PEDEVCO CORP
Form 10-Q
May 19, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: March 31, 2016

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from   to_____

Commission file number: 001-35922

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ 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 þ 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.

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	þ

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

At May 18, 2016, there were 49,768,007 shares of the Registrant’s common stock outstanding.

PEDEVCO CORP.
For the Three Months Ended March 31, 2016
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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash	$ 732	$ 1,138
Accounts receivable	300	406
Accounts receivable – oil and gas	1,098	208
Accounts receivable – related party	21	19
Prepaid expenses and other current assets	158	150
Total current assets	2,309	1,921
Oil and gas properties:		
Oil and gas properties, subject to amortization, net	60,964	58,767
Oil and gas properties, not subject to amortization, net	-	-
Total oil and gas properties, net	60,964	58,767
Other assets	85	85
Investments – cost method	4	4
Total assets	$ 63,362	$ 60,777
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 3,390	$ 3,380
Accrued expenses	7,183	2,178
Accrued expenses – related parties	182	187
Revenue payable	423	475
Convertible notes payable – Bridge Notes, net of premiums of $113,000 and $113,000, respectively	588	588
Notes payable – Secured Promissory Notes, net of debt discount of $-0- and $7,800,000 respectively	-	625
Notes payable – Secured Promissory Notes – related party, net of debt discount of $-0- and $1,713,000 respectively	-	134
Total current liabilities	11,766	7,567
Long-term liabilities:		
Notes payable – Secured Promissory Notes, net of debt discount of $7,885,000 and $1,861,000, respectively	23,277	19,420
Notes payable – Secured Promissory Notes – related party, net of debt discount of $1,705,000 and $409,000 respectively	5,033	4,721
Notes payable – Subordinated – related party	9,192	8,918

Notes payable – other		4,925		4,925
Asset retirement obligations		208		189
Total liabilities		54,401		45,740
Commitments and contingencies				
Shareholders' equity:				
Series A convertible preferred stock, $0.001 par value, 100,000,000 shares authorized, 66,625 and 66,625 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively		-		-
Common stock, $0.001 par value, 200,000,000 shares authorized; 46,986,497 and 45,236,497 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively		47		45
Additional paid-in-capital		97,663		97,163
Accumulated deficit		(88,690)		(82,112)
Noncontrolling interests		(59)		(59)
Total shareholders' equity		8,961		15,037
Total liabilities and shareholders' equity	$	63,362	$	60,777

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 March 31, 2016	For the Three Months Ended March 31, 2015
Revenue:		
Oil and gas sales	$ 582	$ 1,488
Operating expenses:		
Lease operating costs	264	361
Exploration expense	117	315
Selling, general and administrative expense	1,416	2,451
Impairment of oil and gas properties	-	1,337
Depreciation, depletion, amortization and accretion	1,277	1,045
Total operating expenses	3,074	5,509
Gain on sale of oil and gas properties	-	275
Gain on sale of equity investment	-	566
Loss from equity method investments	-	(91)
Operating loss	(2,492)	(3,271)
Other income (expense):		
Interest expense	(4,086)	(3,143)
Other income	-	40
Gain on debt extinguishment	-	2,192
Total other expense	(4,086)	(911)
Net loss	(6,578)	(4,182)
Less: net loss attributable to non-controlling interests	-	-
Net loss attributable to PEDEVCO common shareholders	$ (6,578)	$ (4,182)
Net loss per common share:		
Basic and diluted	$ (0.14)	$ (0.12)
Weighted average number of common shares outstanding:		
Basic and diluted	46,851,882	35,586,758

See accompanying notes to unaudited consolidated financial statements.

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

	For the Three Months Ended March 31, 2016	2015
Cash Flows From Operating Activities:		
Net loss	$ (6,578)	$ (4,182)
Net loss attributable to noncontrolling interests	-	-
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	502	1,391
Impairment of oil and gas properties	-	1,337
Depreciation, depletion and amortization	1,277	1,045
Gain on sale of oil and gas properties	-	(275)
Gain on sale of equity investment	-	(566)
Interest expense deferred and capitalized in debt restructuring	1,490	-
Gain on debt extinguishment	-	(2,192)
Loss from equity method investments	-	91
Amortization of debt discount	2,194	1,504
Changes in operating assets and liabilities:		
Accounts receivable	106	-
Accounts receivable - oil and gas	(178)	1,048
Accounts receivable - oil and gas - related party	-	21
Accounts receivable - related party	(2)	56
Prepaid expenses and other current assets	(8)	(24)
Accounts payable	118	(2,239)
Accrued expenses	730	(399)
Accrued expenses - related parties	(5)	161
Revenue payable	(52)	(4)
Advances for joint operations	-	(657)
Net cash used in operating activities	(406)	(3,884)
Cash Flows From Investing Activities:		
Cash paid for drilling costs	-	(200)
Proceeds from sale of equity investment	-	500
Net cash provided by investing activities	-	300
Cash Flows From Financing Activities:		
Repayment of notes payable	-	(673)
Repayment of notes payable – related party	-	(100)
Net cash used in financing activities	-	(773)
Net decrease in cash	(406)	(4,357)
Cash at beginning of period	1,138	6,675
Cash at end of period	$ 732	$ 2,318
Supplemental Disclosure of Cash Flow Information		
Cash paid for:		

