

PEDEVCO CORP
Form 10-Q
November 13, 2015

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: September 30, 2015

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.)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Edgar Filing: PEDEVCO CORP - Form 10-Q

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>

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

At November 13, 2015, there were 45,236,497 shares of the Registrant's common stock outstanding.

PEDEVCO CORP.
For the Three and Nine Months Ended September 30, 2015
INDEX

PART I – FINANCIAL INFORMATION	Page	
Item 1.	Financial Statements	F-1
	<u>Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014 (unaudited)</u>	F-1
	<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2015 and 2014 (unaudited)</u>	F-2
	<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2015 and 2014 (unaudited)</u>	F-3
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	F-5
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	1
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	14
Item 4.	<u>Controls and Procedures</u>	14
PART II – OTHER INFORMATION		
Item 1.	<u>Legal Proceedings</u>	15
Item 1A.	<u>Risk Factors</u>	15
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	16
Item 3.	<u>Defaults Upon Senior Securities</u>	17
Item 4.	<u>Mine Safety Disclosures</u>	17
Item 5.	<u>Other Information</u>	17
Item 6.	<u>Exhibits</u>	17
	<u>Signatures</u>	18

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

PEDEVCO CORP.
CONSOLIDATED BALANCE SHEETS
(unaudited)
(amounts in thousands, except share data)

	September 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash	\$ 1,373	\$ 6,675
Accounts receivable	169	-
Accounts receivable - oil and gas	585	581
Accounts receivable - oil and gas - related party	-	21
Accounts receivable - related party	3	58
Deferred financing costs	2,813	2,208
Prepaid expenses and other current assets	207	81
Total Current Assets	5,150	9,624
Oil and gas properties:		
Oil and gas properties, subject to amortization, net	62,377	19,850
Oil and gas properties, not subject to amortization, net	-	2,205
Total oil and gas properties, net	62,377	22,055
Deferred financing costs	1,598	3,609
Note receivable	-	5,000
Notes receivable – related party	-	1,363
Other assets	85	85
Investments - cost method	4	4
Total Assets	\$ 69,214	\$ 41,740
Liabilities and Shareholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	\$ 3,277	\$ 6,766
Accounts payable - related party	-	1,884
Accrued expenses	3,810	1,551
Accrued expenses - related party	-	1,353
Revenue payable	582	747
Advances from joint interest owners	-	657
Convertible notes payable - Bridge Notes, net of premiums of \$113,000 and \$132,000, respectively	588	687
Notes payable - Secured Promissory Notes, net of discounts of \$5,931,000 and \$4,652,000, respectively	544	526
Notes payable - related parties	-	6,170
Total current liabilities	8,801	20,341
Long-term liabilities:		

Edgar Filing: PEDEVCO CORP - Form 10-Q

Notes payable - Secured Promissory Notes, net of discounts of \$3,254,000 and \$7,674,000, respectively	25,952	22,733
Notes payable - Subordinated	8,523	-
Notes payable - other	4,925	-
Asset retirement obligations	192	89
Total liabilities	48,393	43,163
Commitments and contingencies		
Shareholders' equity (deficit):		
Series A convertible preferred stock, \$0.001 par value, 100,000,000 shares authorized, 66,625 and -0- shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	-	-
Common stock, \$0.001 par value, 200,000,000 shares authorized; 44,593,639 and 33,117,516 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	45	33
Additional paid-in-capital	96,711	59,395
Accumulated deficit	(75,877)	(60,796)
Noncontrolling interests	(58)	(55)
Total shareholders' equity (deficit)	20,821	(1,423)
Total liabilities and shareholders' equity (deficit)	\$ 69,214	\$ 41,740

See accompanying notes to unaudited consolidated financial statements.

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2015	2014	September 30, 2015	2014
Revenue:				
Oil and gas sales	\$1,318	\$1,090	\$4,593	\$4,192
Operating expenses:				
Lease operating costs	495	105	1,434	1,367
Exploration expense	165	88	693	1,213
Selling, general and administrative expense	1,389	2,198	5,672	6,207
Impairment of oil and gas properties	-	322	1,337	354
Depreciation, depletion, amortization and accretion	1,072	273	3,379	753
Loss on settlement of payables	-	-	-	39
Total operating expenses	3,121	2,986	12,515	9,933
Gain (loss) on sale of oil and gas properties	-	(5)	275	(5,413)
Gain (loss) on sale of equity investment	-	-	566	(1,028)
Loss on sale of deposit for business acquisition	-	-	-	(1,945)
Loss from equity method investments	-	(46)	(91)	(463)
Operating loss	(1,803)	(1,947)	(7,172)	(14,590)
Other income (expense):				
Interest expense	(3,656)	(3,033)	(10,145)	(7,131)
Interest income	-	75	40	207
Gain (loss) on debt extinguishment	-	(60)	2,192	(823)
Total other expense	(3,656)	(3,018)	(7,913)	(7,747)
Net loss	(5,459)	(4,965)	(15,085)	(22,337)
Less: Net loss attributable to noncontrolling interests	(4)	(161)	(4)	(168)
Net loss attributable to PEDEVCO common stockholders	\$(5,455)	\$(4,804)	\$(15,081)	\$(22,169)
Net loss per common share:				
Basic and diluted	\$(0.12)	\$(0.17)	\$(0.37)	\$(0.81)
Weighted average number of common shares outstanding:				
Basic and diluted	44,390,161	29,081,197	40,302,489	27,334,655

See accompanying notes to unaudited consolidated financial statements.

PEDEVCO CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(amounts in thousands)

	For the Nine Months Ended September 30,	
	2015	2014
Cash Flows From Operating Activities:		
Net loss	\$(15,081)	\$ (22,169)
Net loss attributable to noncontrolling interests	(4)	(168)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	3,150	2,856
Impairment of oil and gas properties	1,337	354
Depreciation, depletion, amortization and accretion	3,379	753
(Gain) loss on sale of oil and gas properties	(275)	5,413
(Gain) loss on sale of equity investment	(566)	1,028
Loss on sale of 50% of the deposit for business acquisition	-	1,945
Loss on settlement of payables	-	39
(Gain) loss on debt extinguishment	(2,192)	823
Loss from equity method investments	91	463
Deferred interest expense and principal related to debt restructuring	1,152	-
Amortization of debt discount	3,158	2,543
Amortization of deferred financing costs	1,565	1,041
Changes in operating assets and liabilities:		
Accounts receivable	(169)	-
Accounts receivable - oil and gas	1,674	(1,005)
Accounts receivable - oil and gas - related party	21	23
Accounts receivable - related party	55	(52)
Inventory	-	396
Prepaid expenses and other current assets	(125)	(85)
Accounts payable	(4,184)	3,635
Accounts payable - related party	-	(486)
Accrued expenses	(48)	844
Accrued expenses - related party	408	245
Revenue payable	(165)	416
Advances from joint interest owners	(657)	2,217
Net cash provided by (used in) operating activities	(7,476)	1,069
Cash Flows From Investing Activities:		
Cash paid for oil and gas properties	-	(28,521)
Cash paid for drilling costs	(143)	(3,639)
Proceeds from sale of equity investment	500	1,616
Proceeds from sale of oil and gas properties	-	8,797
Proceeds from sale of deposit	-	3,055
Proceeds from disposition of White Hawk	-	2,718
Cash paid for asset retirement bond	-	(85)
Issuance of notes receivable - related parties	-	(1,834)
Cash paid for unproved leasehold costs	-	(274)
Net cash provided by (used in) investing activities	357	(18,167)

Cash Flows From Financing Activities:		
Repayment of notes payable	(863)	-
Proceeds from issuance of common stock, net of offering costs	2,780	6,525
Proceeds from notes payable, net of discounts and financing costs	-	21,226
Repayment of notes payable - related party	(100)	-
Proceeds from notes payable	-	-
Cash paid for deferred financing costs	-	(5,658)
Repayment of Secured Notes Payable	-	(2,321)
Repayment of paid-in-kind obligations	-	(400)
Proceeds from exercise of warrants and options	-	4
Net cash provided by financing activities	1,817	19,376
Net (decrease) increase in cash	(5,302)	2,278
Cash at beginning of period	6,675	6,613
Cash at end of period	\$1,373	\$ 8,891

Supplemental Disclosure of Cash Flow Information

Cash paid for:

Interest	\$4,764	\$ 2,843
Income taxes	\$-	\$ -

Noncash Investing and Financing Activities:

Issuance of common stock in settlement of liabilities	\$-	\$ 580
Issuance of common stock to Bridge Note holders due to conversion	\$102	\$ 2,098
Rescission of common stock issued in private placement	\$-	\$ 10,000
Deferred financing costs related to warrants issued in conjunction with notes payable	\$-	\$ 1,520
Reclass of notes payable - Bridge Notes to convertible notes	\$-	\$ 2,375
Consolidation of non-controlling interest in PEDCO MSL	\$-	\$ 2,644
Reclass of deposit for business acquisitions to notes receivable	\$-	\$ 5,000
Beneficial conversion feature of convertible notes payable - Bridge Notes	\$-	\$ 285
Reclass of notes payable - related parties to notes payable - Bridge Notes	\$-	\$ 525
Debt discount related to the warrants issued to Bridge Notes	\$-	\$ 427
Accrual of development costs for oil and gas properties	\$1,943	\$ -
Changes in estimates of asset retirement obligations	\$13	\$ 21
Accounts receivable acquired in purchase of oil and gas property	\$1,678	\$ -
Accounts payable acquired in purchase of oil and gas property	\$751	\$ -
Note receivable sold for purchase of oil and gas properties	\$5,000	\$ -
Notes payable - Subordinated assumed as part of purchase of oil and gas properties	\$8,353	\$ -
Issuance of Redeemable Series A Convertible Preferred Stock for purchase of oil and gas properties	\$28,402	\$ -
Issuance of common stock for purchase of oil and gas properties	\$2,734	\$ -
Issuance of warrants for deferred financing costs	\$160	\$ -

See accompanying notes to unaudited consolidated financial statements.

PEDEVCO CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 – BASIS OF PRESENTATION

The accompanying consolidated financial statements of PEDEVCO CORP. (“PEDEVCO” or the “Company”), have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) and the rules of the Securities and Exchange Commission (“SEC”) and should be read in conjunction with the audited financial statements and notes thereto contained in PEDEVCO’s latest Annual Report filed with the SEC on Form 10-K. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements that would substantially duplicate disclosures contained in the audited financial statements for the most recent fiscal year, as reported in the Form 10-K filed with the SEC on March 31, 2015, 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.

NOTE 2 – DESCRIPTION OF BUSINESS

PEDEVCO’s primary business plan is engaging in the acquisition, exploration, development and production of oil and natural gas shale plays in the United States, with a secondary focus on conventional oil and natural gas plays.

The Company’s principal operating properties are located in the Wattenberg, Wattenberg Extension, and Niobrara formation in the Denver-Julesburg Basin (the “D-J Basin”) in Weld Counties, Colorado, all of which properties are owned by the Company through its wholly-owned subsidiary, Red Hawk Petroleum, LLC (“Red Hawk”).

The Company previously owned a 20% interest in Condor Energy Technology, LLC (“Condor”). Condor’s operations consisted primarily of working interests in oil and gas leases in the Niobrara shale formation located in the D-J Basin in Morgan and Weld Counties, Colorado. The remaining interest in Condor is owned by an affiliate of MIE Holdings Corporation (“MIE Holdings”, Hong Kong Stock Exchange code: 1555.HK). MIE Holdings is one of the largest independent upstream onshore oil companies in China. In addition, the Company made a direct investment into the drilling and completion of the first three wells that Condor drilled and completed. In February 2015, the Company divested its interest in Condor and the wells in which it had a direct working interest. See Note 8.

The Company plans to focus on the development of shale oil and gas assets held by the Company in the U.S., including its oil and gas working interests in the Wattenberg and Wattenberg Extension in the D-J Basin (the “D-J Basin Asset”), which the Company acquired in March 2014 from Continental Resources, Inc. (“Continental” and the “Continental Acquisition”). Additionally, with the recent acquisition of additional oil and gas working interests in February 2015 from Golden Globe Energy (US), LLC (“GGE”) (the “D-J Basin Acquisition”), the Company has significantly increased the working interests owned by the Company in the D-J Basin Asset. See Note 5.

In addition, in May 2015 the Company entered into an Agreement and Plan of Reorganization (as amended to date, the “Reorganization Agreement”) with PEDEVCO Acquisition Subsidiary, Inc., a newly formed wholly-owned subsidiary of the Company (“Exchange Sub”), Dome Energy AB (“Dome AB”), and Dome Energy, Inc. a wholly-owned subsidiary of Dome AB (“Dome US”, and collectively with Dome AB, “Dome Energy”), which contemplates the

Company's acquisition of all of Dome Energy's U.S. oil and gas assets in exchange for the issuance by the Company of approximately 153 million shares of the Company's common stock to Dome AB (subject to adjustment before closing such that the number of shares issued equals 64% of the Company's issued and outstanding common stock (including shares issuable upon conversion of the Company's outstanding Series A Convertible Preferred Stock, subject to certain exclusions)), which will constitute a change of control of the Company (the "Exchange"). Dome US produces from a core operated portfolio of conventional oil and gas assets located in Texas and Wyoming, and from additional producing assets located in Arkansas, Kentucky, Louisiana, Mississippi, and Oklahoma. The Company and Dome Energy continue to move forward with the transactions contemplated by the Reorganization Agreement, including the preparation of a registration statement containing a proxy statement/prospectus with the Securities and Exchange Commission (the "SEC"). Because the closing of the transactions contemplated by the Reorganization Agreement is subject to various closing conditions, no assurance can be made that the transactions contemplated by the Reorganization Agreement will be completed.

F-4

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation. The consolidated financial statements herein have been prepared in accordance with GAAP and include the accounts of the Company and those of its wholly and partially-owned subsidiaries as follows: (i) Blast AFJ, Inc., a Delaware corporation; (ii) Pacific Energy Development Corp., a Nevada corporation; (iii) Pacific Energy Technology Services, LLC, a Nevada limited liability company (owned 70% by us); (iv) Pacific Energy & Rare Earth Limited, a Hong Kong company; (v) Blackhawk Energy Limited, a British Virgin Islands company; (vi) White Hawk Petroleum, LLC, a Nevada limited liability company; (vii) Red Hawk Petroleum, LLC, a Nevada limited liability company, which was formed on January 16, 2014; (viii) Pacific Energy Development MSL, LLC (“MSL”) (owned 50% by us) and is included in our consolidated results; and (ix) PEDEVCO Acquisition Subsidiary, Inc., a Texas corporation which was formed on May 21, 2015 in connection with the planned reorganization transaction with Dome Energy. All significant intercompany accounts and transactions have been eliminated.

Equity Method Accounting for Joint Ventures. A portion of the Company’s oil and gas interests were held all or in part by the following joint venture which was collectively owned with affiliates of MIE Holdings:

- Condor Energy Technology LLC, a Nevada limited liability company, owned 20% by the Company and 80% by an affiliate of MIE Holdings through February 2015. The Company accounted for its 20% ownership in Condor using the equity method.

The Company evaluated its relationship with Condor to determine if it qualified as a variable interest entity (“VIE”), as defined in ASC 810-10, and whether the Company is the primary beneficiary, in which case consolidation would be required. The Company determined that Condor qualified as a VIE, but since the Company was not the primary beneficiary of Condor, the Company concluded that consolidation was not required during 2014 for Condor. In February 2015, the Company divested its interest in Condor. See Note 8.

Non-Controlling Interests. The Company is required to report its non-controlling interests as a separate component of shareholders' equity. The Company is also required to present the consolidated net income and the portion of the consolidated net income allocable to the non-controlling interests and to the shareholders of the Company separately in its consolidated statements of operations. Losses applicable to the non-controlling interests are allocated to the non-controlling interests even when those losses are in excess of the non-controlling interests' investment basis.

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

Cash and Cash Equivalents. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. As of September 30, 2015, and December 31, 2014, cash equivalents consisted of money market funds and cash on deposit.

Concentrations of Credit Risk. Financial instruments which potentially subject the Company to concentrations of credit risk include cash deposits placed with financial institutions. The Company maintains its cash in bank accounts which, at times, may exceed federally insured limits as guaranteed by the Federal Deposit Insurance Corporation (FDIC). At September 30, 2015, approximately \$1,057,000 of the Company's cash balances were uninsured. The Company has not experienced any losses on such accounts.

Sales to two customers comprised 59% and 11% of the Company's total oil and gas revenues for the nine months ended September 30, 2015. Sales to one customer comprised 42% of the Company's total oil and gas revenues for the nine months ended September 30, 2014. The Company believes that, in the event that its primary customers are unable or unwilling to continue to purchase the Company's production, there are a substantial number of alternative buyers for its production at comparable prices.

Accounts Receivable. Accounts receivable typically consist of oil and gas receivables. The Company has classified these as short-term assets in the balance sheet because the Company expects repayment or recovery within the next 12 months. The Company evaluates these accounts receivable for collectability considering the results of operations of these related entities and when necessary records allowances for expected unrecoverable amounts. To date, no allowances have been recorded. Included in accounts receivable - oil and gas is \$40,000 related to receivables from joint interest owners.

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

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

Exploratory wells in areas not requiring major capital expenditures are evaluated for economic viability within one year of completion of drilling. The related well costs are expensed as dry holes if it is determined that such economic viability is not attained. Otherwise, the related well costs are reclassified to oil and gas properties and subject to impairment review. For exploratory wells that are found to have economically viable reserves in areas where major capital expenditure will be required before production can commence, the related well costs remain capitalized only if additional drilling is under way or firmly planned. Otherwise the related well costs are expensed as dry holes.

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

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

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

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

Deferred Financing Costs. We have incurred debt origination costs in connection with the issuance of long-term debt. These costs are capitalized as deferred financing costs and amortized using the effective interest method over the term of the related debt.

Revenue Recognition. All revenue is recognized when persuasive evidence of an arrangement exists, the service or sale is complete, the price is fixed or determinable and collectability is reasonably assured. Revenue is derived from the sale of crude oil and natural gas. Revenue from crude oil and natural gas sales is recognized when the product is delivered to the purchaser and collectability is reasonably assured. The Company follows the “sales method” of accounting for oil and natural gas revenue, so it recognizes revenue on all natural gas or crude oil sold to purchasers, regardless of whether the sales are proportionate to its ownership in the property. A receivable or liability is recognized only to the extent that the Company has an imbalance on a specific property greater than its share of the expected remaining proved reserves. If collection is uncertain, revenue is recognized when cash is collected.

Income Taxes. The Company utilizes the asset and liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for operating loss and tax credit carry-forwards and for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is

recognized in the results of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that the value of such assets will be realized.

