

PLEDGE PETROLEUM CORP
Form 10-Q
February 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 **September 30, 2017**

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 (I.R.S. employer
 incorporation or organization) 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 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 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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input checked="" type="checkbox"/>
	Emerging growth company <input type="checkbox"/>

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

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

The Registrant has 268,558,931 shares of common stock outstanding as of February 9, 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, including those identified below, under Part II, Item 1A. “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q, and those identified under Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on August 7, 2017. 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 NINE MONTHS ENDED SEPTEMBER 30, 2017

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 September 30, 2017 (Unaudited) and December 31, 2016</u> F-1
	<u>Unaudited Condensed Consolidated Statements of Operations for the three months and nine months ended September 30, 2017 and 2016</u> F-2
	<u>Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016</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> 8
<u>Item 4.</u>	<u>Controls and Procedures</u> 8
	<u>PART II-OTHER INFORMATION</u>
<u>Item 1.</u>	<u>Legal Proceedings</u> 9
<u>Item 1A.</u>	<u>Risk Factors</u> 9
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 9
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u> 9
<u>Item 4.</u>	<u>Mine Safety Disclosures</u> 9
<u>Item 5.</u>	<u>Other Information</u> 9
<u>Item 6.</u>	<u>Exhibits</u> 10
<u>SIGNATURES</u>	<u>10</u>

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

	September 30, 2017 (Unaudited)	December 31, 2016
Assets		
Current Assets		
Cash	\$ 8,755,803	\$ 9,170,286
Prepaid expenses	19,684	25,940
Total Current Assets	8,775,487	9,196,226
Non-Current Assets		
Plant and equipment, net	10,198	14,326
Deposits	530	6,968
Total Non-Current Assets	10,728	21,294
Total Assets	\$ 8,786,215	\$ 9,217,520
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 64,449	\$ 31,027
Accrued expenses and other payables	14,860	34,467
Net liabilities of discontinued operations	1,025,716	1,025,716
Notes payable	3,000	3,000
Total Current Liabilities	1,108,025	1,094,210
Stockholders' Equity		
Series A-1 Convertible Preferred stock, \$0.01 par value; 5,000,000 shares designated, 3,137,500 shares issued and outstanding. (liquidation preference \$251,000)	3,138	3,138
Series B Convertible, Redeemable Preferred Stock, \$0.001 par value; 500,000 shares designated; 40,000 issued and outstanding. (liquidation preference \$480,000)	40	40
Series C Convertible, Preferred Stock, \$0.001 par value, 4,500,000 shares designated, 4,500,000 issued and outstanding (liquidation preference \$14,750,000)	4,500	4,500

Edgar Filing: PLEDGE PETROLEUM CORP - Form 10-Q

Common stock, \$0.001 par value; 500,000,000 shares authorized, 268,558,931 shares issued and outstanding.	268,559	268,559
Additional paid-in-capital	26,377,580	26,359,514
Accumulated deficit	(18,975,627)	(18,512,441)
Total Stockholders' Equity	7,678,190	8,123,310
Total Liabilities and Stockholders' Equity	\$ 8,786,215	\$ 9,217,520

See notes to the unaudited condensed consolidated financial statements

F-1

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

	Three months ended September 30 2017	Three months ended September 30 2016	Nine months ended September 30 2017	Nine months ended September 30 2016
Net Revenue	\$-	\$-	\$25,000	\$-
Cost of Goods Sold	-	-	-	-
Gross Profit	\$-	\$-	\$25,000	\$-
Sales and Marketing	1,497	(196)	4,491	6,569
Professional fees	73,887	140,616	222,249	310,173
Business development	-	3,079	-	22,181
Consulting fees	6,800	43,986	34,236	287,086
General and administrative	53,076	258,952	223,558	894,807
Depreciation, amortization and impairment charges	1,263	66,271	4,128	134,553
Total Expense	136,523	512,708	488,662	1,655,369
Loss from Operations	(136,523)	(512,708)	(463,662)	(1,655,369)
Other income	-	4,059	-	203,296
Finance costs	432	-	476	-
Loss before Provision for Income Taxes	(136,091)	(508,649)	(463,186)	(1,452,073)
Provision for Income Taxes	-	-	-	-
Net Loss from continuing operations	(136,091)	(508,649)	(463,186)	(1,452,073)
Loss for discontinued operations, net of tax	-	(363,421)	-	(1,428,157)
Net loss attributable to non-controlling interest of discontinued operation	-	-	-	249,339
Loss from discontinued operations, net of non-controlling interest	-	(363,421)	-	(1,178,818)
Net Loss Attributable to Controlling Interest	(136,091)	(872,070)	(463,186)	(2,630,891)
Undeclared Series B and Series C Preferred stock dividends	(157,786)	(157,786)	(468,214)	(469,928)
Net loss available to common stock holders	\$(293,877)	\$(1,029,856)	\$(931,400)	\$(3,100,819)

Edgar Filing: PLEDGE PETROLEUM CORP - Form 10-Q

Net Loss Per Share from continuing operations - Basic and Diluted	\$-	\$-	\$-	\$(0.01)
Net Loss Per Share from discontinued operations - Basic and Diluted	\$-	\$-	\$-	\$-
Net Loss Per Share - Basic and Diluted	\$-	\$-	\$-	\$(0.01)
Weighted Average Number of Shares Outstanding - Basic and Diluted	268,558,931	268,558,931	268,558,931	268,558,931

