

PLEDGE PETROLEUM CORP
Form 10-Q
June 12, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **March 31, 2018**

or

**.. 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: **000-53488**

PLEDGE PETROLEUM CORP.

(Exact name of registrant as specified in its charter)

Delaware **26-1856569**
(State or other jurisdiction of incorporation or organization) (I.R.S. employer Identification No.)

11811 North Freeway, 5th Floor,
Suite 513, Houston, TX 77060

(Address of principal executive offices) (Zip Code)

(832) 328- 0169

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 x No "

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

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

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

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

Exchange Act. "

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

The Registrant has 234,256,464 shares of common stock outstanding as of June 12, 2018.

Documents incorporated by reference: None

PLEDGE PETROLEUM CORP.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). In particular, statements contained in this Quarterly Report on Form 10-Q, including but not limited to, statements regarding the sufficiency of our cash, our ability to finance our operations and business initiatives and obtain funding for such activities; our future results of operations and financial position, business strategy and plan prospects, or costs and objectives of management for future acquisitions, are forward looking statements. These forward-looking statements relate to our future plans, objectives, expectations and intentions and may be identified by words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “intends,” “targets,” “projects,” “contemplates,” “believes,” “seeks,” “goals,” “estimates,” “predicts,” “potential” and “continue” or similar words. Readers are cautioned that these forward-looking statements are based on our current beliefs, expectations and assumptions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed, projected or implied in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason.

NOTE REGARDING COMPANY REFERENCES

Throughout this Quarterly Report on Form 10-Q, “Pledge,” the “Company,” “we,” “us” and “our” refer to Pledge Petroleum Corp.

PLEDGE PETROLEUM CORP.

FORM 10-Q

FOR THE THREE MONTHS ENDED MARCH 31, 2018

TABLE OF CONTENTS

	Page
	<u>PART I-FINANCIAL INFORMATION</u>
<u>Item 1.</u>	<u>Financial Statements</u> F-1
	<u>Condensed Consolidated Balance Sheets as of March 31, 2018 (Unaudited) and December 31, 2017</u> F-1
	<u>Unaudited Condensed Consolidated Statements of Operations for the three months ended March 31, 2018 and 2017</u> F-2
	<u>Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and 2017</u> F-3
	<u>Notes to the Unaudited Condensed Consolidated Financial Statements</u> F-4
<u>Item 2.</u>	<u>Management’s Discussion and Analysis of Financial Information and Results of Operations</u> 3
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 5
<u>Item 4.</u>	<u>Controls and Procedures</u> 5
	<u>PART II-OTHER INFORMATION</u>
<u>Item 1.</u>	<u>Legal Proceedings</u> 6
<u>Item 1A.</u>	<u>Risk Factors</u> 6
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 6
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u> 6
<u>Item 4.</u>	<u>Mine Safety Disclosures</u> 6
<u>Item 5.</u>	<u>Other Information</u> 6
<u>Item 6.</u>	<u>Exhibits</u> 7
<u>SIGNATURES</u>	<u>7</u>

PART I - FINANCIAL INFORMATION**Item 1. Financial Statements.****PLEDGE PETROLEUM CORP.****CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, 2018 (Unaudited)	December 31, 2017
Assets		
Current Assets		
Cash	\$637,787	\$749,620
Restricted cash	-	7,850,000
Prepaid expenses	17,209	25,816
Total Current Assets	654,996	8,625,436
Non-Current Assets		
Plant and equipment, net	7,673	8,935
Deposits	530	530
Total Non-Current Assets	8,203	9,465
Total Assets	\$663,199	\$8,634,901
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$85,724	\$38,849
Accrued expenses and other payables	43,426	27,852
Notes payable	3,000	3,000
Total Current Liabilities	132,150	69,701
Stockholders' Equity		
Series A-1 Convertible Preferred stock, \$0.01 par value; 5,000,000 shares designated, 3,137,500 shares issued as of March 31, 2018 and December 31, 2017 and 0 and 3,137,500 shares outstanding as of March 31, 2018 and December 31, 2017, respectively. (liquidation preference \$251,000)	-	3,138
Series B Convertible, Redeemable Preferred Stock, \$0.001 par value; 500,000 shares designated; 40,000 issued and outstanding as of March 31, 2018 and December 31, 2017. (liquidation preference \$480,000)	40	40

