

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## PEDEVCO CORP

**Form: 10-Q**

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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, 2019**

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**

(State or other jurisdiction of incorporation or organization)

**22-3755993**

(IRS Employer Identification No.)

**1250 Wood Branch Park Dr., Suite 400  
Houston, Texas 77079**

(Address of Principal Executive Offices)

(713) 221-1768

(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value per share	PED	NYSE American

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 every Interactive Data File required to be submitted 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 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

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 August 9, 2019, there were 53,877,065 shares of the Registrant's common stock outstanding.

**PEDEVCO CORP.**

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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, 2019	December 31, 2018
<b>Assets</b>		
Current assets:		
Cash	\$ 13,370	\$ 3,463
Restricted cash – current	-	2,316
Accounts receivable – oil and gas	1,381	842
Prepaid expenses and other current assets	62	204
Total current assets	<u>14,813</u>	<u>6,825</u>
Oil and gas properties:		
Oil and gas properties, subject to amortization, net	72,351	51,946
Oil and gas properties, not subject to amortization, net	2,190	8,516
Total oil and gas properties, net	<u>74,541</u>	<u>60,462</u>
Other assets	3,575	238
Total assets	<u>\$ 92,929</u>	<u>\$ 67,525</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 2,843	\$ 4,509
Accrued expenses	1,335	3,391
Revenue payable	817	831
Asset retirement obligations - current	129	119
Total current liabilities	<u>5,124</u>	<u>8,850</u>
Long-term liabilities:		
Accrued expenses	-	14
Accrued expenses – related party	-	943
Notes payable – subordinated	-	400
Notes payable – subordinated – related party	-	30,200
Notes payable – related party, net of debt discount of \$-0- and \$161, respectively	-	7,694
Asset retirement obligations	2,516	2,452
Total liabilities	<u>7,640</u>	<u>50,553</u>
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$0.001 par value, 200,000,000 shares authorized; 53,827,065 and 15,808,445 shares issued and outstanding, respectively	53	16
Additional paid-in capital	175,185	101,450
Accumulated deficit	(89,949)	(84,494)
Total shareholders' equity	<u>85,289</u>	<u>16,972</u>
Total liabilities and shareholders' equity	<u>\$ 92,929</u>	<u>\$ 67,525</u>

See accompanying notes to unaudited consolidated financial statements.

**PEDEVCO CORP.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

(amounts in thousands, except share and per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Revenue:				
Oil and gas sales	\$ 4,070	\$ 898	\$ 5,638	\$ 1,542
Operating expenses:				
Lease operating costs	2,095	417	3,065	729
Exploration expense	13	28	23	38
Selling, general and administrative expense	1,644	616	2,972	1,354
Depreciation, depletion, amortization and accretion	2,784	701	5,033	1,283
Total operating expenses	<u>6,536</u>	<u>1,762</u>	<u>11,093</u>	<u>3,404</u>
Gain on sale of oil and gas properties	-	-	920	-
Operating income (loss)	<u>(2,466)</u>	<u>(864)</u>	<u>(4,535)</u>	<u>(1,862)</u>
Other income (expense):				
Interest expense	-	(3,155)	(826)	(6,391)
Interest Income	9	-	9	-
Gain on debt restructuring	-	70,309	-	70,309
Other expense	(3)	-	(103)	-
Total other income (expense)	<u>6</u>	<u>67,154</u>	<u>(920)</u>	<u>63,918</u>
Net income (loss)	<u>\$ (2,460)</u>	<u>\$ 66,290</u>	<u>\$ (5,455)</u>	<u>\$ 62,056</u>
Earnings (loss) per common share:				
Basic	<u>\$ (0.05)</u>	<u>\$ 9.01</u>	<u>\$ (0.14)</u>	<u>\$ 8.48</u>
Diluted	<u>\$ (0.05)</u>	<u>\$ 4.73</u>	<u>\$ (0.14)</u>	<u>\$ 4.44</u>
Weighted average number of common shares outstanding:				
Basic	49,198,625	7,357,234	38,572,537	7,318,211
Diluted	49,198,625	14,026,722	38,572,537	13,982,684

See accompanying notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30,	
	2019	2018
<b>Cash Flows From Operating Activities:</b>		
Net loss	\$ (5,455)	\$ 62,056
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation, depletion and amortization	5,033	1,283
Share-based compensation expense	697	349
Interest expense deferred and capitalized in debt restructuring	-	3,803
Gain on debt restructuring	-	(70,309)
Gain on sale of oil and gas properties	(920)	-
Amortization of debt discount	161	1,391
Changes in operating assets and liabilities:		
Accounts receivable – oil and gas	(539)	(345)
Prepaid expenses and other current assets	142	46
Accounts payable	4,373	244
Accrued expenses	(450)	1,109
Accrued expenses – related parties	(943)	-
Revenue payable	(14)	97
Net cash provided by (used in) operating activities	<u>2,085</u>	<u>(276)</u>
<b>Cash Flows From Investing Activities:</b>		
Cash paid for the acquisition of oil and gas properties	(1,056)	-
Cash paid for drilling and completion costs	(24,269)	-
Proceeds from the sale of oil and gas property	1,175	-
Cash paid for property and equipment	(47)	-
Net cash used in investing activities	<u>(24,197)</u>	<u>-</u>
<b>Cash Flows From Financing Activities:</b>		
Proceeds from notes payable – related parties	15,000	7,700
Repayment of notes payable	-	(7,795)
Proceeds from issuance of common shares	18,000	-
Net cash provided by (used in) financing activities	<u>33,000</u>	<u>(95)</u>
Net increase (decrease) in cash and restricted cash	10,888	(371)
Cash and restricted cash at beginning of period	5,779	917
Cash and restricted cash at end of period	<u>\$ 16,667</u>	<u>\$ 546</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for:		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ -
Noncash investing and financing activities:		
Change in accrued oil and gas development costs	\$ 6,039	\$ -
Acquisition of asset retirement obligations	\$ 33	\$ -
Changes in estimates of asset retirement costs	\$ 129	\$ 7
Common stock issued as debt inducement	\$ -	\$ 185
Common stock issued for debt conversion	\$ 55,075	\$ -

See accompanying notes to unaudited consolidated financial statements.

**PEDEVCO CORP.**  
**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**  
**(Unaudited)**

(amounts in thousands, except share amounts)

	Series A Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Totals
	Shares	Amount	Shares	Amount			
Balances at January 1, 2019	-	\$ -	15,808,445	\$ 16	\$ 101,450	\$ (84,494)	\$ 16,972
Issuance of common stock for debt conversion	-	-	29,480,383	29	55,046	-	55,075
Stock-based compensation	-	-	-	-	299	-	299
Net loss	-	-	-	-	-	(2,995)	(2,995)
Balances at March 31, 2019	-	-	45,288,828	45	156,795	(87,489)	69,351
Issuance of restricted common stock	-	-	160,000	-	-	-	-
Issuance of common stock to non-affiliates	-	-	1,500,000	1	2,999	-	3,000
Issuance of common stock to affiliate	-	-	6,818,181	7	14,993	-	15,000
Warrants exercised	-	-	60,056	-	-	-	-
Stock-based compensation	-	-	-	-	398	-	398
Net loss	-	-	-	-	-	(2,460)	(2,460)
Balances at June 30, 2019	-	\$ -	53,827,065	\$ 53	\$ 175,185	\$ (89,949)	\$ 85,289

	Series A Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Totals
	Shares	Amount	Shares	Amount			
Balances at January 1, 2018	66,625	\$ -	7,278,754	\$ 7	\$ 100,954	\$ (138,101)	\$ (37,140)
Stock-based compensation	-	-	-	-	183	-	183
Net Income	-	-	-	-	-	(4,234)	(4,234)
Balances at March 31, 2018	66,625	-	7,278,754	7	101,137	(142,335)	(41,191)
Conversion of stock options	-	-	30,848	-	-	-	-
Issuance of restricted common stock	-	-	80,000	-	-	-	-
Issuance of warrants for debt repayment	-	-	-	-	322	-	322
Issuance of common stock for debt inducement	-	-	600,000	1	184	-	185
Stock-based compensation	-	-	-	-	166	-	166
Net Income	-	-	-	-	-	66,290	66,290
Balances at June 30, 2018	66,625	\$ -	7,989,602	\$ 8	\$ 101,809	\$ (76,045)	\$ 25,772

See accompanying notes to unaudited consolidated financial statements.

**PEDEVCO CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying interim unaudited 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, 2018, filed with the SEC on April 1, 2019, 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 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.

**NOTE 2 – DESCRIPTION OF BUSINESS**

PEDEVCO is an oil and gas company focused on the development, acquisition and production of oil and natural gas assets where the latest in modern drilling and completion techniques and technologies have yet to be applied. In particular, the Company focuses on legacy proven properties where there is a long production history, well defined geology and existing infrastructure that can be leveraged when applying modern field management technologies. The Company’s current properties are located in the San Andres formation of the Permian Basin situated in West Texas and eastern New Mexico (the “Permian Basin”) and in the Denver-Julesberg Basin (“D-J Basin”) in Colorado. The Company holds its Permian Basin acres located in Chavez and Roosevelt Counties, New Mexico, through its wholly-owned operating subsidiary, Pacific Energy Development Corp. (“PEDCO”), which asset the Company refers to as its “Permian Basin Asset,” and it holds its D-J Basin acres located in Weld and Morgan Counties, Colorado, through its wholly-owned operating subsidiary, Red Hawk Petroleum, LLC (“Red Hawk”), which asset the Company refers to as its “D-J Basin Asset.”