See notes to the unaudited condensed consolidated financial statements

F-2

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

	Nine months ended September 30 2017	Nine months ended September 30 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	(463,186)	\$ (2,630,891)
Net loss from discontinued operations	-	\$ 1,428,157
Less: loss attributable to non-controlling interest	-	(249,339)
Net loss from continuing operations	(463,186)	(1,452,073)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation expense	4,128	82,053
Deposit forfeited	6,968	-
Amortization expense	-	52,500
Loss on scrapping of fixed assets	-	1,248
Equity based compensation charge	18,066	66,035
Gain on debt forgiven	-	(200,000)
Changes in Assets and Liabilities		
Accounts receivable	-	(3,400)
Prepaid expenses and other current assets	6,257	29,241
Accounts payable	33,629	(41,702)
Accrued liabilities	(19,815)	(31,109)
Cash Used in Operating Activities - continuing operations	(413,953)	(1,497,207)
Cash used in operating activities - discontinued operations	-	(470,842)
	(413,953)	(1,968,049)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	-	(200,899)
Investment in deposit	(530)	(6,968)
Cash used in investing activities - continuing operations	(530)	(207,867)
Cash used in investing activities - discontinued operations	-	(4,782)
	(530)	(212,649)
NET INCREASE IN CASH	(414,483)	(2,180,698)
CASH AT BEGINNING OF PERIOD	\$ 9,170,286	\$ 11,700,143
CASH AT END OF PERIOD	\$ 8,755,803	\$ 9,519,445
CASH PAID FOR INTEREST AND TAXES:		
Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	\$ -	\$ 48,130

See notes to the unaudited condensed consolidated financial statements

F-3

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 and nine months ended September 30, 2017 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, 2016 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, 2016.

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 (formerly Propell Technologies Group, Inc.) – Parent Company

Novas Energy USA Inc. (wholly owned)

Novas Energy North America, LLC (60% owned) – Discontinued operation.

PLEDGE PETROLEUM CORP.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES AND ESTIMATES (continued)

c) Recent Accounting Pronouncements

In July 2017, the FASB issued Accounting Standards Update No. (“ASU”) 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815). The amendments in this Update provide guidance about:

1. Accounting for certain financial instruments with down round features
2. Replacement of the indefinite deferral for mandatorily redeemable financial instruments of certain non-public entities and certain non-controlling interests

The amendments in Part I of this Update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity’s own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share (EPS) in accordance with Topic 260 to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Convertible instruments with embedded conversion options that have down round features are now subject to the specialized guidance for contingent beneficial conversion features (in Subtopic 470-20, Debt—Debt with Conversion and Other Options), including related EPS guidance (in Topic 260).

The amendments in Part II of this Update recharacterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception. Those amendments do not have an accounting effect.

Edgar Filing: PLEDGE PETROLEUM CORP - Form 10-Q

The amendments in Part I of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments in Part 1 of this Update should be applied in either of the following ways: 1. Retrospectively to outstanding financial instruments with a down round feature by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the first fiscal year and interim period(s) in which the pending content that links to this paragraph is effective 2. Retrospectively to outstanding financial instruments with a down round feature for each prior reporting period presented in accordance with the guidance on accounting changes in paragraphs 250-10-45-5 through 45-10.

The amendments in Part II of this Update do not require any transition guidance because those amendments do not have an accounting effect.

F-5

PLEDGE PETROLEUM CORP.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES AND ESTIMATES (continued)

c) Recent Accounting Pronouncements (continued)

The Company is currently evaluating the impact this ASU will have on its consolidated financial In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging, an amendment to Topic 815. The amendments in this Update better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components 2 and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The amendments in this Update require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported.

The amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early application is permitted in any interim period after issuance of the Update. All transition requirements and elections should be applied to hedging relationships existing (that is, hedging relationships in which the hedging instrument has not expired, been sold, terminated, or exercised or the entity has not removed the designation of the hedging relationship) on the date of adoption. The effect of adoption should be reflected as of the beginning of the fiscal year of adoption. The Company is currently evaluating the impact this ASU will have on its consolidated financial statements.

In September 2017, the FASB issued ASU 2017-13, Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842). The amendments in this ASU deals with the transition and effective dates of implementing to ASU 2014-09, Revenue from contracts with customers, ASU 2016-08, Revenue from contracts with customers, principal versus agent considerations, ASU 2016-10, revenues from contracts with customers; identifying performance obligations and licensing, ASU 2016-12, revenues from contracts with customers, narrow scope improvements and practical expedients, 2016-20, technical corrections and improvements and ASU 2017-05, other income, gains and losses from the derecognition of non-financial assets.

The transition provisions require adoption of Topic 606 for annual reporting periods commencing after December 15, 2017 and the adoption of Topic 842 for annual reporting periods beginning after December 15, 2018 for public

business entities, if the requirements of a public business entity as defined in ASU 2017-122 are not met, may adopt Topic 606 for annual reporting periods commencing after December 15, 2018 and for Topic 842 for annual reporting periods commencing after December 15, 2019. Early adoption is permitted of both Topics. The Company is currently evaluating the impact this ASU will have on its 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.

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 September 30, 2017 and December 31, 2016, 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 September 30, 2017, the Company had cash balances of \$8,755,803, which exceeded the federally insured limits by \$8,450,408.

F-7

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.

h) Reclassification

Certain reclassifications have been made to the prior year financial statement numbers to conform to the current presentation of the financial statements.

2 GOING CONCERN

The Company has cash balances of \$8,755,803 as of September 30, 2017, which is sufficient to meet current expenses for at least the next twelve month period, however the Board of Directors are considering various options as to the future direction of the Company, including the possible sale of its technology and PPT assets. The Company formed a special committee to investigate a possible share buyback of the majority stockholder, Ervington Investments Limited, and/or a possible dissolution of the Company.

Due to uncertainties surrounding the Company's ability to realize the full value of its assets, the Company cannot make any assurances regarding the amount available for distribution to its stockholders.

The Company has made certain projections relating to the amount of cash it expects to have to distribute to its stockholders upon dissolution of the Company. These projections generally relate to the amount of liabilities which must be satisfied before the Company is dissolved and the amount its preferred stockholders is expected to receive for their equity interest. The above projections are subject to multiple variables, including the timing of a dissolution affecting the amount of dividends payable and the amount of liabilities owed at the time of dissolution. Based upon current estimates, if the Company were to dissolve this quarter, no assurance can be given that common stockholders or subordinate preferred stockholders will receive any such distribution.