Edgar Filing: PLEDGE PETROLEUM CORP - Form 10-Q

Series C Convertible, Preferred Stock, \$0.001 par value, 4,500,000 shares designated, 4,500,000 issued as of March 31, 2018 and December 31, 2017 and 0 and 4,500,000 shares outstanding as of March 31, 2018 and December 31, 2017. (liquidation preference \$14,750,000)	-	4,500
Common stock, \$0.001 par value; 500,000,000 shares authorized, and 268,558,931 shares issued as of March 31, 2018 and December 31, 2017 and 204,256,464 and 268,558,931 shares outstanding as of March 31, 2018 and December 31, 2017, respectively.	204,257	268,559
Treasury Stock, 3,137,500 and 0 Series A-1 Convertible Preferred Stock, \$0.01 par value, 4,500,000 and 0 Series C Convertible Preferred Stock, \$0.001 par value and 64,302,467 and 0 Common Stock \$0.001 par value, as of March 31, 2018 and December 31, 2017, respectively).	(8,428,060)	-
Additional paid-in-capital	28,053,296	27,403,296
Accumulated deficit	(19,298,484)	(19,114,333)
Total Stockholders' Equity	531,049	8,565,200
Total Liabilities and Stockholders' Equity	\$663,199	\$8,634,901

See notes to the unaudited condensed consolidated financial statements

PLEDGE PETROLEUM CORP.**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three months ended March 31 2018	Three months ended March 31 2017
Net Revenue	\$-	\$-
Cost of Goods Sold	-	-
Gross Profit	-	-
Sales and Marketing	1,497	1,497
Professional fees	116,691	67,381
Consulting fees	8,260	19,131
General and administrative	71,200	120,867
Depreciation, amortization and impairment charges	1,262	1,555
Total Expense	198,910	210,431
Loss from Operations	(198,910)	(210,431)
Other income	14,658	-
Finance costs	101	(15)
Loss before Provision for Income Taxes	(184,151)	(210,446)
Provision for Income Taxes	-	-
Net loss	\$(184,151)	\$(210,446)
Undeclared Series B and Series C Preferred stock dividends	(8,877)	(154,356)
Net loss available to common stock holders	\$(193,028)	\$(364,802)
Net Loss Per Share - Basic and Diluted	\$-	\$-
Weighted Average Number of Shares Outstanding - Basic and Diluted	262,843,156	268,558,931

See notes to the unaudited condensed consolidated financial statements

PLEDGE PETROLEUM CORP.**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three months ended March 30 2018	Three months ended March 30 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (184,151)	\$ (210,446)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation expense	1,262	1,555
Equity based compensation charge	-	18,066
Changes in Assets and Liabilities		
Prepaid expenses and other current assets	8,607	(23,655)
Accounts payable	46,875	(20,355)
Accrued liabilities	15,574	(19,814)
Cash Used in Operating Activities	(111,833)	(254,649)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds on disposal of plant and equipment	650,000	-
Cash provided by investing activities	650,000	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Share repurchase	(8,500,000)	-
Cash used in financing activities	(8,500,000)	-
NET DECREASE IN CASH	(7,961,833)	(254,649)
CASH, INCLUDING RESTRICTED AT BEGINNING OF PERIOD	8,599,620	9,170,286
CASH AT END OF PERIOD	\$ 637,787	\$ 8,915,637
CASH PAID FOR INTEREST AND TAXES:		
Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	\$ -	\$ -

See notes to the unaudited condensed consolidated financial statements

PLEDGE PETROLEUM CORP.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES AND ESTIMATES

a) Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, these unaudited condensed financial statements do not include all of the information and disclosures required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying unaudited condensed financial statements include all adjustments (consisting only of normal recurring adjustments), which we consider necessary, for a fair presentation of those financial statements. The results of operations and cash flows for the three months ended March 31, 2018 may not necessarily be indicative of results that may be expected for any succeeding quarter or for the entire fiscal year. The information contained in this quarterly report on Form 10-Q should be read in conjunction with our audited financial statements included in our annual report on Form 10-K as of and for the year ended December 31, 2017 as filed with the Securities and Exchange Commission (the “SEC”).

Significant accounting policies are described in Note 2 to the consolidated financial statements included in Item 8 of our annual report on Form 10-K as of December 31, 2017.

The preparation of unaudited consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions, which are evaluated on an ongoing basis, that affect the amounts reported in the unaudited consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and on various other assumptions that it believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the amounts of revenues and expenses that are not readily apparent from other sources. Actual results could differ from those estimates and judgments. In particular, significant estimates and judgments include those related to: the estimated useful lives for plant and equipment, the fair value of warrants and stock options granted for services or compensation, estimates of the probability and potential magnitude of contingent liabilities, derivative liabilities, the valuation allowance for deferred tax assets due to continuing operating losses, those related to revenue recognition and the allowance for doubtful accounts.

Making estimates requires management to exercise significant judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the unaudited

consolidated financial statements, which management considered in formulating its estimate could change in the near-term due to one or more future confirming events. Accordingly, the actual results could differ significantly from our estimates.

All amounts referred to in the notes to the unaudited consolidated financial statements are in United States Dollars (\$) unless stated otherwise.

b) Principles of Consolidation

The unaudited consolidated financial statements include the financial statements of the Company and its subsidiaries in which it has a majority voting interest. All significant inter-company accounts and transactions have been eliminated in the unaudited consolidated financial statements. The entities included in these unaudited consolidated financial statements are as follows:

Pledge Petroleum Corp – Parent Company

Novas Energy USA Inc. (wholly owned).