Interest	$	109	$	2,634
Income taxes	$	-	$	-
Noncash Investing and Financing Activities:				
Issuance of restricted common stock for services upon vesting maturity	$	2	$	1
Issuance of common stock to Bridge Note holders due to conversion	$	-	$	102
Accrual of costs for oil and gas properties	$	3,582	$	-
Changes in estimates of asset retirement obligations	$	5	$	15
Accounts receivable from purchase of oil and gas property	$	-	$	1,678
Accounts payable from 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 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

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 Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on March 29, 2016, 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 County, Colorado all of which properties are owned directly by the Company or through its wholly-owned subsidiary, Red Hawk Petroleum, LLC ("Red Hawk").

The Company plans to focus on the development of shale oil and gas assets held by the Company in 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 acquisition of additional oil and gas working interests in February 2015 from Golden Globe Energy (US), LLC ("GGE") (the "GGE Acquisition"), the Company significantly increased the working interests owned by the Company in the D-J Basin Asset.

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 Weld County, 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.

The Company plans to seek additional shale oil and gas and conventional 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)(which was dissolved in April 2016 with an effective date of December 31, 2015); (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 (owned 50% by us) and is included in our consolidated results; (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, Inc., which was subsequently terminated (which entity was dissolved in April 2016); and (x) White Hawk Energy, LLC, a Delaware limited liability company, formed on January 4, 2016 in connection with the planned reorganization transaction with GOM Holdings, LLC ("GOM"). 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 in Condor, a joint venture collectively owned with affiliates of MIE Holdings. Condor was a Nevada limited liability company owned 20% by the Company and 80% by an affiliate of MIE Holdings. The Company accounted for its 20% ownership in Condor using the equity method. In February 2015, the Company divested its interest in Condor.

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 March 31, 2016, and December 31, 2015, 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 March 31, 2016, approximately $457,000 of the Company's cash balances were uninsured. The Company has not experienced any losses on such accounts.

Sales to one customer comprised 74% of the Company's total oil and gas revenues for the three months ended March 31, 2016. Sales to one customer comprised 84% of the Company's total oil and gas revenues for the three months ended March 31, 2015. 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 $39,000 related to receivables from joint interest owners.

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

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

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

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

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

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

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

Asset Retirement Obligations. If a reasonable estimate of the fair value of an obligation to perform site reclamation, dismantle facilities or plug and abandon wells can be made, the Company will record a liability (an asset retirement obligation or "ARO") on its consolidated balance sheet and capitalize the present value of the asset retirement cost in oil and gas properties in the period in which the retirement obligation is incurred. In general, the amount of an ARO and the costs capitalized will be equal to the estimated future cost to satisfy the abandonment obligation assuming the normal operation of the asset, using current prices that are escalated by an assumed inflation factor up to the estimated settlement date, which is then discounted back to the date that the abandonment obligation was incurred using an assumed cost of funds for the Company. After recording these amounts, the ARO will be accreted to its future estimated value using the same assumed cost of funds and the capitalized costs are depreciated on a unit-of-production basis over the estimated proved developed reserves. Both the accretion and the depreciation will be included in depreciation, depletion and amortization expense on our consolidated statements of operations.
The following table describes changes in our asset retirement obligations during the three months ended March 31, 2016 and 2015 (in thousands):

	2016	2015
Asset retirement obligations at January 1,	$ 189	$ 89
Accretion expense	5	18
Obligations incurred for acquisition	19	87
Obligations settled - assets sold	-	(1)
Changes in estimates	(5)	(15)
Asset retirement obligations at March 31,	$ 208	$ 178

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 months ended March 31, 2016 and 2015, 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 2,770,340 and 1,403,898 potentially issuable shares of common stock related to options, 7,803,282 and 6,594,129 potentially issuable shares of common stock related to warrants and 1,305,794 and 1,179,928 potentially issuable shares of common stock related to the conversion of Bridge Notes due to their anti-dilutive effect for the three months ended March 31, 2016 and 2015, respectively.