The Company’s strategy is to be the operator, directly or through its subsidiaries and joint ventures, in the majority of its acreage so it can dictate the pace of development in order to execute its business plan. The majority of its capital expenditure budget through 2019 will be focused on the development of the Company’s Permian Basin Asset, with a secondary focus on development of its D-J Basin Asset. The Company’s 2019 total development plan calls for the deployment of an estimated \$50 million in capital, of which approximately \$40 million has been raised to date. On the Company’s Permian Basin Asset, four initial horizontal wells were drilled in the first quarter of 2019 in Phase One of its development plan. Phase Two of the development program began in July 2019, which plans for the drilling and completion of four new horizontal San Andres wells, drilling of one salt water disposal well, the completion of one drilled uncompleted horizontal well, and putting on first production of a well drilled and completed in Phase One which was not put on production during Phase One due to salt water disposal constraints. The Company’s future D-J Basin Asset development plans are currently under evaluation for its operated acreage, but the Company anticipates deploying approximately \$1 million in capital to participate in drilling and completion operations by other operators on its non-operated acreage through 2019. The Company expects that it will have sufficient cash available to meet its needs over the foreseeable future, which cash the Company anticipates being available from (i) its projected cash flows from operations, (ii) its existing cash on hand, (iii) equity infusions or loans (which may be convertible) made available from SK Energy LLC, which is 100% owned and controlled by Dr. Simon Kukes, the Company’s Chief Executive Officer and director (“SK Energy”), which funding SK Energy is under no obligation to provide, and (iv) funding through credit or loan facilities. 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 2019 capital expenditures and/or acquisitions. If market conditions are not conducive to raising additional funds, the Company may choose to extend the drilling program and associated capital expenditures further into 2020.

### NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company has provided a discussion of significant accounting policies, estimates and judgments in its 2018 Annual Report. There have been no changes to the Company's significant accounting policies since December 31, 2018.

#### **Recently Adopted Accounting Pronouncements**

Revenue Recognition. Accounting Standards Update ("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's net earnings are not 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.

Leases. In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, "*Leases (Topic 842)*". The new lease guidance supersedes Topic 840. The core principle of the guidance is that entities should recognize the assets and liabilities that arise from leases. Topic 840 does not apply to leases to explore for or use minerals, oil, natural gas and similar nonregenerative resources, including the intangible right to explore for those natural resources and rights to use the land in which those natural resources are contained. In July 2018, the FASB issued ASU No. 2018-11, "*Leases (Topic 842): Targeted Improvements*", which provides entities with an alternative modified transition method to elect not to recast the comparative periods presented when adopting Topic 842. The Company adopted Topic 842 as of January 1, 2019, using the alternative modified transition method, for which, comparative periods, including the disclosures related to those periods, are not restated.

In addition, the Company elected practical expedients provided by the new standard whereby, the Company has elected to not reassess its prior conclusions about lease identification, lease classification, and initial direct costs and to retain off-balance sheet treatment of short-term leases (i.e., 12 months or less and does not contain a purchase option that the Company is reasonably certain to exercise). As a result of the short-term expedient election, the Company has no leases that require the recording of a net lease asset and lease liability on the Company's consolidated balance sheet or have a material impact on consolidated earnings or cash flows as of June 30, 2019. Moving forward, the Company will evaluate any new lease commitments for application of Topic 842.

Compensation-Stock Compensation. In June 2018, the FASB issued ASU 2018-07, "*Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*". The amendments in this update maintain or improve the usefulness of the information provided to the users of financial statements while reducing cost and complexity in financial reporting. The areas for simplification in this update involve several aspects of the accounting for nonemployee share-based payment transactions resulting from expanding the scope of Topic 718, to include share-based payment transactions for acquiring goods and services from nonemployees. Some of the areas for simplification apply only to nonpublic entities. The amendments in this update are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company adopted the standard as of January 1, 2019. There was no impact of the standard on its consolidated financial statements.

### Recently Issued Accounting Pronouncements

The Company does not expect the adoption of any other 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

**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 in the periods indicated (in thousands):

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Oil sales	\$ 4,037	\$ 5,490
Natural gas sales	26	135
Natural gas liquids sales	7	13
Total revenue from customers	<u>\$ 4,070</u>	<u>\$ 5,638</u>

There were no significant contract liabilities or transaction price allocations to any remaining performance obligations as of June 30, 2019.

### NOTE 5 – RESTRICTED CASH

The following table provides a reconciliation of cash and restricted cash reported within the balance sheets, which sum to the total of such amounts shown in the accompanying consolidated statements of cash flows (in thousands):

	As of June 30,	
	2019	2018
Cash	\$ 13,370	\$ 917
Restricted cash included in other assets	3,297	-
Total cash and restricted cash as shown in the consolidated statements of cash flows	<u>\$ 16,667</u>	<u>\$ 917</u>

### NOTE 6 – OIL AND GAS PROPERTIES

The following table summarizes the Company's oil and gas activities by classification for the six months ended June 30, 2019 (in thousands):

	Balance at December 31, 2018	Additions	Disposals	Transfers	Balance at June 30, 2019
Oil and gas properties, subject to amortization	\$ 70,803	\$ 19,016	\$ (255)	\$ 6,596	\$ 96,160
Oil and gas properties, not subject to amortization	8,516	270	-	(6,596)	2,190
Asset retirement costs	2,188	(96)	-	-	2,092
Accumulated depreciation and depletion	(21,045)	(4,856)	-	-	(24,901)
Total oil and gas assets	<u>\$ 60,462</u>	<u>\$ 14,334</u>	<u>\$ (255)</u>	<u>\$ -</u>	<u>\$ 74,541</u>

On February 1, 2019, for consideration of \$700,000, the Company completed an asset purchase from Manzano, LLC and Manzano Energy Partners II, LLC, whereby the Company purchased approximately 18,000 net leasehold acres, ownership and operated production from one horizontal well currently producing from the San Andres play in the Permian Basin, ownership of three additional shut-in wells and ownership of one saltwater disposal well. The Company subsequently drilled one Manzano well in Phase Two of its 2019 development plan, which has yet to be completed as of June 30, 2019.

On March 7, 2019, Red Hawk sold rights to 85.5 net acres of oil and gas leases located in Weld County, Colorado, to a third party, for aggregate proceeds of \$1.2 million and recognized a gain on sale of oil and gas properties of \$920,000 on the statement of operations. The sale agreement included a provision whereby the purchaser was required to assign Red Hawk 85 net acres of leaseholds in an area located where the Company already owns other leases in Weld County, Colorado, within nine months from the date of the sale, or to repay the Company up to \$200,000 (proportionally adjusted for the amount of leasehold delivered). The purchaser has not yet identified or assigned the required leasehold acreage to the Company.

Effective June 10, 2019, for consideration of \$350,000, the Company completed an asset purchase from a private operator, whereby the Company purchased approximately 2,076 net leasehold acres, ownership and operated production from 22 vertical wells currently producing from the San Andres play in the Permian Basin and ownership of three injection wells.

For the three and six months ended June 30, 2019, the Company has incurred \$5.4 million and \$18.2 million, respectively, in capital cost which included drilling costs for the drilling of five wells (four of which were completed), and corresponding facility costs. There were no drilling costs for the three and six months ended June 30, 2018.

The depletion recorded for production on proved properties for the three and six months ended June 30, 2019 and 2018, amounted to \$2,715,000 compared to \$688,000, and \$4,855,000, compared to \$1,251,000, respectively.

#### **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 at that time 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 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 (with an expiration date of May 12, 2019) 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 shares of Caspian Energy underlying the option were classified as part of other current assets. The option expired without being exercised on May 12, 2019. The Company fully reserved the \$100,000 and recognized no value related to the shares of Caspian Energy on the Company’s balance sheet as of June 30, 2019 as the Company determined the value of the shares to be \$0 as a result of it delisting from the NEX Board of the TSX Venture Exchange.

## NOTE 8 – NOTES PAYABLE

The Company's notes payable consisted of the following (in thousands):

	June 30, 2019	December 31, 2018
Notes Payable - Subordinated	\$ -	\$ 400
Notes Payable - Subordinated Related Party	-	30,200
Notes Payable - Related Party	-	7,855
	-	38,455
Unamortized Debt Discount	-	(161)
Total Notes Payable	\$ -	\$ 38,294

### Convertible Note Issuances

On June 26, 2018, the Company borrowed \$7.7 million from SK Energy under a Promissory Note dated June 25, 2018, in the amount of \$7.7 million (the "June 2018 SK Energy Note") 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 June 2018 SK Energy Note accrues interest monthly at 8% per annum, payable quarterly, 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.

As additional consideration for SK Energy agreeing to the terms of the June 2018 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.

Based on a conversion price equal to \$2.18 per share, pursuant to the conversion terms of the June 2018 SK Energy Note, the amount of interest under the June 2018 SK Energy Note as of December 31, 2018 equaled \$155,000 and was included in the outstanding principal balance of \$7,855,000, for interest not paid or issued in common stock when due, the amount is recapitalized into the face value of the note, per the terms of the June 2018 SK Energy Note. The total amount of the remaining debt discount reflected on the accompanying balance sheet as of December 31, 2018 was \$161,000, which was amortized in full as of June 30, 2019, due to the note conversions, which included \$107,000 of additional interest that was included in the principal balance, noted below under "Convertible Notes Amendment and Conversion" and "SK Energy Note Amendment; Note Purchases and Conversion".