PLEDGE PETROLEUM CORP.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES AND ESTIMATES (continued)

c) Recent Accounting Pronouncements

In February 2018, the FASB issued ASU 2018-2, Income Statement- Reporting Comprehensive Income (Topic 220), Reclassification of certain tax effects from accumulated other comprehensive income.

The amendments in this Update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this Update also require certain disclosures about stranded tax effects.

The amendments in this Update are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the amendments in this Update is permitted, including adoption in any interim period, (1) for public business entities for reporting periods for which financial statements have not yet been issued and (2) for all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments in this Update should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized.

The impact this ASU will have on the Company's consolidated financial statements will be a reduction in the tax effect of net operating losses carried forward.

In March 2018, the FASB issued ASU 2018-5, Income Taxes (Topic 740) Amendments to SEC paragraphs pursuant to SEC Staff Accounting Bulletin No. 118

Edgar Filing: PLEDGE PETROLEUM CORP - Form 10-Q

These amendments affect the wording of SEC paragraphs in the accounting standard codification dealing with Income Taxes (Topic 740).

The amendments in this update are not expected to have a material impact on the Company's consolidated financial statements.

Any new accounting standards, not disclosed above, that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the financial statements upon adoption.

F-5

PLEDGE PETROLEUM CORP.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES AND ESTIMATES (continued)

d) Use of Estimates

The preparation of unaudited consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions, which are evaluated on an ongoing basis, that affect the amounts reported in the unaudited consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and on various other assumptions that it believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the amounts of revenues and expenses that are not readily apparent from other sources. Actual results could differ from those estimates and judgments. In particular, significant estimates and judgments include those related to: the estimated useful lives for plant and equipment, the fair value of warrants and stock options granted for services or compensation, estimates of the probability and potential magnitude of contingent liabilities, derivative liabilities, the valuation allowance for deferred tax assets due to continuing operating losses, those related to revenue recognition and the allowance for doubtful accounts.

Making estimates requires management to exercise significant judgment. It is at least reasonably possible that the estimate of the effect of a condition, situation or set of circumstances that existed at the date of the unaudited consolidated financial statements, which management considered in formulating its estimate could change in the near-term due to one or more future confirming events. Accordingly, the actual results could differ significantly from our estimates.

e) Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company's management assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of

possible loss if determinable and material would be disclosed. Loss contingencies considered to be remote by management are generally not disclosed unless they involve guarantees, in which case the guarantee would be disclosed.

f) Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. At March 31, 2018 and December 31, 2017, respectively, the Company had no cash equivalents.

The Company assesses credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. At March 31, 2018, the Company had cash balances of \$637,787, of which \$370,300 are not covered by the federally insured limits.

PLEDGE PETROLEUM CORP.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES AND ESTIMATES (continued)

g) Related parties

Parties are considered to be related to the Company if the parties that, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with the Company, or own in aggregate, on a fully diluted basis 5% or more of the Company's stock. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. The Company discloses all related party transactions. All transactions are recorded at fair value of the goods or services exchanged. Property purchased from a related party is recorded at the cost to the related party and any payment to or on behalf of the related party in excess of the cost is reflected as a distribution to related party.

2 GOING CONCERN

The Company has cash balances of \$637,787 as of March 31, 2018, which is not sufficient to meet current expenses for at least the next twelve month period. On March 23, 2018, after obtaining approval of the majority shareholder and the majority of the minority of the shareholders the Company sold substantially all of its assets for \$650,000 and simultaneously therewith the entire shareholding of the majority shareholder, Ervington was purchased by the Company for gross proceeds of \$8,500,000. The ability of the Company to conclude an acquisition based on current cash balances and continue as a going concern is uncertain.

4 PREPAID EXPENSES

Prepaid expenses consisted of the following:

	March 31,	December 31,
	2018	2017

Edgar Filing: PLEDGE PETROLEUM CORP - Form 10-Q

Prepaid insurance	\$ 16,376	\$ 22,483
Prepaid professional fees	833	3,333
	\$ 17,209	\$ 25,816

F-7

PLEDGE PETROLEUM CORP.**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****5 PLANT AND EQUIPMENT**

Plant and Equipment consisted of the following:

	March 31, 2018		December 31, 2017	
	Cost	Accumulated depreciation	Net book value	Net book value
Furniture and equipment	6,700	(2,791)	3,909	4,243
Computer equipment	11,130	(7,366)	3,764	4,692
	\$17,830	\$ (10,157)	\$ 7,673	\$ 8,935

Depreciation expense was \$1,262 and \$1,555 for the three months ended March 30, 2018 and 2017, respectively.

On March 23, 2018, the Company concluded an Asset Purchase Agreement with an affiliate (the “Purchaser”) of Ervington Investment Limited, the previous holder of a majority of the Company’s outstanding voting securities, pursuant to which the Company sold to the Purchaser substantially all of its assets, including all pertinent intellectual property rights, comprising its business of implementing its plasma pulse technology, for \$650,000 (the “Asset Sale”).