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

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

Loss per Common Share. Basic loss per common share equals net loss divided by weighted average common shares outstanding during the period. Diluted loss per share includes the impact on dilution from all contingently issuable shares, including options, warrants and convertible securities. The common stock equivalents from contingent shares are determined by the treasury stock method. The Company incurred net losses for the three and nine months ended September 30, 2015 and 2014, and therefore, basic and diluted loss per share for those periods are the same as all potential common equivalent shares would be anti-dilutive. The Company excluded 2,162,540 and 1,311,024 potentially issuable shares of common stock related to options, 7,753,282 and 2,986,704 potentially issuable shares of common stock related to warrants and 1,248,638 and 545,044 potentially issuable shares of common stock related to the conversion of Bridge Notes (defined and described under Note 9) due to their anti-dilutive effect for the nine months ended September 30, 2015 and 2014, respectively. The Company also excluded all amounts related to the Series A preferred stock dividends due to their anti-dilutive effect for the respective periods of 2015.

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

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

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

Level 1 – Quoted prices in active markets for identical assets or liabilities.

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

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

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

Recently Issued Accounting Pronouncements. In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 amends previous guidance to require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The standard is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The Company expects that the affected amounts on its balance sheets will be reclassified within the balance sheets upon adoption of this ASU to conform to this standard. The Company expects to adopt this ASU during the fourth quarter of 2015 and does not expect that the adoption of this ASU will have a material impact on its financial statements.

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

NOTE 4 – GOING CONCERN

The Company's financial statements are prepared on a going concern basis which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has suffered recurring losses from operations, due in part to the current crude oil price environment. The Company had a working capital deficit and accumulated deficit at September 30, 2015. These factors raise substantial doubt about the Company's ability to continue as a going concern. The current crude oil prices have negatively affected the capital markets due to the uncertainty of oil and gas industry investors resulting in fewer and more costly financing opportunities.

Management believes that following the completion of the Exchange contemplated by the Reorganization Agreement with Dome Energy and a contemplated additional financing, the Company will be able to meet its future obligations and attain profitable operations. However, because the closing of the transactions contemplated by the Reorganization Agreement is subject to various closing conditions, no assurance can be made that the transactions contemplated by the Reorganization Agreement will be completed. In the event the Exchange is not completed, the Company will seek financing from other sources. Such financings may not be available or, if available, may not be on terms acceptable to the Company. Accordingly, the financial statements do not include any adjustments related to the recoverability of assets or classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon its ability to raise capital to meet its obligations and attain profitable operations.

NOTE 5 – OIL AND GAS PROPERTIES

The following table summarizes the Company's oil and gas activities by classification for the nine months ended September 30, 2015 (in thousands):

	December 31, 2014	Additions	Disposals	Transfers	September 30, 2015
Oil and gas properties, subject to amortization	\$24,057	\$45,551	\$(3,401)	\$289	\$66,496
Oil and gas properties, not subject to amortization	8,159	-	(7,870)	(289)	-
Asset retirement costs	76	73	(1)	-	148
Accumulated depreciation, depletion and impairment	(10,237)	(4,682)	10,652	-	(4,267)
Total oil and gas assets	\$22,055	\$40,942	\$(620)	\$-	\$62,377

The depletion recorded for production on proved properties for the three and nine months ended September 30, 2015, amounted to \$1,064,000 and \$3,345,000. The depletion recorded for production on proved properties for the three and nine months ended September 30, 2014, amounted to \$264,000 and \$740,000, respectively. The Company recorded impairment expense for all unproved leasehold costs for the three and nine months ended September 30, 2015, in the amount of \$- and \$1,337,000, respectively, as a result of a revision of management's plans to our re-leasing program due to the decrease in commodity pricing. During the three and nine months ended September 30, 2014, the Company recorded impairment expense related to expired lease acreage of \$322,000 and \$354,000, respectively.

During the nine months ended September 30, 2015, additions to oil and gas properties subject to amortization consisted of completion costs of \$2,086,000 primarily related to seven non-operated wells in the D-J Basin.

Acquisition of Properties from Golden Globe Energy (US) LLC ("GGE").

On February 23, 2015 (the “Closing”), the Company’s wholly-owned subsidiary, Red Hawk Petroleum, LLC (“Red Hawk”), completed the acquisition of approximately 12,977 net acres of oil and gas properties and interests in 53 gross wells located in the Denver-Julesburg Basin, Colorado (the “Acquired Assets”) from GGE.

As consideration for the acquisition of the Acquired Assets, the Company (i) issued to GGE 3,375,000 restricted shares of the Company’s common stock and 66,625 restricted shares of the Company’s newly-designated Amended and Restated Series A Convertible Preferred Stock (the “Series A Preferred”) (see Note 12), (ii) assumed approximately \$8.35 million of subordinated notes payable from GGE pursuant to an Assumption and Consent Agreement and an Amendment to Note and Security Agreement (see Note 9), and (iii) provided GGE with a one-year option to acquire the Company’s interest in its Kazakhstan opportunity for \$100,000 payable upon exercise of the option pursuant to a Call Option Agreement. The effective date of the transaction was January 1, 2015, with the exception of all revenues and refunds attributable to GGE’s approximate 49.7% interest in each of the Loomis 2-1H, Loomis 2-3H and Loomis 2-6H wells, which revenues and refunds the Company owns from the date of first production, which totaled approximately \$700,000.

The following tables summarize the purchase price and allocation of the purchase price to the net assets acquired (in thousands):

Purchase price on February 23, 2015	
Fair value of common stock issued	\$ 2,734
Fair value of Series A Preferred stock issued	28,402
Assumption of subordinated notes payable	8,353
Kazakhstan option issued	5,000
Total purchase price	\$ 44,489
Fair value of net assets at February 23, 2015	
Accounts receivable – oil and gas	\$ 1,578
Oil and gas properties, subject to amortization	43,562
Prepaid expenses and other assets	100
Total assets	45,240
Accounts payable	(664)
Asset retirement obligations	(87)
Total liabilities	(751)
Net assets acquired	\$ 44,489

Disposition of Oil and Gas Properties

In February 2015, the Company sold to MIE Jurassic Energy Corporation (“MIEJ”), an affiliate of MIE Holdings, all of the direct interests in approximately 945 net acres and interests in three wells owned by the Company with a recorded value of \$1,186,000 resulting in a gain on sale of oil and gas properties of \$275,000. See Note 8.

In March 2014, the Company acquired oil and gas properties from Continental Resources Inc. (“Continental”). The Company entered into a note purchase agreement with RJ Credit LLC (“RJ Credit”) to finance the acquisition. As a part of this agreement, the Company conveyed 50% of its note receivable with Asia Sixth (defined and described under Note 6), 50% of its interest in the oil and gas properties acquired, and a 50% interest in Pacific Energy Development MSL, LLC. The following table presents the loss on sale to RJ Credit associated with each of these items (in thousands):

	Allocated Proceeds	Historical Cost	Loss on Sale
Note receivable	\$ 3,055	\$ 5,000	\$ (1,945)
Oil and gas properties	\$ 8,747	\$ 14,267	\$ (5,520)
Mississippian Asset	\$ 1,615	\$ 2,643	\$ (1,028)

The following table presents the Company’s supplemental consolidated pro forma total revenues, lease operating costs, net income (loss) and net loss per common share as if the D-J Basin Acquisition completed in February 2015 had occurred on January 1, 2015 and the acquisition of D-J Basin Assets completed in March 2014 from Continental and simultaneous dispositions had occurred on January 1, 2014 (in thousands, except per share amounts).

For the Nine Months Ended
September 30, 2015

PEDEVCO

Combined

Edgar Filing: PEDEVCO CORP - Form 10-Q

			Net	
			Acquisitions/Dispositions	
Revenue	\$ 4,593	\$ 780	\$ 5,373	
Lease operating costs	\$ (1,434)	\$ (275)	\$ (1,709)	
Net income (loss)	\$ (15,081)	\$ 505	\$ (14,576)	
Net income (loss) per common share	\$ (0.37)	\$ 0.01	\$ (0.36)	

F-9

For the Nine Months Ended
September 30, 2014

	Net		
	PEDEVCO	Acquisitions/Dispositions	Combined
Revenue	\$ 4,192	\$ 1,401	\$ 5,593
Lease operating costs	\$ (1,367)	\$ (1,288)	\$ (2,655)
Net income (loss)	\$ (22,169)	\$ 113	\$ (22,056)
Net loss per common share	\$ (0.81)	\$ 0.00	\$ (0.81)

NOTE 6 – DEPOSIT FOR BUSINESS ACQUISITION

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. Aral holds a 100% operated working interest in a production license issued by the Republic of Kazakhstan that expires in 2034 in western Kazakhstan (the “Contract Area”). As previously contemplated under the SSA, the Company would acquire shares of Asia Sixth representing 51% of the issued and outstanding capital stock of Asia Sixth (the “Asia Sixth Shares”), in exchange for the payment by the Company of \$10 million to Asia Sixth (the “Deposit”).

We also entered into an agreement with GGE to convey 50% of our interests in Asia Sixth in connection with the March 2014 GGE financing. In the event of any refund of the initial deposit by Asia Sixth, the Company must provide 50% of such refund to GGE or its designee.

In connection with the March 2014 financing, the Company allocated \$3,055,000 of the proceeds from the debt financing to the 50% interest in Asia Sixth conveyed to GGE and recorded a loss on sale of \$1,945,000.

On August 1, 2014, the Company entered into a series of agreements pursuant to which the Company restructured its planned acquisition of indirect interests in Aral in order to simplify and consolidate the capital structure and management of Aral and its disparate stakeholders, improve the debt position of Aral, provide Aral with additional financing to fund its operations going forward, and eliminate any and all funding obligations the Company may have had under the previously contemplated ownership structure (collectively, the “Aral Restructuring”). In connection with the Aral Restructuring, the Company entered into a new purchase agreement (the “Caspian SPA”) to acquire a 5.0% interest in Caspian Energy Inc. (“Caspian Energy”), an Ontario, Canada company listed on the NEX board of the TSX Venture Exchange, and pursuant to which, following the May 20, 2015 closing, Caspian Energy now holds 100% of the ownership in Aral. The closing of the transactions contemplated under the Caspian SPA was subject to the satisfaction of certain customary closing conditions including the approval of the Agency of the Republic of Kazakhstan for the Protection of Competition and the Ministry of Oil and Gas of the Republic of Kazakhstan (“MOG”), the MOG’s waiver of its pre-emptive purchase right with respect to the transaction, and receipt of Caspian Energy shareholder approval of the transaction.

Also in connection with the Aral Restructuring, on August 1, 2014 the Company entered into a Termination Agreement of the Shares Subscription Agreement (SSA) dated September 11, 2013, between The Sixth Energy Limited (“Sixth Energy”), Asia Sixth and Pacific Energy Development Corp.’s (the Company’s wholly-owned subsidiary, “PEDCO”) (the “Termination Agreement”). The Termination Agreement provided for the termination of the previous SSA as a precondition to the Aral Restructuring. Under the Termination Agreement, the Company received a promissory note in the principal amount of \$5.0 million from Asia Sixth (the “A6 Promissory Note”), secured by a first priority security interest in all of the assets of Asia Sixth. The A6 Promissory Note represented the Company’s interest in the deposit originally paid to Asia Sixth by the Company under the SSA following the assignment of 50% of the

Company's rights to acquire the capital stock of Asia Sixth to Golden Globe. The A6 Promissory Note was due and payable upon the termination of the Caspian Purchase Agreement with interest accruing at the rate of 10% per annum, compounded daily, in the event the A6 Promissory Note was not paid in full on or before such termination date.

In addition, the Company entered into the Caspian SPA between Caspian Energy, Caspian Energy Limited, Asia Sixth, Groenzee B.V., PEDCO, Giant Dragon Enterprises Limited, ACAP Limited, and RJ Credit LLC ("RJC"). Pursuant to the Caspian SPA, upon the closing of the transactions contemplated thereunder, (i) the Company would receive a 5.0% interest in Caspian Energy in exchange for the assignment of the A6 Promissory Note to Caspian Energy, (ii) all of Asia Sixth's direct and indirect ownership in Aral would be exchanged for equity interests in Caspian Energy, with Aral becoming a wholly-owned subsidiary of Caspian Energy, (iii) approximately \$25.4 million in debt owed by Asia Sixth as a result of the termination of the SSA and certain other agreements (including the debt now owed to the Company) would be converted into Caspian Energy capital stock, (iv) substantially all of Aral's existing debt would be consolidated and held directly or indirectly by Caspian Energy as Aral's new parent company, and (v) Sixth Energy and certain other shareholders of Caspian Energy shall provide a loan facility of up to an additional \$21.5 million to Aral to fund its operations and development efforts.

The Aral Restructuring was consummated effective May 20, 2015, upon which date the A6 Promissory Note was converted into 23,182,880 shares of common stock of Caspian Energy. In addition, on the date of conversion of the A6 Promissory Note, Mr. Frank Ingriselli, our Chairman and Chief Executive Officer, was appointed as a non-executive director of Caspian Energy.

In connection with our D-J Basin Acquisition, on February 23, 2015, we provided GGE a one-year option to acquire our interest in the Caspian SPA for \$100,000 payable upon exercise of the option 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 September 30, 2015 was \$-0-. To date the option provided to GGE has not been exercised.

NOTE 7 – NOTES RECEIVABLE

The Company loaned Condor funds for operations pursuant to a promissory note entered into on February 14, 2013, which permitted multiple loans to be made up to \$8,000,000 as separate “advances”. As of December 31, 2014, the balance of the notes receivable prior to applying the excess loss from Condor was \$6,979,000 plus accrued interest of \$121,000 due from Condor.

In accordance with ASC 323-10-35, the losses from Condor that exceeded the equity investment of the Company were used to reduce the notes receivable balance. If the losses were to exceed the notes receivable balance, no additional losses would be recorded for the equity investment. The net receivable balance as of December 31, 2014, after applying the excess loss was \$1,363,000. After applying the losses to the equity investment and the note receivable, the Company has unrecorded excess losses of zero. The following table reflects the activity related to the note receivable-related party (in thousands):

	September 30, 2015	December 31, 2014
Note receivable-related party prior to applying excess losses	\$ 6,979	\$ 6,979
Equity change in net loss at 20% applied to note receivable-related party as of December 31, 2013	(5,193)	(5,193)
Equity change in net loss at 20% for year ended December 31, 2014	(271)	(271)
Equity change in net loss at 20% for period from January 1 through February 23, 2015	(91)	-
Previously unrecognized losses for year ended December 31, 2013	(273)	(273)
Interest accrued	160	121
Portion of Settlement Agreement with MIEJ	(1,311)	-
Net note receivable	\$ -	\$ 1,363

As part of the Settlement Agreement with MIEJ on February 19, 2015, the notes receivable were settled. See Note 8.

NOTE 8 – EQUITY METHOD INVESTMENTS

Condor Energy Technology, LLC

Settlement Agreement with MIEJ

On February 19, 2015, the Company entered into a Settlement Agreement with MIEJ (the “MIEJ Settlement Agreement”), the 80% partner in Condor and the lender under the Amended and Restated Secured Subordinated Promissory Note, dated March 25, 2013, in the principal amount of \$6,170,065 (the “MIEJ Note”). The Settlement Agreement and related agreements for the disposition of the Company’s interest in Condor contained the following terms:

The Company and MIEJ entered into a new Amended and Restated Secured Subordinated Promissory Note, dated February 19, 2015 (the “New MIEJ Note”), with a principal amount of \$4.925 million, extinguishing the original MIEJ Note which had a principal amount of \$6,070,000 after cash payments of \$100,000;

The Company sold to MIEJ (i) its 20% interest in Condor, and (ii) all of the direct interests in approximately 945 net acres and working interests in three wells separately owned by the Company; The Company’s employees were removed as officers of Condor, and the Company agreed to assist with Condor’s accounting and audits and perform joint interest billing accounting for a monthly fee of \$55,000 for January 2015, \$0 for February 2015, \$10,000 for March 2015 and \$30,000 per month thereafter, pro-rated for partial months, for up to six months;

MIEJ paid \$500,000 to the Company’s Senior Loan Investors as a principal reduction on the Company’s Senior Loan;

Condor forgave approximately \$1.8 million in previous working interest expenses related to the drilling and completion of certain wells operated by Condor that the Company owed to Condor;

The Company paid MIEJ \$100,000 as a principal reduction under the original MIEJ Note; and

The parties fully released each other from every claim, demand or cause of action arising on or before February 19, 2015.

The net effect of these transactions with MIEJ was to reduce approximately \$9.4 million in aggregate liabilities due from the Company to MIEJ and Condor to \$4.925 million, which is now the new principal amount of the New MIEJ Note.

The following table reflects the activity related to the Company’s settlement with MIEJ (in thousands):

	Items Received by PEDEVCO
Extinguishment of accrued liabilities	3,280
Extinguishment of original debt with MIE net of cash payments of \$100,000	6,070
Proceeds from cash payments made by MIE to RJ Credit and BAM	500
Total	9,850
	Items Received by MIEJ
Issuance of new MIEJ note	\$ 4,925

Edgar Filing: PEDEVCO CORP - Form 10-Q

Extinguishment of note receivable with Condor	1,272
Historical cost of oil and gas property sold to Condor	620
Total	6,817
<hr/>	
Net gain on settlement	\$ 3,033

The following table presents the allocation of the gain on settlement with MIEJ described above (in thousands):

	Allocated Value	Historical Cost	Gain on Settlement
Oil and gas properties	\$ 895	\$ 620	\$ 275
Investment in Condor	1,838	1,272	566
Note Payable - MIEJ	7,117	4,925	2,192
Total	\$ 9,850	\$ 6,817	\$ 3,033

The Company recognized a gain on sale of equity investments during the nine months ended September 30, 2015 related to these transactions of \$566,000.

The following is a summarized statement of operations for Condor for the period from January 1, 2015 through February 23, 2015 (in thousands):

Revenue	\$ 108
Operating expenses	(368)
Operating loss	(260)
Interest expense	(195)
Net loss	\$ (455)

During the period from January 1, 2015 through February 23, 2015, the Company recorded \$91,000 as its 20% share of Condor's net losses for that period.

NOTE 9 – NOTES PAYABLE

Note Purchase Agreement and Sale of Secured Promissory Notes

On March 7, 2014, the Company entered into a \$50 million financing facility (the "Notes Purchase Agreement") between the Company, BRe BCLIC Primary, BRe BCLIC Sub, BRe WNIC 2013 LTC Primary, BRe WNIC 2013 LTC Sub, and RJC, as investors (collectively, the "Investors"), and BAM Administrative Services LLC, as agent for the Investors (the "Agent"). The Company issued the Investors Secured Promissory Notes in the aggregate amount of \$34.5 million (the "Initial Notes", and the "Senior Notes") and provided for an additional \$15.5 million available under the financing agreement to fund the Company's future drilling costs. On March 19, 2015, BRe WNIC 2013 LTC Primary transferred a portion of its Initial Note to HEARTLAND Bank, and effective April 1, 2015, BRe BCLIC Primary transferred its Initial Note to Senior Health Insurance Company of Pennsylvania ("SHIP"), with each of HEARTLAND Bank and SHIP becoming an "Investor" for purposes of the discussion below.