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

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

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

Level 1 – Quoted prices in active markets for identical assets or liabilities.
Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

Recently Issued Accounting Pronouncements. In 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 affected amounts shown on the Company’s balance sheet were a result of reclassifications within the balance sheet upon adoption of this ASU to conform to this standard. The Company adopted this ASU during the first quarter of 2016 and the adoption of this ASU did not have a material impact on its financial statements (balance sheet amounts as of December 31, 2015 were also reclassified for comparability purposes).

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

NOTE 4 – OIL AND GAS PROPERTIES

The following table summarizes the Company's oil and gas activities by classification for the three months ended March 31, 2016:

	December 31, 2015	Additions	Disposals	Transfers	March 31, 2016
Oil and gas properties, subject to amortization	$ 64,655	$ 3,455	$ -	$ -	$ 68,110
Oil and gas properties, not subject to amortization	-	-	-	-	-
Asset retirement costs	137	14	-	-	151
Accumulated depreciation, depletion and impairment	(6,025)	(1,272)	-	-	(7,297)
Total oil and gas assets	$ 58,767	$ 2,197	$ -	$ -	$ 60,964

The depletion recorded for production on proved properties for the three months ended March 31, 2016 and 2015, amounted to $1,272,000 and $1,027,000, respectively. The Company did not record any impairment expense for unproved leasehold costs for the three months ended March 31, 2016. The Company recorded impairment expense of $1,337,000 for all unproved leasehold costs for the three months ended March 31, 2015, as a result of a revision of management's plans to our re-leasing program due to the decrease in commodity pricing. The Company did not record any impairment of properties subject to amortization for the three months ended March 31, 2016 or 2015.

Acquisition of Properties from Dome Energy, Inc.

During the three months ended March 31, 2016, net additions to oil and gas properties subject to amortization were $3,455,000, comprised of additions to existing properties of $9,000 and completion costs of $3,446,000 of non-operating well costs which included eight wells drilled by a third party operator.

On November 19, 2015, the Company entered into a Letter Agreement with Dome Energy pursuant to which Dome Energy agreed to acquire the Company's interests in these eight wells and fully fund the Company's proportionate share of all the corresponding working interest owner expenses with respect to these eight wells. The Company assigned its interests in these wells to Dome Energy effective on November 18, 2015, and Dome Energy assumed all amounts owed for the drilling and completion costs, corresponding to these interests acquired from the Company.

On March 29, 2016, the Company entered into a Settlement Agreement with Dome Energy, pursuant to which Dome Energy re-conveyed to the Company the interests assigned to Dome Energy by the Company on November 18, 2015, with the Company becoming responsible for its proportionate share of all the working interest owner expenses, and having the right to receive all corresponding revenues with respect to these eight wells, from the initial production date of the wells. As part of this transaction, the Company also settled $659,000 of outstanding payables with Dome Energy that was accounted for as a purchase price adjustment to the value of the oil and gas properties acquired.

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

	Assets Acquired
Accounts receivable – oil and gas	$712
Oil and gas properties, subject to amortization	3,582
Total assets	$4,294

	Liabilities Assumed
Accounts payable	$(4,275)
Asset retirement obligation	(19)
Total liabilities	$(4,294)

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

On February 23, 2015 (the "Closing"), the Company's wholly-owned subsidiary, 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 "GGE Acquired Assets") from GGE.

As consideration for the acquisition of the GGE 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 11), (ii) assumed approximately $8.35 million of subordinated notes payable from GGE, 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, and which were approximately $467,000 through January 1, 2015.

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 Corp. ("MIEJ") all of the direct interests in approximately 945 net acres and interests in three wells owned by the Company, resulting in a gain on sale of oil and gas properties of $275,000.

NOTE 5 – OTHER CURRENT ASSETS

On September 11, 2013, the Company entered into a Shares Subscription Agreement ("SSA") to acquire an approximate 51% ownership in Asia Sixth Energy Resources Limited ("Asia Sixth"), which held an approximate 60% ownership interest in Aral Petroleum Capital Limited Partnership ("Aral"), a Kazakhstan entity. In August 2014 the SSA and related documents were restructured (the "Aral Restructuring"), in connection with which the Company received a promissory note in the principal amount of $10.0 million from Asia Sixth (the "A6 Promissory Note"), which would be converted into a 10.0% interest in Caspian Energy, Inc. ("Caspian Energy"), an Ontario, Canada company listed on the NEX board of the TSX Venture Exchange, upon the consummation of the Aral Restructuring.