The Asset Sale is to a related party and the profit realized of \$650,000 was credited to additional paid in capital.

6 ACCRUED LIABILITIES AND OTHER PAYABLES

Accrued liabilities consisted of the following:

Edgar Filing: PLEDGE PETROLEUM CORP - Form 10-Q

March 31, December 31,
2018 2017

Royalties Payable	\$ -	\$ 14,653
Other	43,426	13,199
	\$ 43,426	\$ 27,852

F-8

PLEDGE PETROLEUM CORP.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7 STOCKHOLDERS' EQUITY

a) Common stock

The Company has authorized 500,000,000 common shares with a par value of \$0.001 each. The Company has issued 268,558,931 shares of common stock as of March 31, 2018 and December 31, 2017, and has outstanding 204,256,464 and 268,558,931 shares of common stock as of March 31, 2018 and December 31, 2017, respectively.

On March 23, 2018, the Company concluded an Asset Sale agreement as discussed in note 5 above, simultaneously with the Asset Sale Agreement, the Company concluded a Share Repurchase Agreement with Ervington to repurchase all of the outstanding securities held by Ervington for \$8,500,000 (the "Share Repurchase"). The repurchase constituted a change of control. Upon conclusion of the Repurchase Agreement, Ivan Persiyanov, resigned from all positions he holds as an officer and director of the Company and its subsidiaries. After the completion of the Asset Sale, the Company ceased all activities related to its existing business while evaluating other business opportunities, which include potentially acquiring a technology and oilfield services business, of which two of the Company's current directors (Messrs. Huemoeller and Zotos) own a minority equity interest. The Company has not entered into an agreement with any potential acquisition candidate and has only been in the early stages of discussion.

In terms of the above, the Company repurchased 64,302,467 shares of common stock from Ervington, which shares are being retained as treasury shares.

No shares were issued during the current period.

b) Preferred stock

The Company has 10,000,000 authorized preferred shares with a par value of \$0.001 each with 5,000,000 preferred shares designated as Series A-1 Convertible Preferred Stock ("Series A-1 Shares"), 500,000 preferred shares designated as Series B Preferred Stock and 4,500,000 preferred shares designated as Series C Preferred Stock.

In terms of the Share Repurchase Agreement entered into, discussed above, the Company repurchased 3,137,500 shares of Series A-1 Preferred Stock and 4,500,000 shares of Series C Preferred Stock from Ervington, which shares are being retained as treasury shares.

i) Series A-1 Convertible Preferred Stock

The Company has designated 5,000,000 preferred shares as Series A-1 Convertible Preferred Stock (“Series A-1 Shares”), with 3,137,500 shares of Series A-1 Stock issued as of March 31, 2018 and December 31, 2017, and has outstanding 0 and 3,137,500 shares of Series A-1 Stock as of March 31, 2018 and December 31, 2017, respectively.

F-9

PLEDGE PETROLEUM CORP.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7 STOCKHOLDERS' EQUITY (continued)

b) Preferred stock (continued)

ii) Series B Convertible Preferred Stock

The Company has designated 500,000 preferred shares as Series B Convertible Preferred Stock ("Series B Shares"), with 40,000 Series B Shares issued and outstanding as of March 31, 2018 and December 31, 2017, which are convertible into 4,000,000 shares of common stock.

The rights, privileges and preferences of the Series B Shares are summarized as follows:

Conversion

The holders of the Series B Preferred Shares shall have conversion rights as follows:

Each share of the Series B Shares is convertible at any time prior to the issuance of a redemption notice by the Company into such number of shares of Common Stock by dividing the Stated value (\$10) of the Series B Shares by \$0.10 and is subject to adjustment for dividends or distributions made in common stock, the issue of securities convertible into common stock, stock splits, reverse stock splits, or reclassifications of common stock. No

(a) adjustments will be made to the conversion rights or conversion price for any reorganization other than to be entitled to receive the same benefits as if the shares were converted immediately prior to such reorganization. No conversion will take place if the holder of the Series B Shares will beneficially own in excess of 4.99% of the shares of Common Stock outstanding immediately after conversion. As of the date hereof, each Series B Share converts into 100 shares of common stock.

(b) The conversion right of the holders of Series B Shares are exercised by the surrender of the certificates representing shares to be converted to the Company, accompanied by written notice electing conversion.

(c)

No fractional shares of Common Stock or script will be issued upon conversion of Series B Shares. The Company will pay a cash adjustment in respect to such fractional interest based upon the fair value of a share of Common Stock, as determined in good faith by the Company's Board of Directors.

(d) All shares of Common Stock issued upon conversion of Series B Shares will upon issuance be validly issued, fully paid and non-assessable. All certificates representing Series B Shares surrendered for conversion shall be appropriately canceled on the books of the Company and the shares so converted represented by such certificates shall be restored to the status of authorized but unissued shares of preferred stock of the Company.

