PLEDGE PETROLEUM CORP
Form 10-Q
August 14, 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 **June 30, 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.) |

**1701 Commerce Street, 2nd Floor**

**HOUSTON, Texas. 77002**

(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 August 13, 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 ar 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 SIX MONTHS ENDED JUNE 30, 2018**

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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**PLEDGE PETROLEUM CORP.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

| | June 30, 2018 (Unaudited) | December 31, 2017 |
|---|---|---|
| Assets | | |
| Current Assets | | |
| Cash | $379,232 | $749,620 |
| Restricted cash | - | 7,850,000 |
| Prepaid expenses | 16,262 | 25,816 |
| Total Current Assets | 395,494 | 8,625,436 |
| Non-Current Assets | | |
| Plant and equipment, net | 6,410 | 8,935 |
| Deposits | 1,750 | 530 |
| Total Non-Current Assets | 8,160 | 9,465 |
| Total Assets | $403,654 | $8,634,901 |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities | | |
| Accounts payable | $48,838 | $38,849 |
| Accrued expenses and other payables | 6,654 | 27,852 |
| Notes payable | 3,000 | 3,000 |
| Total Current Liabilities | 58,492 | 69,701 |
| Stockholders' Equity | | |
| Series A-1 Convertible Preferred stock, $0.01 par value; 5,000,000 shares designated, 3,137,500 shares issued, 0 and 3,137,500 shares outstanding at June 30, 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 at June 30 2017 and December 31, 2017, respectively. (liquidation preference $480,000) | 40 | 40 |

| | | |
|---|---|---|
| Series C Convertible, Preferred Stock, $0.001 par value, 4,500,000 shares designated, 4,500,000 issued, 0 and 4,500,000 shares outstanding at June 30, 2018 and December 31, 2017, respectively. (liquidation preference $14,750,000) | - | 4,500 |
| Common stock, $0.001 par value; 500,000,000 shares authorized, 268,558,931 shares issued, 234,256,464 and 268,558,931 shares outstanding at June 30, 2018 and December 31, 2017, respectively. | 234,257 | 268,559 |
| Treasury Stock | (8,428,060 ) | - |
| Additional paid-in-capital | 28,139,964 | 27,403,296 |
| Accumulated deficit | (19,601,039) | (19,114,333) |
| Total Stockholders' Equity | 345,162 | 8,565,200 |
| Total Liabilities and Stockholders' Equity | $403,654 | $8,634,901 |

See notes to the unaudited condensed consolidated financial statements

**PLEDGE PETROLEUM CORP.**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Three months ended June 30 2018 | Three months ended June 30 2017 | Six months ended June 30 2018 | Six months ended June 30 2017 |
|---|---|---|---|---|
| Net Revenue | $- | $25,000 | $- | $25,000 |
| Cost of Goods Sold | - | - | - | - |
| **Gross Profit** | - | 25,000 | - | 25,000 |
| Sales and Marketing | 1,497 | 1,497 | 2,994 | 2,994 |
| Professional fees | 41,824 | 83,606 | 158,515 | 148,361 |
| Consulting fees | 64,890 | 8,305 | 73,150 | 27,436 |
| General and administrative | 193,084 | 46,991 | 264,284 | 170,482 |
| Depreciation, amortization and impairment charges | 1,263 | 1,311 | 2,525 | 2,866 |
| **Total Expense** | 302,558 | 141,710 | 501,468 | 352,139 |
| **Loss from Operations** | (302,558) | (116,710) | (501,468) | (327,139) |
| Other income | - | - | 14,658 | - |
| Finance costs | 4 | 59 | 105 | 44 |
| **Loss before Provision for Income Taxes** | (302,554) | (116,651) | (486,705) | (327,095) |
| Provision for Income Taxes | - | - | - | - |
| **Net loss** | **(302,554)** | **(116,651)** | **(486,705)** | **(327,095)** |
| Undeclared Series B and Series C Preferred stock dividends | (8,975) | (156,071) | (17,852) | (310,427) |
| **Net loss available to common stock holders** | **$(311,529)** | **$(272,722)** | **$(504,557)** | **$(637,522)** |
| **Net Loss Per Share - Basic and Diluted** | **$(0.00)** | **$(0.00)** | **$(0.00)** | **$(0.00)** |
| Weighted Average Number of Shares Outstanding - Basic and Diluted | **210,739,980** | **268,558,931** | **236,647,637** | **268,558,931** |