The Initial Notes as originally issued bear interest at the rate of 15% per annum, payable monthly in arrears, on the first business day of each month beginning April 1, 2014 (in connection with the Initial Notes), provided that upon the occurrence of an event of default, the Initial Notes bear interest at the lesser of 30% per annum and the maximum legal rate of interest allowable by law.

The Initial Notes are due and payable on March 7, 2017 (the "Maturity Date"), and may be repaid in full without premium or penalty at any time. Additionally, the Company is required on the third business day of each month, commencing on April 1, 2014, to prepay the Initial Notes in an amount equal to the lesser of (a) the outstanding principal amount of the Initial Notes or (b) twenty-five percent (25%) of the aggregate of all net revenues actually received by us and our subsidiaries for the immediately preceding calendar month (or such pro rata portion of the first month the payment is required). The Initial Notes also provide that RJC is to be repaid (i) accrued interest, only after all of the other Investors are repaid any accrued interest due and (ii) principal, only after all of the other Investors are repaid the full amount of principal due under their Initial Notes, and (iii) that any funding in connection with Subsequent Notes will be made solely by RJC. See below for information related to recent agreements to defer certain principal and interest payments and capitalization of such deferred amounts as additional principal under the Initial Notes.

The amount outstanding under the Initial Notes is secured by a first priority security interest in all of the Company's subsidiaries, assets, property, real property, intellectual property, securities and proceeds therefrom, granted in favor of the Agent for the benefit of the Investors. Additionally, the Company granted a mortgage and security interest in all of its real property located in the state of Colorado and the state of Texas. Additionally, the Company's obligations under the Initial Notes, Note Purchase Agreement and related agreements were guaranteed by its wholly-owned and majority-owned direct and indirect subsidiaries.

The Company did not borrow any proceeds under the Notes Purchase Agreement during the nine months ended September 30, 2015. As of September 30, 2015, there was approximately \$13.5 million gross (\$11.0 million net, after origination-related fees and expenses) available to draw down under Subsequent Notes from RJC. The availability of additional borrowings under the senior debt facility is subject to the Company providing matching funds for all amounts borrowed.

All deferred financing costs and debt discount amounts are amortized using the effective interest rate method. The amount of the debt discount and deferred financing costs (net of amortization) reflected on the accompanying balance sheet as of September 30, 2015 was \$13,479,000. Amortization of debt discount, amortization of deferred financing costs and interest expense, related to the Initial Notes and the first advance, was \$3,158,000, \$1,565,000 and \$4,015,000 for the nine months ended September 30, 2015, respectively.

On April 24, 2015, certain of the Investors in our Initial Notes agreed to defer certain mandatory principal repayments and interest payments that would otherwise be payable in the months of May and June 2015, with such deferred amounts to be used by us solely to renew, extend, re-lease or otherwise acquire leases which will then become additional collateral under the Initial Notes. The aggregate principal and interest that was deferred was approximately \$354,000, which amount has been added to the principal due under the Initial Notes as of July 31, 2015 and is due upon maturity (\$320,000 of which was expensed as additional interest expense). The Company was also charged an additional deferral fee of \$354,000, the amount of the principal and interest deferred under this

agreement, which was added to the principal and due upon maturity. As consideration for the deferral, on September 10, 2015, the Company issued warrants exercisable for an aggregate of 349,111 shares of our common stock to the Investors participating in the deferral. Each warrant has a 3 year term and is exercisable on a cashless basis at an exercise price of \$1.50 per share. The fair value of these warrants of approximately \$40,000 was recorded as additional deferred financing costs.

On August 28, 2015, the Company entered into agreements with the holders of the Senior Notes to (i) defer until the maturity date of the Senior Notes the mandatory principal payments that would otherwise be due and payable by the Company on payment dates occurring during the six month period of August 1, 2015 through January 31, 2016, (ii) HEARTLAND Bank agreed to change the frequency of payment of accrued interest and mandatory principal repayments from monthly to semi-annually, with the next interest payment due February 1, 2016 and the next mandatory principal repayment due August 3, 2016, and with the Company agreeing to place an amount equal to 1/6th of the semi-annual principal and interest payments due into a sinking fund starting in February 2016 which the Company shall pay to HEARTLAND Bank every six months when due and owing, (iii) RJC agreed to defer all interest payments otherwise due and payable by the Company to RJC during the period commencing on August 1, 2015 through January 31, 2016 (the "Waiver Period"), which deferred interest is added to principal each month during the Waiver Period, (iv) certain other holders agreed to (a) defer until the maturity date of their Senior Notes 12/17ths of the interest payments that would otherwise be due and payable by the Company to them on payment dates occurring during the six month period of August 1, 2015 through January 31, 2016, and (b) have the Company pay in cash 5/17ths of such interest payments per month, with all deferred interest being added to principal each month until the maturity date of the Senior Notes, and (v) SHIP, BRe BCLIC Sub, BRe WINIC 2013 LTC Primary, BRe WNIC 2013 LTC Sub and RJC agreed to increase the interest rate under their Senior Notes from 15% to 17% per annum on all outstanding principal under their Senior Notes during the Waiver Period. These deferrals agreed upon with our Investors (the "August-January Deferrals") will reduce the Company's monthly cash interest payments and mandatory principal repayments from approximately \$600,000 per month prior to these agreements, to approximately \$100,000 per month during the Waiver Period after giving effect to the changes agreed upon under these agreements, thereby providing the Company with an estimated \$500,000 per month in reduced cash flow requirements during the Waiver Period.

The purpose of these deferrals is to provide the Company with temporary relief from cash requirements to fully-focus and execute upon the Reorganization Agreement with Dome Energy, or another alternative transaction in the event the Company does not consummate the transaction with Dome Energy.

As additional consideration for these agreements and related note amendments and deferrals, on September 10, 2015, the Company issued warrants exercisable on a cash-only basis for an aggregate of 1,201,004 shares to the lenders, proportionately based on their individual principal, which grants were subject to NYSE MKT additional listing approval, which has been received. The warrants have a three year term and are exercisable on a cash-only basis at a price of \$0.75 per share. In addition, in the event the aggregate total of principal and interest deferred in connection with the August-January deferrals exceeds \$900,000 over the Waiver Period, within thirty days of February 1, 2016, and subject to NYSE MKT additional listing approval, the Company will proportionately grant additional warrants such that the total aggregate number of shares of Company common stock exercisable under all warrants granted will equal the total principal and interest deferred by such Investors divided by \$0.75. The fair value of these 1,201,004 warrants of approximately \$120,000 was recorded as additional deferred financing costs. As of September 30, 2015, the amount of deferred interest and deferred principal was \$1,087,000 and \$175,000, respectively.

In addition, the Company agreed to prepare and deliver to RJC a monthly budget in form and substance reasonably satisfactory to RJC, and such financial statements as RJC may reasonably request. The monthly budget is required to include a cash flow forecast and detail of all anticipated non-recurring expenses and non-cash budget items, and the Company is required to comply with the budgeted expenses set forth therein in all material respects, provided,

however, that a variance of less than 10% with respect to the expenses, on an aggregate basis, is permitted.

It is anticipated that certain debt will be satisfied in full in connection with the closing contemplated by the Reorganization Agreement with Dome Energy and a simultaneous financing transaction, at which point further interest and principal deferrals will cease. However, if all the current outstanding debt remains outstanding without principal reduction prior to February 1, 2016, the Company estimates that up to an aggregate of approximately \$2.95 million in total interest and principal payments may be deferred pursuant to these agreements, in which event warrants exercisable solely on a cash basis for approximately an additional 2.7 million shares of Company, common stock at an exercise price of \$0.75 per share will be granted in February 2016.

During the nine months ended September 30, 2015, there were \$363,000 of principal payments made to reduce the amount outstanding on the Initial Notes.

Convertible Notes Payable – Bridge Notes

On March 7, 2014, the Company entered into a Second Amendment to the Secured Promissory Notes (each, a “Second Amended Note,” and collectively, the “Bridge Notes”) with all but one of the holders of the Bridge Notes (the “Amended Bridge Investors”). Subsequently, on August 20, 2014, the one remaining holder also entered into a Second Amended Note, and became an “Amended Bridge Investor” (as discussed below).

The Convertible Bridge Notes allow the holders the right to convert (i) up to 100% of the outstanding and unpaid principal amount (but in increments of not less than 25% of the principal amount of each Bridge Note outstanding as of the entry into the Second Amended Notes and only up to four (4) total conversions of not less than 25% each); (ii) the additional payment-in kind (“PIK”); and (iii) all accrued and unpaid interest under each Bridge Note (collectively, the “Conversion Amount”) into common stock of the Company, subject to no more than 19.99% of the Company’s outstanding common stock on the date the Second Amended Notes were entered into. Upon a conversion, the holder shall receive a number of shares of common stock equal to the Conversion Amount divided by a conversion price (the “Conversion Price”) calculated as follows:

- (A) prior to June 1, 2014, the Conversion Price was \$2.15 per share; and
- (B) following June 1, 2014, the denominator used in the calculation described above is the greater of (i) 80% of the average of the closing price per share of the Company’s publicly-traded common stock for the five (5) trading days immediately preceding the date of the conversion notice provided by the holder; and (ii) \$0.50 per share.

Additionally, each Amended Bridge Investor entered into a Subordination and Intercreditor Agreement in favor of the Agent, subordinating and deferring the repayment of the Bridge Notes until full repayment of certain senior notes. The Subordination and Intercreditor Agreements also prohibit the Company from repaying the Bridge Notes until certain senior notes have been paid in full, except that we are allowed to repay the Bridge Notes from net proceeds received from the sale of common or preferred stock (i) in calendar year 2014 if such net proceeds received in such calendar year exceeds \$35,000,000, (ii) in calendar year 2015 if such net proceeds received in such calendar year exceeds \$50,000,000, and (iii) in calendar year 2016 if such net proceeds actually received in such calendar year exceeds \$50,000,000.

In connection with the Second Amended Note, the convertible debenture was also analyzed for a beneficial conversion feature after the debt modification at which time it was concluded that a beneficial conversion feature existed. The Company extinguished the unamortized portion of the debt discounts associated with the warrants issued and additional PIK under the Secured Promissory Notes of \$111,000 and \$148,000, respectively. The Company recorded \$212,000 as a debt discount related to the beneficial conversion feature. The debt discount will be amortized over the term of the Second Amended Notes.

In January 2015, one holder of Bridge Notes converted an aggregate of \$83,000 (principal and accrued interest amounts) due under the Bridge Notes into an aggregate of 165,431 shares of common stock of the Company. No gain or loss was recognized.

The unamortized debt premium on the Convertible Bridge Notes as of September 30, 2015, was \$113,000.

As of September 30, 2015, Bridge Notes with an aggregate principal amount of \$475,000 remain outstanding, plus accrued interest of \$102,000 and additional PIK of \$48,000. The aggregate principal and accrued and unpaid interest and PIK amounts are available for conversion into common stock pursuant to the terms of the Bridge Notes. The interest expense related to these notes for the three months ended September 30, 2015 and 2014 was \$14,000 and \$125,000, respectively. The interest expense related to these notes for the nine months ended September 30, 2015 and 2014 was \$43,000 and \$597,000, respectively.

The Subordinated Note Payable Assumed

In February 2015, the Company assumed approximately \$8.35 million of a subordinated note payable from GGE in the acquisition of the Acquired Assets, which amount is outstanding as of September 30, 2015. The lender under the

subordinated note payable is RJC, which is one of the lenders under the Secured Promissory Notes and is an affiliate of GGE. The note is due and payable on December 31, 2017, and bears interest at a rate of 12% per annum (24% upon an event of default). The accrued interest is payable on a monthly basis in cash. The assumed note payable is subordinate and subject to the terms and conditions of the Secured Promissory Notes, as well as any future secured indebtedness from a lender with an aggregate principal amount of at least \$20,000,000. Should the Company repay the Secured Promissory Notes or replace them with a secured indebtedness from a lender with an aggregate principal amount of at least \$20,000,000, RJC agreed to further amend the subordinated note payable to adjust the frequency of interest payments or to eliminate the payments and replace them with a single payment of the accrued interest to be paid at maturity.

The subordinated note payable contains customary representations, warranties, covenants and requirements for the Company to indemnify RJC and its affiliates, related parties and assigns. The note payable also includes various covenants (positive and negative) binding the Company, including requiring that the Company provide RJC with quarterly (unaudited) and annual (audited) financial statements, restricting our creation of liens and encumbrances, or sell or otherwise disposing, the collateral under the note.

On April 24, 2015, RJC agreed to defer all mandatory principal repayments and interest payments that would otherwise be payable by us to RJC in the months of May and June 2015 under the subordinated note, with such deferred amounts to be used by us solely to renew, extend, re-lease or otherwise acquire leases which will then become additional collateral under the subordinated note. The aggregate principal and interest that was deferred was approximately \$170,000, which amount has been capitalized and added to the principal due under the subordinated note effective July 31, 2015 and due upon maturity. As consideration for the deferral, we granted

warrants exercisable for an aggregate of 113,237 shares of our common stock to RJC (which are included in the aggregate total of 349,111 shares issuable upon exercise of warrants issued to the Investors as described above under “Note Purchase Agreement and Sale of Secured Promissory Notes” in this Note 9 above). The warrant has a 3 year term and will be exercisable on a cashless basis at an exercise price of \$1.50 per share, with a grant date fair value of \$13,000.

On August 28, 2015, the Company entered into agreements with RJC pursuant to which (i) RJC agreed to defer until the maturity date of the subordinated note the mandatory principal payments that would otherwise be due and payable by the Company on payment dates occurring during the six month period of August 1, 2015 through January 31, 2016, and (ii) RJC agreed to defer all interest payments otherwise due and payable by the Company to RJC under the subordinated note during the Waiver Period, which deferred interest is added to principal each month during the Waiver Period. As of September 30, 2015, the amount of deferred interest and principal was \$287,000.

As additional consideration for these agreements and related note amendments and deferrals, on September 10, 2015, the Company issued to RJC warrants exercisable on a cash-only basis for an aggregate of 265,241 shares (which are included in the aggregate total of 1,201,004 shares issuable upon exercise of warrants issued to the Investors as described above under “Note Purchase Agreement and Sale of Secured Promissory Notes” in this Note 9 above). The warrants have a three year term and are exercisable on a cash-only basis at a price of \$0.75 per share. In addition, in the event the aggregate total of principal and interest deferred by all Investors in connection with the August-January Deferrals exceeds \$900,000 over the Waiver Period as described above under “Note Purchase Agreement and Sale of Secured Promissory Notes”, within thirty days of February 1, 2016, and subject to NYSE MKT additional listing approval, the Company will proportionately grant additional warrants such that the total aggregate number of shares of Company common stock exercisable under all warrants granted to the Investors will equal the total principal and interest deferred by such Investors divided by \$0.75.

The interest expense related to this note for the three and nine months ended September 30, 2015 was \$74,000 and \$430,000, respectively.

Related Party Financings

MIE Jurassic Energy Corporation

On February 14, 2013, PEDCO entered into a Secured Subordinated Promissory Note, as amended on March 25, 2013 and July 9, 2013 (the “MIEJ Note”, as amended through December 31, 2014) with MIEJ. The MIEJ Note had a total principal and interest amount outstanding of \$6.17 million and \$1,203,000, respectively, as of December 31, 2014.

In February 2015, the Company and PEDCO entered into the MIEJ Settlement Agreement with MIEJ. As part of the MIEJ Settlement Agreement, the Company made cash payments of \$100,000 on the MIEJ Note and entered into the New MIEJ Note, which extinguished the original MIEJ Note, and reduced the principal amount owed from \$6.07 million to \$4.925 million. As of September 30, 2015, the amount outstanding under the New MIEJ Note was \$4,925,000. The Company recognized a gain on debt extinguishment during the nine months ended September 30, 2015 related to these transactions of \$2,192,000.

The New MIEJ Note has an interest rate of 10.0%, with no interest due until maturity, is secured by all of the Company’s assets, and is subordinated to the Secured Promissory Notes. MIEJ also agreed to subordinate its note up to an additional \$60 million of new senior lending, with any portion of new senior lending in excess of this amount requiring to be paid first to MIEJ until the New MIEJ Note is paid in full. Further, for every \$20 million in new senior lending the Company raises, MIEJ shall be paid all interest and fees accrued to date on the New MIEJ Note. The New MIEJ Note is due and payable on March 8, 2017, subject to automatic extensions upon the occurrence of a Long Term

Financing or PEDEVCO Senior Lending Restructuring (each as defined below).

On a onetime basis, the Secured Promissory Notes may be refinanced by a new loan (“Long-Term Financing”) by one or more third party replacement lenders (“Replacement Lenders”), and in such event the Company shall undertake commercially reasonable best efforts to cause the Replacement Lenders to simultaneously refinance both the Secured Promissory Notes and the New MIEJ Note as part of such Long-Term Financing. If the Replacement Lenders are unable or unwilling to include the New MIEJ Note in such financing, then the Long-Term Financing may proceed without including the New MIEJ Note, and the New MIEJ Note shall remain in place and shall be automatically subordinated, without further consent of MIEJ, to such Long-Term Financing. Furthermore, upon the occurrence of a Long-Term Financing, the maturity of the New MIEJ Note is automatically extended to the same maturity date of the Long-Term Financing, but to no later than March 8, 2020. Additionally, in connection with the Long-Term Financing:

The Long-Term Financing must not exceed \$95 million;

The Company must make commercially reasonable best efforts to include adequate reserves or other payment provisions whereby MIEJ is paid all interest and fees accrued on the New MIEJ Note commencing as of March 8, 2017 and annually thereafter, and to allow for quarterly interest payments starting March 31, 2017 of not less than 5% per annum on the

outstanding balance of the New MIEJ Note, plus a one-time payment of accrued interest (not to exceed \$500,000) as of March 31, 2017; and

Commencing on March 8, 2017, MIEJ shall have the right to convert the balance of the New MIEJ Note into the Company's common stock at a price equal to 80% of the average closing price per share of our stock over the then previous 60 days, subject to a minimum conversion price of \$0.30 per share. MIEJ shall not be permitted to convert if the conversion would result in MIEJ holding more than 19.9% of the Company's outstanding common stock without approval from the Company's shareholders, which the Company has agreed to seek at its 2016 annual shareholder meeting or, if not approved then, at its 2017 annual shareholder meeting.