Company Redemption

The Company has the right, at any time after the date the Series B Shares have been issued, to redeem all or a portion of any Holder's Series B Shares at a price per Series B Share equal to the issue price per Series B Share multiplied by 120%

Voting Rights

Each holder of Series B Shares is entitled to vote on all matters submitted to a vote of the stockholders of the Company and is entitled to votes equal to the number of shares of Common Stock into which Series B Shares could be converted, and the holders of shares of Series B Shares and Common Stock shall vote together as a single class on all matters submitted to the stockholders of the Company.

PLEDGE PETROLEUM CORP.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7 STOCKHOLDERS' EQUITY (continued)

b) Preferred stock (continued)

ii) Series B Convertible Preferred Stock (continued)

Dividends

The holders of the Series B Shares are entitled to receive cumulative dividends at the rate of eight percent per annum of the issue price per share, accrued daily and payable annually in arrears on December 31st of each year (a) ("Dividend Date"). Such dividends accrue on any given share from the day of original issuance of such share. Such dividends are cumulative, whether or not declared by the Board of Directors, but are non-compounding.

(b) Any dividend payable on a dividend payment date may be paid, at the option of the Company, either (i) in cash or (ii) in shares of common stock at an issue price of \$0.10 per common share.

(c) Nothing contained herein is deemed to establish or require any payment or other charges in excess of the maximum permitted by applicable law.

In the event that pursuant to applicable law or contract the Company is prohibited or restricted from paying in cash the full dividends to which the holders of the Series B Shares are entitled, the cash amount available pursuant to (d) applicable law or contract will be distributed among the holders of the Series B Shares ratably in proportion to the full amounts to which they would otherwise be entitled and any remaining amount due to holders of the Series B Shares will be payable in cash.

Liquidation Preference

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the holders of the Series B Shares are entitled to receive, prior and in preference to any distribution of any assets of the Company to the holders of any other preferred stock of the Company and subordinate to any distribution to the Series A-1 Shares, and prior and in preference to any distribution of any assets of the Company to the holders of the Common Stock, the amount of 120% of the issue price per share. In addition, the Series B holder has agreed to vote to

subordinate the series B Preferred stock liquidation preferences to the Series C Preferred stock preferences.

No Circumvention

The Company may not amend its certificate of incorporation, or participate in any reorganization, sale or transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action for the purpose of avoiding or seeking to avoid the observance or performance of any of the terms to be observed or performed by the Company.

The Company has undeclared dividends on the Series B Preferred stock amounting to \$172,504 as of March 31, 2018. If the dividends are paid in stock, the beneficial conversion feature of these undeclared dividends will be recorded upon the declaration of these dividends. The computation of loss per common share for the three months ended March 31, 2018 takes into account these undeclared dividends.

F-11

PLEDGE PETROLEUM CORP.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7 STOCKHOLDERS' EQUITY (continued)

b) Preferred stock (continued)

iii) Series C Convertible Preferred Stock

The Company has designated 4,500,000 preferred shares as Series C Convertible Preferred Stock ("Series C Shares"), with 4,500,000 shares of Series C Stock issued as of March 31, 2018 and December 31, 2017, and 0 and 4,500,000 shares of Series C Stock outstanding as of March 31, 2018 and December 31, 2017, respectively.

c) Stock Options

The Company's Board of Directors approved the Company's 2008 Stock Option Plan (the "Stock Plan") for the issuance of up to 5,000,000 shares of common stock to be granted through incentive stock options, nonqualified stock options, stock appreciation rights, dividend equivalent rights, restricted stock, restricted stock units and other stock-based awards to officers, other employees, directors and consultants of the Company and its subsidiaries. After the reverse stock split in August 2012, a total of 100,000 shares were available for grant. Subsequent to the reverse split the Board of Directors approved an increase in the number of awards available for grant to 2,100,000 shares. The exercise price of stock options under the Stock Plan is determined by the Board of Directors, and may be equal to or greater than the fair market value of the Company's common stock on the date the option is granted. Options become exercisable over various periods from the date of grant, and generally expire ten years after the grant date.

At March 31, 2018 and December 31, 2017 there were 380,950 Plan options issued and outstanding, respectively, under the Stock Option Plan.

The vesting provisions for these stock options are determined by the board of directors at the time of grant, there are no unvested options outstanding as of March 31, 2018.

No options were issued during the three months ended March 31, 2018 and the year ended December 31, 2017.

In the event of the employees' termination, the Company will cease to recognize compensation expense.