On August 1, 2018, the Company received total proceeds of \$23,600,000 from the sale of multiple Convertible Promissory Notes (the "Convertible Notes"). A total of \$22,000,000 in Convertible Notes were purchased by SK Energy (the "August 2018 SK Energy Note"); \$200,000 in Convertible Notes were purchased by an executive officer of SK Energy; \$500,000 in Convertible Notes were purchased by a trust affiliated with John J. Scelfo, a director of the Company; \$500,000 in Convertible Notes were purchased by an entity affiliated with Ivar Siem, our director, and J. Douglas Schick, President of the Company; \$200,000 in Convertible Notes was purchased by H. Douglas Evans (who became a Director and related party on September 27, 2018); and \$200,000 in Convertible Notes were purchased by an unaffiliated party. The \$23,600,000 is accounted for on the balance sheet as \$23,200,000 of subordinated notes payable – related party and \$400,000 as subordinated notes, as these notes are subordinated to the original June 2018 SK Energy Note.

The Convertible Notes accrue interest monthly at 8.5% per annum, which interest is payable on the maturity date unless otherwise converted into our common stock as described below. The accrued interest is accounted for on the balance sheet as of December 31, 2018 as \$943,000 of accrued interest – related party and \$14,000 of accrued interest. As of June 30, 2019, there was no accrued interest – related party or accrued interest, as \$347,000 of accrued interest – related party and \$6,000 of accrued interest incurred during 2019 together with the accrued interest outstanding as of December 31, 2018 was converted into shares of common stock due to the note conversions described below.

The Convertible Notes and all accrued interest thereon are convertible into shares of our common stock, from time to time after August 29, 2018, at the option of the holders thereof, at a conversion price equal to \$2.13 per share, per terms of the Convertible Notes.

On October 25, 2018, the Company borrowed an additional \$7.0 million from SK Energy, through the sale of a convertible promissory note in the amount of \$7.0 million (the "October 2018 SK Energy Note"). The October 2018 SK Energy Note had substantially similar terms as the August 2018 SK Energy Note, except that it had a conversion price of \$1.79 per share. The October 2018 SK Energy Note is due and payable on October 25, 2021 but may be prepaid at any time without penalty. The accrued interest expense related to this note for the year ended December 31, 2018 was \$109,000 and is accounted for on the balance sheet as accrued interest – related party. As of June 30, 2019, there was no accrued interest – related party, as accrued interest of \$78,000 incurred during 2019 together with the accrued interest outstanding as of December 31, 2018 was converted into shares of common stock due to the note conversions described below.

#### **January 2019 SK Energy Convertible Note**

On January 11, 2019, the Company borrowed an additional \$15.0 million from SK Energy, through the sale of a convertible promissory note in the amount of \$15.0 million (the "January 2019 SK Energy Note"). The January 2019 SK Energy Note had substantially similar terms as the August 2018 SK Energy Note, except that it had a conversion price of \$1.50 per share. The January 2019 SK Energy Note is due and payable on January 11, 2022 but may be prepaid at any time without penalty. As of June 30, 2019, there was no outstanding principal or accrued interest – related party due to the note conversions described below. Accrued interest-related party for this note prior to the conversion totaled \$126,000.

#### **Convertible Notes Amendment and Conversion**

On February 15, 2019, the Company and SK Energy agreed to amend the Convertible Notes (including the August 2018 SK Energy Note), October 2018 SK Energy Note, and the January 2019 SK Energy Note, to remove the conversion limitation that previously prevented SK Energy from converting any portion of the notes into common stock of the Company if such conversion would have resulted in SK Energy beneficially owning more than 49.9% of the Company's outstanding shares of common stock

Immediately following the entry into the amendment, on February 15, 2019, SK Energy elected to convert (i) all \$15,000,000 of the outstanding principal and all \$126,000 of accrued interest then owed under the January 2019 SK Energy Note into common stock of the Company at a conversion price of \$1.50 per share, as set forth in the January 2019 SK Energy Note into 10,083,819 shares of restricted common stock of the Company, and (ii) all \$7,000,000 of the outstanding principal and all \$187,000 of accrued interest under the October 2018 SK Energy Note into common stock of the Company at a conversion price of \$1.79 per share, as set forth in the October 2018 SK Energy Note, into 4,014,959 shares of restricted common stock of the Company.

On March 1, 2019, the Company and SK Energy amended the June 2018 SK Energy Note, to provide SK Energy the right, at any time, at its option, to convert the principal and interest owed under such June 2018 SK Energy Note, into shares of the Company's common stock, at a conversion price of \$2.13 per share.

In addition, on March 1, 2019, the holders of \$1,500,000 in aggregate principal amount of Convertible Notes sold their Convertible Notes at face value plus accrued and unpaid interest through March 1, 2019 to SK Energy (the "Convertible Note Sale"). Holders which sold their Convertible Notes pursuant to the Convertible Note Sale to SK Energy, included an executive officer of SK Energy (\$200,000 in principal amount of Convertible Notes); a trust affiliated with John J. Scelfo, a director of the Company (\$500,000 in principal amount of Convertible Notes); an entity affiliated with Ivar Siem, a director of the Company, and J. Douglas Schick the President of the Company (\$500,000 in principal amount of Convertible Notes); and Harold Douglas Evans, a director of the Company (\$200,000 in principal amount of Convertible Notes).

Immediately following the effectiveness of the SK Energy Note Amendment and Convertible Note Sale, on March 1, 2019, SK Energy and the Unaffiliated Holder elected to convert all \$31,300,000 of outstanding principal and an aggregate of \$1,460,000 of accrued interest under the June 2018 SK Energy Note, SK Energy's \$22 million Convertible Note and all other Convertible Notes, into common stock of the Company at a conversion price of \$2.13 per share (the "Conversion Price" and the "Conversions") as set forth in the June 2018 SK Energy Note, as amended, and the Convertible Notes (including SK Energy's \$22 million Convertible Note (collectively, the "Notes"), into an aggregate of 15,381,605 shares of restricted common stock of the Company (the "Conversion Shares").

## NOTE 9 – ASSET RETIREMENT OBLIGATIONS

Activity related to the Company's asset retirement obligations is as follows (in thousands):

	Six Months Ended June 30, 2019
Balance at the beginning of the period <sup>(1)</sup>	\$ 2,571
Accretion expense	170
Obligations incurred for acquisition	33
Changes in estimates	(129)
Balance at end of period <sup>(2)</sup>	\$ 2,645

(1) Includes \$119,000 of current asset retirement obligations included in accrued liabilities at December 31, 2018.

(2) Includes \$129,000 of current asset retirement obligations included in accrued liabilities at June 30, 2019.

## NOTE 10 – COMMITMENTS AND CONTINGENCIES

### Office Lease

**Change in Accounting Policy.** The Company adopted ASU No. 2016-02, "Leases (Topic 842)" and ASU No. 2018-11, "Leases (Topic 842): Targeted Improvements", January 1, 2019, using the alternative modified transition method, for which, comparative periods, including the disclosures related to those periods, are not restated as of January 1, 2019. Refer to Note 3 – Summary of Significant Accounting Policies above for additional information.

In June 2018, the Company assumed the lease for its corporate office space located in Houston, Texas from American Resources, Inc., an entity beneficially owned and controlled by Ivar Siem, a director of the Company, and J. Douglas Schick, the Company's President. The term of the lease ends on August 31, 2019, and the obligation for the remainder of this lease is \$22,000.

Effective September 1, 2019, the Company plans to move its corporate headquarters from 1250 Wood Branch Park Dr., Suite 400, Houston, Texas 77079 to 575 N. Dairy Ashford, Houston, Texas 77079 in connection with the expiration of its current office space lease. The Company entered into a sublease on approximately 5,200 square feet of office space that expires on August 31, 2023, and has a base monthly rent of approximately \$10,000 with the first month rent due beginning on January 1, 2020. The Company will be required to pay a security deposit of \$9,600. On the effective date of the new lease, the Company will apply the new lease Topic 842 and does not expect the lease to have a significant impact on its consolidated balance sheet or statements of operations or cash flows.

The Company also leased space for its former corporate headquarters in Danville, California that was scheduled to expire July 31, 2019, but was terminated in January 2019 without penalty or other amounts due. In February 2019, the Company entered into a six-month lease agreement for 187 square feet of new office space located in Danville, California for the Company's General Counsel. The monthly rent is \$1,200, and the Company paid a \$1,200 security deposit. In August 2019, the lease was extended for an additional six months. The total current obligation for the remainder of this lease through January 2020 is \$7,200.

For the six months ended June 30, 2019 and 2018, the Company incurred lease expense of \$76,000 and \$28,800, respectively, for the combined leases.

### 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, no significant net acres expire during the remainder of 2019, and 31 net acres expire thereafter (net to our direct ownership interest only). In the Permian Basin Asset, no net acres are due to expire in 2019 and 14,500 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.