In the event the Secured Promissory Notes are not refinanced, restructured or extended by the existing Investors, the maturity of both the New MIEJ Note and the Secured Promissory Notes may be extended to no later than March 8, 2019, without requiring the consent of MIEJ. However, (i) any such maturity extension of the New MIEJ Note will give MIEJ the right to convert the note into our common stock as described above, commencing on March 8, 2017, and (ii) such extension agreement must provide that MIEJ is paid all interest and fees accrued on the New MIEJ Note as of March 8, 2018. The New MIEJ Note may be prepaid any time without penalty, and if we repay the New MIEJ Note on or before December 31, 2015, 20% of the principal of the New MIEJ Note amount will be forgiven by MIEJ, and if we repay the New MIEJ Note on or before December 31, 2016, 15% of the principal of the New MIEJ Note amount will be forgiven by MIEJ.

The interest expense related to this note for the three and nine months ended September 30, 2015 was \$41,000 and \$367,000, respectively.

NOTE 10 – INCOME TAXES

Due to the Company's net losses, there was no provision for income taxes for the nine months ended September 30, 2015 and 2014.

The difference between the income tax expense of zero shown in the statement of operations and pre-tax book net loss times the federal statutory rate of 34% is principally due to the increase in the valuation allowance.

Deferred income tax assets as of September 30, 2015 and December 31, 2014 are as follows (in thousands):

	As of September 30, 2015	As of December 31, 2014
Deferred Tax Assets (Liabilities)		
Difference in depreciation, depletion, and capitalization methods – oil and natural gas properties	\$ 1,695	\$ 1,385
Net operating losses	4,131	4,131
Impairment – oil and natural gas properties	(1,122)	(1,122)
Other	753	623
Total deferred tax asset	5,457	5,017
Less: valuation allowance	(5,457)	(5,017)
Total deferred tax assets	\$ -	\$ -

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of deferred assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

Based on the available objective evidence, management believes it is more likely than not that the net deferred tax assets will not be fully realizable. Accordingly, management has applied a full valuation allowance against its net deferred tax assets at September 30, 2015. The net change in the total valuation allowance for the nine months ended September 30, 2015 was an increase of \$440,000.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of September 30, 2015, the Company did not have any significant uncertain tax positions or unrecognized tax benefits. The Company did not have associated accrued interest or penalties, nor was any interest expense or penalties recognized during the period from February 9, 2011 (Inception) through September 30, 2015.

As of September 30, 2015, the Company has federal net operating loss carryforwards ("NOLs") of approximately \$57,390,000 and \$49,922,000 (subject to limitations) for federal and state tax purposes, respectively. If not utilized, these losses will begin to expire beginning in 2032 and 2023, respectively, for federal and state purposes.

Utilization of NOL and tax credit carryforwards may be subject to a substantial annual limitation due to ownership change limitations that may have occurred or that could occur in the future, as required by the Internal Revenue Code (the "Code"), as amended, as well as similar state provisions. In general, an "ownership change" as defined by the Code results from a transaction or series of transactions over a three-year period resulting in an ownership change of more than 50% of the outstanding stock of a company by certain stockholders or public groups.

Due to the impact of temporary and permanent differences between the book and tax calculations of net loss, the Company experiences an effective tax rate above the federal statutory rate of 34%.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Office Lease

In July 2012, the Company entered into a non-cancelable lease agreement with an initial term of two years ending in July 2014, which has been extended for an additional two years with the term now ending in July 2016, for its corporate office space located in Danville, California. The obligation under this lease for the remainder of 2015 and 2016 is \$13,000 and \$30,000, respectively.

In September 2014, the Company entered into a non-cancelable lease agreement with a term of five years ending on March 1, 2020, which location serves as the Company's operations office space in Houston, Texas. The obligation under this lease for the remainder of 2015, 2016, 2017, 2018, and thereafter is \$15,000, \$61,000, \$61,000, \$61,000 and \$72,000, respectively.

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. In the D-J Basin Asset, 2,931 net acres are due to expire during the three months remaining in 2015 (3,701 net acres did expire during the nine months ended September 30, 2015), 4,680 net acres expire in 2016, 584 net acres expire in 2017, 392 net acres in 2018 and 1,417 net acres expire thereafter. Where the Company is not able to drill and complete a well before lease expiration, the Company may seek to extend leases where able. As of September 30, 2015, the Company had fully impaired its unproved leasehold costs based on management's revised re-leasing program.

Other Commitments

The Company is not aware of any pending or threatened legal proceedings. The foregoing is also true with respect to each officer, director and control shareholder as well as any entity owned by any officer, director and control shareholder, over the last ten years.

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 can give 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 12 – SHAREHOLDERS' EQUITY

PREFERRED STOCK

At September 30, 2015, the Company was authorized to issue 100,000,000 shares of its Series A preferred stock with a par value of \$0.001 per share.

During the nine months ended September 30, 2015, the Company issued shares of Series A preferred stock as follows:

On February 23, 2015, the Company issued 66,625 Series A preferred to GGE as part of the consideration paid for the Acquired Assets. The fair value of the Series A preferred stock was \$28,402,000 based on a calculation using a binomial lattice option pricing model. See Note 15.

The 66,625 shares of Series A preferred issued to GGE are contingently redeemable in 4 tranches as follows: (i) 15,000 shares in Tranche One; (ii) 15,000 shares in Tranche Two; (iii) 11,625 shares in Tranche Three; and (iv) 25,000 shares in Tranche Four.

In addition, upon the original issuance of the 66,625 shares of Series A preferred stock issued to GGE, the Series A preferred stock had the following features:

- a liquidation preference senior to all of the Company's common stock equal to \$400 per share;
- a dividend, payable annually, of 10% of the liquidation preference;
- voting rights on all matters, with each share having 1 vote; and
- a conversion feature at GGE's option which would allow the Series A preferred stock to be converted into shares of the Company's common stock on a 1,000:1 basis, subject to stockholder approval of the issuance of the shares of common stock issuable upon such conversion.

However, following the October 7, 2015 approval of the Company shareholders of the issuance of shares of common stock upon the conversion of the Series A preferred, the Series A preferred features have been modified as follows:

- the Series A preferred has ceased accruing dividends and all accrued and unpaid dividends have been automatically forfeited and forgiven; and
- the liquidation preference of the Series A preferred has been reduced to \$0.001 per share from \$400 per share.

GGE is also subject to a lock-up provision that prohibits it from selling the shares of common stock through the public markets for less than \$1 per share (on an as-converted to common stock basis) until February 23, 2016, and in no event may GGE convert shares of Series A preferred if upon such conversion it would beneficially own more than 9.99% of our outstanding common stock or voting stock.

The Series A Preferred is redeemable at the option of the Company or anyone that the Company assigns the right to redeem the Series A Preferred to (the "Assigns"), if the Company repays the Secured Promissory Notes by November 23, 2015.

The Series A preferred is redeemable as follows:

- until November 23, 2015, the Company may redeem any or all of the Tranche One shares at a repurchase price of \$500 per share;
- from November 24, 2015 until February 23, 2017, the Company may redeem any or all of the Tranche One shares and Tranche Two shares at a repurchase price of \$650 per share; and
- from February 24, 2017 until February 23, 2018, the Company may redeem any or all remaining outstanding shares of Series A preferred at a repurchase price of \$800 per share.

In addition, if the Company repays the Secured Promissory Notes and redeems all of the Tranche One shares by November 23, 2015 the above redemption options are modified as follows:

- the Tranche Four shares are automatically redeemed for \$-0- per share; and
- GGE may request (but not require) that the Company redeem:
 - the Tranche Two shares at a redemption price of \$650 per share for a period of 30 days following February 23, 2017; and
 - the Tranche Two Shares and 11,625 shares of the Tranche Three shares at a redemption price of \$800 per share for a period of 30 days following February 23, 2018.

In the event the Company or its Assigns do not redeem all the Series A preferred shares, GGE has no recourse against the Company. However, if the Company or its Assigns do not redeem all the Series A preferred shares, and the

average closing price of the Company's common stock over the 30 day period immediately preceding February 23, 2018 is below \$0.80 per share, then the Company is required to issue to GGE up to an additional 10,000 shares of Series A preferred, pro-rated based on the actual number of shares of Preferred Series A not redeemed and repurchased by the Company.

As of September 30, 2015, there were 66,625 shares of the Company's Series A preferred stock outstanding.

COMMON STOCK

At September 30, 2015, the Company was authorized to issue 200,000,000 shares of its common stock with a par value of \$0.001 per share.

During the nine months ended September 30, 2015, the Company issued shares of common stock or restricted common stock as follows:

On January 7, 2015, the Company granted 965,000 shares of its restricted common stock with a fair value of \$357,000, based on the market price on the date of grant, to certain of its employees, including 370,000 shares to Chairman and Chief Executive Officer, Frank C. Ingriselli, 325,000 shares to President and Chief Financial Officer, Michael L. Peterson, and 270,000 shares to Executive Vice President and General Counsel, Clark R. Moore, all pursuant to the Company's 2012 Amended and Restated Equity Incentive

Plan and in connection with the Company's 2014 annual equity incentive compensation review process. 40% of the shares vest on the nine month anniversary of the grant date, 20% vest on the twelve month anniversary of the grant date, 20% vest on the eighteen month anniversary of the grant date and 20% vest on the twenty-four month anniversary of the grant date, all contingent upon the recipient's continued service with the Company. The vesting of the securities is subject to the terms of certain Vesting Agreements described below.

On January 27, 2015, a holder of Convertible Bridge Notes converted an aggregate of \$83,000 (principal and accrued interest amounts) due under the Convertible Bridge Notes into an aggregate of 165,431 shares of common stock of the Company.

On February 6, 2015, the Company granted 193,550 shares of its restricted common stock with a fair value of \$120,000, based on the market price on the date of grant, to certain members of its board of directors, pursuant to the Company's 2012 Equity Incentive Plan, of which \$29,000 was expensed as of March 31, 2015. 100% of the shares vest on September 10, 2015, contingent upon the recipient being a Director of, or employee of or consultant to, the Company on such vesting date.

On February 23, 2015, the Company issued 3,375,000 restricted common shares to GGE valued at \$0.81 per share, based on the market price on the date of grant, as part of the consideration paid for the Acquired Assets.

On March 6, 2015, the Company granted 15,000 fully-vested shares of its restricted common stock with a fair value of \$10,000, based on the market price on the date of grant, to a consultant pursuant to the Company's 2012 Amended and Restated Equity Incentive Plan.

On April 16, 2015, the Company issued 19,445 shares of common stock to a former employee in connection with the exercise of 33,334 options on a cashless basis.

On May 13, 2015, the Company announced the pricing of an underwritten public offering of an aggregate of 5,600,000 shares of common stock at price of \$0.50 per share to the public (the "May 2015 Offering"). The underwriter in the offering was granted a 45-day option to purchase up to 840,000 shares of common stock to cover overallotments. On May 18, 2015, the Company closed this underwritten offering of an aggregate of 5,600,000 shares of common stock, and on May 19, 2015 the underwriter exercised a portion of its overallotment option and purchased 766,197 shares of common stock. With the exercise of a portion of the overallotment option, the Company sold 6,366,197 total shares of common stock in the May 2015 Offering for net proceeds of approximately \$2.78 million. The Company received gross proceeds of \$3,183,000 before deducting underwriting discounts and offering expenses as a result of the offering.

On September 10, 2015, the Company issued 390,000 shares to a financial and professional relations advisor valued at \$0.35 per share, based on the fair value of the stock on the date granted, in connection with the Company's entry into a consulting services agreement in the amount of \$137,000.

As of September 30, 2015, Bridge Notes with an aggregate principal balance of \$475,000 remain outstanding, plus accrued interest of \$102,000 and additional payment-in-kind of \$48,000. The aggregate principal and accrued, unpaid interest and payment-in-kind amounts are available for conversion into common stock pursuant to the terms of the Bridge Notes.

Stock compensation expense recorded related to restricted stock during the nine months ended September 30, 2015 was \$2,117,000. The remaining unamortized stock compensation expense at September 30, 2015 related to restricted stock was \$965,000.

Vesting Agreements

As a required term of our entry into the Reorganization Agreement, Messrs. Ingriselli, Peterson and Moore each entered into Vesting Agreements with the Company, pursuant to which they each individually agreed, that effective as of the date of such agreements (May 21, 2015), all existing so-called “10b5-1 trading plans” providing for the periodic sale of their restricted stock upon vesting shall be terminated, and the vesting of all restricted stock they hold which is subject to vesting prior to the Exchange being consummated (the “Exchange Closing”) will be delayed until the 2nd business day following either (x) the Exchange Closing, or (y) the Company’s public disclosure of the termination of the Exchange (the “Vesting Delay”). This Vesting Delay will occur provided that effective upon the 2nd trading day following the Company’s public announcement of the Exchange Closing, all unvested stock subject to the Vesting Delay, and all unvested stock and options subject to vesting through July 1, 2016, will vest immediately (subject to not more than 573,000 shares of unvested stock and options to purchase 333,000 shares vesting to Mr. Ingriselli, not more than 520,500 shares of unvested stock and options to purchase 292,500 shares vesting to Mr. Peterson, and not more than 389,000 shares of unvested stock and options to purchase 243,000 shares vesting to Mr. Moore) (the “Closing Acceleration”). The Closing Acceleration will occur even if the executives are not then employees or directors of the Company on such date. Notwithstanding the above, in the event the Reorganization Agreement is terminated or the Exchange is not consummated by December 29, 2015 (unless otherwise agreed upon in writing by the parties to the Reorganization Agreement), all restricted stock subject to the Vesting Delay will vest on the

2nd business day following the Company's public disclosure of the termination of the Exchange (in the event the Reorganization Agreement was terminated prior to December 29, 2015), or, in the event the Exchange is not terminated by, or consummated by, December 29, 2015, on January 7, 2016, and the original vesting terms for all future unvested stock and options will be reinstated to the terms in effect prior to the parties' entry into the Vesting Agreements. We also agreed to pay up to \$370,000 in taxes due in connection with such Closing Acceleration, including gross ups (allocated up to \$143,008 for Mr. Ingriselli, up to \$129,906 for Mr. Peterson, and up to \$97,086 for Mr. Moore). Finally, all options subject to the Closing Acceleration will be extended for a period of five years following the closing of the Exchange, regardless of their original terms.

NOTE 13 – STOCK OPTIONS AND WARRANTS

Blast 2003 Stock Option Plan and 2009 Stock Incentive Plan

As of September 30, 2015, 3,424 shares of common stock granted under the 2003 Stock Option Plan and 2009 Stock Incentive Plan approved when the Company was known as Blast Energy Services, Inc. ("Blast") remain outstanding and exercisable at a weighted average exercise price of \$35.05. No options were issued under these plans during the nine months ended September 30, 2015.

2012 Incentive Plan

On July 27, 2012, the shareholders of the Company approved the 2012 Equity Incentive Plan (the "2012 Incentive Plan"), which was previously approved by the Board of Directors on June 27, 2012, and authorizes the issuance of various forms of stock-based awards, including incentive or non-qualified options, restricted stock awards, performance shares and other securities as described in greater detail in the 2012 Incentive Plan, to the Company's employees, officers, directors and consultants. The 2012 Incentive Plan was amended on June 27, 2014 to increase by 5,000,000 the number of shares of common stock reserved for issuance under the Plan. As of September 30, 2015, a total of 7,000,000 shares of common stock are eligible to be issued under the 2012 Incentive Plan, of which 4,114,802 shares have been issued as restricted stock, 1,817,000 shares are subject to issuance upon exercise of issued and outstanding options, and 1,068,198 remain available for future issuance. At the Annual Meeting of Stockholders held on October 7, 2015, the Company's stockholders approved an amendment to the 2012 Incentive Plan to increase by 3,000,000, the number of shares of common stock reserved for issuance under the 2012 Incentive Plan.

PEDCO 2012 Equity Incentive Plan

As a result of the July 27, 2012 merger by and between the Company, Blast Acquisition Corp., a wholly-owned Nevada subsidiary of the Company ("MergerCo"), and Pacific Energy Development Corp., a privately-held Nevada corporation ("PEDCO") pursuant to which MergerCo was merged with and into PEDCO, with PEDCO continuing as the surviving entity and becoming a wholly-owned subsidiary of the Company, in a transaction structured to qualify as a tax-free reorganization (the "Merger"), the Company assumed the PEDCO 2012 Equity Incentive Plan (the "PEDCO Incentive Plan"), which was adopted by PEDCO on February 9, 2012. The PEDCO Incentive Plan authorized PEDCO to issue an aggregate of 1,000,000 shares of common stock in the form of restricted shares, incentive stock options, non-qualified stock options, share appreciation rights, performance shares, and performance units under the PEDCO Incentive Plan. As of September 30, 2015, options to purchase an aggregate of 405,804 shares of the Company's common stock and 591,791 shares of the Company's restricted common stock have been granted under this plan (all of which were granted by PEDCO prior to the closing of the merger with the Company, with such grants being assumed by the Company and remaining subject to the PEDCO Incentive Plan following the consummation of the merger). The Company does not plan to grant any additional awards under the PEDCO Incentive Plan.

Options

On January 7, 2015, the Company granted options to purchase an aggregate of 1,265,000 shares of common stock to certain of its consultants and employees at an exercise and market price of \$0.37 per share, including an option to purchase 370,000 shares to Chairman and Chief Executive Officer, Frank C. Ingriselli, an option to purchase 325,000 shares to President and Chief Financial Officer, Michael L. Peterson, and an option to purchase 270,000 shares to Executive Vice President and General Counsel, Clark R. Moore, all pursuant to the Company's 2012 Amended and Restated Equity Incentive Plan and in connection with the Company's 2014 annual equity incentive compensation review process. The options have terms of five years and fully vest in January 2017. 50% vest six months from the date of grant, 20% vest one year from the date of grant, 20% vest eighteen months from the date of grant and 10% vest 2 years from the date of grant, all contingent upon the recipient's continued service with the Company, subject in all cases to the terms of the Vesting Agreements. The aggregate fair value of the options on the date of grant, using the Black-Scholes model, was \$213,000. Variables used in the Black-Scholes option-pricing model for the options issued include: (1) a discount rate of 1.47%, (2) expected term of 3.8 years, (3) expected volatility of 60%, and (4) zero expected dividends.

During the nine months ended September 30, 2015, the Company recognized stock option expense of \$384,000. The remaining amount of unamortized stock options expense at September 30, 2015, was \$163,000.

The intrinsic value of outstanding and exercisable options at September 30, 2015 was \$1,000 and \$1,000, respectively.

The intrinsic value of outstanding and exercisable options at December 31, 2014 was \$34,000 and \$34,000, respectively.

Option activity during the nine months ended September 30, 2015 was:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Term (# years)
Outstanding at January 1, 2015	1,827,224	\$ 1.08	6.5
Granted	1,265,000	0.37	
Exercised	(19,445)	0.30	
Forfeited and cancelled	(13,888)	0.30	
Outstanding at September 30, 2015	3,058,891	\$ 0.80	5.0
Exercisable at September 30, 2015	2,162,540	\$ 0.76	5.4

Warrants

During the nine months ended September 30, 2015, the Company recognized warrant expense of \$669,000. The remaining amount of unamortized warrant expense at September 30, 2015, was \$-0-.