A summary of all of our option activity during the period January 1, 2017 to March 31, 2018 is as follows:

	No. of shares	Exercise price per share	Weighted average exercise price
Outstanding January 1, 2017	3,380,950	\$0.08 to \$13.50	\$ 0.18
Granted – non-plan options	-	-	-
Forfeited/cancelled	(3,000,000)	\$0.08	0.08
Exercised	-	-	-
Outstanding December 31, 2017	380,950	\$0.08 to \$13.50	\$ 0.90
Granted - non-plan options	-	-	-
Forfeited/cancelled	-	-	-
Exercised	-	-	-
Outstanding March 31, 2018	380,950	\$0.51 to \$13.50	\$ 0.90

Stock options outstanding as of March 31, 2018 and December 31, 2017 as disclosed in the above table, have an intrinsic value of \$0 and \$0, respectively.

PLEDGE PETROLEUM CORP.**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****7 STOCKHOLDERS' EQUITY (continued)****c) Stock Options (continued)**

The options outstanding and exercisable at March 31, 2018 are as follows:

Exercise price	Options outstanding		Weighted average exercise price	Options exercisable	
	No. of shares	Weighted average remaining years		No. of shares	Weighted average exercise price
\$ 13.50	3,480	1.21		3,480	
\$ 12.50	2,000	2.53		2,000	
\$ 8.50	500	3.25		500	
\$ 5.00	14,800	3.54		14,800	
\$ 0.65	36,924	5.00		36,924	
\$ 0.63	38,096	0.25		38,096	
\$ 0.51	285,150	2.04		285,150	
	380,950	2.20	0.90	380,950	0.90

The Company has recorded an expense of \$0 and \$18,066 for the three months ended March 31, 2018 and 2017, respectively relating to options issued.

d) Warrants

The warrants outstanding and exercisable at March 31, 2018 are as follows:

Exercise price	Warrants outstanding		Weighted average exercise price	Warrants exercisable	
	No. of shares	Weighted average		No. of shares	Weighted average

Edgar Filing: PLEDGE PETROLEUM CORP - Form 10-Q

		remaining years	price		exercise price
\$ 0.30	375,000	0.58		375,000	
\$ 0.25	1,751,667	1.24		1,751,667	
\$ 0.15	525,500	1.24		525,500	
\$ 0.25	1,508,333	1.34		1,508,333	
\$ 0.15	577,499	1.35		577,499	
\$ 0.25	968,166	1.35		968,166	
\$ 0.25	633,333	1.40		633,333	
	6,339,498	1.27	0.24	6,339,498	0.24

The warrants outstanding have an intrinsic value of \$0 and \$0 as of March 31, 2018 and December 31, 2017, respectively.

F-13

PLEDGE PETROLEUM CORP.**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****8 NET LOSS PER SHARE**

Basic loss per share is based on the weighted-average number of common shares outstanding during each period. Diluted loss per share is based on basic shares as determined above plus common stock equivalents, including convertible preferred shares and convertible notes as well as the incremental shares that would be issued upon the assumed exercise of in-the-money stock options using the treasury stock method. The computation of diluted net loss per share does not assume the issuance of common shares that have an anti-dilutive effect on net loss per share. For the three months ended March 31, 2018 and 2017, all stock options, unvested restricted stock awards, warrants, convertible preferred stock and convertible notes were excluded from the computation of diluted net loss per share. Dilutive shares which could exist pursuant to the exercise of outstanding stock instruments and which were not included in the calculation because their affect would have been anti-dilutive are as follows:

	Three months ended March 31, 2018	Three months ended March 31, 2017
Stock options	380,950	1,380,950
Warrants to purchase shares of common stock	6,339,498	6,339,498
Series A-1 convertible preferred shares	-	31,375,000
Series B convertible preferred shares	4,000,000	4,000,000
Series C convertible preferred shares	-	120,000,000
	10,720,448	163,095,448

9 RELATED PARTY TRANSACTIONS

On May 2, 2018, we issued to each of our three directors, 10,000,000 shares of restricted common stock, vesting as to 1/3 of the grant immediately, 1/3 of the grant on the one year anniversary of the grant date and 1/3 of the grant on the two year anniversary of the grant date.

10 COMMITMENTS AND CONTINGENCIES

The Company disposed of its Crystal Magic, Inc. subsidiary effective December 31, 2013. In terms of the sale agreement entered into by the Company, the purchaser has been indemnified against all liabilities whether contingent or otherwise, claimed by third parties, this includes claims by creditors of the Company amounting to \$372,090 and claims against long-term liabilities of \$848,916. Management does not consider it likely that these claims will materialize and accordingly no provision has been made for these contingent liabilities.

F-14

PLEDGE PETROLEUM CORP.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11 SUBSEQUENT EVENTS

On May 2, 2018, Christopher Headrick was appointed as a director.

On May 2, 2018, we issued to each of our three directors, 10,000,000 shares of restricted common stock, vesting as to 1/3 of the grant immediately, 1/3 of the grant on the one year anniversary of the grant date and 1/3 of the grant on the two year anniversary of the grant date.

Other than disclosed above, in accordance with ASC 855-10, the Company has analyzed its operations subsequent to March 31, 2018 to the date these financial statements were issued, and has determined that it does not have any material subsequent events to disclose in these financial statements.