3DISCONTINUED OPERATIONS

On October 4, 2016, Novas Energy USA, Inc. (“Novas USA”), a wholly owned subsidiary of the Company, delivered a notice to Technovita Technologies USA, Inc. (“Technovita”) electing to dissolve its joint venture with Technovita (the “Joint Venture”), effective November 1, 2016, pursuant to Section 11.1(b) of the Operating Agreement of Novas Energy North America, LLC (“NENA”), dated October 22, 2015 (the “Operating Agreement”), by and among Novas USA and Technovita.

PLEDGE PETROLEUM CORP.**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****3 DISCONTINUED OPERATIONS
(continued)**

The assets and liabilities of discontinued operations as of September 30, 2017 and December 31, 2016, respectively is as follows:

	September 30, 2017	December 31, 2016
Current assets		
Cash	\$ 19,480	\$ 19,480
Accounts receivable, net	61,661	61,661
Prepaid expenses and other current assets	29,896	29,896
Total current assets	111,037	111,037
Non-current assets		
Plant and equipment, net	6,480	6,480
Total assets	117,517	117,517
Current liabilities		
Accounts payable	94,784	94,784
Related party payables	932,478	932,478
Accrued liabilities and other payables	115,971	115,971
Total liabilities	1,143,233	1,143,233
Discontinued operations	\$ 1,025,716	\$ 1,025,716

Loss from discontinued operations is as follows:

	Three months ended September 30 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Net revenue	\$ -	\$ 48,560	\$ -	\$ 196,328
Cost of goods sold	-	13,017	-	139,950

Edgar Filing: PLEDGE PETROLEUM CORP - Form 10-Q

Gross profit	-	35,543	-	56,378
Sales and marketing expenses	-	848	-	11,729
Professional fees	-	20,573	-	57,496
Business development	-	-	-	145,319
Consulting fees	-	230,268	-	802,460
General and administrative expenses	-	137,340	-	457,876
Depreciation and amortization	-	477	-	1,280
Total expense	-	389,506	-	1,476,160
Loss from operations	-	(353,963)	-	(1,419,782)
Loss on discontinuance of subsidiary	-	(9,377)	-	(9,377)
Foreign currency (losses) gains	-	(81)	-	992
Other income	-	-	-	10
Loss from discontinued operations	\$ -	\$ (363,421)	\$ -	\$ 1,428,157

F-9

PLEDGE PETROLEUM CORP.**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****4 PREPAID EXPENSES**

Prepaid expenses consisted of the following:

	September 30, 2017	December 31, 2016
Prepaid insurance	\$ 13,851	\$ 22,607
Prepaid professional fees	5,833	3,333
	\$ 19,684	\$ 25,940

5 PLANT AND EQUIPMENT

Plant and Equipment consisted of the following:

	September 30, 2017		Net book value	December 31, 2016	
	Cost	Amortization and Impairment		Net book value	Net book value
Plasma pulse tool	\$945,423	\$ (945,423)	\$ -	\$ -	
Furniture and equipment	6,700	(2,122)	4,578	5,583	
Field equipment	19,627	(19,627)	-	341	
Computer equipment	11,130	(5,510)	5,620	8,402	
	\$982,880	\$ (972,682)	\$ 10,198	\$ 14,326	

Depreciation expense was \$4,128 and \$82,053 for the nine months ended September 30, 2017 and 2016, respectively.

6 INTANGIBLES

Licenses

Novas licenses the “Plasma-Pulse Technology” (“the Technology”) from Novas Energy Group Limited, the Licensor, pursuant to the terms of an exclusive perpetual royalty bearing license it entered into in January 2013, which was amended during March 2014.

On July 19, 2016, the Company received a notice from Licensor purporting to effectively terminate the License Agreement for non-payment of required royalties, asserting, among other things, that as of June 30, 2016, Novas owed Licensor a pro rata amount of \$1,458,333 for the Licensed Plasma Pulse Technology for the United States and Mexico, of which \$1,000,000 was alleged to be in arrears. Novas has recently been contacted by Licensor with a request for settlement discussions; however, there can be no assurance that such discussions will occur or what the outcome of any such discussions will be. The Company and Novas believe that there is no legal basis for Licensor to terminate the License Agreement and intend to vigorously defend against any attempt by Licensor to enforce a termination of the License Agreement. Further, we believe that Licensor has failed to materially perform its obligations under the License Agreement, and that such failures on Licensor’s part may impact what, if any, payments are due under the License Agreement by Novas to Licensor.

PLEDGE PETROLEUM CORP.**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****6INTANGIBLES (continued)**

On October 4, 2016, Novas Energy USA, Inc. (“Novas USA”), a wholly owned subsidiary of the Company, delivered a notice to Technovita Technologies USA, Inc. (“Technovita”) electing to dissolve its joint venture with Technovita (the “Joint Venture”), effective November 1, 2016, pursuant to Section 11.1(b) of the Operating Agreement of Novas Energy North America, LLC (“NENA”), dated October 22, 2015 (the “Operating Agreement”), by and among Novas USA and Technovita.

Pursuant to the Operating Agreement, Novas USA had entered into a sublicense agreement (the “Novas Sublicense Agreement”) with NENA and Novas Energy Group Limited for NENA to be the exclusive provider of Plasma Pulse Technology for treatment of vertical wells to third parties in the United States. The Sublicense Agreement was terminated upon termination of the Joint Venture.

Intangibles consisted of the following:

	September 30, 2017			December 31, 2016	
	Cost	Amortization and Impairment	Net book value	Net book value	
License agreements	\$ 350,000	\$ (350,000)) \$ -	\$ -	-
Website development	8,000	(8,000)) -	-	-
	\$ 358,000	\$ (358,000)) \$ -	\$ -	-

Amortization expense was \$0 and \$52,500 for the nine months ended September 30, 2017 and 2016, respectively.

7ACCRUED LIABILITIES AND OTHER PAYABLES

Accrued liabilities consisted of the following:

	September 30, 2017	December 31, 2016
Royalties payable	\$ 14,653	\$ 14,653
Other	207	-
Severance accrual	-	19,814
	\$ 14,860	\$ 34,467

The severance accrual relates to accrued severance costs due to the COO, whose employment with the Company was terminated on December 15, 2016 as part of a cost reduction exercise.