During the nine months ended September 30, 2015, the Company issued the following warrants exercisable to purchase shares of common stock:

On July 1, 2015, the Company granted a warrant exercisable for an aggregate of 100,000 shares of common stock valued at \$18,000 to an investor relations firm as sole consideration for its future services. The warrant has a 3 year term and is exercisable on a cashless basis at an exercise price of \$0.44 per share with respect to 50% of the shares issuable thereunder following the date of grant and with respect to the balance 50% of the shares issuable thereunder on or after October 1, 2015.

On April 24, 2015, the Company granted warrants exercisable for an aggregate of 349,111 shares of common stock to certain of the Senior Notes lenders related to the deferral of approximately \$524,000 of principal and interest under the Senior Notes and subordinated note held by RJC. Each warrant has a 3 year term and is exercisable on a cashless basis at an exercise price of \$1.50 per share. The fair value of these warrants of \$40,000 was recorded as additional deferred financing costs.

On August 28, 2015, the Company also granted warrants exercisable for an aggregate of 1,201,004 shares of common stock to certain of the Senior Notes lenders related to the current and future deferral of principal and interest under the Senior Notes and subordinated note held by RJC. Each warrant has a 3 year term and will be exercisable on a cashless basis at an exercise price of \$0.75 per share. The fair value of these 1,201,004 warrants of \$120,000 was recorded as additional deferred financing costs.

The intrinsic value of outstanding as well as exercisable warrants at September 30, 2015 and December 31, 2014 was \$-0- and \$-0-, respectively.

F-22

Warrant activity during the nine months ended September 30, 2015 was:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Term (# years)
Outstanding at January 1, 2015	6,594,129	\$ 2.13	3.9
Granted	1,650,115	0.89	
Exercised	-	-	
Forfeited and cancelled	(440,962)	3.67	
Outstanding at September 30, 2015	7,803,282	\$ 1.78	3.2
Exercisable at September 30, 2015	7,753,282	\$ 1.79	3.2

NOTE 14 – RELATED PARTY TRANSACTIONS

In connection with the drilling and completion of the initial well on the Company's legacy asset in the Niobrara formation of the D-J Basin (the "Niobrara Asset"), and in light of the Company's then-existing cash position, MIE Holdings loaned funds to Pacific Energy Development Corp., the Company's wholly-owned subsidiary ("PEDCO"), equal to all of the Company's proportional fees and expenses on that project, and has additionally loaned funds to PEDCO sufficient to fund the Company's 20% portion of Condor expenses incurred in connection with the second and third wells drilled and completed by Condor on the Niobrara Asset in February 2013.

Note Payable – MIEJ. See Note 9 – Related Party Financings

Accounts Payable – Condor. Accruals for drilling costs due to Condor as a working interest owner and revenue receivable due from Condor as a working interest owner represent capital expenditures, lease operating expenses and revenues allocable to the Company for its various working interests in the wells from 12.60% to 18.75% and its net revenue interest varies from 10.01% to 15.00%. At December 31, 2014, Condor owed the Company \$21,000 from production sales related to the Company's net revenue interest in the D-J Basin Asset which is reflected in accounts receivable – oil and gas – related party in the accompanying balance sheet. At December 31, 2014, the Company owed Condor \$30,000 from production related expenses and \$1,853,000 related to capital expenditures incurred by Condor for the drilling of three wells on the Niobrara property which is reflected in accounts payable – related party in the accompanying balance sheet. As discussed in Note 8, in February 2015, the Company and PEDCO entered into the MIEJ Settlement Agreement with MIEJ. As part of the MIEJ Settlement Agreement, all amounts owed to or from Condor were restructured. As of September 30, 2015, there were no accounts receivable or payable or by or to MIEJ. There was \$4.925 million of principal and \$243,000 of accrued interest owed under the New MIEJ Note.

In addition, as part of the MIEJ Settlement Agreement, PEDCO agreed to provide assistance in the orderly transfer of the operational management, finance and accounting matters involving Condor to MIEJ, and upon the request of MIEJ, PEDCO agreed for a period of up to six (6) months (terminable upon fifteen (15) days' prior written notice from MIEJ to PEDCO), PEDCO shall continue to assist with Condor's accounting and audits and perform joint interest billing accounting on behalf of Condor for a monthly fee of \$55,000 for January 2015, \$0 for February 2015, \$10,000 for March 2015 and \$30,000 per month thereafter, pro-rated for partial months.

During the nine months ended September 30, 2015 and 2014, the Company charged \$56,000 and \$167,000, respectively, in expenses related to a management services agreement with Condor through February 2015 and charged \$100,000 and \$-0-, respectively, in expenses related to a management services agreement with MIEJ after February 2015. This management fee represents an amount agreed upon between MIEJ and the Company as being reflective of the approximate amount of time and resources the Company personnel dedicates to Condor-related matters on a monthly basis. As of September 30, 2015 and December 31, 2014, the Company had accrued \$-0- and \$56,000, respectively, in amounts due from Condor under the agreement.

Vesting Agreements with Management. See Note 12 for a discussion of Vesting Agreements with management.

Note Amendments and Warrant Issuances to RJC

See Note 9 for a discussion of certain amendments to the Senior Note and subordinated note held by RJC.

F-23

See Note 13 for a discussion of certain warrants issued to RJC by the Company in connection with the amendment of the Senior Note and subordinated note held by RJC.

NOTE 15 – FAIR VALUE

As defined in our accounting policy on the fair value of financial instruments, financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

The following table sets forth by level within the fair value hierarchy our financial instruments that were accounted for at fair value as of September 30, 2015 (in thousands):

	Fair Value Measurements At September 30, 2015			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value
Series A Convertible Preferred Stock	\$ -	\$ -	\$ 28,402	\$ 28,402

The Company believes there is no active market or significant other market data for the Series A Preferred stock as it is held by a limited number of closely held entities, therefore the Company has determined it should use Level 3 inputs.

The Series A Convertible Preferred Stock was valued using a binomial lattice option pricing model for which the significant assumptions were expected term and expected volatility. The binomial lattice model used a probabilistic approach in which the Company assigned percentages to each scenario based on the chance of repayment. The percentages used were as follows: the non-repayment scenario was assigned a 25% probability.

NOTE 16 – SUBSEQUENT EVENTS

Issuance of Common Stock

On October 7, 2015, the Company issued 214,286 shares of restricted common stock under the Company's 2012 Equity Incentive Plan to each of Mr. David C. Crikelair, Ms. Elizabeth P. Smith, and Mr. David Z. Steinberg, the Company's independent directors, as annual equity compensation grants made in accordance with the Company's Board of Director's Compensation Plan. 100% of the shares issued to Mr. Crikelair and Ms. Smith will become vested and non-forfeitable on September 10, 2016, and 100% of the shares issued to Mr. Steinberg will become vested and non-forfeitable on July 15, 2016, for so long as the holder remains a director, employee of, or consultant to the Company, with a stock price on the grant date of \$0.28 per share, and a total grant date fair value of \$180,000.

Amendment to the PEDEVCO CORP. 2012 Equity Incentive Plan

At the Annual Meeting of Stockholders held on October 7, 2015 (the "Annual Meeting"), the Company's stockholders approved an amendment to the Company's 2012 Equity Incentive Plan (the "Plan") to increase by 3,000,000, the number

of shares of common stock reserved for issuance under the Plan.

F-24

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;
- availability and terms of capital;
- 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 and hedging activities;
- environmental liabilities;
- counterparty credit risk;
- developments in oil-producing and natural gas-producing countries;
- future operating results;
- planned combination with Dome Energy;
- estimated future reserves and the present value of such reserves; and
- plans, objectives, expectations and intentions contained in this Report that are not historical.

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”, the matters described in “Risk Factors” below and included in our Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission on March 31, 2015 (the “Form 10-K”), along with the audited consolidated financial statements included in the Form 10-K, and the unaudited consolidated financial statements included in this quarterly report.

Certain abbreviations and oil and gas industry terms used throughout this Report are described and defined in greater detail under “Glossary of Oil And Natural Gas Terms” on page 27 of our Form 10-K.

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 nine months ended September 30, 2015, above.

General Overview

PEDEVCO Corp. (the “Company”, “PEDEVCO”, “we” and “us”) is an energy company engaged primarily in the acquisition, exploration, development and production of oil and natural gas shale plays in the Denver-Julesberg Basin (“D-J Basin”) in Colorado, which contains hydrocarbon bearing deposits in several formations, including the Niobrara, Codell, Greenhorn, Shannon, J-Sand, and D-Sand. As of September 30, 2015, we held approximately 19,089 net D-J Basin acres located in the Wattenberg and Wattenberg Extension areas of the D-J Basin in Weld and Morgan Counties, Colorado (our “D-J Basin Asset”). As of September 30, 2015, through our wholly-owned subsidiary, Red Hawk Petroleum, LLC (“Red Hawk”), we hold interests in 53 gross (15.7 net) wells in our D-J Basin Asset, of which 14 gross (12.5 net) wells are operated by Red Hawk and are currently producing, 17 gross (3.2 net) wells are non-operated, and 22 wells have an after-payout interest.

In May 2015, we entered into an Agreement and Plan of Reorganization (as amended to date, the “Reorganization Agreement”) with PEDEVCO Acquisition Subsidiary, Inc., a newly formed wholly-owned subsidiary of the Company (“Exchange Sub”), Dome Energy AB (“Dome AB”), and Dome Energy, Inc. a wholly-owned subsidiary of Dome AB (“Dome US”, and collectively with Dome AB, “Dome Energy”), which contemplates our acquisition of all of Dome Energy’s U.S. oil and gas assets in exchange for the issuance by us of approximately 153 million shares of common stock to Dome AB (subject to adjustment before closing such that the number of shares issued equals 64% of our issued and outstanding common stock (including shares issuable upon conversion of our outstanding Series A Convertible Preferred Stock, subject to certain exclusions)), which will constitute a change of control of the Company (the “Exchange”). Dome US produces approximately 1,250 barrels of oil equivalent per day (BOEPD) from a core operated portfolio of conventional oil and gas assets located in Texas and Wyoming, and from additional producing assets located in Arkansas, Kentucky, Louisiana, Mississippi, and Oklahoma. Because the closing of the transactions contemplated by the Reorganization Agreement is subject to various closing conditions, no assurance can be made that the transactions contemplated by the Reorganization Agreement will be completed. See greater details regarding this transaction below in “Recent Developments – Agreement and Plan of Reorganization with Dome Energy”.

We have listed below the total production volumes and total revenue net to the Company for the three and nine months ended September 30, 2015 and 2014 attributable to our D-J Basin Asset, including the calculated production volumes and revenue numbers for our D-J Basin Asset held indirectly through Condor that would be net to our interest if reported on a consolidated basis until it was sold in February 2015 and production realized from our February 2015 acquisition of approximately 12,977 net acres of oil and gas properties and interests in 53 gross wells located in the Denver-Julesburg Basin, Colorado (the “GGE Asset Acquisition” and the “Acquired Assets”) from Golden Globe Energy (US), LLC (“GGE”).

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014
Oil volume (BBL)	25,256	12,347
Gas volume (MCF)	112,239	30,940
Volume equivalent (BOE) (1)	43,963	17,504
Revenue (000’s)	\$ 1,318	\$ 1,186
	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Oil volume (BBL)	99,093	46,715
Gas volume (MCF)	248,348	74,625

Volume equivalent (BOE) (1)		140,484		59,153
Revenue (000's)		\$ 4,623	\$	4,494

(1) Assumes 6 Mcf of natural gas is equivalent to 1 barrel of oil.

Strategy

We believe that the D-J Basin shale play represents among the most promising unconventional oil and natural gas plays in the U.S. We plan to continue to seek additional acreage proximate to our currently held core acreage located in the Wattenberg and Wattenberg Extension areas of Weld County, Colorado. 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 for the next 12 calendar months will be focused on the acquisition, development and expansion of our D-J Basin Asset. The Company is currently working with Dome Energy to prepare a projected drilling and completion schedule and budget assuming the Company's acquisition of Dome US is consummated, for which we anticipate the 2015-2016 program will provide for the drilling of approximately 10 gross (8.4 net) long lateral horizontal wells at an estimated capital cost to the Company of approximately \$48.7 million, or approximately \$50.4 million including lease renewals. In the event the Company does not

consummate the acquisition of Dome US, we plan to drill and complete, and participate in the drilling and completion of, approximately 6 additional total wells (equivalent to 1.0 net well to us) in our D-J Basin Asset over the next 12 calendar months, requiring limited capital expenditures by the Company. We plan to fund our operations and business plan by utilizing projected cash flow from operations, the approximately \$13.5 million gross (\$11.0 million net, after origination-related fees and expenses) available under our current senior debt facility, our cash on hand, proceeds from future potential debt and/or equity financings, which may include drilling partnerships. The availability of additional borrowings under the senior debt facility is subject to the Company providing matching funds for all amounts borrowed, which additional borrowed funds may only be used to fund development costs.

During the nine months ended September 30, 2015, the Company has focused on growth opportunities, while addressing the expected liquidity requirements arising from a significant decrease in oil and gas prices. The Company had the following significant events:

Acquired oil and gas assets from Golden Globe Energy, LLC, which increased the value of our assets by approximately \$45,000,000, and our debt obligations by approximately \$9,000,000, essentially doubling our proved reserves and net acreage held. In connection with the acquisition, we issued 3,375,000 shares of restricted common stock and 66,625 shares of Series A Convertible Preferred Stock

Sold our ownership in Condor Energy Technology, LLC and working interests in the related oil and gas assets to MIE Jurassic Energy Corporation, recognizing a gain of approximately \$275,000 and a net reduction in debt of approximately \$2,000,000.

Entered into an agreement to acquire Dome Energy, Inc. which is expected to result in additional proved reserves of 6 MBOE, an additional 1,250 net barrels of oil equivalent per day of oil and gas production, and provide greater resources to raise capital.

Restructured various debt obligations to defer until note maturity approximately \$ 3.3 million of principal and interest payments until February 2016, reducing total cash pay requirements under the notes by \$ 490,000 to approximately \$100,000 per month. In connection with the deferment, we issued warrants to purchase 1.55 million shares of common stock.

Implemented G&A cost savings strategies (excluding non-cash items) which resulted in reduced costs of approximately \$1,000,000 compared to the nine months ended September 30, 2015.

Management is continually reviewing the recoverability of its oil and gas assets given the reduction of crude oil and natural gas prices during the year. Over the course of the year, we have identified acreage that we believe has a low probability of development in the near future and have not renewed such leases where appropriate and impaired the values as necessary. We believe that a significant portion of the effects of lower crude oil prices are now being offset by the continuing reduction of drilling and completion, collection, selling and LOE costs. We believe the leases we currently plan to develop continue to be economic due to the continued reduction in development and operational costs through this year. The recoverability of our oil and gas assets is dependent on our ability to secure sufficient funds to develop our properties. We believe that our current plan to merge with Dome Energy will provide the Company the development capital to execute our development plan. However, if we are unable to execute the merger with Dome Energy, or an alternative financing transaction, and crude oil prices stay at their current prices or go lower or if the new development and operational costs do not hold or such costs return to higher levels, Company management may deem it appropriate in the future to impair certain of our oil and gas properties in the event we determine we will not be able to fully develop our drilling program.

Recent Developments

Agreement and Plan of Reorganization with Dome Energy

On May 21, 2015, we entered into the Reorganization Agreement with Exchange Sub, Dome AB, and Dome US, which Reorganization Agreement was amended effective July 15, 2015 and August 28, 2015 to extend certain due diligence and financial statement delivery deadlines. The Reorganization Agreement provides for our acquisition of Dome AB through an exchange of certain of the shares of our common stock for the shares of Dome US, with the Dome US shares being received by Exchange Sub and Dome AB receiving our shares, as described in greater detail below.

At the closing of the Exchange, which is subject to various closing conditions described below, (i) Dome AB will transfer the common stock of Dome US to Exchange Sub, solely in exchange for shares of our common stock; (ii) Exchange Sub will continue as our wholly-owned subsidiary and Dome US will be a wholly-owned subsidiary of Exchange Sub; and (iii) we will issue Dome AB 153 million shares of our common stock (subject to adjustment before closing such that the number of shares issued equals 64% of our issued and outstanding common stock (including shares issuable upon conversion of our outstanding Series A Convertible Preferred Stock (but excluding certain redeemable Series A Convertible Preferred Stock shares))).

The Reorganization Agreement, as amended, required that the parties deliver, on or prior to September 30, 2015, copies of the disclosure schedules required pursuant to the terms of the Reorganization Agreement and that Dome US deliver audited financial statements relating to the periods required to be disclosed in the planned Form S-4 Registration Statement (described in greater detail below) (the "Dome US Financials"). In the event there are any issues associated with such disclosures, or a material difference in the Dome US Financials delivered to us versus information previously supplied to us, or if Dome US failed to achieve a minimum

consolidated EBITDAX (revenue minus expenses (excluding tax, interest, depreciation, depletion, amortization and exploration expenses)) of at least \$9.0 million annualized based on Dome US's audited financial statements for the three-months ended December 31, 2014, the parties agreed to negotiate such issues in good faith, and if such differences cannot be mutually agreed to after thirty days, that the Reorganization Agreement can be terminated by the Company without penalty, provided that pursuant to the failure of Dome US to comply with the delivery deadlines below, the Company can currently terminate the Reorganization Agreement at any time without penalty.

As of the date of this filing, Dome US has not delivered all the necessary disclosure schedules and financial statements for quarterly statements in 2015, prepared in accordance with GAAP, which are required for inclusion in the Form S-4 Registration Statement the Company plans to file with the Securities and Exchange Commission in order to seek shareholder approval for the business combination (the "Registration Statement"). Although no further amendment to the Reorganization Agreement has been entered into to date, the parties are continuing to move forward with the transactions contemplated by the Reorganization Agreement and the preparation of the Registration Statement, and continue to work in good faith to complete the previously disclosed business combination.

The Board of Directors of the Company and Dome US have (i) adopted and declared advisable the Reorganization Agreement and the transactions contemplated by the Reorganization Agreement, including the Exchange, upon the terms and subject to the conditions set forth in the Reorganization Agreement; and (ii) determined that the Reorganization Agreement and the transactions contemplated by the Reorganization Agreement are fair to, and in the best interests of, the Company and its stockholders, subject in all cases to the receipt by the Company of an opinion of Roth Capital Partners, LLC, the Company's financial advisor, to the effect that the Exchange is fair, from a financial point of view, to the Company's shareholders (the "Fairness Opinion").