F-15

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis is intended as a review of significant factors affecting our financial condition and results of operations for the periods indicated. The discussion should be read in conjunction with our unaudited consolidated financial statements and the notes thereto presented herein and our audited consolidated financial statements and notes thereto for the year ended December 31, 2017 and the other information set forth in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on May 31, 2018. In addition to historical information, the following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results could differ significantly from those anticipated in these forward-looking statements as a result of many factors.

Cautionary Note Regarding Forward-Looking Statements

This report and other documents that we file with the SEC contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about our future performance, our business, our beliefs and our management's assumptions. Statements that are not historical facts are forward-looking statements. Words such as "expect," "outlook," "forecast," "would," "could," "should," "project," "intend," "plan," "continue," "sustain", "on track", "be", "estimate," "anticipate," "may," "assume," and variations of such words and similar expressions are often used to identify such forward-looking statements, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not guarantees of future performance and involve risks, assumptions and uncertainties, including, but not limited to, those described in this Quarterly Report on Form 10-Q and other reports that we file or furnish with the SEC. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated or anticipated by such forward-looking statements. Accordingly, you are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date they are made. Except to the extent required by law, we undertake no obligation to update publicly any forward-looking statements after the date they are made, whether as a result of new information, future events, changes in assumptions or otherwise.

Overview and Financial Condition

Recent Developments

On March 23, 2018, upon the closing of the Asset Purchase Agreement and the Share Repurchase Agreement, Ivan Persiyarov resigned as director and Chief Executive Officer of the Company and Mr. John Zotos was appointed as the Company's interim Chief Executive Officer.

On May 2, 2018, Christopher Headrick was appointed as a director.

On May 31, 2018, Mr. Zotos was also appointed as the Company's interim Chief Financial Officer.

Our Company

During the 2017 year, our management, at the direction of the Board of Directors, evaluated, considered, and brought forward various opportunities to acquire producing oil fields; however, an oil field meeting the criteria acceptable to the Board of Directors (which criteria include among other things, low general and administrative costs, ability to generate cash flow and ability to fully utilize the Plasma Pulse Technology ("PPT")) had not been found. As a result, and in lieu of a potential dissolution, on March 23, 2018, we sold substantially all of our assets, including all pertinent intellectual property rights comprising our business of implementing plasma pulse technology (the "Asset Sale"), to Norma Investments Limited ("Norma"), the parent company of Ervington Investments Limited ("Ervington"), the then holder of a majority of our outstanding voting securities, for \$650,000 pursuant to an Asset Purchase Agreement (the "Asset Purchase Agreement") with Norma, dated February 12, 2018 (the "Asset Purchase Agreement"). In connection with the Asset Sale, we also repurchased all of our outstanding securities held by Ervington for \$8,500,000 (the "Share Repurchase") pursuant to a Share Purchase Agreement with Ervington, dated February 12, 2018 (the "Share Purchase Agreement").

At this point, the Board is reevaluating its business plan and strategy and has reduced operating expenses, including staffing, in order to preserve capital, while the Board evaluates its options including the possible acquisition of a technology and an oilfield services business, of which two of our current directors own a minority equity interest .

We have financed our operations primarily from sales of our securities, both debt and equity, and to a lesser extent revenue from operations and we expect to continue to obtain required capital in a similar manner. We have incurred an accumulated deficit of \$19,298,484 through March 31, 2018 and there can be no assurance that we will be able to achieve profitability.

Management Discussion and Analysis of financial condition

Our discussion and analysis of our financial condition and results of operations are based upon our unaudited consolidated financial statement as of March 31, 2018 and 2017, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent liabilities at the financial statement date and reported amounts of revenue and expenses during the reporting period. On an on-going basis we review our estimates and assumptions. Our estimates are based on our historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results are likely to differ from those estimates under different assumptions or conditions.

Results of Operations for the three months ended March 31, 2018 and March 31, 2017

Net revenues

Net revenues were \$0 for the three months ended March 31, 2018 and 2017. The Company ceased substantially all operating activities during November 2016 whilst considering its future direction.

Cost of goods sold

Cost of goods sold was \$0 for the three months ended March 31, 2018 and 2017.

Gross profit

Gross profit was \$0 for the three months ended March 31, 2018 and 2017.

Total expenses

Total expenses were \$198,910 and \$210,431 for the three months ended March 31, 2018 and 2017, respectively, a decrease of \$11,521 or 5.5%. Total expenses consisted primarily of the following:

.