8 STOCKHOLDERS' EQUITY

a) Preferred stock

i) Series B Convertible Preferred Stock

The Company has undeclared dividends on the Series B Preferred stock amounting to \$154,553 as of September 30, 2017. 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 nine months ended September 30, 2017 takes into account these undeclared dividends.

PLEDGE PETROLEUM CORP.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INANCIAL STATEMENTS

8 STOCKHOLDERS' EQUITY (continued)

a) Preferred stock (continued)

ii) Series C Convertible Preferred Stock

The Company has undeclared dividends on the Series C Preferred stock amounting to \$1,402,110 as of September 30, 2017. The computation of loss per common share for the nine months ended September 30, 2017 takes into account these undeclared dividends.

b) Stock Options

i) Plan options

At September 30, 2017 and December 31, 2016 there were 380,950 Plan options issued and outstanding, respectively, under the Stock Option Plan.

No options were issued during the nine months ended September 30, 2017 and the year ended December 31, 2016.

ii) Non-Plan Stock Options

On January 1, 2016, the Company granted, to its then Chief Executive Officer, non - plan options for 3,000,000 shares of common stock (that are not covered by the Company's Stock Option Plan), with an exercise price of \$0.08 per share and which options will expire thirty days after resignation. These options vested as to 1,000,000 on January 1, 2017, the first anniversary of the grant date; 1,000,000 was due to vest on the second anniversary of the grant date and a further 1,000,000 was due to vest on the third anniversary of the grant date.

Edgar Filing: PLEDGE PETROLEUM CORP - Form 10-Q

On March 31, 2017, the Chief Executive Officer, Mr. Brian Boutte tendered his resignation and the remaining unvested options for 2,000,000 shares of common stock were cancelled. The 1,000,000 options which vested on January 1, 2017, were not exercised within 30 days of resignation by Mr. Boutte and have been forfeited.

A summary of all of our option activity during the period January 1, 2016 to September 30, 2017 is as follows:

	No. of shares	Exercise price per share	Weighted average exercise price
Outstanding January 1, 2016	380,950	\$0.08 to \$13.50	\$ 0.18
Granted	4,000,000	\$0.08 to \$0.09	0.09
Forfeited/cancelled	(1,000,000)	\$0.08	0.08
Exercised	-	-	-
Outstanding December 31, 2016	3,380,950	\$0.09 to \$13.50	\$ 0.18
Granted - non-plan options	-	-	-
Forfeited/cancelled	(3,000,000)	\$0.08	0.08
Exercised	-	-	-
Outstanding September 30, 2017	380,950	\$0.51 to \$13.50	\$ 0.90

Stock options outstanding as of September 30, 2017 and December 31, 2016 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****8 STOCKHOLDERS' EQUITY (continued)****b) Stock Options (continued)**

The options outstanding and exercisable at September 30, 2017 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	1.71		3,480	
\$ 12.50	2,000	3.03		2,000	
\$ 8.50	500	3.75		500	
\$ 5.00	14,800	4.04		14,800	
\$ 0.65	36,924	5.50		36,924	
\$ 0.63	38,096	0.75		38,096	
\$ 0.51	285,150	2.54		285,150	
	380,950	2.70	0.90	380,950	0.90

The Company has recorded an expense of \$18,066 and \$66,035 for the nine months ended September 30, 2017 and 2016, respectively relating to options issued.

c) Warrants

The warrants outstanding and exercisable at September 30, 2017 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	1.08		375,000	
\$ 0.25	1,751,667	1.74		1,751,667	
\$ 0.15	525,500	1.74		525,500	
\$ 0.25	1,508,333	1.84		1,508,333	
\$ 0.15	577,499	1.85		577,499	
\$ 0.25	968,166	1.85		968,166	
\$ 0.25	633,333	1.90		633,333	
	6,339,498	1.77	0.24	6,339,498	0.24

The warrants outstanding have an intrinsic value of \$0 and \$0 as of September 30, 2017 and December 31, 2016, respectively.

F-13

PLEDGE PETROLEUM CORP.**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****9 OTHER INCOME**

	Three months ended 30 September 2017	Three months ended 30 September 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Other income \$ -		\$4,059	\$ -	\$ 203,296

Other income in the prior period includes the forgiveness of the \$200,000 license fee due to Novas BVI during the prior period.

10 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 nine months ended September 30, 2017 and 2016, all stock options, warrants and convertible preferred stock 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 and Nine months ended September 30, 2017	Three and Nine months ended September 30, 2016
Stock options	380,950	4,380,950

Edgar Filing: PLEDGE PETROLEUM CORP - Form 10-Q

Warrants to purchase shares of common stock	6,339,498	6,339,498
Series A-1 convertible preferred shares	31,375,000	31,375,000
Series B convertible preferred shares	4,000,000	4,000,000
Series C convertible preferred shares	120,000,000	120,000,000
	162,095,448	166,095,448