The parties have made customary representations, warranties and covenants in the Reorganization Agreement, and the Exchange is subject to customary closing conditions, including:

approval of the Agreement by the shareholders of the Company and Dome AB,
receipt of required regulatory approvals,
the absence of any law or order prohibiting the consummation of the Exchange,
approval of the NYSE MKT, and
the effectiveness of a Registration Statement relating to our common stock to be issued in the Exchange and including proxy information for both the Company and Dome AB.

Each party's obligation to complete the Exchange is also subject to certain additional customary conditions, including (a) subject to certain exceptions, the accuracy of the representations and warranties of the other party, and (b) performance in all material respects by the other party of its obligations under the Agreement. Additionally, closing conditions relating to Dome AB's obligation to close the transaction include our obligation to furnish Dome AB with (A) evidence satisfactory to it that (i) our junior lender has agreed to subordinate approximately \$8.35 million of debt owed by the Company to a \$43.75 million credit facility owed by Dome US, which we plan to assume as part of the Exchange; and (ii) we have satisfied in full all obligations under our senior loan; and (B) copies of new employment agreements with Messrs. Ingriselli, Peterson and Moore, modifying the terms of their current agreements to, among other things, waive certain change of control provisions set forth therein (the "New Employment Agreements").

Each of the Company and Dome US agreed to pay all costs and expenses incurred by them in connection with the Reorganization Agreement; provided, however, the parties agreed to split equally the costs incurred in connection with the preparing, printing, mailing and filing of the Registration Statement, and submitting the new listing application relating to the combined entity, if requested or required by the NYSE MKT, but that we would pay all costs associated with the Fairness Opinion.

The Reorganization Agreement also includes customary termination provisions for both the Company and Dome US, subject, in certain circumstances, to the payment by either party of a termination fee of \$1 million. Specifically, and subject to the terms of the Reorganization Agreement, including in certain circumstances rights to cure or other prerequisites (a) upon termination of the Reorganization Agreement by us, Dome US shall be obligated to pay the \$1 million termination fee to us (i) if Dome US fails to fulfill any material obligation under the Reorganization Agreement by November 19, 2015, which causes the Exchange not to close (subject to certain exceptions); (ii) if Dome US breaches any representation or warranty in the Reorganization Agreement, and subject to the right to cure, and such breach constitutes a material adverse effect; or (iii) if the Dome AB shareholders fail to approve the Exchange, or the Board of Directors of Dome US accept a superior offer (as described in the Reorganization Agreement); or (b) upon termination of the Reorganization Agreement by Dome US, we shall be obligated to pay the \$1 million termination fee to Dome US (i) if we fail to fulfill any material obligation under the Reorganization Agreement by November 19, 2015 which causes the Exchange not to close (subject to certain exceptions); (ii) if we breach any representation or warranty in the Reorganization Agreement, and subject to the right to cure, and such breach constitutes a material adverse effect; (iii) if our Board of Directors fails to recommend, or modifies the recommendation to our shareholders to approve such Exchange (except on the basis of the Fairness Opinion concluding the Exchange is not fair to our shareholders); (iv) if our shareholders fail to approve the Exchange, or our Board of Directors accepts a superior offer (as described in the Reorganization Agreement); or (v) if we fail to deliver the New Employment Agreements.

The parties intend, for U.S. federal income tax purposes, that the Exchange will qualify as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986. Following the closing of the Exchange, Dome AB is expected to distribute the shares of the Company which it receives ratably to its shareholders, subject to the approval by the Dome AB shareholders, Swedish law and the appropriate Swedish authorities (Dome AB is a Swedish

corporation).

Warrant Issuances Related to Loan Payment Deferrals

On April 24, 2015, certain of our investors under our senior secured promissory notes issued to Senior Health Insurance Company of Pennsylvania (as successor-in-interest to BRe BCLIC Primary), BRe BCLIC Sub, BRe WINIC 2013 LTC Primary, BRe WINIC 2013 LTC Sub, HEARTLAND Bank, and RJ Credit LLC (the “PEDEVCO Senior Loan Investors”), and BAM Administrative Services LLC, as agent for the investors, and any related collateral documents (collectively, the “PEDEVCO Senior Loan”), agreed to defer certain mandatory principal repayments and interest payments that would otherwise be payable by us to them in the months of May and June 2015, with such deferred amounts to be used by us solely to renew, extend, re-lease or otherwise acquire leases which will then become additional collateral under the PEDEVCO Senior Loan. The aggregate principal and interest that was deferred was approximately \$524,000, which amount has been capitalized and added to the principal due under the PEDEVCO Senior Loan as of July 31, 2015 and is due upon maturity. The Company was also charged an additional deferral fee of \$354,000, the amount of the principal and interest deferred under this agreement, which was added to the principal and due upon maturity. As consideration for the deferral, on September 10, 2015, we granted warrants exercisable for an aggregate of 349,111 shares of our common stock to the Senior Loan Investors with a fair value of approximately \$40,000. Each warrant has a 3 year term and is exercisable on a cashless basis at an exercise price of \$1.50 per share.

On August 28, 2015, the Company entered into agreements with the holders of the Senior Notes to (i) defer until the maturity date of the Senior Notes the mandatory principal payments that would otherwise be due and payable by the Company on payment dates occurring during the six month period of August 1, 2015 through January 31, 2016, (ii) HEARTLAND Bank agreed to change the frequency of payment of accrued interest and mandatory principal repayments from monthly to semi-annually, with the next interest payment due February 1, 2016 and the next mandatory principal repayment due August 3, 2016, and with the Company agreeing to place an amount equal to 1/6th of the semi-annual principal and interest payments due into a sinking fund which the Company shall pay to HEARTLAND Bank every six months when due and owing, (iii) RJC agreed to defer all interest payments otherwise due and payable by the Company to RJC during the period commencing on August 1, 2015 through January 31, 2016 (the "Waiver Period"), which deferred interest is added to principal each month during the Waiver Period, (iv) certain other owners agreed to (a) defer until the maturity date of their Senior Notes 12/17ths of the interest payments that would otherwise be due and payable by the Company to them on payment dates occurring during the six month period of August 1, 2015 through January 31, 2016; and (b) have the Company pay in cash 5/17ths of such interest payments per month, with all deferred interest being added to principal each month until the maturity date of the Senior Notes, and (v) SHIP, BRe BCLIC Sub, BRe WINIC 2013 LTC Primary, BRe WNIC 2013 LTC Sub and RJC agreed to increase the interest rate under their Senior Notes from 15% to 17% per annum on all outstanding principal under the Senior Notes during the Waiver Period. These deferrals agreed upon with Investors (the "August-January Deferrals") will reduce the Company's monthly cash interest payments and mandatory principal repayments from approximately \$600,000 per month prior to these agreements, to approximately \$100,000 per month during the Waiver Period after giving effect to the changes agreed upon under these agreements, thereby providing the Company with an estimated \$500,000 per month in reduced cash flow requirements during the Waiver Period.

The purpose of these deferrals is to provide the Company with temporary relief from cash requirements to fully-focus and execute upon the Reorganization Agreement with Dome Energy, or another alternative transaction in the event the Company does not consummate the transaction with Dome Energy.

As additional consideration for these agreements and related note amendments and deferrals, on September 10, 2015, the Company issued warrants exercisable on a cash-only basis for an aggregate of 1,201,004 shares of common stock to certain of the deferring Investors, proportionately based on their individual principal with a fair value of approximately \$120,000. The warrants have a three year term and are exercisable on a cash-only basis at a price of \$1.50 per share. In addition, in the event the aggregate total of principal and interest deferred exceeds \$900,000 over the Waiver Period, within thirty days of February 1, 2016, and subject to NYSE MKT additional listing approval, the Company will proportionately grant additional warrants such that the total aggregate number of shares of Company common stock exercisable under all warrants granted shall equal (x) the total principal and interest deferred by such Investors divided by (y) \$0.75.

In addition, the Company agreed to prepare and deliver to RJC a monthly budget in form and substance reasonably satisfactory to RJC, and such financial statements as RJC may reasonably request. The monthly budget is required to include a cash flow forecast and detail of all anticipated non-recurring expenses and non-cash budget items, and the Company is required to comply with the budgeted expenses set forth therein in all material respects, provided, however, that a variance of less than 10% with respect to the expenses, on an aggregate basis, is permitted.

It is anticipated that the certain debt will all be satisfied in full in connection with the closing contemplated by the Reorganization Agreement with Dome Energy, at which point further interest and principal deferrals will cease. However, if all the current outstanding debt remains outstanding without principal reduction prior to February 1, 2016, the Company estimates that up to an aggregate of approximately \$2.95 million in total interest and principal payments may be deferred pursuant to these agreements, in which event warrants exercisable solely on a cash basis for approximately an additional 2.7 million shares of Company common stock at an exercise price of \$0.75 per share will be granted pro rata to the Investors (other than to HEARTLAND Bank) in February 2016.

In the event the Company does not consummate either the Reorganization Agreement with Dome Energy, or an alternate transaction approved by the note holders in their sole discretion on or before February 1, 2016, unless the Company resumes full and prompt payment when due of all interest and principal repayments as required pursuant to all debt commencing on February 1, 2016, then the Company agreed that it would cooperate in exploring opportunities to repay all of the Senior Notes in full as soon as possible after such date.

Amendment to the 2012 Equity Incentive Plan

At the Company's Annual Meeting of Stockholders held on October 7, 2015 (the "Annual Meeting"), the Company's stockholders approved an amendment to the Company's 2012 Equity Incentive Plan (the "Plan") to increase by 3,000,000, the number of shares of common stock reserved for issuance under the Plan to a total of 10,000,000 shares.

Approval of Conversion Rights of Series A Preferred Stock

At the Company's Annual Meeting, the Company's stockholders approved the issuance of up to 66,625,000 shares of common stock to Golden Globe Energy (US), LLC (and its assigns) upon conversion of the Company's outstanding shares of Series A Preferred

stock. As a result, (i) the Series A Preferred has ceased accruing dividends and all accrued and unpaid dividends have been automatically forfeited and forgiven; and (ii) the liquidation preference of the Series A Preferred has been reduced to \$0.001 per share from \$400 per share.

Critical Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make judgments, estimates and assumptions in the preparation of our consolidated financial statements and accompanying notes. Actual results could differ from those estimates. We believe there have been no significant changes in our critical accounting policies as discussed in our Annual Report on Form 10-K for the year ended December 31, 2014.

Results of Operations and Financial Condition

All of the numbers presented below are rounded numbers and should be considered as approximate.

Comparison of the Three Months Ended September 30, 2015 with the Three Months Ended September 30, 2014

Oil and Gas Revenue. For the three months ended September 30, 2015, we generated a total of \$1,318,000 in revenues, compared to \$1,090,000 for the three months ended September 30, 2014. The increase of \$228,000 was primarily due to the additional revenue resulting from the Acquired Assets.

Lease Operating Expenses. For the three months ended September 30, 2015, lease operating expenses associated with the oil and gas properties were \$495,000, compared to \$105,000 for the three months ended September 30, 2014. The increase of \$390,000 was primarily due to the increased lease operating expenses in the current period related to the Acquired Assets.

Exploration Expense. For the three months ended September 30, 2015, exploration expense was \$165,000, compared to \$88,000 for the three months ended September 30, 2014. The increase of \$77,000 was primarily due to lease extension expenses.

Selling, General and Administrative Expenses. For the three months ended September 30, 2015, selling, general and administrative (“SG&A”) expenses were \$1,389,000, compared to \$2,198,000 for the three months ended September 30, 2014. The decrease of \$809,000 was primarily due to lower accounting and other professional fees and lower stock compensation expense related to stock issuances during the period. The components of SG&A expense are summarized below (amounts in thousands):

(in thousands)	For the Three Months Ended		Increase/ (Decrease)
	Ended September 30, 2015	2014	
Payroll and related costs	\$461	\$452	\$9
Stock compensation expense	701	965	(264)
Legal fees	22	60	(38)
Accounting and other professional fees	78	456	(378)
Insurance	20	24	(4)
Travel and entertainment	17	51	(34)
Office rent, communications and other	90	190	(100)
	\$1,389	\$2,198	\$(809)

Impairment of Oil and Gas Properties. There was no impairment of oil and gas properties for the three months ended September 30, 2015. For the three months ended September 30, 2014, impairment of oil and gas properties was \$322,000 related to lease expirations.

Depreciation, Depletion and Amortization and Accretion (“DD&A”). For the three months ended September 30, 2015, DD&A costs were \$1,072,000, compared to \$273,000 for the three months ended September 30, 2014. The \$799,000 increase was primarily due to additional depletion from the Acquired Assets and from the 3 recently drilled Loomis wells in the current period.

Gain (Loss) on Sale of Oil and Gas Properties. We had no gain (loss) on sale of oil and gas properties for the three months ended September 30, 2015. For the three months ended September 30, 2014, loss on sale of oil and gas properties was \$5,000.

Gain (Loss) from Equity Method Investments. We had no gain (loss) from equity method investments for the three months ended September 30, 2015. For the three months ended September 30, 2014, we had a loss from equity method investments of \$46,000 primarily due to the decreased production in our Condor investment in the prior year period.

Other Income (Expense). For the three months ended September 30, 2015, other expense was \$3,656,000, compared to \$3,018,000 for the three months ended September 30, 2014. The increase in other expense of \$638,000 was primarily due to the increased interest expense of \$623,000 primarily due to the debt assumed with the acquisition of the Acquired Assets.

Net Loss Attributable to PEDEVCO Common Stockholders. For the three months ended September 30, 2015, net loss attributable to PEDEVCO common stockholders was \$5,455,000, compared to a net loss attributable to PEDEVCO common stockholders of \$4,804,000 for the three months ended September 30, 2014. The increase in net loss of \$651,000 was primarily due to the reasons described above.

Comparison of the Nine Months Ended September 30, 2015 with the Nine Months Ended September 30, 2014

Oil and Gas Revenue. For the nine months ended September 30, 2015, we generated a total of \$4,593,000 in revenues, compared to \$4,192,000 for the nine months ended September 30, 2014. The increase of \$401,000 was primarily due to the increased revenue resulting from the Acquired Assets and production from the 3 recently drilled Loomis wells in the current period.

Lease Operating Expenses. For the nine months ended September 30, 2015, lease operating expenses associated with the oil and gas properties were \$1,434,000, compared to \$1,367,000 for the nine months ended September 30, 2014. The increase of \$67,000 was primarily due to the increased lease operating expenses in the current period related to the Acquired Assets.

Exploration Expense. For the nine months ended September 30, 2015, exploration expense was \$693,000, compared to \$1,213,000 for the nine months ended September 30, 2014. The decrease of \$520,000 was primarily due to the purchase of seismic data and lease extension expense in the prior period.

Selling, General and Administrative Expenses. For the nine months ended September 30, 2015, SG&A expenses were \$5,673,000, compared to \$6,207,000 for the nine months ended September 30, 2014. The decrease of \$535,000 was primarily due to lower legal fees and accounting and other professional fees, partially offset by higher stock compensation expense. The components of SG&A expense are summarized below (amounts in thousands):

(in thousands)	For the Nine Months Ended		Increase/ (Decrease)
	Ended September 30, 2015	2014	
Payroll and related costs	\$ 1,421	\$ 1,305	\$ 116
Stock compensation expense	3,150	2,710	440
Legal fees	192	564	(372)
Accounting and other professional fees	398	1,116	(718)
Insurance	70	69	1
Travel and entertainment	66	131	(65)
Office rent, communications and other	375	312	63
	\$ 5,672	\$ 6,207	\$(535)

Impairment of Oil and Gas Properties. For the nine months ended September 30, 2015, impairment of oil and gas properties was \$1,337,000, compared to \$354,000 for the nine months ended September 30, 2014. The \$983,000 increase is due to the impairment of unproved leasehold property as a result of a change in drilling plans caused primarily by the recent significant oil and gas price declines in the current period.

Depreciation, Depletion and Amortization and Accretion. For the nine months ended September 30, 2015, DD&A costs were \$3,379,000, compared to \$753,000 for the nine months ended September 30, 2014. The \$2,626,000 increase was primarily due to additional depletion from the Acquired Assets and from the 3 recently drilled Loomis wells in the current period.

Loss on Settlement of Payables. We had no loss on settlement of payables for the nine months ended September 30, 2015. For the nine months ended September 30, 2014, the loss on settlement of payables was \$39,000 related to the settlement of payables with our common stock.

Gain (Loss) on Sale of Oil and Gas Properties. For the nine months ended September 30, 2015, gain on sale of oil and gas properties was \$275,000 related to the MIE Jurassic Energy Corporation (“MIEJ”) Settlement Agreement, compared to a loss on sale of oil and gas properties of \$5,413,000 for the nine months ended September 30, 2014, primarily due to the sale to GGE of 50% of the Wattenberg Asset acquired from Continental during the prior period.

Gain (Loss) on Sale of Equity Investment. For the nine months ended September 30, 2015, gain on sale of equity investment was \$566,000 related to the MIEJ Settlement Agreement, compared to a loss on sale of equity investment of \$1,028,000 related to the sale of 50% of the Equity in MSL to GGE during the prior period.

Loss on Sale of Deposit for Business Acquisition. For the nine months ended September 30, 2014, loss on sale of deposit for business acquisition was \$1,945,000 related to the sale of 50% of our rights to Asia Sixth to GGE. We had no loss on sale of deposit for business acquisition for the nine months ended September 30, 2015.

Gain (Loss) from Equity Method Investments. For the nine months ended September 30, 2015, we had a loss from equity method investments of \$91,000 compared to a loss from equity method investments of \$463,000 for the nine months ended September 30, 2014. The decrease in loss of \$372,000 is primarily due to the decreased production in our Condor investment in the current period.

Other Income (Expense). For the nine months ended September 30, 2015, other expense was \$7,913,000, compared to \$7,747,000 for the nine months ended September 30, 2014. The increase in other expense of \$166,000 was primarily due to increased interest expense of \$3,391,000 primarily due to the financing costs related to the acquisition of certain properties in the Wattenberg and Wattenberg extension of the D-J Basin and the Acquired Assets, mostly offset by the gain on debt extinguishment of \$2,192,000 related to the MIEJ Settlement Agreement.

Net Loss Attributable to PEDEVCO Common Stockholders. For the nine months ended September 30, 2015, net loss attributable to PEDEVCO common stockholders was \$15,081,000, compared to a net loss attributable to PEDEVCO common stockholders of \$22,169,000 for the nine months ended September 30, 2014. The decrease in net loss of \$7,088,000 was primarily due to the reasons described above.

Liquidity and Capital Resources

Liquidity Outlook

We expect to incur substantial expenses and generate significant operating losses as we continue to explore for and develop our oil and natural gas prospects, and as we opportunistically invest in additional oil and natural gas properties, develop our discoveries which we determine to be commercially viable and incur expenses related to operating as a public company and compliance with regulatory requirements.