Edgar Filing: PLEDGE PETROLEUM CORP - Form 10-Q

Professional fees were \$116,691 and \$67,381 for the three months ended March 31, 2018 and 2017, respectively, an increase of \$49,310 or 72.7%. The increase is primarily due to; (i) an increase in legal fees of \$21,797 due to legal activity related to the sale of substantially all of the assets related to the plasma pulse technology and the repurchase of the shareholding of our majority shareholder Ervington Investments, Ltd; (ii) an increase in accounting and audit related fees of \$38,049 due to the delay in filing our quarterly results and annual results relating to 2017; (iii) an increase in SEC printing costs of \$6,465; and an increase in transfer agent costs of \$378 due to the proxy statement related to the sale of substantially all of our assets; offset by a decrease in corporate secretarial fees of \$14,375, due the cancellation of an arrangement we had with ZotoZulu, a Company owned by our interim CEO and CFO , John Zotos.

Consulting fees were \$8,260 and \$19,131 for the three months ended March 31, 2018 and 2017, respectively, a decrease of \$10,871 or 56.8%. The decrease is primarily due to a decrease in merger and acquisition related consulting expenses of \$4,131; and ii) a decrease in finance management consulting expenses of \$6,740 due to lower activity during the current period.

General and administrative expenses were \$71,200 and \$120,867 for the three months ended March 31, 2018 and 2017, respectively, a decrease of \$49,667 or 41.1%. The decrease primarily consists of the following; (i) a reduction in payroll expenses of \$58,896 due to the resignation of our previous CEO, Brian Boutte on March 31, 2017, the last full time employee of the Company; ii) a reduction in rent of \$8,626 due to relocation to cheaper premises; and iii) a reduction in stock based compensation of \$18,066 as all options are either vested or forfeited; offset by an increase in director's fees of \$30,000 due to an arrangement reached with our current directors who are paid a monthly fee for services provided.

Depreciation, and amortization and impairment charges was \$1,262 and \$1,555 for the three months ended March 31, 2018 and 2017, respectively, a decrease of \$293 or 18.8%.

Other income

Other income was \$14,658 and \$0 for the three months ended March 31, 2018 and 2017, respectively, an increase of \$14,658 or 100.0%. The increase represents a reversal of a royalty expense which is no longer due.

Net loss

We incurred a net loss of \$184,151 and \$210,446, for the three months ended March 31, 2018 and 2017, respectively, a decrease of \$26,295 or 12.5%, which consists primarily of the decrease in total expenses discussed above.

Undeclared Series B and Series C preferred stock dividends

A deemed preferred stock dividend of \$8,877 and \$154,356 has been disclosed for the three months ended March 31, 2018 and 2017. This amount represents the dividends that are due, but remain undeclared, to Series B stock holders and Series C preferred stock holders in the prior period.

Net loss available to common stockholders

We incurred a net loss available to common stockholders of \$193,028 and \$364,802 for the three months ended March 31, 2018 and 2017, respectively, a decrease of \$171,774 or 47.1% which consists of the various items discussed above.

Liquidity and Capital Resources.

Although we had cash balances of \$637,787 as of March 31, 2018, we have a history of annual losses from operations since inception and we have primarily funded our operations through sales of our unregistered equity securities. We have recently disposed of substantially all of our assets for \$650,000 and simultaneously therewith acquired the entire shareholding of Ervington, for gross proceeds of \$8,500,000. We are actively looking to acquire businesses in a similar field which may require substantial cash.

To date, our primary sources of cash have been funds raised from the sale of our securities and the issuance of convertible and non-convertible debt. No additional funds were raised during the current financial period.

We have incurred an accumulated deficit of \$19,298,484 through March 31, 2018 and incurred a negative cash flow from operations of \$111,833 for the three months ended March 31, 2018.

Off Balance Sheet Arrangements

There are no off balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risks

None.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (“Exchange Act”), the Company carried out an evaluation, with the participation of the Company’s management, including the Company’s interim Chief Executive Officer (“CEO”), who also serves as our interim principal financial and accounting officer, of the effectiveness of the Company’s disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Company’s interim CEO who also serves as our interim principal financial and accounting officer concluded that due to a lack of segregation of duties and insufficient controls over review and accounting for certain complex transactions, that the Company’s disclosure controls and procedures as of March 31, 2018 were not effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, was recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including the Company’s interim CEO, as appropriate, to allow timely decisions regarding required disclosure. Once we acquire a new business, we intend to retain additional individuals to remedy the ineffective controls. However, we cannot assure you that our internal control over financial reporting, as modified, will enable us to identify or avoid material weaknesses in the future.

(b) Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during our fiscal quarter ended March 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

As a smaller reporting company we are not required to provide Risk Factors.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds for the three months ended March 31, 2018

None.

Item 3. Defaults upon senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

6

Item 6. Exhibits

Regulation Number	Exhibit
<u>31.1</u>	<u>Certification of the Chief Executive Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.2</u>	<u>Certification of the Chief Financial Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.1</u>	<u>Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act</u>
<u>32.2</u>	<u>Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act</u>
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

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.

DATE: June 12,
2018

PLEDGE PETROLEUM CORP.

(Registrant)

By: */s/ John Zotos*

John Zotos, Interim President and interim Chief Executive Officer and interim Chief Financial Officer

(Principal Executive Officer and Principal Financial Officer)