F-14

PLEDGE PETROLEUM CORP.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

11 RELATED PARTY TRANSACTIONS

On January 1, 2016, the “Company entered into a three-year Employment Agreement with C. Brian Boutte (the “Boutte Employment Agreement”) to serve as the Company’s Chief Executive Officer. Mr. Boutte was to also serve as the Company’s interim Chief Financial Officer. Under the Boutte Employment Agreement, for his service as the Chief Executive Officer of the Company, Mr. Boutte was to receive an annual base salary of \$265,000, a sign on bonus of \$60,000 and an annual performance bonus of up to 55% of his base salary, such bonus payable in cash or equity upon attainment of certain performance indicators established by the Company’s Board of Directors and Mr. Boutte. In connection with the entry into the Boutte Employment Agreement, Mr. Boutte was granted an option award exercisable for 3,000,000 shares of the Company’s common stock, which will vest as to 1,000,000 shares on each of the one, two and three-year anniversary of the commencement of his employment with the Company. The Boutte Employment Agreement was amended on December 31, 2016 to provide for a term of six months ending June 30, 2017, a reduced annual base salary of \$165,000 and a provision for immediate vesting of the options upon a Change of Control (as defined in the amendment). In the event that Mr. Boutte’s employment was terminated Without Cause (as defined in the Boutte Employment Agreement), by Mr. Boutte for Good Reason (as defined below), Disability (as defined in the Boutte Employment Agreement), upon his death or a change in control, Mr. Boutte would be entitled to receive a severance payment equal to \$65,000. Upon a change in control, Mr. Boutte’s options would immediately vest. The Boutte Employment Agreement also included customary confidentiality obligations and inventions assignments by Mr. Boutte as well as a non- compete and non-solicitation provision. If his employment was terminated for Cause (as defined below) or by him Without Good Reason (as defined in the Boutte Employment Agreement), Mr. Boutte was entitled to receive his annual base salary through the date of termination and any bonus earned but unpaid. For purposes of the Boutte Employment Agreement, “Good Reason” is defined as (i) any material and substantial breach of the Boutte Employment Agreement by the Company; (ii) a Change in Control (as defined in the Boutte Employment Agreement) occurs and Mr. Boutte’s employment is terminated; (iii) a reduction in Mr. Boutte’s Annual Base Salary as in effect at the time in question, or any other failure by the Company to comply with the compensation terms of the Boutte Employment Agreement; or (iv) the Boutte Employment Agreement is not assumed by a successor to the Company. For purpose of the Boutte Employment Agreement, “Cause” is defined as (i) acts of embezzlement or misappropriation of funds or fraud; (ii) conviction of a felony or other crime involving moral turpitude, dishonesty or theft; (iii) a material violation by Mr. Boutte of any provision of the Boutte Employment Agreement, including willful failure to perform assigned tasks, willful and unauthorized disclosure of Company material confidential information; (iv) being under the influence of drugs (other than prescription medicine or other medically related drugs to the extent that they are taken in accordance with their directions) during the performance of Mr. Boutte’s duties and that performance of his duties is affected; (v) engaging in behavior that would constitute grounds for liability for harassment (as proscribed by the U.S. Equal Employment Opportunity Commission Guidelines or any other applicable state or local regulatory body) or other egregious conduct that violates laws governing the workplace; or (vi) willful failure to perform his assigned tasks, where such failure is attributable to the fault of Mr. Boutte, gross insubordination or dereliction of fiduciary obligations which, to the extent it is curable by Mr. Boutte, is not cured by Mr. Boutte within thirty (30) days of receiving written notice of such violation by the Company.

Mr. Boutte tendered his resignation to the Board of Directors on March 31, 2017.

12 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-15

PLEDGE PETROLEUM CORP.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12 COMMITMENTS AND CONTINGENCIES (continued)

The Company entered into a lease agreement for approximately 3,733 square feet of office and warehouse space in Houston, the term of the lease was for 39 months commencing on March 1, 2016 and terminating on May 31, 2019. The lease provided for the first month to be rent free, the fourteenth month to be rent free and the twenty-seventh month to be rent free. Monthly rentals, including estimated operating costs, for the first 12 months, excluding the free rental month amounted to approximately \$3,410 per month, escalating at a rate of 1.7% per annum, after excluding the free rental months. This lease agreement was amended, and the lease terminated with effect from May 31, 2017 with a final payment of \$2,000 and the forfeiture of the security deposit of \$6,968.

The Company entered into an Office Service Agreement on May 16, 2017 whereby it has the license to use an office in a business center, together with all telecommunication services and access to conference rooms, kitchens and all utilities, the agreement is for a period of six months commencing on June 1, 2017 and terminating on November 30, 2017. The Company pays a monthly amount of \$530 in terms of the Office Service Agreement.

In terms of the license agreement commitments disclosed in note 6 above, the minimum commitments due under the amended license agreement entered into on January 30, 2013, for the next five years, are summarized as follows:

	Amount
2017	\$ 500,000
2018	500,000
2019	500,000
2020	500,000
2021	500,000
Total	\$ 2,500,000

13 SUBSEQUENT EVENTS

The Company has entered into an Asset Purchase Agreement (the “Asset Purchase Agreement”) with an affiliate (the “Purchaser”) of Ervington Investment Limited (“Ervington”), the current holder of a majority of the Company’s outstanding voting securities, pursuant to which the Company has agreed to sell 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 Purchase Agreement provides, among other things, that the Asset Sale is conditioned on its approval by holders of a majority of the Company’s voting securities, exclusive of the securities held by Ervington (a “majority of the minority”).

The Company has also entered into an agreement with Ervington (the “Share Repurchase Agreement”) to repurchase all of its outstanding securities held by Ervington for \$8,500,000 (the “Share Repurchase”), which repurchase will occur at the same time as the Asset Sale. The repurchase will constitute a change of control and upon consummation of the repurchase, Ivan Persiyanov, will resign 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 expects to cease all activities related to its existing business while evaluating other business opportunities, which include potentially acquiring an 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.

The purchase price for the shares being repurchased and assets being sold together with documents necessary to effect the Asset Sale pursuant to the Asset Purchase Agreement and the Share Repurchase pursuant to the Share Repurchase Agreement, including, but not limited to, a bill of sale for the assets being sold, an assignment of intellectual property rights, stock certificates and stock powers for the shares to be repurchased from Ervington, and the resignation of Ivan Persiyanov, have been placed in escrow pending the approval of the Asset Sale by a majority of the minority and will be released at the subsequent closing of the transactions contemplated by the Asset Purchase Agreement and Share Repurchase Agreement.

Other than disclosed above, in accordance with ASC 855-10, the Company has analyzed its operations subsequent to September 30, 2017 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.

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, 2016 and the other information set forth in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on August 8, 2017. 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 including those discussed herein below, under Part II, Item 1A, “Risk Factors” and elsewhere herein, and those identified under Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016.