See notes to the unaudited condensed consolidated financial statements

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**PLEDGE PETROLEUM CORP.**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Six months ended June 30 2018 | | | Six months ended June 30 2017 | | |
|---|---|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | | |
| Net loss | $ | (486,705 | ) | $ | (327,095 | ) |
| Adjustment to reconcile net loss to net cash used in operating activities: | | | | | | |
| Depreciation expense | | 2,525 | | | 2,866 | |
| Deposit forfeited | | | | | 6,968 | |
| Equity based compensation charge | | 116,667 | | | 18,066 | |
| Changes in Assets and Liabilities | | | | | | |
| Prepaid expenses and other current assets | | 9,554 | | | (8,125 | ) |
| Accounts payable | | 9,988 | | | 48,618 | |
| Accrued liabilities | | (21,198 | ) | | (19,815 | ) |
| Cash Used in Operating Activities | | (369,169 | ) | | (278,517 | ) |
| | | | | | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | | |
| Proceeds on disposal of plant and equipment | | 650,000 | | | - | |
| Investment in deposit | | (1,220 | ) | | (530 | ) |
| Cash provided by (used in) investing activities | | 648,780 | | | (530 | ) |
| | | | | | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | | | |
| Share repurchase | | (8,500,000 | ) | | - | |

| | | | | |
|---|---|---|---|---|
| Cash used in financing activities | | (8,500,000) | | - |
| NET DECREASE IN CASH | | (8,220,389) | | (279,047) |
| CASH AT BEGINNING OF PERIOD | | 8,599,620 | | 9,170,286 |
| CASH AT END OF PERIOD | $ | 379,232 | $ | 8,891,239 |
| CASH PAID FOR INTEREST AND TAXES: | | | | |
| Cash paid for income taxes | $ | - | $ | - |
| Cash paid for interest | $ | - | $ | - |

See notes to the unaudited condensed consolidated financial statements

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**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 six months ended June 30, 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

Nova's 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 June 2018, the FASB issued ASU 2018-07, Compensation—Stock Compensation (Topic 718) Improvements to Nonemployee Share-Based Payment Accounting.

The amendments in this Update expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. An entity should apply the requirements of Topic 718 to nonemployee awards except for specific guidance on inputs to an option pricing model and the attribution of cost (that is, the period of time over which share-based payment awards vest and the pattern of cost recognition over that period). The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, Revenue from Contracts with Customers.

The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than an entity's adoption date of Topic 606.

The impact of this ASU on the Company's financial statements is not expected to be material.

In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842) Targeted Improvements.

The amendments in this Update provide entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption consistent with preparers' requests.

The amendments in this Update provide lessors with a practical expedient, by class of underlying asset, to not separate non-lease components from the associated lease component and, instead, to account for those components as a single component if the non-lease components otherwise would be accounted for under the new revenue guidance (Topic 606) and both of the following are met: 1. The timing and pattern of transfer of the non-lease component(s) and associated lease component are the same. 2. The lease component, if accounted for separately, would be classified as an operating lease.

The amendments in this Update related to separating components of a contract affect the amendments in Update 2016-02, which are not yet effective but can be early adopted.

The Company is currently considering the impact this ASU will have on its 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.

**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 June 30, 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 June 30, 2018, the Company had cash balances of $379,232, of which $79,435 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 transactio