### **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 11 – SHAREHOLDERS' EQUITY**

#### **Common Stock**

On February 15, 2019 and March 1, 2019, \$22.3 million and \$32.8 million of outstanding note payables and accrued interest were converted into 14,098,778 and 15,381,605 shares of the Company's common stock, respectively (see Note 8 above for further discussion of the note conversions).

On May 21, 2019, SK Energy, which is owned and controlled by Dr. Kukes, the Company's Chief Executive Officer and a member of the Board of Directors, purchased 6,818,181 shares of restricted common stock from the Company at a price of \$2.20 per share, or \$15 million in aggregate, pursuant to a subscription agreement. As a result of the purchase, SK Energy, which beneficially owned 78.2% of our outstanding common stock prior to the subscription agreement, beneficially owned 81.0% of our outstanding common stock after the purchase.

In addition, on May 16, 2019, the Company sold an aggregate of 1,500,000 shares of its restricted common stock to two third party purchasers at a price a price of \$2.00 per share, or \$3 million in aggregate, pursuant to subscription agreements.

#### **Warrants**

During the six months ended June 30, 2019, no warrants were granted, and warrants to purchase 100,000 shares of common stock expired. Additionally, on April 1, 2019, the Company issued 60,056 total shares of common stock upon the cashless exercise of two warrants to purchase an aggregate of 596,280 shares of common stock with an exercise price of \$2.50 per share, based on a current market value of \$2.78 per share, under the terms of each warrant.

The intrinsic value of outstanding, as well as exercisable, warrants, at June 30, 2019 was \$265,000.

Warrant activity during the six months ended June 30, 2019 was:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contract Term (Years)
Outstanding at December 31, 2018	1,216,686	\$ 7.44	1.4
Exercised	(596,280)	\$ 2.50	
Expired/Cancelled	(100,000)	\$ 25.00	
Outstanding at June 30, 2019	<u>520,406</u>	<u>\$ 7.20</u>	<u>0.9</u>
Exercisable at June 30, 2019	<u>520,406</u>	<u>\$ 7.20</u>	<u>0.9</u>

#### NOTE 12 – SHARE-BASED COMPENSATION

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award over the vesting period.

##### *Common Stock*

In April 2019, restricted stock awards were granted to three new employees and one consultant for an aggregate of 160,000 shares of the Company's common stock, under the Company's Amended and Restated 2012 Equity Incentive Plan. The grant for a total of 50,000 of the restricted stock awards vests as follows: 100% on the one-year anniversary of the grant date, subject to the recipient's continued service with the Company. These shares have a total fair value of \$135,000 based on the market price on the issuance date. The grants for 110,000 shares of restricted stock vest as follows: 50% on the one-year anniversary of the grant date and 50% on the second-year anniversary of the grant date, subject to the recipient's continued service with the Company. These shares have a total fair value of \$253,000 based on the market price on the issuance date. The awarded shares above are subject to trading restrictions, and forfeiture, subject to the vesting terms described above. When such securities are vested in accordance with their terms, the trading restrictions are lifted.

Stock-based compensation expense recorded related to the vesting of restricted stock for the three and six months ended June 30, 2019 and 2018 was \$285,000, compared to \$148,000 and \$471,000, compared to \$314,000, respectively. The remaining unamortized stock-based compensation expense at June 30, 2019 related to restricted stock was \$883,000.

##### *Options*

During the six months ended June 30, 2019, no options were granted, exercised or expired, and a total of 890,232 options to purchase common stock are outstanding, with exercise prices ranging from \$0.3088 to \$302.40 per share, and a weighted-average exercise price of \$3.26 per share. Of the total amount of options to purchase common stock outstanding, 620,232 are exercisable as of June 30, 2019, with a weighted-average exercise price of \$3.91 per share and a weighted average remaining life of 2.1 years.

During the three and six months ended June 30, 2019 and 2018, the Company recognized stock option expense of \$113,000 compared to \$18,000 and \$226,000 compared to \$35,000, respectively. The remaining amount of unamortized stock options expense at June 30, 2019, was \$93,000.

The intrinsic value of outstanding and exercisable options at June 30, 2019 was \$290,000.

## NOTE 13 – EARNINGS (LOSS) PER COMMON SHARE

Earnings (loss) per common share-basic is calculated by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Net income (loss) per common share-diluted assumes the conversion of all potentially dilutive securities and is calculated by dividing net (loss) income by the sum of the weighted average number of shares of common stock, as defined above, outstanding plus potentially dilutive securities. Net (loss) income per common share-diluted considers the impact of potentially dilutive securities except in periods in which there is a loss because the inclusion of the potential common shares, as defined above, would have an anti-dilutive effect.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Numerator:				
Net income (loss)	\$ (2,460)	\$ 66,290	\$ (5,455)	\$ 62,056
Denominator:				
Weighted average common shares – basic	49,198,625	7,357,234	38,572,537	7,318,211
Dilutive effect of common stock equivalents:				
Options and Warrants	-	6,988	-	1,973
Preferred Stock	-	6,662,500	-	6,662,500
Denominator:				
Weighted average common shares – diluted	49,198,625	14,026,722	38,572,537	13,982,684
Earnings (loss) per share – basic	\$ (0.05)	\$ 9.01	\$ (0.14)	\$ 8.48
Earnings (loss) per share – diluted	\$ (0.05)	\$ 4.73	\$ (0.14)	\$ 4.44

For the three and six months periods ended June 30, 2019 and 2018, the following share equivalents related to preferred stock, and options and warrants to purchase shares of common stock were excluded from the computation of diluted net income (loss) per share as the inclusion of such shares would be anti-dilutive.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Common Shares Issuable for:				
Options and Warrants	1,410,638	3,259,939	1,410,638	3,264,954
Series A Preferred Stock	-	662,500	-	662,500
Total	1,410,638	3,922,439	1,410,638	3,927,454

**NOTE 14 – RELATED PARTY TRANSACTIONS**

The following table reflects the related party amounts for SK Energy, Directors and Officers included in the balance sheets of the period indicated (in thousands):

	June 30, 2019	December 31 2018
Long-term accrued expenses	\$ -	\$ 943
Long-term notes payable – subordinated	-	30,200
Long-term notes payable, net of discount of \$- and \$161, respectively	-	7,694
Total related party liabilities	<u>\$ -</u>	<u>\$ 38,837</u>

See Note 8 above for a further discussion of the debt conversions and subsequent retirement of all related party debt.

Additionally, on May 21, 2019, SK Energy, which is owned and controlled by Dr. Kukes, our Chief Executive Officer and a member of the Board of Directors, purchased 6,818,181 shares of restricted common stock from the Company at a price of \$2.20 per share, or \$15 million in aggregate (see Note 11 above for a further discussion of the issuance of the restricted common stock).

**NOTE 15 – INCOME TAXES**

The Company has estimated that its effective tax rate for U.S. purposes will be zero for the 2019 and 2018 fiscal years as a result of net losses and a full valuation allowance against the net deferred tax assets. Consequently, the Company has recorded no provision or benefit for income taxes for the six months ended June 30, 2019 and 2018.

**NOTE 16 – SUBSEQUENT EVENTS**

Effective July 18, 2019, 50,000 shares of restricted stock were awarded to an advisor under the Company's Amended and Restated 2012 Equity Incentive Plan. The restricted stock vests as follows: 100% on the six-month anniversary of the grant date, subject to the recipient's continued service with the Company. These shares have a total fair value of \$82,500, based on the market price on the issuance date.

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

### Forward-Looking Statements

Some of the statements contained in this report discuss future expectations, contain projections of results of operations or financial condition, or state other "forward-looking" information. The words "believe," "intend," "plan," "expect," "anticipate," "estimate," "project," "goal" and similar expressions identify such a statement was made, although not all forward-looking statements contain such identifying words. These statements are subject to known and unknown risks, uncertainties, and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on various factors and is derived using numerous assumptions. Factors that might cause or contribute to such a discrepancy include, but are not limited to, the risks discussed in this and our other SEC filings. We do not promise to or take any responsibility to update forward-looking information to reflect actual results or changes in assumptions or other factors that could affect those statements except as required by law. Future events and actual results could differ materially from those expressed in, contemplated by, or underlying such forward-looking statements.

Forward-looking statements may include statements about our:

- business strategy;
- reserves;
- technology;
- cash flows and liquidity;
- financial strategy, budget, projections and operating results;
- oil and natural gas realized prices;
- timing and amount of future production of oil and natural gas;
- availability of oil field labor;
- the amount, nature and timing of capital expenditures, including future exploration and development costs;
- drilling of wells;
- government regulation and taxation of the oil and natural gas industry;
- marketing of oil and natural gas;
- exploitation projects or property acquisitions;
- costs of exploiting and developing our properties and conducting other operations;
- general economic conditions;
- competition in the oil and natural gas industry;
- effectiveness of our risk management activities;
- environmental liabilities;
- counterparty credit risk;
- developments in oil-producing and natural gas-producing countries;
- future operating results;
- future acquisition transactions;
- estimated future reserves and the present value of such reserves; and
- plans, objectives, expectations and intentions contained in this Quarterly Report that are not historical.