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

We have entered into an Asset Purchase Agreement (the “Asset Purchase Agreement”) with an affiliate (the “Purchaser”) of Ervington Investment Limited (“Ervington”), the current holder of a majority of our outstanding voting securities, pursuant to which we have agreed to sell to the Purchaser substantially all of our assets, including all pertinent intellectual property rights, comprising our business of implementing our plasma pulse technology, for \$650,000 (the “Asset Sale”). The Asset Purchase Agreement provides, among other things, that the Asset Sale is conditioned on its approval by holders of a majority of our voting securities, exclusive of the securities held by Ervington (a “majority of the minority”).

We have also entered into an agreement with Ervington (the “Share Repurchase Agreement”) to repurchase all of our outstanding securities held by Ervington for \$8,500,000 (the “Share Repurchase”), which repurchase will occur at the same time as the Asset Sale. The repurchase will constitute a change of control and upon consummation of the repurchase Ivan Persiyanov will resign from all positions he holds as an officer and director of our company and our subsidiaries. After the completion of the Asset Sale, we expect to cease all activities related to our existing business while evaluating other business opportunities, which include potentially acquiring an oilfield services business, of which two of our current directors (Messrs. Huemoeller and Zotos) own a minority equity interest. We have not entered into an agreement with any potential acquisition candidate and have only been in the early stages of discussion.

The purchase price for the shares being repurchased and assets being sold together with documents necessary to effect the Asset Sale pursuant to the Asset Purchase Agreement and the Share Repurchase pursuant to the Share Repurchase Agreement, including, but not limited to, a bill of sale for the assets being sold, an assignment of intellectual property rights, stock certificates and stock powers for the shares to be repurchased from Ervington, and the resignation of Ivan Persiyanov, have been placed in escrow pending the approval of the Asset Sale by a majority of the minority and will be released at the subsequent closing of the transactions contemplated by the Asset Purchase Agreement and Share Repurchase Agreement.

Our Company

Since July 2015, when we closed the final tranche of our private placement of the sale of our Series C Preferred Stock and raised an additional \$9,750,000, we shifted our operational focus from being a direct provider of well services based upon plasma pulse technology to actively seeking to acquire producing oil fields to generate revenues and the development of untapped hydrocarbon reserves. As a result, in August 2015, our Board of Directors and shareholders approved through the formation of a joint venture, the exclusive sublicense to our majority owned subsidiary Novas Energy North America, LLC (“NENA”) of our rights to use certain plasma pulse technology that we had licensed from Novas Energy Group Limited (the “Licensor”) pursuant to the terms of an exclusive license agreement (the “License Agreement”), for treatment of vertical wells in the United States (hereafter, the “Licensed Plasma Pulse Technology”). We retained the right to use the Licensed Plasma Pulse Technology for treatment of our own assets located in the United States as well as treatment of assets outside of the United States. The Licensed Plasma Pulse Technology refers to the process and apparatus of Licensor for its plasma pulse technology as covered by Licensor’s patent rights. Although we were indirectly engaged in the oil recovery business through NENA and directly through our treatment of oil wells in Mexico, it was not our foundational business strategy. In October 2016, we terminated the joint venture due to its failure to meet certain milestones, including its generation of minimal revenue.

During the past year, our management, at the direction of the Board of Directors, has evaluated, considered, and brought forward various opportunities to acquire producing oil fields; however, to date, 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 PPT) has not been found. 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 sale of our technology and PPT assets. A special committee of the Board of Directors has been formed to review and evaluate a potential sale of the Company's assets and the potential purchase of the Company's securities held by Ervington Investments Limited, and/or a possible dissolution of the Company.

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 \$18,975,627 through September 30, 2017 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 September 30, 2017 and 2016, 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 September 30, 2017 and September 30, 2016

Net revenues

Net revenues were \$0 for the three months ended September 30, 2017 and 2016. All of our operations were directed through our 60% held joint venture, Novas Energy North America, LLC. ("NENA"). Effective November 1, 2016 we discontinued our NENA joint venture and the NENA operations are reflected in loss from discontinued operations, net of non-controlling interest.

Cost of goods sold

Cost of goods sold was \$0 for the three months ended September 30, 2017 and 2016. All cost of goods sold related to our operations are reflected in loss from discontinued operations, net of non-controlling interest.

Gross profit

Gross profit was \$0 for the three months ended September 30, 2017 and 2016.

Total expenses

Total expenses were \$136,523 and \$512,708 for the three months ended September 30, 2017 and 2016, respectively, a decrease of \$376,185 or 73.4%. Total expenses consisted primarily of the following:

Professional fees were \$73,887 and \$140,616 for the three months ended September 30, 2017 and 2016, respectively, a decrease of \$66,729 or 47.5%. The decrease is primarily due to; (i) a reduction in legal fees of \$61,569 due to a decrease in business activity; (ii) a reduction in secretarial fees of \$15,000 due to management's efforts to reduce operating expenses; offset by an increase in accounting and audit related fees of \$12,487 due to the accrual of the 2016 annual audit fee and additional expenses during the current period.

Consulting fees were \$6,800 and \$43,986 for the three months ended September 30, 2017 and 2016, respectively, a decrease of \$37,186 or 84.5%. The decrease is primarily due to a decrease in merger and acquisition related consulting expenses of \$12,986; and ii) a decrease in finance management consulting expenses of \$30,000 due to lower activity during the current period.

General and administrative expenses were \$53,076 and \$258,952 for the three months ended September 30, 2017 and 2016, respectively, a decrease of \$205,876 or 79.5%. The decrease primarily consists of the following; (i) a reduction in payroll expenses of \$147,865 due to the rationalization of staff during the December 2016 quarter; ii) a reduction in investor relations expenditure of \$8,298 due to a rationalization exercise undertaken by the Board of Directors; and iii) a reduction in stock based compensation of \$23,139 as all options are either vested or forfeited.

Depreciation, and amortization and impairment charges was \$1,263 and \$66,271 for the three months ended September 30, 2017 and 2016, respectively, a decrease of \$65,008 or 98.1%. The plasma pulse tool asset and the intangible license fees were impaired during the fourth quarter of 2016 due to the uncertainty facing the business, the remaining assets consist of minor office related items.