We entered into an agreement with GGE to convey 50% of our interests in Asia Sixth in connection with the Continental Acquisition in March 2014.

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

In connection with our GGE Acquisition, on February 23, 2015, we provided GGE a one-year option to acquire our interest in Caspian Energy 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 December 31, 2015 was $100,000. The option provided to GGE was not exercised and expired on February 23, 2016, resulting in the Company retaining ownership of the 23,182,880 shares of Caspian Energy. As noted in Footnote 16 Subsequent Events, the Company entered into a Call Option Agreement with GGE, dated May 12, 2016 (the "GGE Option Agreement"), in which the Company provided GGE an option to purchase the 23,182,880 common shares of Caspian Energy upon payment of $100,000 by GGE to the Company. The option expires on May 12, 2019, which is the maturity date of the RJC Junior Note, as amended and as described below. The $100,000 option is classified as part of other current assets as of March 31, 2016.

NOTE 6 – ACCOUNTS RECEIVABLE

On November 19, 2015, the Company entered into a Letter Agreement with Dome Energy pursuant to which Dome Energy agreed to acquire the Company's interests in eight wells drilled by a third party operator and fully fund the Company's proportionate share of all the corresponding working interest owner expenses with respect to these eight wells. The Company assigned its interests in these wells to Dome Energy effective November 18, 2015, and Dome Energy assumed all amounts owed for the drilling and completion costs of $3,851,000 corresponding to these interests acquired from the Company. Dome Energy also agreed to pay an additional $250,000 to the Company in the event the anticipated merger with Dome Energy was not consummated. In connection with the assignment of these well interests to Dome Energy, Dome Energy issued a contingent promissory note to the Company, dated November 19, 2015 (the "Dome Promissory Note"), with a principal amount of $250,000, which note was due and payable to the Company on December 29, 2015, upon the termination of the anticipated merger with Dome Energy. To guarantee payment of the Dome Promissory Note, Dome Energy deposited $250,000 into an escrow account and as of March 31, 2016, the Company has recorded a receivable of $250,000 related to this transaction, included in accounts receivable as of March 31, 2016 (and collected on April 28, 2016).

On March 24, 2015, Red Hawk and Dome Energy entered into a Service Agreement (the “Service Agreement”), pursuant to which Red Hawk agreed to provide certain human resource augmentation and accounting services to Dome, of which $156,000 remained due and payable by Dome to Red Hawk as of December 31, 2015. On March 29, 2016, the Company entered into a Settlement Agreement (the “Settlement Agreement”) with Dome Energy and certain of its affiliated entities. Dome Energy agreed to settle and resolve a number of outstanding matters including that Service Agreement. The Settlement Agreement provided for the termination and cancellation of the Service Agreement, with Dome Energy agreeing to pay to Red Hawk $50,000 on May 2, 2016, in full satisfaction of the amounts due under the Service Agreement, with all remaining amounts owed forgiven by Red Hawk. As of March 31, 2016, the receivable due from Dome Energy totaled $300,000, and was comprised of the $250,000 escrow deposit described above and the $50,000 owed to Red Hawk as a part of the Settlement Agreement. As of December 31, 2015, the receivable due from Dome Energy totaled $406,000. During the three months ended March 31, 2016, the receivable due from Dome Energy was reduced by $106,000 as a result of the Settlement Agreement, and was recognized as bad debt expense in selling, general and administrative expense on the Company’s income statement.

NOTE 7 – EQUITY METHOD INVESTMENTS

Condor Energy Technology, LLC

In October 2011, the Company formed a new subsidiary, Condor. The Company owned 20% of Condor and a subsidiary of MIE Holdings owned 80%.

The Company accounted for its 20% ownership in Condor using the equity method. The Company evaluated its relationship with Condor to determine if Condor was a variable interest entity (“VIE”) as defined in ASC 810-10, and whether the Company was the primary beneficiary of Condor, in which case consolidation with the Company would be required. The Company determined that Condor qualified as a VIE, however, the Company concluded that MIE Holdings was the primary beneficiary as a result of being in control of the Board and its ability to control the funding commitments to Condor.