All forward-looking statements speak only at the date of the filing of this Quarterly Report. The reader should not place undue reliance on these forward-looking statements. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this Quarterly Report are reasonable, we provide no assurance that these plans, intentions or expectations will be achieved. We disclose important factors that could cause our actual results to differ materially from our expectations under "[Risk Factors](#)" and "[Management's Discussion and Analysis of Financial Condition and Results of Operations](#)" and elsewhere in this Quarterly Report and our Annual Report on Form 10-K filed with the SEC on April 1, 2019. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf. We do not undertake any obligation to update or revise publicly any forward-looking statements except as required by law, including the securities laws of the United States and the rules and regulations of the SEC.

The following is management's discussion and analysis of the significant factors that affected the Company's financial position and results of operations during the periods included in the accompanying unaudited consolidated financial statements. You should read this in conjunction with the discussion under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2018, and the unaudited consolidated financial statements included in this quarterly report.

Certain abbreviations and oil and gas industry terms used throughout this Quarterly Report are described and defined in greater detail under " Glossary of Oil And Natural Gas Terms" on page 4 of our Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the Securities and Exchange Commission on April 1, 2019.

Certain capitalized terms used below but not otherwise defined, are defined in, and shall be read along with the meanings given to such terms in, the notes to the unaudited financial statements of the Company for the three and six months ended June 30, 2019, above.

Unless the context requires otherwise, references to the "Company," "we," "us," "our," "PEDEVCO" and "PEDEVCO Corp." refer specifically to PEDEVCO Corp. and its wholly and majority owned subsidiaries.

In addition, unless the context otherwise requires and for the purposes of this report only:

- "Bbl" refers to one stock tank barrel, or 42 U.S. gallons liquid volume, used in this report in reference to crude oil or other liquid hydrocarbons;
- "Boe" refers to barrels of oil equivalent, determined using the ratio of one Bbl of crude oil, condensate or natural gas liquids, to six Mcf of natural gas;
- "Bopd" refers to barrels of oil day;
- "Mcf" refers to a thousand cubic feet of natural gas;
- "NGL" refers to natural gas liquids;
- "Exchange Act" refers to the Securities Exchange Act of 1934, as amended;
- "SEC" or the "Commission" refers to the United States Securities and Exchange Commission; and
- "Securities Act" refers to the Securities Act of 1933, as amended.

#### **Available Information**

The Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Exchange Act, are filed with the SEC. The Company is subject to the informational requirements of the Exchange Act and files or furnishes reports, proxy statements and other information with the SEC. Such reports and other information filed by the Company with the SEC are available free of charge at our website ([www.pacificenergydevelopment.com](http://www.pacificenergydevelopment.com)) under "Investors" – "SEC Filings", when such reports are available on the SEC's website. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov). The Company periodically provides other information for investors on its corporate website, [www.pacificenergydevelopment.com](http://www.pacificenergydevelopment.com). This includes press releases and other information about financial performance, information on corporate governance and details related to the Company's annual meeting of shareholders. The information contained on the websites referenced in this Form 10-Q is not incorporated by reference into this filing. Further, the Company's references to website URLs are intended to be inactive textual references only.

## General Overview

We are an oil and gas company focused on the acquisition and development of oil and natural gas assets where the latest in modern drilling and completion techniques and technologies have yet to be applied. In particular, we focus on legacy proven properties where there is a long production history, well defined geology and existing infrastructure that can be leveraged when applying modern field management technologies. Our current properties are located in the San Andres formation of the Permian Basin situated in West Texas and eastern New Mexico (the "Permian Basin") and in the Denver-Julesberg Basin ("D-J Basin") in Colorado. As of June 30, 2019, we held approximately 40,200 net Permian Basin acres located in Chaves and Roosevelt Counties, New Mexico, through our wholly-owned operating subsidiary, Pacific Energy Development Corp. ("PEDCO"), which we refer to as our "Permian Basin Asset," and approximately 11,700 net D-J Basin acres located in Weld and Morgan Counties, Colorado, through our wholly-owned operating subsidiary, Red Hawk Petroleum, LLC ("Red Hawk"), which asset we refer to as our "D-J Basin Asset." As of June 30, 2019, we held interests in 359 gross (290 net) wells in our Permian Basin Asset of which 87 are active producers, 33 are active injectors, one well is an active Salt Water Disposal well ("SWD"), all of which are held by PEDCO and operated by its wholly-owned operating subsidiaries, and interests in 66 gross (21.3 net) wells in our D-J Basin Asset, of which 18 gross (16.2 net) wells are operated by Red Hawk and currently producing, 27 gross (5.1 net) wells are non-operated, and 21 wells have an after-payout interest.

## Strategy

We believe that horizontal development and exploitation of conventional assets in the Permian Basin and development of the Wattenberg and Wattenberg Extension in the D-J Basin, represent among the most economic oil and natural gas plays in the U.S. We plan to optimize our existing assets and opportunistically seek additional acreage proximate to our currently held core acreage, as well as other attractive onshore U.S. oil and gas assets that fit our acquisition criteria, that Company management believes can be developed using our technical and operating expertise and be accretive to shareholder value.

Specifically, we seek to increase shareholder value through the following strategies:

- **Grow production, cash flow and reserves by developing our operated drilling inventory and participating opportunistically in non-operated projects.** We believe our extensive inventory of drilling locations in the Permian Basin and to a lesser degree the DJ-Basin, combined with our operating expertise, will enable us to continue to deliver accretive production, cash flow and reserves growth. We have identified approximately 150 gross drilling locations across our Permian Basin acreage based on 20-acre spacing. We believe the location, concentration and scale of our core leasehold positions, coupled with our technical understanding of the reservoirs will allow us to efficiently develop our core areas and to allocate capital to maximize the value of our resource base.
- **Apply modern drilling and completion techniques and technologies.** We own and intend to own additional properties that have been historically underdeveloped and underexploited. We believe our attention to detail and application of the latest industry advances in horizontal drilling, completions design, frac intensity and locally optimal frac fluids will allow us to successfully develop our properties.
- **Optimization of well density and configuration.** We own properties that are legacy conventional oil fields characterized by widespread vertical development and geological well control. We utilize the extensive petrophysical and production data of such legacy properties to confirm optimal well spacing and configuration using modern reservoir evaluation methodologies.
- **Maintain a high degree of operational control.** We believe that by retaining high operational control, we can efficiently manage the timing and amount of our capital expenditures and operating costs, and thus key in on the optimal drilling and completions strategies, which we believe will generate higher recoveries and greater rates of return per well.
- **Leverage extensive deal flow, technical and operational experience to evaluate and execute accretive acquisition opportunities.** Our management and technical teams have an extensive track record of forming and building oil and gas businesses. We also have significant expertise in successfully sourcing, evaluating and executing acquisition opportunities. We believe our understanding of the geology, geophysics and reservoir properties of potential acquisition targets will allow us to identify and acquire highly prospective acreage in order to grow our reserve base and maximize shareholder value.
- **Preserve financial flexibility to pursue organic and external growth opportunities.** We intend to maintain a disciplined financial profile that will provide us flexibility across various commodity and market cycles. We intend to utilize our strategic partners and public currency to continuously fund development and operations.

Our strategy is to be the operator, directly or through our subsidiaries and joint ventures, in the majority of our acreage so we can dictate the pace of development in order to execute our business plan. The majority of our capital expenditure budget through 2019 will be focused on the development of our Permian Basin Asset, with a secondary focus on development of our D-J Basin Asset. Our 2019 total development plan calls for the deployment of an estimated \$50 million in capital, of which approximately \$40.0 million has been raised to date. On our Permian Basin Asset, four initial horizontal wells were drilled in the first quarter of 2019 in Phase One of our development plan. Phase Two of the development program began in July 2019, which plans for the drilling and completion of four new horizontal San Andres wells, drilling of one salt water disposal well, the completion of one drilled uncompleted horizontal well, and putting on first production of a well drilled and completed in Phase One which was not put on production during Phase One due to salt water disposal constraints. Our future D-J Basin Asset development plans are currently under evaluation for our operated acreage, but we anticipate deploying approximately \$1 million in capital to participate in drilling and completion operations by other operators on our non-operated acreage through 2019. We expect that we will have sufficient cash available to meet our needs over the foreseeable future, which cash we anticipate being available from (i) our projected cash flow from operations, (ii) our existing cash on hand, (iii) equity infusions or loans (which may be convertible) made available from SK Energy LLC, which is 100% owned and controlled by Dr. Simon Kukes, the Company's Chief Executive Officer and director ("SK Energy"), which funding SK Energy is under no obligation to provide, and (iv) funding through credit or loan facilities. In addition, we may seek additional funding through asset sales, farm-out arrangements, lines of credit, or public or private debt or equity financings to fund additional 2019 capital expenditures and/or acquisitions. If market conditions are not conducive to raising additional funds, the Company may choose to extend the drilling program and associated capital expenditures further into 2020.

## **Recent Events**

### Common Stock Issuances

In May 2019, the Company raised \$15.0 million through the sale of 6,818,181 shares of restricted common stock to SK Energy, and an additional \$3.0 million through the sale of an aggregate of 1,500,000 shares of restricted common stock to two non-affiliated purchasers (for additional information, see "Part I - Financial Information" - "Item 1. Financial Statements" - "Note 11 – Shareholders' Equity", above).

### Borrowings and Conversions

Information regarding recent borrowings and the conversion of such debt into common stock of the Company is described in greater detail under "Part I - Financial Information" - "Item 1. Financial Statements" - "Note 8 – Notes Payable", above.