Other income

Other income was \$0 and \$4,059 for the three months ended September 30, 2017 and 2016, respectively, a decrease of \$4,059 or 100.0%. The amount in the prior period represented a reimbursement for travel expenditure on our Mexican project.

Net loss from continuing operations

We incurred a net loss from continuing operations of \$136,091 and \$508,649, for the three months ended September 30, 2017 and 2016, respectively, a decrease of \$372,558 or 73.2%, which consists primarily of the reduction in total expenses of \$376,185.

Loss from discontinued operations, net of tax

We incurred a loss from discontinued operations of \$0 and \$363,421 for the three months ended September 30, 2017 and 2016, respectively, a decrease of \$363,421 or 100.0%, due to the termination of the joint venture agreement in November 2016 as it was unable to meet its operating milestones.

Net loss attributable to controlling interest

The loss attributable to controlling interest was \$136,091 and \$872,070 for the three months ended September 30, 2017 and 2016, respectively, a decrease of \$735,979 or 84.4%. The decreased loss is primarily due to the reduction in total expenses and the losses incurred by the joint venture in the prior period.

Undeclared Series B and Series C preferred stock dividends

A deemed preferred stock dividend of \$157,786 and \$157,786 has been disclosed for the three months ended September 30, 2017 and 2016. This amount represents the dividends that are due, but remain undeclared, to Series B and Series C preferred stock holders.

Net loss available to common stockholders

We incurred a net loss available to common stockholders of \$293,877 and \$1,029,856 for the three months ended September 30, 2017 and 2016, respectively, a decrease of \$735,979 or 71.5% which consists of the various items discussed above.

Results of Operations for the nine months ended September 30, 2017 and September 30, 2016

Net revenues

Net revenues were \$25,000 and \$0 for the nine months ended September 30, 2017 and 2016, respectively. The revenue during the current period represents revenue from one well treatment in Mexico. Other than the treatment of one well in Mexico, all of our operations were directed through our 60% held joint venture, Novas Energy North America, LLC. ("NENA"). Effective November 1, 2016 we discontinued our NENA joint venture and the NENA operations are reflected in loss from discontinued operations, net of non-controlling interest.

Cost of goods sold

Cost of goods sold was \$0 for the nine months ended September 30, 2017 and 2016. All cost of goods sold related to our operations are reflected in loss from discontinued operations, net of non-controlling interest.

Gross profit

Gross profit was \$25,000 for the nine months ended September 30, 2017 and \$0 for the nine months ended September 30, 2016 due to the revenue earned on the Mexican well treatments.

Total expenses

Total expenses were \$488,662 and \$1,655,369 for the nine months ended September 30, 2017 and 2016, respectively, a decrease of \$1,166,707 or 70.5%. Total expenses consisted primarily of the following:

Professional fees were \$222,249 and \$310,173 for the nine months ended September 30, 2017 and 2016, respectively, a decrease of \$87,924 or 28.3%. The decrease is primarily due to; i) a reduction in SEC related printing costs of \$9,219 due to the delay in filing the 2016 10-K; ii) a reduction in legal fees of \$80,715 due to lower corporate activity; and iii) a reduction in corporate secretarial fees of \$26,875 due to management's efforts to reduce operating expenses, offset by iv) an increase in accounting and audit fees of \$36,543 due to the timing of the 2016 audit which was delayed during the current period and additional fees incurred on completing that audit; and v) the allocation of \$30,000 of professional fees to this expense category which was previously included under management consulting expenses.

Consulting fees were \$34,236 and \$287,086 for the nine months ended September 30, 2017 and 2016, respectively, a decrease of \$252,850 or 88.1%. The decrease is primarily due to; i) a decrease in merger and acquisition related consulting expenses of \$156,685; and ii) a decrease in finance management consulting expenses of \$108,000 due to lower activity during the current period.

General and administrative expenses were \$223,558 and \$894,807 for the nine months ended September 30, 2017 and 2016, respectively, a decrease of \$671,249 or 75.0%. The decrease primarily consists of the following; i) a reduction in payroll expenses of \$407,772 due to the rationalization of staff during the December 2016 quarter; ii) a reduction in investor relations expenditure of \$115,681 due to a rationalization exercise undertaken by the Board of Directors; iii) a reduction in stock based compensation expense of \$47,969 due to options forfeited or fully vested during the current period; and iv) a reduction in travel expenses of \$28,454 as operations were curtailed and rationalized under the direction of the Board.

Depreciation, and amortization and impairment charges was \$4,128 and \$134,553 for the nine months ended September 30, 2017 and 2016, respectively, a decrease of \$130,425 or 96.9%. The plasma pulse tool asset and the intangible license fees were impaired during the fourth quarter of 2016 due to the uncertainty facing the business, the remaining assets consist of minor office related items.

Other income

Other income was \$0 and \$203,296 for the nine months ended September 30, 2017 and 2016, respectively, a decrease of \$203,296 or 100.0%, primarily due to the forgiveness of the once off license fee for the Mexican market of \$200,000 in the prior period, which was due in June 2015.

Net loss from continuing operations

We incurred a net loss from continuing operations of \$463,186 and \$1,452,073 for the nine months ended September 30, 2017 and 2016, respectively, a decrease of \$988,887 or 68.1%, which consists primarily of the reduction in total expenses of \$1,166,707, offset by the forgiveness of the license fee income in the prior period as discussed above.

Loss from discontinued operations, net of tax

We incurred a loss from discontinued operations of \$0 and \$1,428,157 for the nine months ended September 30, 2017 and 2016, respectively, a decrease of \$1,428,157 or 100.0%, due to the termination of the joint venture agreement in November 2016 as it was unable to meet its operating milestones.

Net loss attributable to non-controlling interest of discontinued operations

The net loss attributable to non-controlling interest of discontinued operations in the prior period of \$249,339 is due to the losses in the Joint Venture being shared as to 40% by the non-controlling party until the full value of their investment of \$600,000 was depleted.

