performance shares and other securities as described in greater detail in the 2012 Incentive Plan, to the Company’s employees, officers, directors and consultants. The 2012 Incentive Plan was amended on June 27, 2014, October 7, 2015 and December 28, 2016 and December 28, 2017 to increase by 500,000, 300,000, 500,000 and 1,500,000 (to 3,000,000 currently), respectively, the number of shares of common stock reserved for issuance under the 20102 Incentive Plan.

A total of 3,000,000 shares of common stock are eligible to be issued under the 2012 Incentive Plan as of June 30, 2018 and December 31, 2017, of which 2,376,130 shares have been issued as restricted stock, 501,700 shares are subject to issuance upon exercise of issued and outstanding options, and 122,170 remain available for future issuance as of June 30, 2018.

PEDCO 2012 Equity Incentive Plan

As a result of the July 27, 2012 merger by and between the Company, Blast Acquisition Corp., a wholly-owned Nevada subsidiary of the Company (“MergerCo”), and Pacific Energy Development Corp., a privately-held Nevada corporation (“PEDCO”) pursuant to which MergerCo was merged with and into PEDCO, with PEDCO continuing as the surviving entity and becoming a wholly-owned subsidiary of the Company, in a transaction structured to qualify as a tax-free reorganization (the “Merger”), the Company assumed the PEDCO 2012 Equity Incentive Plan (the “PEDCO Incentive Plan”), which was adopted by PEDCO on February 9, 2012. The PEDCO Incentive Plan authorized PEDCO

to issue an aggregate of 100,000 shares of common stock in the form of restricted shares, incentive stock options, non-qualified stock options, share appreciation rights, performance shares, and performance units under the PEDCO Incentive Plan. As of June 30, 2018 and December 31, 2017, options to purchase an aggregate of 31,015 shares of the Company's common stock and 66,625 shares of the Company's restricted common stock have been granted under this plan (all of which were granted by PEDCO prior to the closing of the merger with the Company, with such grants being assumed by the Company and remaining subject to the PEDCO Incentive Plan following the consummation of the merger). The Company does not plan to grant any additional awards under the PEDCO Incentive Plan.

Options

The Company did not grant any options during the six-month period ended June 30, 2018.

During the three and six months ended June 30, 2018 and 2017, the Company recognized stock option expense of $18,000 compared to $27,000 and $35,000 compared to $55,000, respectively. The remaining amount of unamortized stock options expense at June 30, 2018, was $12,000.

The intrinsic value of outstanding and exercisable options at June 30, 2018 was $484,000 and $263,000, respectively.

The intrinsic value of outstanding and exercisable options at December 31, 2017 was $-0- and $-0-, respectively.

Option activity during the six months ended June 30, 2018 was:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Term (# years)
Outstanding at January 1, 2018	743,727	$3.45	3.8
Granted	-	-	-
Exercised	(30,848)	0.55	-
Forfeited and cancelled	(14,197)	3.02	-
Outstanding at June 30, 2018	698,682	$3.69	3.2
Exercisable at June 30, 2018	586,182	$4.34	