### Manzano Acquisition

On February 1, 2019, for consideration of \$700,000, the Company completed an asset purchase from Manzano, LLC and Manzano Energy Partners II, LLC, whereby the Company purchased approximately 18,000 net leasehold acres, ownership and operated production from one horizontal well currently producing from the San Andres play in the Permian Basin, ownership of three additional shut-in wells, and ownership of one saltwater disposal well. The Company subsequently drilled one Manzano well in Phase Two of its 2019 development plan, which has yet to be completed as June 30, 2019.

### Red Hawk Property Rights Sale

On March 7, 2019, Red Hawk sold rights to 85.5 net acres of oil and gas leases located in Weld County, Colorado, to a third party, for aggregate proceeds of \$1.2 million. The sale agreement included a provision whereby the purchaser was required to assign Red Hawk 85 net acres of leaseholds in an area located where the Company already owns other leases in Weld County, Colorado, within nine months from the date of the sale, or to repay the Company up to \$200,000 (proportionally adjusted for the amount of leasehold delivered). The purchaser has not yet identified or assigned the required leasehold acreage to the Company.

### Drilling and Workover Activities

In December 2018, we commenced drilling four San Andres horizontal wells in our Permian Basin Asset acreage acquired from Hunter Oil Company in September 2018, which wells were completed in March 2019. Also, in February 2019, we completed workover operations to reactivate a San Andres horizontal well, and in March 2019 we completed the drilling of our fifth San Andres horizontal well, both of which operations were conducted on our Permian Basin acreage acquired from Manzano in February 2019.

### Additional San Andres Acquisition

Effective June 10, 2019, for consideration of \$350,000, the Company completed an asset purchase from a private operator, whereby the Company purchased approximately 2,076 net leasehold acres, ownership and operated production from 22 horizontal wells currently producing from the San Andres play in the Permian Basin and ownership of three injection wells.

## **Results of Operations and Financial Condition**

### **Significant Capital Expenditures**

The table below sets out the significant components of capital expenditures for the six months ended June 30, 2019. There were no significant capital expenditures for the six months ended June 30, 2018 (in thousands):

Capital Expenditures		
Leasehold Acquisitions <sup>(1)</sup>	\$	340
Property Acquisitions <sup>(1)</sup>		862
Drilling and Facilities <sup>(2)</sup>		18,084
Total	\$	<u>19,286</u>

(1) Consists of amounts related to the acquisition of certain oil and gas properties in February 2019 (see "Part I – Financial Information" – "Item 1. Financial Statements" - "Note 6 - Oil and Gas Properties").

(2) Consists of amounts primarily related to the drilling of five wells and the completion of four of the five wells as of June 30, 2019.

### **Market Conditions and Commodity Prices**

Our financial results depend on many factors, particularly the price of natural gas and crude oil and our ability to market our production on economically attractive terms. Commodity prices are affected by many factors outside of our control, including changes in market supply and demand, which are impacted by weather conditions, inventory storage levels, basis differentials and other factors. As a result, we cannot accurately predict future commodity prices and, therefore, we cannot determine with any degree of certainty what effect increases or decreases in these prices will have on our production volumes or revenues. In addition to production volumes and commodity prices, finding and developing sufficient amounts of natural gas and crude oil reserves at economical costs are critical to our long-term success. We expect prices to remain volatile for the remainder of the year. For information about the impact of realized commodity prices on our natural gas and crude oil and condensate revenues, refer to "Results of Operations" below.

### **Results of Operations**

The following discussion and analysis of the results of operations for the three and six-month periods ended June 30, 2019 and 2018, should be read in conjunction with our consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q. The majority of the numbers presented below are rounded numbers and should be considered as approximate.

**Three Months Ended June 30, 2019 vs. Three Months Ended June 30, 2018**

We reported a net loss for the three-month period ended June 30, 2019 of \$2.5 million, or (\$0.05) per share, compared to net income for the three-month period ended June 30, 2018 of \$66.3 million or \$9.01 per share. The decrease in net income of \$68.8 million was primarily due to the recognition of a one-time \$70.3 million gain on debt restructuring in 2018, described in greater detail in our Annual Report on Form 10-K for the year ended December 31, 2018, under the heading “Item 1 and 2 Business and Properties” – “Business Operations” – “Restructuring”. Excluding this significant non-recurring transaction, our net loss decreased by \$1.6 million, due to a reduction in interest expense incurred of \$3.2 million due to our debt restructuring, coupled with \$3.2 million in additional revenue, offset by additional operating expenses of \$4.8 million, from the Company’s production increases, as well as the hiring of additional staff and consultants, for the three months ended June 30, 2019, compared to the prior year’s period.

**Net Revenues**

The following table sets forth the operating results and production data for the periods indicated:

	Three Months Ended June 30,		Increase (Decrease)	% Increase (Decrease)
	2019	2018		
<b>Sale Volumes:</b>				
Crude Oil (Bbls)	71,443	12,790	58,653	459%
Natural Gas (Mcf)	13,792	18,864	(5,072)	(27%)
NGL (Mcf)	2,868	9,100	(6,232)	(68%)
Total (Boe) <sup>(1)</sup>	74,220	17,451	56,769	325%
<b>Crude Oil (Bbls per day)</b>				
	785	141	644	457%
<b>Natural Gas (Mcf per day)</b>				
	152	207	(55)	(27%)
<b>NGL (Mcf per day)</b>				
	32	100	(68)	(68%)
Total (Boe per day) <sup>(1)</sup>	816	158	233	325%
<b>Average Sale Price:</b>				
Crude Oil (\$/Bbl)	\$ 56.50	\$ 64.85	\$ (8.35)	(13%)
Natural Gas (\$/Mcf)	1.85	2.37	(0.53)	(22%)
NGL (\$/Mcf)	2.68	2.53	0.14	6%
<b>Net Operating Revenues (in thousands):</b>				
Crude Oil	\$ 4,037	\$ 830	\$ 3,207	386%
Natural Gas	26	45	(19)	(42%)
NGL	7	23	(16)	(70%)
Total Revenues	<u>\$ 4,070</u>	<u>\$ 898</u>	<u>\$ 3,172</u>	<u>353%</u>

(1) Assumes 6 Mcf of natural gas and NGL equivalents to 1 barrel of oil.

Total crude oil and natural gas revenues for the three-month period ended June 30, 2019 increased \$3.2 million, or 353%, to \$4.1 million, compared to \$0.9 million for the same period a year ago, due primarily to a favorable volume variance of \$3.3 million, offset by an unfavorable price variance of \$0.1 million. The production increase can be attributed to the Company’s completion of four producing wells during the current year’s period, compared to the prior year’s period.

## Net Operating and Other Income (Expenses)

The following table summarizes our production costs and operating expenses for the periods indicated (in thousands):

	Three Months Ended		Increase (Decrease)	% Increase (Decrease)
	June 30,			
	2019	2018		
Lease Operating Expenses	\$ 2,095	\$ 417	\$ 1,678	402%
Exploration Expenses	13	28	(15)	(54%)
Depreciation, Depletion, Amortization and Accretion	2,784	701	2,083	297%
General and Administrative (Cash)	\$ 1,246	\$ 450	\$ 796	177%
Share-Based Compensation (Non-Cash)	398	166	232	140%
Total General and Administrative Expense	1,644	616	1,028	167%
Interest Expense	\$ -	\$ 3,155	\$ (3,155)	(100%)
Interest Income	\$ 9	\$ -	\$ 9	100%
Gain on Debt Extinguishment	\$ -	\$ 70,309	\$ (70,309)	(100%)
Other Expense	\$ (3)	\$ -	\$ (3)	100%

*Lease Operating Expenses.* The increase of \$1.7 million was primarily due to \$0.6 million in workover expenses and somewhat higher variable lease operating expenses associated with the higher oil volume resulting from the increased number of wells and increased oil production during the current year's period, compared to the prior year's period, due to the Permian Basin Asset acquisition in September 2018, as well as production from our recently completed wells.

*Exploration Expense.* There was minimal change in exploration activity undertaken by the Company in the current year's period compared to the prior year's period.

*Depreciation, Depletion, Amortization and Accretion.* The \$2.1 million increase was primarily the result of higher oil volume resulting from the increased number of wells and increased oil production from our four new producing wells during the current year's period, compared to the prior year's period.

*General and Administrative Expenses (excluding share-based compensation).* The increase of \$0.8 million was primarily due to increases in payroll as well as other cost increases resulting from the hiring of additional personnel and consultants during the current year's period, compared to the prior year's period.

*Share-Based Compensation.* Share-based compensation, which is included in general and administrative expenses in the Statements of Operations, increased by \$0.2 million primarily due to an increase in the awarding of employee stock-based options and compensation. Share-based compensation is utilized for the purpose of conserving cash resources for use in field development activities and operations.

*Interest Expense.* The decrease of \$3.2 million was due primarily to the Company having no debt in the current period, compared to the prior year's period, as a result of the Company's June 2018 debt restructuring noted above.

*Gain on Debt Extinguishment.* The Company recognized a gain of \$70.3 million on the Company's debt restructuring, which occurred in June 2018.

*Interest Income and Other Expense.* There was minimal activity for other income and expense by the Company in the current year's period, compared to the prior year's period.