Settlement Agreement with MIEJ

On February 19, 2015, the Company entered into a Settlement Agreement with MIEJ, 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;
- 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 notes;

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 was 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 Issued / Sold
New MIEJ note	$ 4,925
Note receivable with Condor	1,272
Oil and gas property operated by Condor	620
Total items issued or sold	6,817
	Items Received
Accrued liabilities	3,280
Original debt with MIE net of cash payments	6,070
Proceeds from cash payments made by MIE to RJ Credit and BAM	500
Total items received	9,850
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 year ended December 31, 2015 in the amount of $566,000.

NOTE 8 – 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 RJ Credit LLC ("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" or "Senior Notes") and provided for an additional $15.5 million available under the financing agreement to fund the Company's future drilling costs to be evidenced by notes with substantially similar terms as the Initial Notes (the "Subsequent Notes"). On March 19, 2015, BRe WNIC 2013 LTC Primary transferred a portion of its Initial Note to HEARTLAND Bank, and effective April 1, 2015, BRe BCLIC Primary transferred its Initial Note to Senior Health Insurance Company of Pennsylvania ("SHIP"), with each of HEARTLAND Bank and SHIP becoming an "Investor" for purposes of the discussion below.

The Initial 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 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 and Note 16 for information related to recent agreements to defer certain principal and interest payments.

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.

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 granted 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 increased 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"), reduced 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.

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. The warrants have a three year term and are exercisable on a cash-only basis at a price of $0.75 per share. The fair value of these 1,201,004 warrants of approximately $120,000 was recorded as additional deferred financing costs.

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, provided that such obligation has been further extended as discussed below. As of December 31, 2015, the amount of deferred interest and deferred principal was $2,527,000 and $519,000, respectively. The number of warrants to be issued as of December 31, 2015 was approximately 3.1 million. As the fair value of the warrants is minimal, due to the exercise price being out-of-the money, as of December 31, 2015, no liability was accrued. These warrants will not be issued and were settled as part of the debt restructuring, discussed in more detail in the subsequent events footnote.

The Company did not borrow any proceeds under the Notes Purchase Agreement during the year ended December 31, 2015 and the three months ended March 31, 2016. As of March 31, 2016, 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.

During the three months ended March 31, 2016, there were no payments made to reduce the outstanding principal due under the Initial Notes.

All debt discount amounts are amortized using the effective interest rate method. The amount of the debt discount reflected on the accompanying balance sheet as of March 31, 2016 was $9,706,000. Amortization of debt discount and interest expense, related to the Initial Notes and the first advance, was $2,194,000 and $1,477,000 for the three months ended March 31, 2016, respectively.

As a result of the issuance of common and preferred shares in the acquisition of the assets from GGE in 2015, GGE became a related party of the Company.

2016 Senior Note Deferrals

On January 29, 2016, the Company entered into a Letter Agreement (the “Letter Agreement”) with the Investors and the Agent. The Letter Agreement extended by one (1) month, through February 29, 2016, the deferral of the payment of interest and principal due under the Senior Notes (the “Deferral Extension”). Specifically, pursuant to the Letter Agreement, (i) all Investors agreed to further defer until the maturity date of their Senior Notes the mandatory principal payments that would otherwise be due and payable by the Company to them on payment dates occurring through February 29, 2016, (ii) HEARTLAND Bank agreed to change the next scheduled semi-annual interest payment due from February 1, 2016 to March 1, 2016 (with interest due and payable thereafter on a semi-annual basis) and to change the next mandatory principal repayment due date to September 3, 2016, and the Company agreed 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, and (iii) SHIP (as successor-in-interest to BRe BCLIC Primary), BRe BCLIC Sub, BRe WINIC 2013 LTC Primary, BRe WNIC 2013 LTC Sub, and RJC agreed to (a) defer until the maturity date of their Senior Notes and the junior note held by RJC (the “RJC Junior Note”) all of the interest payments that would otherwise be due and payable by the Company to them in February 2016; (b) return the interest rate under each of their Senior Notes to 15% per annum, and the interest rate

under the RJC Junior Note to 12% cash pay per annum, effective January 31, 2016; and (c) delay the issuance of any "Subsequent Warrants" issuable pursuant thereto to within 30 days of March 1, 2016, subject to NYSE MKT additional listing approval.