Net loss attributable to controlling interest

The loss attributable to controlling interest was \$463,186 and \$2,630,891 for the nine months ended September 30, 2017 and 2016, respectively, a decrease of \$2,167,705 or 82.4%. The decreased loss is primarily due to the reduction in total expenses and the losses incurred by the joint venture in the prior period offset by the forgiveness of the license fees due in the prior period.

Undeclared Series B and Series C preferred stock dividends

A deemed preferred stock dividend of \$468,214 and \$469,928 has been disclosed for the nine months ended September 30, 2017 and 2016. This amount represents the dividends that are due, but remain undeclared, to Series B and Series C preferred stock holders.

Net loss available to common stockholders

We incurred a net loss available to common stockholders of \$931,400 and \$3,100,819 for the nine months ended September 30, 2017 and 2016, respectively, a decrease of \$2,169,419 or 70.0% which consists of the various items discussed above.

Liquidity and Capital Resources.

Although we have cash balances of \$8,755,803 as of September 30, 2017, 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 suspended our operations and reduced our operating expenses as the Board of Directors are considering various options as to the future direction of the Company, including a possible dissolution. Should the Board of Directors decide to dissolve our company, due to uncertainties about whether we are able to realize the full value of our assets, we cannot make any assurances regarding the amount available for distribution to our shareholders. We have made certain projections relating to the amount of cash we expect to have to distribute to our shareholders upon dissolution. These projections generally relate to the amount of liabilities which must be satisfied before our company is dissolved, the amount we expect preferred stockholders to receive for their equity interest. Each of the above projections is subject to multiple variables, including the timing of a dissolution affecting the amount of dividends payable and the amount of liabilities owed at the time of dissolution. Based upon current estimates, if we were to dissolve this quarter, no assurance can be given that common shareholders or subordinate preferred shareholders will receive any such distribution.

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 \$18,975,627 through September 30, 2017 and incurred negative cash flow from continuing operations of \$413,953 for the nine months ended September 30, 2017.

Our primary commitments include the minimum commitments under the license agreements. Based upon our current plans, we believe that our cash will be sufficient to enable us to meet our anticipated operating needs for at least the next twelve months, subject to any business strategy decisions taken by the Board of Directors.

Our minimum commitments under the License Agreement for the next five years (assuming the License Agreement remains in effect and the \$500,000 annual royalty payment with respect to the United States territory is not required to be paid), is summarized as follows:

	Amount
2017	\$500,000
2018	500,000
2019	500,000
2020	500,000
2021	500,000
	\$2,500,000

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 Chief Executive Officer (“CEO”), who also serves as our 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 CEO who also serves as our 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 September 30, 2017 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 CEO, as appropriate, to allow timely decisions regarding required disclosure. If the Company continues its operations it intends 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 September 30, 2017 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

The following information updates, and should be read in conjunction with, the information disclosed in Part I, Item 1A, "Risk Factors" contained in our Annual Report on Form 10-K filed with the SEC on August 7, 2017. Except as disclosed below, there have been no material changes to the risk factors in our Annual Report on Form 10-K filed with the SEC on August 7, 2017.

We may not be profitable.

We expect to incur operating losses for the foreseeable future. For the nine months ended September 30, 2017 we have net revenues of \$25,000 and for the year ended December 31, 2016 and 2015, we had net revenues of \$0 and \$91,000 from our plasma pulse oil recovery business. For the nine months ended September 30, 2017 and the year ended December 31, 2016 we have sustained a net loss of \$463,186 and \$4,118,967, respectively. To date, we have not acquired any oil wells, we have not generated significant revenue from the Licensed Plasma Pulse Technology and we have generated insufficient revenue from our operations in Mexico. Our ability to become profitable depends on our ability to find acquisition candidates or assets that generate revenue, to have successful operations and generate and sustain sales, while maintaining reasonable expense levels, all of which are uncertain in light of our limited operating history in our current line of business and our recent changes in business strategy.

Our consolidated financial statements have been prepared assuming that we will continue as a going concern.

We have incurred recurring operating losses and had a net loss for the nine months ended September 30, 2017 and the year ended December 31, 2016. We have also suspended our business operations. These conditions raise substantial doubt about our ability to continue as a going concern. The consolidated financial statements for the nine months ended September 30, 2017 do not include any adjustments that might result from the outcome of this uncertainty.

We had intended to become an exploitation and production stage company but to date have not found any suitable oil wells to acquire, therefore we are reevaluating our business plan and strategy, making it difficult to evaluate our company.

We intended to use the proceeds from the sale of our Series C Preferred Stock to acquire oil fields and intend to become an exploitation and production stage company; however, to date we have not found an oil field meeting the criteria acceptable to the Board (which criteria include among other things, low general and administrative costs, ability to generate cash flow and ability to fully utilize the PPT). Our Board is reevaluating its business plan and strategy and has suspended operations and reduced operating expenses, including staffing, in order to preserve capital, while the Board evaluates its options including the possible sale of our technology and PPT assets, forming a special committee to investigate a possible share buyback of the majority shareholder, Ervington Investments, and/or a possible dissolution of the Company. Until such time as the Board determines its strategy, it will be difficult for an investor to evaluate our business. If the special committee determines to proceed with the sale of the Company's technology and PPT assets, it may consider acquiring other assets and entering into new businesses for which there can be no assurance of successful operation.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds for the nine months ended September 30, 2017

None.

Item 3. Defaults upon senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

9

Item 6. Exhibits

Regulation Number	Exhibit
<u>10.1</u>	<u>Asset Purchase Agreement between the Company and Norma Investments Limited dated as of February 12, 2018</u>
<u>10.2</u>	<u>Share Repurchase Agreement between the Company and Ervington Investments Ltd dated as of February 12, 2018</u>
<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 901 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 901 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: February 12, 2018 **PLEDGE PETROLEUM CORP.**
(Registrant)

By: */s/ Ivan Persiyarov*
Ivan Persiyarov, President and Chief Executive Officer
(Principal Executive Officer and Principal Financial Officer)