PEDEVCO CORP
Form 10-Q/A
August 14, 2013

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

FORM 10-Q/A

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

For the quarterly period ended: June 30, 2013

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

For the transition period from to_____

Commission file number: 001-35922

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

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

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

(855) 733-3826
(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

At August 14, 2013, there were 22,499,578 shares of the Registrant’s common stock outstanding.

PEDEVCO CORP.
For the Three and Six Months Ended June 30, 2013
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EXPLANATORY NOTE

This Amendment No. 1 to Form 10-Q is being filed solely to amend the Registrant's original Form 10-Q filing for the quarter ended June 30, 2013, filed with the Securities and Exchange Commission on August 14, 2013 (the "Prior Filing"), to include the certifications of the Principal Executive Officer and Principal Financial Officer of the Registrant (Exhibits 31.1, 31.2, 32.1 and 32.2, the "Exhibits") which were inadvertently left out of the Prior Filing. Except to include the Exhibits, this Amended Report is identical to the Prior Filing.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PEDEVCO CORP.
(FORMERLY BLAST ENERGY SERVICES, INC.)
CONSOLIDATED BALANCE SHEETS
(unaudited)

	June 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash	$1,773,109	$2,478,250
Accounts receivable - oil and gas	-	16,571
Accounts receivable - oil and gas - related party	155,504	112,488
Accounts receivable - related party	217,638	83,064
Deferred financing costs	46,709	-
Prepaid expenses and other current assets	23,582	133,900
Total current assets	2,216,542	2,824,273
Oil and gas properties:		
Oil and gas properties, subject to amortization, net	3,202,321	2,420,688
Oil and gas properties, not subject to amortization, net	5,918,014	925,382
Total oil and gas properties, net	9,120,335	3,346,070
Equipment, net of accumulated depreciation	61,525	87,883
Notes receivable - related parties	4,297,648	2,786,064
Other assets	2,090	-
Investments - equity method	1,933,820	2,098,334
Investments - cost method	4,100	4,100
Total assets	$17,636,060	$11,146,724
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$217,176	$132,243
Accounts payable - related party	2,450,339	922,112
Accrued expenses	1,157,296	1,449,014
Accrued expenses - related party	643,529	36,168
Notes payable, net of discount	2,636,140	-
Notes payable, net of discount- related party	938,290	2,170,065
Common stock payable	217,943	-
Total current liabilities	8,260,713	4,709,602
Long-term liabilities:		
Notes payable – related party	6,170,065	-
Asset retirement obligations	69,242	59,298
Total liabilities	14,500,020	4,768,900

Commitments and contingencies		
Redeemable Series A convertible preferred stock: -0- and 555,556 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	-	1,250,000
Shareholders'equity:		
Series A convertible preferred stock, $0.001 par value, 100,000,000 shares authorized, -0- and 6,234,845 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	-	6,235
Common stock, $0.001 par value, 200,000,000 shares authorized; 13,913,875 and 7,183,501 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	13,914	7,184
Stock subscription receivable	(392,825)	(276,326)
Additional paid-in capital	20,205,893	18,167,419
Accumulated deficit	(16,690,942)	(12,776,688)
Total shareholders' equity	3,136,040	5,127,824
Total liabilities and shareholders' equity	$17,636,060	$11,146,724

See accompanying notes to unaudited consolidated financial statements.

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PEDEVCO CORP.

(FORMERLY BLAST ENERGY SERVICES, INC.)
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Revenue:				
Oil and gas sales	$156,146	$157,665	$425,213	$157,665
Operating expenses:				
Lease operating costs	269,368	47,835	389,044	47,835
Selling, general and administrative expense	1,288,253	457,151	2,548,342	1,091,413
Impairment of oil and gas properties	53,862	-	88,503	-
Loss on oil and gas property acquisition deposit	200,000	-	200,000	-
Depreciation, depletion, amortization and accretion	116,570	13,469	255,021	13,959
Total operating expenses	1,928,053	518,455	3,480,910	1,153,207
Gain on sale of equity method investments	-	64,168	-	64,168
Loss from equity method investments	(282,303)	(28,083)	(367,602)	(55,654)
Operating loss	(2,054,208)	(324,705)	(3,423,299)	(987,028)
Other income (expense):				
Interest expense	(432,126)	-	(606,682)	-
Interest income	41,944	1,496	86,428	1,782
Gain on change in derivative fair value	11,460	-	14,005	-
Other income	-	-	15,294	-
Total other expense	(378,722)	1,496	(490,955)	1,782
Net loss	$(2,432,931)	$(323,209)	$(3,914,254)	$(985,246)
Net loss per common share:				
Basic and diluted	$(0.17)	$(0.05)	$(0.30)	$(0.17)
Weighted average common shares outstanding:				
Basic and diluted	13,913,815	5,953,534	12,966,415	5,862,105