On March 7, 2016, the Company entered into a Letter Agreement, dated March 1, 2016 (the “March Letter Agreement”), with SHIP, BRe BCLIC Sub, BRe WINIC 2013 LTC Primary, BRe WNIC 2013 LTC Sub, and RJC (collectively, the “Original Lenders”), and the Agent, which extended the Deferral Extension by one (1) month, through March 31, 2016. Pursuant to the March Letter Agreement, the Original Lenders agreed to (i) further defer until the maturity date of their Senior Notes the mandatory principal payments that would otherwise be due and payable by the Company to them on payment dates occurring through March 31, 2016, (ii) defer until the maturity date of their Senior Notes and the RJC Junior Note all of the interest payments that would otherwise be due and payable by the Company to them in March 2016, with all interest amounts deferred being added to principal on the first business day of the month following the month in which such deferred interest is accrued; and (iii) delay the issuance of any “Subsequent Warrants” issuable pursuant thereto to within 30 days of April 1, 2016, subject to NYSE MKT additional listing approval. For the three-month period ending March 31, 2016, principal and interest deferred amounted to $1,577,000. An aggregate of approximately $4,415,000 in total interest and principal payments has been deferred pursuant to these agreements through March 2016, in which event warrants exercisable solely on a cash basis for approximately an additional 4.0 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 May 2016. These warrants will not be issued and were settled as part of the debt restructuring, discussed in more detail in the subsequent events footnote.

The Deferral Extension was further extended in April 2016 as described below under “Note 15 - Subsequent Events”.

Bridge Note Financing

As of March 31, 2016, the Company had Bridge Notes with an aggregate principal amount of $475,000 remain outstanding, plus accrued interest of $130,000 and additional payment-in-kind (“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 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 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 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. The interest expense related to these notes for the three months ended March 31, 2016 and 2015 was $14,000 and $15,000, respectively.

The unamortized debt premium on the Convertible Bridge Notes as of March 31, 2016 and December 31, 2015, was $113,000.

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.

In February 2015, the Company and PEDCO entered into a Settlement Agreement with MIEJ (the "MIEJ Settlement Agreement"). As part of the MIEJ Settlement Agreement, the Company entered into a new Secured Subordinated Promissory Note, which extinguished the original MIEJ Note, and reduced the principal amount owed from $6.17 million to $4.925 million (the "New MIEJ Note"). As of March 31, 2016, the amount outstanding under the New MIEJ Note was $4,925,000. The Company recognized a gain on debt extinguishment during the three months ended March 31, 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 months ended March 31, 2016 and 2015 was $124,000 and $120,000, respectively.

For financial reporting purposes, MIEJ was considered a related party for all periods presented prior to the MIEJ Settlement Agreement signed in February 2015. After that date, MIEJ is no longer considered a related party.

Related Party Financings

Subordinated Note Payable Assumed

In 2015, the Company assumed approximately $8.35 million of subordinated note payable from GGE in the acquisition of the GGE Acquired Assets, which amount is outstanding as of March 31, 2016. The lender under the subordinated note payable is RJC, which is one of the lenders under the Senior 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 Senior 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 Senior Notes or replace them with 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 to RJC in May and June 2015 under the subordinated note, with such deferred amounts to be used 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 8 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 December 31, 2015, the total amount of deferred interest and principal related to this note was $565,000.

As additional consideration for these agreements and related note amendments and deferrals, on September 10, 2015, the Company granted 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 8 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, provided such obligation has been extended as discussed below. As of December 31, 2015, the total amount (for all Investors) of deferred interest and deferred principal was $2,527,000 and $519,000, respectively. These warrants will not be issued and were settled as part of the debt restructuring, discussed in more detail in the subsequent events footnote.

The interest expense related to this note for the three months ended March 31, 2016 and 2015 was $276,000 and $222,000, respectively.

2016 RJC Subordinated Note Deferrals

On January 29, 2016 and March 7, 2016, the Company entered into agreements with RJC to defer until maturity the payment of interest and principal due under the subordinated note through March 31, 2016, return the interest rate to 12% per annum effective January 31, 2016, and delay the issuance of any “Subsequent Warrants” issuable pursuant thereto to within 30 days of April 1, 2016, subject to NYSE MKT additional listing approval. For the three-month period ended March 31, 2016, interest deferred amounted to $273,000. An aggregate of approximately $838,000 in total interest has been deferred pursuant to these agreements through March 2016,

The deferral period was further extended in April 2016 as described below under “Subsequent Events”.

NOTE 9 – INCOME TAXES

Due to the Company’s net losses, there was no provision for income taxes for the three months ended March 31, 2016 and 2015.

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 March 31, 2016 and December 31, 2015 are as follows (in thousands):

For the Three Months Ended March 31,	For the Year Ended December 31,