**Six Months Ended June 30, 2019 vs. Six Months Ended June 30, 2018**

We reported a net loss for the six-month period ended June 30, 2019 of \$5.5 million, or (\$0.14) per share, compared to net income for the six-month period ended June 30, 2018 of \$62.1 million or \$8.48 per share. The decrease in net income of \$67.5 million was primarily due to the recognition of a one-time \$70.3 million gain on debt restructuring in 2018, described in greater detail in our Annual Report on Form 10-K for the year ended December 31, 2018, under the heading "Item 1 and 2 Business and Properties" – "Business Operations" – "Restructuring". Excluding this significant non-recurring transaction, our net loss decreased by \$2.8 million due to a reduction in interest expense incurred of \$5.6 million as a result of our debt restructuring, coupled with \$4.1 million in additional revenue, offset by additional operating expenses of \$7.7 million, from the Company's production increases, as well as the hiring of additional staff and consultants, for the six months ended June 30, 2019, compared to the prior year's period.

**Net Revenues**

The following table sets forth the operating results and production data for the periods indicated:

	Six Months Ended June 30,		Increase (Decrease)	% Increase (Decrease)
	2019	2018		
<b>Sale Volumes:</b>				
Crude Oil (Bbls)	101,650	22,262	79,388	357%
Natural Gas (Mcf)	37,756	36,415	1,341	4%
NGL (Mcf)	8,336	20,299	(11,963)	(59%)
Total (Boe) <sup>(1)</sup>	109,332	31,714	77,618	245%
<b>Production:</b>				
Crude Oil (Bbls per day)	562	123	439	357%
Natural Gas (Mcf per day)	209	201	8	4%
NGL (Mcf per day)	46	112	(66)	(59%)
Total (Boe per day) <sup>(1)</sup>	605	175	233	246%
<b>Average Sale Price:</b>				
Crude Oil (\$/Bbl)	\$ 54.00	\$ 61.93	\$ (7.93)	(13%)
Natural Gas (\$/Mcf)	3.57	2.57	1.00	39%
NGL (\$/Mcf)	1.57	3.40	(1.83)	(54%)
<b>Net Operating Revenues (in thousands):</b>				
Crude Oil	\$ 5,490	\$ 1,379	\$ 4,111	298%
Natural Gas	135	94	41	44%
NGL	13	69	(56)	(81%)
Total Revenues	\$ 5,638	\$ 1,542	\$ 4,096	266%

(1) Assumes 6 Mcf of natural gas and NGL equivalents to 1 barrel of oil.

Total crude oil and natural gas revenues for the six-month period ended June 30, 2019 increased \$4.1 million, or 266%, to \$5.6 million, compared to \$1.5 million for the same period a year ago, due primarily to a favorable volume variance of \$4.3 million, offset by an unfavorable price variance of \$0.2 million. The production increase can be attributed to the Company's completion of four producing wells during the current year's period compared to the prior year's period.

## Net Operating and Other Income (Expenses)

The following table summarizes our production costs and operating expenses for the periods indicated (in thousands):

	Six Months Ended		Increase (Decrease)	% Increase (Decrease)
	June 30,			
	2019	2018		
Lease Operating Expenses	\$ 3,065	\$ 729	\$ 2,336	320%
Exploration Expenses	23	38	(15)	(39%)
Depreciation, Depletion, Amortization and Accretion	5,033	1,283	3,750	292%
General and Administrative (Cash)	\$ 2,275	\$ 1,005	\$ 1,270	126%
Share-Based Compensation (Non-Cash)	697	349	348	100%
Total General and Administrative Expense	<u>2,972</u>	<u>1,354</u>	<u>1,618</u>	<u>119%</u>
Interest Expense	\$ 826	\$ 6,391	\$ (5,565)	(87%)
Interest Income	\$ 9	\$ -	\$ 9	100%
Gain on Debt Extinguishment	\$ -	\$ 70,309	\$ (70,309)	(100%)
Other Expense	\$ (103)	\$ -	\$ 103	100%

*Lease Operating Expenses.* The increase of \$2.3 million was primarily due to \$0.7 million in workover expenses and somewhat higher variable lease operating expenses associated with the higher oil volume resulting from the increased number of wells and increased oil production during the current year's period, compared to the prior year's period, due to the Permian Basin Asset acquisition in September 2018, as well as production from our recently completed wells.

*Exploration Expense.* There was minimal change in exploration activity undertaken by the Company in the current year's period compared to the prior year's period.

*Depreciation, Depletion, Amortization and Accretion.* The \$3.8 million increase was primarily the result of higher oil volume resulting from the increased number of wells and increased oil production from our four new producing wells during the current year's period, compared to the prior year's period.

*General and Administrative Expenses (excluding share-based compensation).* The increase of \$1.3 million was primarily due to increases in payroll as well as other cost increases, resulting from the hiring of additional personnel and consultants during the current year's period, compared to the prior year's period.

*Share-Based Compensation.* Share-based compensation, which is included in general and administrative expenses in the Statements of Operations, increased by \$0.3 million primarily due to an increase in the awarding of employee stock-based options and compensation. Share-based compensation is utilized for the purpose of conserving cash resources for use in field development activities and operations.

*Interest Expense.* The decrease of \$5.6 million was due primarily to the retirement of all of our outstanding debt in the first quarter of 2019, coupled with the Company's June 2018 debt restructuring, noted above, when comparing the current period to the prior period.

*Interest Income and Other Expense.* In the current period, the Company wrote-off a \$0.1 million third party option related to the option to acquire shares of Caspian Energy, described in greater detail under “[Part I - Financial Information](#)” - “[Item 1. Financial Statements](#)” - “[Note 7 – Other Current Assets](#)”, which expired unexercised as of May 12, 2019.

## Liquidity and Capital Resources

The primary sources of cash for the Company during the six-month period ended June 30, 2019 were funds borrowed pursuant to convertible promissory notes (which were subsequently converted into common stock) and the sale of restricted common stock, which funds primarily came from SK Energy, which is owned and controlled by Dr. Kukes, our Chief Executive Officer and a member of the Board of Directors, and sales of crude oil and natural gas. The primary uses of cash were funds used for development costs and operations.

### Working Capital

At June 30, 2019, the Company’s total current assets of \$14.8 million exceeded its total current liabilities of \$5.1 million, resulting in a working capital surplus of \$9.7 million, which included a reclassification of \$3.3 million of restricted cash from current to other assets, as it was determined that the restricted cash, which is used as collateral for surety bonds in our New Mexico operations, would be long-term in nature. See “[Part I – Financial Information](#)” – “[Item 1. Financial Statements](#)” - “[Note 5 – Restricted Cash](#)”). At December 31, 2018, the Company’s total current liabilities of \$8.9 million exceeded its total current assets of \$6.8 million, resulting in a working capital deficit of \$2.1 million. The \$11.8 million increase in our working capital surplus is primarily related to cash borrowed under convertible notes (subsequently converted into common stock) and the sale of common stock during the period, which amounts were in excess of amounts used to fund payables and accrued expenses related to our capital drilling projects.

### Financing

A summary of our financing transactions and other recent funding transactions can be found at “[Part I – Financial Information](#)” – “[Item 1. Financial Statements](#)” - “[Note 8 – Notes Payable](#)” and “[Note 11 – Stockholders’ Equity](#)”).

### Cash Flows (in thousands)

	Six Months Ended June 30,	
	2019	2018
Cash flows provided by (used in) operating activities	\$ 2,085	\$ (276)
Cash flows used in investing activities	(24,197)	-
Cash flows provided by (used in) financing activities	33,000	(95)
<b>Net increase (decrease) in cash and restricted cash</b>	<b>\$ 10,888</b>	<b>\$ (371)</b>

**Cash Flows provided by Operating Activities.** Net cash provided by operating activities increased by \$2.4 million for the current year’s period, when compared to the prior year’s period, primarily due to a decrease in our net loss of \$2.8 million, when not factoring in our \$70.3 million gain on debt restructuring which occurred in the prior period, coupled with net increases to our other components of working capital, which are related to our increased revenue and production levels from our drilling and completion activity in the current period.

**Cash Flows used in Investing Activities.** Net cash used by investing activities of \$24.2 million for the current year’s period primarily consisted of the purchase and sale of certain oil and gas properties and drilling and development activities, compared to no activity in the prior year’s period.

**Cash Flows provided by Financing Activities.** Net cash provided by financing activities for the current year’s period consisted of \$15.0 million in proceeds from the issuance of a convertible promissory note and \$18.0 million in proceeds from the sale of common stock, compared to cash used by financing activities in connection with minimal net activity in the prior year’s period, when the Company retired existing debt coupled with the issuance of new debt.

## Off-Balance Sheet Arrangements

The Company does not participate in financial transactions that generate relationships with unconsolidated entities or financial partnerships. As of June 30, 2019, we did not have any off-balance sheet arrangements.

## Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our Condensed Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. See our Form 10-K for further discussion of our critical accounting policies.

## Recently Adopted and Recently Issued Accounting Pronouncements

Refer to "Part I – Financial Information" – "Item 1. Financial Statements" - "Note 3 – Summary of Significant Accounting Policies" - "Recently Adopted Accounting Pronouncements", for a discussion of new accounting pronouncements that affect us.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Pursuant to Item 305(e) of Regulation S-K (§ 229.305(e)), the Company is not required to provide the information required by this Item as it is a "smaller reporting company," as defined by Rule 229.10(f)(1).

## ITEM 4. CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the SEC's rules and forms and is accumulated and communicated to the Company's management, as appropriate, in order to allow timely decisions in connection with required disclosure.

### Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO")(the Principal Executive Officer) and Chief Accounting Officer ("CAO")(the Principal Financial/Accounting Officer), we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the period covered by this Quarterly Report. Based on this evaluation, our CEO and CAO concluded as of June 30, 2019, that our disclosure controls and procedures were effective.

### Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended June 30, 2019, that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting, including any corrective actions regarding significant deficiencies and material weaknesses.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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

### ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Commission on April 1, 2019, other than as set forth below, and investors are encouraged to review such risk factors in the Annual Report and below, prior to making an investment in the Company.

***New or amended environmental legislation or regulatory initiatives could result in increased costs, additional operating restrictions, or delays, or have other adverse effects on us.***

The environmental laws and regulations to which we are subject change frequently, often to become more burdensome and/or to increase the risk that we will be subject to significant liabilities. New or amended federal, state, or local laws or implementing regulations or orders imposing new environmental obligations on, or otherwise limiting, our operations could make it more difficult and more expensive to complete oil and natural gas wells, increase our costs of compliance and doing business, delay or prevent the development of resources (especially from shale formations that are not commercial without the use of hydraulic fracturing), or alter the demand for and consumption of our products. Any such outcome could have a material and adverse impact on our cash flows and results of operations.

For example, in 2014, 2016 and 2018, opponents of hydraulic fracturing sought statewide ballot initiatives in Colorado that would have restricted oil and gas development in Colorado and could have had materially adverse impacts on us. One of the proposed initiatives would have made the vast majority of the surface area of the state ineligible for drilling, including substantially all of our planned future drilling locations. By further example, in April 2019, Colorado Senate Bill 19-181 (the "Bill") was passed into law, which prioritizes the protection of public safety, health, welfare, and the environment in the regulation of the oil and gas industry by modifying the State's oil and gas statutes and clarifying, reinforcing, and establishing local governments' regulatory authority over the surface impacts of oil and gas development in Colorado. This Bill, among other things, gives more power to local government entities in making land use decisions about oil and gas development and regulation, and directs the Colorado Oil & Gas Conservation Commission ("COGCC") to promulgate rules to ensure, among other things, proper wellbore integrity, allow public disclosure of flowline information, and evaluate when inactive or shut-in wells must be inspected before being put into production or used for injection. In addition, the Bill requires that owners of more than 50% of the mineral interests in lands to be pooled must have joined in the application for a pooling order and that the application must include proof that the applicant received approval for the facilities from the affected local government or that the affected local government does not regulate such facilities. In addition, the Bill provides that an operator cannot use the surface owned by a nonconsenting owner without permission from the nonconsenting owner, and increases nonconsenting owners' royalty rates during a well's pay-back period from 12.5% to 13.0%. The COGCC is currently working to issue objective criteria, after public comment, on how the COGCC will begin implementing this new law, with local governments expected to follow. We anticipate that the Bill may make it harder or more costly for us to undertake oil and gas development activities in Colorado.

Similar to the Bill described above, proposals are made from time to time to adopt new, or amend existing, laws and regulations to address hydraulic fracturing or climate change concerns through further regulation of exploration and development activities. Please read "Part I" – "Item 1 and 2. Business and Properties" — "Regulation of the Oil and Gas Industry" and "Regulation of Environmental and Occupational Safety and Health Matters." of our Annual Report on Form 10-K for the year ended December 31, 2018, which is incorporated by reference herein, for a further description of the laws and regulations that affect us. We cannot predict the nature, outcome, or effect on us of future regulatory initiatives, but such initiatives could materially impact our results of operations, production, reserves, and other aspects of our business.

***Shareholders may be diluted significantly through our efforts to obtain financing and satisfy obligations through the issuance of securities.***

Wherever possible, our board of directors will attempt to use non-cash consideration to satisfy obligations. In many instances, we believe that the non-cash consideration will consist of shares of our common stock, preferred stock or warrants to purchase shares of our common stock. Our board of directors has authority, without action or vote of the shareholders, subject to the requirements of the NYSE American (which generally require shareholder approval for any transactions which would result in the issuance of more than 20% of our then outstanding shares of common stock or voting rights representing over 20% of our then outstanding shares of stock, subject to certain exceptions, including sales in a public offering and/or sales which are undertaken at or above the lower of the closing price immediately preceding the signing of the binding agreement or the average closing price for the five trading days immediately preceding the signing of the binding agreement), to issue all or part of the authorized but unissued shares of common stock, preferred stock or warrants to purchase such shares of common stock. In addition, we may attempt to raise capital by selling shares of our common stock, possibly at a discount to market in the future. These actions will result in dilution of the ownership interests of existing shareholders and may further dilute common stock book value, and that dilution may be material. Such issuances may also serve to enhance existing management's ability to maintain control of us, because the shares may be issued to parties or entities committed to supporting existing management.

## **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The Company did not issue or sell any unregistered equity securities during the quarter ended June 30, 2019, and through the date of the filing of this Report, which were not previously disclosed in a prior Quarterly Report on Form 10-Q, Annual Report on Form 10-K or in a Current Report on Form 8-K.

### ***Use of Proceeds From Sale of Registered Securities***

None.

### ***Issuer Purchases of Equity Securities***

None.

## **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

## **ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

## **ITEM 5. OTHER INFORMATION**

None.

## **ITEM 6. EXHIBITS**

See the Exhibit Index following the signature page to this Quarterly Report on Form 10-Q for a list of exhibits filed or furnished with this report, which Exhibit Index is incorporated herein by reference.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**PEDEVCO Corp.**

August 12, 2019

By: */s/ Dr. Simon Kukes*

\_\_\_\_\_  
Dr. Simon Kukes  
Chief Executive Officer  
(Principal Executive Officer)

**PEDEVCO Corp.**

August 12, 2019

By: */s/ Paul A. Pinkston*

\_\_\_\_\_  
Paul A. Pinkston  
Chief Accounting Officer  
(Principal Financial and Accounting Officer)

**EXHIBIT INDEX**

Exhibit No.	Description	Incorporated By Reference			
		Form	Exhibit	Filing Date/Period End Date	File Number
<a href="#">2.1#</a>	Purchase and Sale Agreement dated January 11, 2019, by and between Manzano, LLC and Manzano Energy Partners, II, LLC, as seller and Pacific Energy Development Corp., as purchaser	8-K	2.1	January 14, 2019	001-35922
<a href="#">10.1***</a>	Separation and General Release Agreement, dated December 31, 2018, between Pacific Energy Development Corp. and Gregory Overholtzer	8-K	10.1	January 4, 2019	001-35922
<a href="#">10.2***</a>	Consulting Agreement, dated January 1, 2019, between Gregory Overholtzer and Pacific Energy Development Corp.	8-K	10.2	January 4, 2019	001-35922
<a href="#">10.3</a>	\$15,000,000 Convertible Promissory Note between PEDEVCO Corp., as borrower and SK Energy LLC as lender, dated January 11, 2019	8-K	10.1	January 14, 2019	001-35922
<a href="#">10.4</a>	First Amendment to Convertible Promissory Notes, dated February 15, 2019, entered into by and between PEDEVCO Corp. and SK Energy LLC	8-K	10.4	February 19, 2019	001-35922
<a href="#">10.5</a>	First Amendment to Promissory Note, dated March 1, 2019, entered into by and between PEDEVCO Corp. and SK Energy LLC	8-K	10.1	March 4, 2019	001-35922
10.6	\$14,999,998.20 Common Stock Subscription Agreement between PEDEVCO Corp. and SK Energy LLC, dated May 21, 2019	8-K/A	10.1	August 12, 2019	001-35922
<a href="#">31.1*</a>	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
<a href="#">31.2*</a>	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
<a href="#">32.1**</a>	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
<a href="#">32.2**</a>	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
101.INS*	XBRL Instance Document				
101.SCH*	XBRL Taxonomy Extension Schema Document				
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document				
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document				

\* Filed herewith.

\*\* Furnished herewith.

\*\*\* Management contract or compensatory plan, contract or arrangement.

# Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request; provided, however that PEDEVCO Corp. may request confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, for any schedule or exhibit so furnished.

## CERTIFICATION

I, Dr. Simon Kukes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PEDEVCO Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2019

/s/ Dr. Simon Kukes

Dr. Simon Kukes  
Chief Executive Officer and Director  
(Principal Executive Officer)

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## CERTIFICATION

I, Paul A. Pinkston, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PEDEVCO Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2019

/s/ Paul A. Pinkston

Paul A. Pinkston

Chief Accounting Officer

(Principal Financial and Accounting Officer)

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

In connection with the Quarterly Report of PEDEVCO Corp. on Form 10-Q for the period ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dr. Simon Kukes, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Dr. Simon Kukes

Dr. Simon Kukes  
Chief Executive Officer and Director  
(Principal Executive Officer)

Date: August 12, 2019

*The foregoing certification is not deemed filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended ("Exchange Act"), and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.*

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

In connection with the Quarterly Report of PEDEVCO Corp. on Form 10-Q for the period ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Paul A. Pinkston, Chief Accounting Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Paul A. Pinkston

Paul A. Pinkston  
Chief Accounting Officer  
(Principal Financial and Accounting Officer)

Date: August 12, 2019

*The foregoing certification is not deemed filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended ("Exchange Act"), and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.*

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