See accompanying notes to unaudited consolidated financial statements.

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PEDEVCO CORP.
(FORMERLY BLAST ENERGY SERVICES, INC.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the Six Months Ended June 30,	
	2013	2012
Cash Flows From Operating Activities:	$(3,914,254)	$(985,246)
Net loss		
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock based compensation expense	434,022	279,907
Impairment of oil and gas properties	88,503	-
Loss on oil and gas property acquisition deposit	200,000	-
Depreciation, depletion, amortization and accretion	255,021	13,257
Gain on sale of equity method investment	-	(64,168)
Loss from equity method investments	367,602	56,357
Amortization of debt discount and deferred financing costs	95,764	-
Gain on change in fair value of derivative	(14,005)	-
Changes in operating assets and liabilities:		
Accounts receivable - oil and gas	16,571	(27,094)
Accounts receivable - oil and gas - related party	(43,016)	(444,028)
Accounts receivable - related party	(134,574)	-
Prepaid expenses and other current assets	110,318	10,806
Other assets	(2,090)	-
Accounts payable	(91,396)	171,143
Accounts payable - related party	(373,397)	-
Accrued expenses	(211,718)	(167,801)
Accrued expenses - related party	502,361	(32,775)
Cash used in operating activities	(2,714,248)	(1,189,642)
Cash Flows From Investing Activities:		
Cash paid for unproved leasehold costs	(3,907,471)	(1,500,000)
Cash paid for oil and gas property acquisition deposit	(200,000)	-
Cash paid for drilling costs	(128,750)	(1,550)
Issuance of notes receivable - related parties	(1,714,672)	-
Cash proceeds from the sale of White Hawk investment	-	1,000,000
Cash paid for acquisition of Blast Energy Services, Inc.	-	(446,478)
Cash used in investing activities	(5,950,893)	(948,028)
Cash Flows From Financing Activities:		
Proceeds from notes payable, net of financing costs	2,950,000	-
Proceeds from notes payable, related parties, net of financing costs	5,050,000	-
Cash paid for deferred financing cost	(40,000)	-
Proceeds from sales of Series A preferred stock, net of offering costs	-	4,443,285
Proceeds from sales of common stock, net of offering costs	-	137
Net cash provided by financing activities	7,960,000	4,443,422

Net increase (decrease) in cash	(705,141)	2,305,752
Cash at beginning of period	2,478,250	176,471
Cash at end of period	$1,773,109	$2,482,223
Cash paid for:		
Interest	$-	$-
Income taxes	$-	$-
Supplemental disclosure of noncash investing and financing activities:		
Accrual of drilling costs	$871,602	$-
Accrual of oil and gas properties acquisition costs	$1,173,664	$1,000,000
Change in estimates of asset retirement obligations	$1,444	$-
Issuance of 555,556 shares of Series A preferred stock in exchange for acquisition of Excellong E&P-2, Inc.	$-	$1,250,000
Issuance of 76,667 shares of Series A preferred stock to settle payables	$-	$172,500
Conversion of Series A preferred stock to common stock	$6,282	$-
Conversion of redeemable preferred stock to common stock	$556	$-
Expiration of redemption feature in 555,556 shares of Series A preferred stock issued in acquisition of Excellong E&P-2, Inc.	$1,250,000	$-
Issuance of common stock in settlement of stock payable	$80,000	$-
Issuance of preferred stock in settlement of stock payable	$47	$-
Rescission of common stock issued for exercise of stock options in 2012	$121	$-
Debt discount related to warrants issued in conjunction with notes payable	$243,771	$-
Deferred financing costs related to warrants issued in conjunction with notes payable	$31,176	$-
Fair value of derivative warrant instruments issued with notes payable	$14,005	$-
Shares granted to Esenjay in exchange for acquisition of Excellong E&P-2, Inc. on behalf of Condor	$116,499	$-
Reduction in notes receivable for the equity investment losses in excess of the Company's investment account	$203,088	$-
Warrants issued to MIE for sale of White Hawk equity interests	$-	$2,586
Contribution of Excellong E&P-2, Inc. to White Hawk as equity investment	$-	$3,734,986
Purchase adjustment for sale of White Hawk interest	$-	$58,332

See accompanying notes to unaudited consolidated financial statements.