Our future financial condition and liquidity will be impacted by, among other factors, the success of our exploration and appraisal drilling program, the number of commercially viable oil and natural gas discoveries made and the quantities of oil and natural gas discovered, the speed with which we can bring such discoveries to production, and the actual cost of exploration, appraisal and development of our prospects, as well as the potential acquisition of Dome US. The acquisition of Dome US and the GGE Asset Acquisition were structured to work hand in hand with the intent of increasing the assets, proven reserves and cash flow of the Company, for the express purpose of securing lower cost bank financing, whether by increasing Dome US’s current bank facility and/or securing new bank credit to pay down the Company’s current debt and reduce the cost of capital for the Company going forward.

In addition, the Company is currently working with Dome Energy to prepare a projected drilling and completion schedule and budget assuming the Company's acquisition of Dome US is consummated, for which we anticipate the

2015-2016 program will provide for the drilling of approximately 10 gross (8.4 net) long lateral wells at an estimated capital cost to the Company of approximately \$48.7 million, or approximately \$50.4 million including lease renewals. We plan to utilize a new debt facility currently being negotiated by Dome US (assuming we complete the Exchange), cash on hand, proceeds from future equity offerings, internally generated cash flow, and future debt financings to fund this expanded 2015-2016 capital expenditure program in order to achieve our plans following the consummation of the planned acquisition of Dome US. In the event the Company does not consummate the acquisition of Dome US, we plan to minimize our 2015 capital expenditures and retain our net revenue interests by arranging alternative financing independently or forming a drilling partnership or alternatively, to seek out another combination transaction as an alternative to the Exchange. Other than approximately \$127,000 spent for lease renewals in certain of our core Wattenberg acreage, the Company has not spent any of the planned capital expenditures described above in connection with its drilling program during the nine months ended September 30, 2015.

We expect to fund our operations and capital expenditure program as needed with our projected cash flow from operations, our existing cash on hand, the \$13.5 million gross (\$11.0 million net, after origination-related fees and expenses) available under our

current debt facility, additional funding through asset sales, farm-out arrangements, lines of credit or public or private debt or equity financings.

Our capital budget may be adjusted as business conditions warrant. The amount, timing and allocation of capital expenditures are largely discretionary and within our control. If oil and natural gas prices decline or costs increase significantly, we could defer a significant portion of our budgeted capital expenditures until later periods to prioritize capital projects that we believe have the highest expected returns and potential to generate near-term cash flows. We routinely monitor and adjust our capital expenditures in response to changes in prices, availability of financing, drilling and acquisition costs, industry conditions, timing of regulatory approvals, availability of rigs, success or lack of success in drilling activities, contractual obligations, internally generated cash flows and other factors both within and outside our control.

Historical Liquidity and Capital Resources

Secured Debt Funding

During March 2014, we entered into the transactions contemplated by a Note Purchase Agreement (the “Note Purchase”), between the Company, BRe BCLIC Primary, BRe BCLIC Sub, BRe WNIC 2013 LTC Primary, BRe WNIC 2013 LTC Sub, and RJ Credit LLC (“RJC”), as investors (collectively, the “Investors”), and BAM Administrative Services LLC, as agent for the Investors (the “Agent”). Pursuant to the Note Purchase, we sold the Investors Secured Promissory Notes in the aggregate amount of \$34.5 million (the “Initial Notes”). On March 19, 2015, BRe WNIC 2013 LTC Primary transferred a portion of its Initial Note to HEARTLAND Bank, and effective April 1, 2015, BRe BCLIC Primary transferred its Initial Note to Senior Health Insurance Company of Pennsylvania (“SHIP”), with each of HEARTLAND Bank and SHIP becoming an “Investor” upon such dates for the purposes of the discussion below.

We received \$29,325,000 before expenses in connection with the sale of the Initial Notes after paying the Investors an original issue discount in connection with the sale of the Initial Notes of \$1,725,000 (5% of the balance of the Initial Notes); and an underwriting fee of \$3,450,000 (10% of the balance of the Initial Notes). In connection with the Note Purchase, we also reimbursed approximately \$190,000 of the legal fees and expenses of the Investors’ counsel, and paid \$1,742,000 to Casimir Capital LP (“Casimir”), our investment banker in the transaction, leaving a net of approximately \$27,393,000 which was received by us on March 7, 2014.

From time to time, subject to the terms and conditions of the Note Purchase (including the requirement that we have deposited funds in an aggregate amount of any additional requested loan into a segregated bank account (the “Company Deposits”), and prior to the Maturity Date (defined below), we have the right to request additional loans (to be evidenced by notes with substantially similar terms as the Initial Notes, the “Subsequent Notes”, and together with the Initial Notes, the “Notes”) from RJC, currently up to an additional \$13.5 million in total or an aggregate of \$50 million together with the Initial Notes. We are required to pay original issue discounts in the amount of 5% of the funds borrowed, underwriting fees in the amount of 10% of the amount of the funds borrowed, reimburse certain of the legal fees of RJC’s counsel, and pay applicable fees to Casimir representing 5% of any funds borrowed, in connection with funds borrowed under any Subsequent Notes. Funds borrowed under any Subsequent Notes are only eligible to be used by us, together with Company Deposits, for approved AFEs issued for a well or wells to be drilled and completed on any properties acquired in connection with the Continental Acquisition or owed by us in connection with our former Mississippian asset. The total aggregate amount of any Subsequent Notes cannot exceed \$15.5 million and in the event we drill a dry hole, we are prohibited from using the proceeds from the sale of any Subsequent Notes, without the consent of RJC. The availability of additional borrowings under the senior debt facility is subject to the Company providing matching funds for all amounts borrowed.

In addition, during the year ended December 31, 2014, the Company borrowed \$1,967,000 for drilling activities. There were no borrowings during the nine months ended September 30, 2015. As of September 30, 2015 there was approximately \$13.5 million available to draw under the facility. The Notes are due and payable on March 7, 2017 (the "Maturity Date"), and may be repaid in full without premium or penalty at any time.

As additional consideration for the Note Purchase transaction and for GGE agreeing to purchase the Subsequent Notes, GGE acquired ownership of 50% of all of our oil and gas assets and properties acquired in connection with the Continental Acquisition, rights to 50% of the oil and gas assets and properties which we had the right to acquire in Kazakhstan (as described in greater detail in Note 6 to the unaudited consolidated financial statements included in "Part I – Financial Information" – "Item 1. Financial Statement", of this report), and effective ownership of 50% of our former Mississippian asset.

The Notes bear interest at the rate of 15% per annum, payable monthly in arrears, on the first business day of each month beginning April 1, 2014 (in connection with the Initial Notes), provided that upon the occurrence of an event of default, the Notes bear interest at the lesser of 30% per annum and the maximum legal rate of interest allowable by law. We can prepay all or any portion of the principal amount of Notes, without premium or penalty. The Notes include standard and customary events of default.

Additionally, we are required on the third business day of each month, commencing on April 1, 2014, to prepay the Notes in an amount equal to the lesser of (a) the outstanding principal amount of the Notes or (b) twenty-five percent (25%) of the aggregate of all

net revenues actually received by us and our subsidiaries for the immediately preceding calendar month (or such pro rata portion of the first month the payment is required). The Notes also provide that RJC is to be repaid (i) accrued interest, only after all of the other Investors are repaid any accrued interest due and (ii) principal, only after all of the other Investors are repaid the full amount of principal due under their Notes, and (iii) that any funding in connection with Subsequent Notes will be made solely by RJC.

The net proceeds from the Initial Funding were used by us (along with funds raised through the February 2014 sale of assets which were formerly owned by White Hawk), to purchase assets located in Weld and Morgan Counties, Colorado, from Continental.

On April 24, 2015, certain of the Investors in our Initial Notes agreed to defer certain mandatory principal repayments and interest payments that would otherwise be payable in the months of May and June 2015, with such deferred amounts to be used by us solely to renew, extend, re-lease or otherwise acquire leases which will then become additional collateral under the Initial Notes. The aggregate principal and interest that was deferred was approximately \$354,000, which amount has been added to the principal due under the Initial Notes as of July 31, 2015 and is due upon maturity (\$320,000 of which was expensed as additional interest expense). The Company was also charged an additional deferral fee of \$354,000, the amount of the principal and interest deferred under this agreement, which was added to the principal and due upon maturity. As consideration for the deferral, on September 10, 2015, the Company issued warrants exercisable for an aggregate of 349,111 shares of our common stock to the Investors participating in the deferral. Each warrant has a 3 year term and is exercisable on a cashless basis at an exercise price of \$1.50 per share. The fair value of these warrants of approximately \$40,000 was recorded as additional deferred financing costs.

On August 28, 2015, the Company entered into agreements with the holders of the Senior Notes to (i) defer until the maturity date of the Senior Notes the mandatory principal payments that would otherwise be due and payable by the Company on payment dates occurring during the six month period of August 1, 2015 through January 31, 2016, (ii) HEARTLAND Bank agreed to change the frequency of payment of accrued interest and mandatory principal repayments from monthly to semi-annually, with the next interest payment due February 1, 2016 and the next mandatory principal repayment due August 3, 2016, and with the Company agreeing to place an amount equal to 1/6th of the semi-annual principal and interest payments due into a sinking fund which the Company shall pay to HEARTLAND Bank every six months when due and owing, (iii) RJC agreed to defer all interest payments otherwise due and payable by the Company to RJC during the period commencing on August 1, 2015 through January 31, 2016 (the "Waiver Period"), which deferred interest is added to principal each month during the Waiver Period, (iv) certain other holders agreed to (a) defer until the maturity date of their Senior Notes 12/17ths of the interest payments that would otherwise be due and payable by the Company to them on payment dates occurring during the six month period of August 1, 2015 through January 31, 2016, and (b) have the Company pay in cash 5/17ths of such interest payments per month, with all deferred interest being added to principal each month until the maturity date of the Senior Notes, and (v) SHIP, BRe BCLIC Sub, BRe WINIC 2013 LTC Primary, BRe WNIC 2013 LTC Sub and RJC agreed to increase the interest rate under their Senior Notes from 15% to 17% per annum on all outstanding principal under their Senior Notes during the Waiver Period. These deferrals agreed upon with our Investors (the "August-January Deferrals") will reduce the Company's monthly cash interest payments and mandatory principal repayments from approximately \$600,000 per month prior to these agreements, to approximately \$100,000 per month during the Waiver Period after giving effect to the changes agreed upon under these agreements, thereby providing the Company with an estimated \$500,000 per month in reduced cash flow requirements during the Waiver Period.

In the event the Company does not consummate either the Reorganization Agreement with Dome Energy, or an alternate transaction approved by the Note Holders in their sole discretion on or before February 1, 2016, unless the Company resumes full and prompt payment when due of all interest and principal repayments as required pursuant to all debt commencing on February 1, 2016, then the Company agreed that it would cooperate in exploring opportunities to repay all debt in full as soon as possible after such date.

Assumption of Subordinated Note Payable

The Company assumed approximately \$8.35 million under a subordinated note payable from GGE in connection with the acquisition of the Acquired Assets, which amount is outstanding as of September 30, 2015. The lender under the subordinated note payable is RJC, which is one of the lenders under the Secured Promissory Notes and is an affiliate of GGE. The note is due and payable on December 31, 2017, and bears interest at a rate of 12% per annum (24% upon an event of default). The accrued interest is payable on a monthly basis in cash. The assumed note payable is subordinate and subject to the terms and conditions of the Secured Promissory Notes, as well as any future secured indebtedness from a lender with an aggregate principal amount of at least \$20,000,000. Should the Company repay the Secured Promissory Notes or replace them with a secured indebtedness from a lender with an aggregate principal amount of at least \$20,000,000, RJC agreed to further amend the subordinated note payable to adjust the frequency of interest payments or to eliminate the payments and replace them with a single payment of the accrued interest to be paid at maturity.

On April 24, 2015, RJC agreed to defer all mandatory principal repayments and interest payments that would otherwise be payable by us to RJC in the months of May and June 2015 under the subordinated note, with such deferred amounts to be used by us solely to renew, extend, re-lease or otherwise acquire leases which will then become additional collateral under the subordinated note. The aggregate principal and interest that was deferred was approximately \$170,000, which amount has been capitalized and added to the principal due under the subordinated note effective July 31, 2015 and due upon maturity. As consideration for the deferral, we granted

warrants exercisable for an aggregate of 113,237 shares of our common stock to RJC (which are included in the aggregate total of 349,111 shares issuable upon exercise of warrants issued to the Investors as described above under “Secured Debt Funding”). The warrant has a 3 year term and will be exercisable on a cashless basis at an exercise price of \$1.50 per share.

On August 28, 2015, the Company entered into agreements with RJC pursuant to which (i) RJC agreed to defer until the maturity date of the subordinated note the mandatory principal payments that would otherwise be due and payable by the Company on payment dates occurring during the six month period of August 1, 2015 through January 31, 2016, and (ii) RJC agreed to defer all interest payments otherwise due and payable by the Company to RJC under the subordinated note during the period during the Waiver Period, which deferred interest is capitalized monthly during the Waiver Period. As additional consideration for these agreements and related note amendments and deferrals, on September 10, 2015, the Company issued to RJC warrants exercisable on a cash-only basis for an aggregate of 265,241 shares (which are included in the aggregate total of 1,201,004 shares issuable upon exercise of warrants issued to the Investors as described above under “Secured Debt Funding”). The warrants have a three year term and are exercisable on a cash-only basis at a price of \$0.75 per share. In addition, in the event the aggregate total of principal and interest deferred by all Investors in connection with the August 2015 through January 2016 deferrals exceeds \$900,000 over the Waiver Period as described above under “Senior Debt Funding”, within thirty days of February 1, 2016, and subject to NYSE MKT additional listing approval, the Company will proportionately grant additional warrants such that the total aggregate number of shares of Company common stock exercisable under all warrants granted to the Investors will equal (x) the total principal and interest deferred by such Investors divided by (y) \$0.75.

The subordinated note payable contains customary representations, warranties, covenants and requirements for the Company to indemnify RJC and its affiliates, related parties and assigns. The note payable also includes various covenants (positive and negative) binding the Company, including requiring that the Company provide RJC with quarterly (unaudited) and annual (audited) financial statements, restricting our creation of liens and encumbrances, or sell or otherwise disposing, the collateral under the note.

Amendment to PEDCO-MIEJ Note and Condor-MIEJ Note

On February 14, 2013, PEDCO entered into a Secured Subordinated Promissory Note, as amended on March 25, 2013 and July 9, 2013 (the “MIEJ Note”, the description of which MIEJ Note below takes into account the amendments to such MIEJ Note) with MIEJ, with an effective date of November 1, 2012. The MIEJ Note converted amounts previously advanced by MIEJ to PEDCO in the amount of \$2.17 million to fund operations in the D-J Basin Asset through November 1, 2012, as well as an additional \$2 million loaned by MIEJ to PEDCO under the MIEJ Note on February 14, 2013 and \$2 million loaned by MIEJ to PEDCO under the MIEJ Note on March 25, 2013, for a total current principal and interest amount outstanding under the MIEJ Note of \$6.17 million and \$1,203,000, respectively, as of December 31, 2014.

Furthermore, as previously discussed in February 2015, the Company and PEDCO entered into the MIEJ Settlement Agreement with MIEJ. As part of the MIEJ Settlement Agreement, we entered into the New MIEJ Note, which replaced the original MIEJ Note, in the principal amount of \$4.925 million. As of September 30, 2015, the amount outstanding under the New MIEJ Note was \$4,925,000.

The New MIEJ Note has an interest rate of 10.0%, with no interest due until maturity, is secured by all of our assets, and is subordinated to the PEDEVCO Senior Loan. MIEJ has no control over our cash flow and their consent is not required for any disposition, sale, or use of any of our assets. MIEJ also agreed to subordinate its note to up to an additional \$60 million of new senior lending, with any portion of new senior lending in excess of this amount required to be paid first to MIEJ until the New MIEJ Note is paid in full. Further, for every \$20 million in new senior lending we raise, MIEJ shall be paid all interest and fees accrued to date on the New MIEJ Note. The New MIEJ Note is due

and payable on March 8, 2017, subject to automatic extensions upon the occurrence of a Long Term Financing or PEDEVCO Senior Lending Restructuring (each as defined below).

On a onetime basis, the PEDEVCO Senior Loan may be refinanced by a new loan (“Long-Term Financing”) by one or more third party replacement lenders (“Replacement Lenders”), and in such event the Company shall undertake commercially reasonable best efforts to cause the Replacement Lenders to simultaneously refinance both the PEDEVCO Senior Loan and the New MIEJ Note as part of such Long-Term Financing. If the Replacement Lenders are unable or unwilling to include the New MIEJ Note in such financing, then the Long-Term Financing may proceed without including the New MIEJ Note, and the New MIEJ Note shall remain in place and shall be automatically subordinated, without further consent of MIEJ, to such Long-Term Financing. Furthermore, upon the occurrence of a Long-Term Financing, the maturity of the New MIEJ Note is automatically extended to the same maturity date of the Long-Term Financing, but to no later than March 8, 2020. Additionally, in connection with the Long-Term Financing:

the Long-Term Financing must not exceed \$95 million;
we must make commercially reasonable best efforts to include adequate reserves or other payment provisions whereby MIEJ is paid all interest and fees accrued on the New MIEJ Note commencing as of March 8, 2017 and annually thereafter, and to allow for quarterly interest payments starting March 31, 2017 of not less than 5% per annum on the outstanding balance of the New MIEJ Note, plus a one-time payment of accrued interest (not to exceed \$500,000) as of March 31, 2017; and

commencing on March 8, 2017, MIEJ shall have the right to convert the balance of the New MIEJ Note into our common stock at a price equal to 80% of the average closing price per share of our stock over the then previous 60 days, subject to a minimum conversion price of \$0.30 per share. MIEJ shall not be permitted to convert to the extent such conversion would result in MIEJ holding more than 19.9% of our outstanding common stock without approval of our shareholders, which we have agreed to seek at our 2016 annual shareholder meeting or, if not approved then, at our 2017 annual shareholder meeting.

In the event the PEDEVCO Senior Loan is instead refinanced, restructured or extended by the existing PEDEVCO Senior Loan Investors, the maturity of both the New MIEJ Note and the PEDEVCO Senior Loan may be extended to no later than March 8, 2019, without requiring the consent of MIEJ. However, (i) any such maturity extension of the New MIEJ Note will give MIEJ the right to convert the note into our common stock as described above, commencing on March 8, 2017, and (ii) such extension agreement must provide that MIEJ is paid all interest and fees accrued on the New MIEJ Note as of March 8, 2018. The New MIEJ Note may be prepaid any time without penalty, and if we repay the New MIEJ Note on or before December 31, 2015, 20% of the principal of the New MIEJ Note amount will be forgiven by MIEJ, and if we repay the New MIEJ Note on or before December 31, 2016, 15% of the principal of the New MIEJ Note amount will be forgiven by MIEJ.

Bridge Notes

On March 7, 2014, we entered into the Second Amendment to Secured Promissory Notes (each, an “Amended Note,” and collectively, the “Amended Notes”) with all but one of the investors holding our secured subordinated promissory notes, originally issued on March 22, 2013, referred to herein as the “bridge notes”.

The Amended Notes amended the bridge notes to allow the holders thereof the right to convert up to 100% of the outstanding and unpaid principal amount (but in increments of not less than 25% of the principal amount of each bridge note outstanding as of the entry into the Amended Notes and only up to four (4) total conversions of not less than 25% each); the additional payment-in-kind cash amount equal to 10% of the principal amount of each holder’s bridge note which was deferred pursuant to the First Amendment; and all accrued and unpaid interest under each bridge note (collectively, the “Conversion Amount”) into our common stock. Upon a conversion, the applicable holder shall receive that number of shares of common stock as is determined by dividing the Conversion Amount by a conversion price (the “Conversion Price”) as follows:

- (A) prior to June 1, 2014, the Conversion Price was \$2.15 per share; and
- (B) following June 1, 2014, the denominator used in the calculation described above is the greater of (i) 80% of the average of the closing price per share of our publicly-traded common stock for the five (5) trading days immediately preceding the date of the conversion notice provided by the holder; and (ii) \$0.50 per share.

Additionally, each bridge investor who entered into the Second Amendment to Secured Promissory Note also entered into a Subordination and Intercreditor Agreement in favor of the Agent, subordinating and deferring the repayment of the bridge notes, and actions in connection with the security interests provided under the bridge notes, until full repayment of the Notes, as described in greater detail above. The Subordination and Intercreditor Agreements also prohibit us from repaying the bridge notes until the Notes have been paid in full, except that we are allowed to repay the bridge notes from net proceeds received from the sale of common or preferred stock (i) in calendar year 2014 if such net proceeds received in such calendar year exceeds \$35,000,000, (ii) in calendar year 2015 if such net proceeds received in such calendar year exceeds \$50,000,000, and (iii) in calendar year 2016 if such net proceeds actually received in such calendar year exceeds \$50,000,000.

Through the date hereof, holders of \$1,900,000 of the original principal amount of the Amended Notes have exercised their option to convert a portion or all of their Amended Notes into common stock of the Company. We issued an aggregate of 1,618,026 shares of common stock of the Company to holders of the Amended Notes upon conversion of an aggregate of \$2,221,000 in principal, accrued interest, and payment-in-kind outstanding under their Amended Notes (the “Note Conversions”), according to the terms of the Amended Notes. Following the Note Conversions, an aggregate principal amount of \$475,000 of the original \$4 million principal amount of the bridge notes remains issued and outstanding, plus accrued interest of \$102,000 and additional PIK of \$48,000, which is convertible into common stock of the Company pursuant to the terms of the Amended Notes.

Registered Public Offering

On May 19, 2015, we closed an underwritten public offering of an aggregate of 6,366,197 shares of common stock, which included the partial exercise of an overallotment option by the underwriter of the offering, at a price of \$0.50 per share to the public. The Company has used the net proceeds of approximately \$2.8 million from the offering to extend and acquire additional leasehold rights in the Denver-Julesburg (D-J) Basin in Colorado, fund working capital and for general corporate purposes.

Financial Summary

We had total current assets of \$5.2 million as of September 30, 2015, including cash of \$1.4 million, compared to total current assets of \$9.6 million as of December 31, 2014, including a cash balance of \$6.7 million.

We had total assets of \$69.2 million as of September 30, 2015 compared to \$41.7 million as of December 31, 2014. Included in total assets as of September 30, 2015 and December 31, 2014, were \$62.4 million and \$19.9 million, respectively, of proved oil and gas properties subject to amortization and \$-0- and \$2.2 million, respectively, of unproved oil and gas properties not subject to amortization.

We had total liabilities of \$48.4 million as of September 30, 2015, including current liabilities of \$8.8 million, compared to total liabilities of \$43.2 million as of December 31, 2014, including current liabilities of \$20.3 million.

We had negative working capital of \$3.7 million, total shareholders' equity of \$20.8 million and a total accumulated deficit of \$75.9 million as of September 30, 2015, compared to negative working capital of \$10.7 million, total shareholders' deficit of \$1.4 million and a total accumulated deficit of \$60.8 million as of December 31, 2014.

Cash Flows From Operating Activities. We had net cash used in operating activities of \$7.5 million for the nine months ended September 30, 2015. This change as compared to the prior period was primarily comprised of changes in working capital items.

Cash Flows From Investing Activities. We had net cash provided by investing activities of \$357,000 for the nine months ended September 30, 2015. This change as compared to the prior period was primarily a result of the Continental Acquisition in the prior period.

Cash Flows From Financing Activities. We had net cash provided by financing activities of \$1.8 million for the nine months ended September 30, 2015, which was a decrease of \$17.6 million as compared to the prior year period. This change was primarily a result of the proceeds received from notes payable and the issuance of common stock in the prior period.

Recent Accounting Pronouncements

During the period ended September 30, 2015, there were no accounting standards and interpretations issued which are expected to have a material impact on the Company's financial position, operations or cash flows.

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 Securities Exchange Act of 1934 (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.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial 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 Chief Executive Officer and Chief Financial Officer concluded as of September 30, 2015, 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 September 30, 2015, that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting, including any corrective actions with regard to 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, 2014, filed with the Commission on March 31, 2015, other than as described below, and investors are encouraged to review such risk factors in the Form 10-K, prior to making an investment in the Company.

In the event the Dome Energy Exchange closes, it will cause immediate and substantial dilution to existing stockholders and a change of control of the Company.

As described above, we are party to an Agreement and Plan of Reorganization with Dome AB relating to the acquisition by us of the outstanding securities of Dome US. We anticipate the consideration exchanged with Dome AB for the securities of Dome US will be approximately 153 million shares of the Company's common stock, representing approximately 64% of the Company's total issued and outstanding shares of capital stock on an as-converted basis (assuming the Series A Preferred is converted into common stock, and excluding a total of 25,000 shares of Series A Preferred Stock issued to GGE which may be redeemed by us under certain circumstances). As such, in the event the contemplated acquisition closes, the issuance of the common stock consideration to Dome AB will result in immediate and substantial dilution to the interests of our then stockholders and result in a change of control of the Company.

The Reorganization Agreement limits our ability to pursue alternatives to the Exchange.

The Reorganization Agreement contains provisions that could adversely impact competing proposals to acquire us. These provisions include the prohibition on us generally from soliciting any acquisition proposal or offer for a competing transaction and the requirement that we pay a termination fee of approximately \$1.0 million in cash if the Reorganization Agreement is terminated in specified circumstances in connection with an alternative transaction. In addition, even if our board of directors determines that a competing proposal to acquire us is superior, we may not exercise our right to terminate the Reorganization Agreement unless we notify Dome US of our intention to do so and give Dome US at least five business days to propose revisions to the terms of the Reorganization Agreement or to make another proposal in response to the competing proposal. Dome US required us to agree to these provisions as a condition to Dome US's willingness to enter into the Reorganization Agreement. These provisions, however, might discourage a third party that might have an interest in acquiring all or a significant part of our company from considering or proposing an acquisition, even if that party were prepared to pay consideration with a higher value than the current proposed Exchange consideration. Furthermore, the termination fee may result in a potential competing acquiror proposing to pay a lower per share price to acquire us than it might otherwise have proposed to pay. Notwithstanding the above, due to the failure of Dome US to comply with certain required delivery deadlines, the Company can currently terminate the Reorganization Agreement at any time without penalty.

The Reorganization Agreement and related voting agreements contain provisions that may discourage other companies from trying to combine with us on more favorable terms while the Exchange is pending.

The Reorganization Agreement contains provisions that may discourage a third party from submitting a business combination proposal to us that might result in greater value to our stockholders than the Exchange. These provisions include a general prohibition on us from soliciting, or, subject to certain exceptions, entering into discussions with any third party regarding any acquisition proposal or offers for competing transactions after such time as we have received all of Dome Energy's required financial statements and disclosure schedules, which have not been received to date. Moreover, certain of our stockholders have entered into voting agreements to vote in favor of the Exchange and not to support any other Exchange proposal by a third party.

Failure to complete the Exchange could negatively impact our stock price and future business and financial results.

If the Exchange is not completed, our ongoing business may be adversely affected and we would be subject to a number of risks, including the following:

we will not realize the benefits expected from the Exchange, including a potentially enhanced competitive and financial position, expansion of assets and therefore opportunities, and will instead be subject to all the risks we currently face as an independent company;

we may experience negative reactions from the financial markets and our partners and employees;

under the Reorganization Agreement, we may be required to pay to Dome US a termination fee of approximately \$1.0 million if the Reorganization Agreement is terminated under certain circumstances. If such termination fee is payable, the payment of this fee could have material and adverse consequences to our financial condition and operations;

the Reorganization Agreement places certain restrictions on the conduct of our business prior to the completion of the Exchange or the termination of the Reorganization Agreement. Such restrictions, the waiver of which is subject to the consent of Dome US, may prevent us from making certain acquisitions, taking certain other specified actions or otherwise pursuing business opportunities during the pendency of the Exchange; and

matters relating to the Exchange (including integration planning) may require substantial commitments of time and resources by our management, which would otherwise have been devoted to other opportunities that may have been beneficial to us as an independent company.

The Reorganization Agreement may be terminated in accordance with its terms and the Exchange may not be completed.

The Reorganization Agreement is subject to a number of conditions which must be fulfilled in order to complete the Exchange. Those conditions include: approval of the Reorganization Agreement by Company stockholders, receipt of requisite regulatory approvals, absence of orders prohibiting completion of the Exchange, effectiveness of the registration, approval of the shares of our common stock to be issued to Dome AB for listing on the NYSE MKT (as well as the listing of the combined company common stock on the NYSE MKT), the continued accuracy of the representations and warranties by both parties (subject to applicable materiality qualifiers) and the performance by both parties, in all material respects, of their covenants and agreements. These conditions to the closing of the Exchange may not be fulfilled and, accordingly, the Exchange may not be completed. In addition, if the Exchange is not completed by November 19, 2015, either we or Dome US may choose not to proceed with the Exchange, and the parties can mutually decide to terminate the Reorganization Agreement at any time, before or after stockholder approval. In addition, we or Dome US may elect to terminate the Reorganization Agreement in certain other circumstances. Notwithstanding the above, due to the failure of Dome US to comply with certain required delivery deadlines, the Company can currently terminate the Reorganization Agreement at any time without penalty.

Termination of the Reorganization Agreement could negatively impact the Company.

In the event the Reorganization Agreement is terminated, our business may have been adversely impacted by our failure to pursue other beneficial opportunities due to the focus of management on the Exchange, and the market price of our common stock might decline to the extent that the current market price reflects a market assumption that the Exchange will be completed. If the Reorganization Agreement is terminated and our board of directors seeks another Exchange or business combination, our stockholders cannot be certain that we will be able to find a party willing to offer equivalent or more attractive consideration than the consideration provided for by the Exchange. If the Reorganization Agreement is terminated under certain circumstances, the terminating party may be required to pay a termination fee of \$1.0 million.

We will be subject to business uncertainties and contractual restrictions while the Exchange is pending.

Uncertainty about the effect of the Exchange on employees and partners may have an adverse effect on us. These uncertainties may impair our ability to attract, retain and motivate key personnel until the Exchange is completed, and could cause partners and others that deal with us to seek to change existing business relationships, cease doing business with us or cause potential new partners to delay doing business with us until the Exchange has been successfully completed. Retention of certain employees may be challenging during the pendency of the Exchange, as certain employees may experience uncertainty about their future roles or compensation structure. If key employees depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the business, our business following the Exchange could be negatively impacted. In addition, the Reorganization Agreement restricts us from making certain acquisitions and taking other specified actions until the Exchange is completed without the consent of Dome AB. These restrictions may prevent us from pursuing attractive business opportunities that may arise prior to the completion of the Exchange.

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

On July 1, 2015, the Company granted a warrant exercisable for an aggregate of 100,000 shares of common stock valued at \$18,000 to an investor relations firm as sole consideration for its future services. The warrant has a 3 year term and is exercisable on a cashless basis at an exercise price of \$0.44 per share with respect to 50% of the shares issuable thereunder following the date of grant and with respect to the balance 50% of the shares issuable thereunder on or after October 1, 2015.

On September 10, 2015, the Company issued 390,000 shares of common stock to a financial and professional relations advisor as partial compensation for consulting services.

On October 7, 2015, the Company issued 214,286 shares of restricted common stock under the Company's 2012 Equity Incentive Plan to each of Mr. David C. Crikelair, Ms. Elizabeth P. Smith, and Mr. David Z. Steinberg, the Company's independent directors, as annual equity compensation grants made in accordance with the Company's Board of Director's Compensation Plan. 100% of the shares issued to Mr. Crikelair and Ms. Smith will become vested and nonforfeitable on September 10, 2016, and 100% of the shares issued to Mr. Steinberg will become vested and nonforfeitable on July 15, 2016, for so long as the holder remains a director, employee of, or consultant to the Company.

On September 10, 2015, as consideration for certain principal and interest payment deferrals under our senior notes and RJC subordinated note as further described under "Part I – Financial Information – Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Recent Developments -- Warrant Issuances Related to Loan Payment Deferrals" above, we granted (i) warrants exercisable for an aggregate of 349,111 shares of our common stock to certain lenders participating in the deferral, each of which has a 3 year term and is exercisable on a cashless basis at an exercise price of \$1.50 per share (which if fully exercised (notwithstanding the cashless exercise rights) would result in an aggregate of 349,111 shares of common stock being issued to the holders thereof), and (ii) warrants exercisable on a cash-only basis for an aggregate of 1,201,004 shares to certain lenders participating in the deferral (which if fully exercised would result in an aggregate of 1,201,004 shares of common stock being issued to the holders thereof), each of which has a three year term and is exercisable on a cash-only basis at a price of \$0.75 per share.

These issuances and grants described above which constituted "offers" and/or "sales" of securities, were exempt from registration pursuant to Section 4(a)(2), Rule 506 of Regulation D and/or Regulation S of the Securities Act of 1933, as amended (the "Act") since the foregoing issuances and grants did not involve a public offering, the recipients took the securities for investment and not resale, we took appropriate measures to restrict transfer, and each recipient (a) was an "accredited investor"; (b) had access to similar documentation and information as would be required in a Registration Statement under the Act; and/or (c) was a non-U.S. person.

Additionally, on October 7, 2015, the Company issued 214,286 shares of restricted common stock under the Company's 2012 Equity Incentive Plan to each of Mr. David C. Crikelair, Ms. Elizabeth P. Smith, and Mr. David Z. Steinberg, the Company's independent directors, as annual equity compensation grants made in accordance with the Company's Board of Director's Compensation Plan. 100% of the shares issued to Mr. Crikelair and Ms. Smith will become vested and non-forfeitable on September 10, 2016, and 100% of the shares issued to Mr. Steinberg will become vested and non-forfeitable on July 15, 2016, for so long as the holder remains a director, employee of, or consultant to the Company. The shares of common stock issuable under the Company's 2012 Equity Incentive Plan, as amended, have been registered under the Act on various Form S-8 registration statements which have been declared effective by the Securities and Exchange Commission.

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.

November 13, 2015

By: /s/ Frank C. Ingriselli
Frank C. Ingriselli
Chief Executive Officer
(Principal Executive Officer)

PEDEVCO Corp.

November 13, 2015

By: /s/ Michael L. Peterson
Michael L. Peterson
President and Chief Financial
Officer
(Principal Financial and
Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Description	Filed With This Quarterly Report on Form 10-Q	Incorporated By Reference			
			Form	Exhibit	Filing Date/Period End Date	File Number
1.1	Underwriting Agreement, dated May 13, 2015, by and between PEDEVCO Corp. and National Securities Corporation		8-K	1.1	5/13/2015	001-35922
2.1+	Agreement and Plan of Reorganization dated as of May 21, 2015, by and among PEDEVCO Corp., PEDEVCO Acquisition Subsidiary, Inc., Dome Energy, Inc. and Dome Energy AB		8-K	2.1	5/26/2015	001-35922
2.2+	Amendment No. 1 to Agreement and Plan of Reorganization dated as of July 15, 2015, by and among PEDEVCO Corp., PEDEVCO Acquisition Subsidiary, Inc., Dome Energy, Inc. and Dome Energy AB		8-K	2.1	7/20/2015	001-35922
2.3+	Amendment No. 2 to Agreement and Plan of Reorganization dated as of August 28, 2015, by and among PEDEVCO Corp., PEDEVCO Acquisition Subsidiary, Inc., Dome Energy, Inc. and Dome Energy AB		8-K	2.1	9/1/2015	001-35922
10.1	Voting Agreement dated as of May 21, 2015, by and among Dome Energy AB, Dome Energy, Inc., and Frank C. Ingriselli; Michael L. Peterson; Clark R. Moore and Golden Globe Energy (US), LLC		8-K	10.1	5/26/2015	001-35922
10.2	Voting Agreement dated as of May 21, 2015 by and among Dome Energy AB, Dome Energy, Inc., and Brightening Lives Foundation, Inc.		8-K	10.2	5/26/2015	001-35922

Edgar Filing: PEDEVCO CORP - Form 10-Q

10.3	Voting Agreement dated as of May 13, 2015 by and among PEDEVCO Corp., Bustein AS and Range Ventures LLC	8-K	10.3	5/26/2015	001-35922
10.4	Form of Executive Vesting Agreement dated May 21, 2015	8-K	10.4	5/26/2015	001-35922
10.5	Amended and Restated 2012 Equity Incentive Plan	8-K	10.1	10/13/15	001-35922
10.6	Letter Agreement, dated August 28, 2015, by and among PEDEVCO Corp., BAM Administrative Services LLC, Senior Health Insurance Company of Pennsylvania, BRE BCLIC Sub, BRE WNIC 2013 LTC Primary, BRE WNIC 2013 LTC Sub, HEARTLAND Bank, and RJ Credit LLC	8-K	10.1	9/1/2015	001-35922
10.7	Letter Agreement, dated August 28, 2015, by and among PEDEVCO Corp. and HEARTLAND Bank	8-K	10.2	9/1/2015	001-35922
10.8	Form of Common Stock Warrant (April 24, 2015 Lender Amendment)	X			

10.9	Form of Common Stock Warrant (August 28, 2015 Lender Amendment)	8-K	10.3	9/1/2015	001-35922
<u>31.1</u>	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002		X		
<u>31.2</u>	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002		X		
<u>32.1</u>	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		*		
<u>32.2</u>	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		**		

*Furnished herein.

** XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

+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.