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PEDEVCO CORP.

(FORMERLY BLAST ENERGY SERVICES, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 – BASIS OF PRESENTATION

The accompanying consolidated financial statements of PEDEVCO CORP., formerly Blast Energy Services, Inc. ("PEDEVCO" or the "Company"), have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the rules of the Securities and Exchange Commission ("SEC") and should be read in conjunction with the audited financial statements and notes thereto contained in PEDEVCO's latest Annual Report filed with the SEC on Form 10-K, as amended. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements that would substantially duplicate disclosures contained in the audited financial statements for the most recent fiscal year, as reported in the Form 10-K on March 25, 2013, as amended, have been omitted.

The Company's consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

NOTE 2 – DESCRIPTION OF BUSINESS

PEDEVCO's primary business plan is: (i) engaging in the acquisition, exploration, development and production of oil and natural gas resources in the United States, primarily shale oil and natural gas and secondarily conventional oil and natural gas opportunities in the United States (U.S.), and (ii) subsequently utilizing the Company's strategic relationships for acquisition, exploration, development and production in Asia, with a particular focus on China and Kazakhstan.

The Company owns a 20% interest in Condor Energy Technology, LLC ("Condor"), as well as a 50% interest in White Hawk Petroleum, LLC ("White Hawk"). Condor's operations consist primarily of working interests in oil and gas leases in the Niobrara shale formation located in the Denver-Julesberg Basin in Morgan and Weld Counties, Colorado. The remaining interest in Condor is owned by an affiliate of MIE Holdings Corporation (Hong Kong Stock Exchange code: 1555.HK), one of the largest independent upstream onshore oil companies in China ("MIE Holdings"). White Hawk's operations consist primarily of working interests in oil and gas leases in the Eagle Ford shale formation in McMullen County, Texas. The remaining interest in White Hawk is also owned by an affiliate of MIE Holdings.

The Company also owns an average 98% working interest in leases covering the Mississippian Lime located in Comanche, Harper, Barber and Kiowa Counties, Kansas. The Company serves as the operator of this asset and anticipates drilling its first well in the third quarter of 2013.

The Company plans to focus initially on developing shale oil and gas assets held by the Company in the U.S., including its first oil and gas working interest known as the "Niobrara Asset," its second oil and gas working interest known as the "Eagle Ford Asset," and its most recently acquired oil and gas working interest known as the "Mississippian Asset". Subsequently, the Company plans to seek additional shale oil and gas and conventional oil and gas asset acquisition opportunities in the U.S. and Asia utilizing its strategic relationships and technologies that may provide the Company a competitive advantage in accessing and exploring such assets. Some or all of these assets may be acquired by subsidiaries, and equity investees such as Condor and White Hawk, or others that may be formed at a future date.

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NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation. The consolidated financial statements herein have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and include the accounts of the Company and those of its wholly-owned subsidiaries as follows: (i) Eagle Domestic Drilling Operations LLC, a Texas limited liability company (which was voluntarily dissolved effective July 10, 2013); (ii) Blast AFJ, Inc., a Delaware corporation; (iii) Pacific Energy Development Corp., a Nevada corporation; (iv) Pacific Energy Technology Services, LLC, a Nevada limited liability company; (v) Pacific Energy & Rare Earth Limited, a Hong Kong company; (vi) Blackhawk Energy Limited, a British Virgin Islands company; and (vii) Pacific Energy Development MSL, LLC, a Nevada limited liability company. All significant intercompany accounts and transactions have been eliminated.

Equity Method Accounting for Joint Ventures. The majority of the Company's oil and gas interests are held all or in part by the following joint ventures which are collectively owned with affiliates of MIE Holdings:

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

- White Hawk Petroleum, LLC, a Nevada limited liability company owned 50% by the Company and 50% by an affiliate of MIE Holdings. The Company accounts for its 50% interest in White Hawk using the equity method.

The Company evaluated its relationship with Condor and White Hawk to determine if either qualified as a variable interest entity ("VIE"), as defined in ASC 810-10, and whether the Company is the primary beneficiary, in which case consolidation would be required. The Company determined that both Condor and White Hawk qualified as VIE's, but since the Company is not the primary beneficiary of either Condor or White Hawk, the Company concluded that consolidation was not required for either entity.

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

Cash and Cash Equivalents. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. As of June 30, 2013 and December 31, 2012, cash equivalents consisted of money market funds and cash on deposit.

Concentrations of Credit Risk. Financial instruments which potentially subject the Company to concentrations of credit risk include cash deposits placed with financial institutions. The Company maintains its cash in bank accounts which, at times, may exceed federally insured limits as guaranteed by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2013, approximately $1,269,874 of the Company's cash balances were uninsured. The Company has not experienced any losses in such accounts.

Sales to two customers comprised 100% of the Company's oil revenues and sales to one customer comprised 100% of its gas revenues for the six-month period ended June 30, 2013. For the six months ending June 30, 2012, sales to two customers comprised 100% of the Company's oil revenues and there were no gas revenues for the six - month period ended June 30, 2012. The Company believes that, in the event that its primary customer was unable or unwilling to continue to purchase the Company's production, there are a substantial number of alternative buyers for its production at comparable prices.

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

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

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Deferred Property Acquisition Costs. The Company defers the costs, such as title and legal fees, related to oil and gas property acquisitions. At the time the acquisition is completed, these costs are reclassified and included as part of the purchase price of the property acquired. To the extent a property acquisition is not consummated these costs are expensed.

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

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

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

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

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

Income Taxes. The Company utilizes the asset and liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for operating loss and tax credit carry-forwards and for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that the value of such assets will be realized.

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

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

Earnings or Loss per Common Share. Basic earnings per common share equal net earnings or loss divided by weighted average common shares outstanding during the period. Diluted earnings per share include the impact on dilution from all contingently issuable shares, including options, warrants and convertible securities. The common stock equivalents from contingent shares are determined by the treasury stock method. The Company incurred net losses for the six month periods ended June 30, 2013 and 2012, and therefore, basic and diluted earnings per share for those periods are the same as all potential common equivalent shares would be anti-dilutive. As of June 30, 2013, the Company excluded 1,335,800 potentially issuable shares of common stock related to options and 696,213 potentially issuable shares of common stock related to warrants due to their anti-dilutive effect.

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Derivative Liability. The Company follows Financial Accounting Standards Board (“FASB”), Derivatives and Hedging (“ASC 815-40”), which limits the extent to which the conversion or exercise price (the “strike price”) of a warrant can be adjusted for subsequent transactions. The Company utilizes a two-step process to determine whether an instrument is indexed to its stock: (a) evaluate the instrument’s contingent exercise provisions, if any and (b) evaluate the instrument’s settlement provisions. If it is determined the instrument is not indexed to the Company’s stock, the warrant is recognized as a derivative warrant at issuance and is measured at fair value at each reporting period and the change is recorded in earnings.

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

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

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

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

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

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

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

Reclassifications. Certain amounts in the consolidated financial statements of the prior year have been reclassified to conform to the current presentation for comparative purposes.

Recently Issued Accounting Pronouncements. There were no accounting standards and interpretations issued during 2013 and 2012, which had or are expected to have a material impact on the Company’s financial position, operations or cash flows.

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

NOTE 4 – OIL AND GAS PROPERTIES

The following tables summarize the Company’s oil and gas activities by classification for the six months ended June 30, 2013:

	December 31, 2012	Additions	Disposals	Transfers	June 30, 2013
Unproved properties	$ 1,105,645	$ 5,081,135	$ -	$ -	$ 6,186,780
Proved properties	2,479,535	1,000,352			3,479,887
Asset retirement costs	16,552	(1,444)	-	-	15,108
Accumulated depreciation depletion and impairment	(255,662)	(305,778)	-	-	(561,440)
Total oil and gas assets	$ 3,346,070	$ 5,774,265	$ -		