



PEDEVCO Corp.

Q2 update – maintained valuation based on development updates – Neutral rating and maintained target price of US\$2.97

We update our coverage of PEDEVCO Corp. (NYSEMKT: PED) maintaining our target price of US\$2.97 from our last report on May 19, 2014. Our current target price implies an upside of 53.0% to PED's current share price of \$1.94 following PED's issuance of its 10-Q report. In this update report, we will discuss:

- Updates on reserve levels
- Development on assets and progress of drilling plan
- Restructuring of the Kazakhstan asset
- Valuation

We believe PEDEVCO Corp. (PED) is currently on track with its 2014 development plan and has promising long-term prospects, given its ability to operate and fulfill development plans in the next 12 months. PED has begun to see significant increases in revenues over the past two quarters as a result of production from its Wattenberg and Niobrara assets, and we believe revenues will continue to grow at an increasing rate.

However, PED is still in the investment stage and costs remain high. Though operating expenses grew at a lower rate than revenues over the past quarter, the firm still operated on a negative operating income and negative operating cash flows. Interest expense significantly increased as a result of the debt arrangement made to finance the Wattenberg asset acquisition. The possibility of a significant decrease in interest expense in the near future is unclear. While we look forward to the potential long-term upside to PED's share price, the firm has to first achieve consistent and economic production to reach its fair value based on its reserve levels, operations, and management expertise.

Numerically, our valuation came to a fair value per share of \$3.75 but we maintained our target price at \$2.97 per share. The difference between our valuation and our target price results from the difference in net debt levels between our previous estimate and PED's most recent quarterly financial data. We believe that the difference does not affect the firm's operations or cost structure, as PED's reported financial performance was based on actual debt levels. Therefore, we believe that the value of the firm as perceived by the market has not changed since our previous valuation.

However, upon the signal that PED is able to cover its expenses and fulfill its development plans, we would suggest a target price of \$3.75 per share.

August 15, 2014

NEUTRAL

Target price US\$2.97

Upside 53.0%

Company data

Price (US\$)	1.94
Market cap. (US\$m)	51.5
Shares OS (mn)	26.5
52-week range (\$)	1.63 – 4.67
Dividend yield (%)	-
Enterprise Value (\$mn)	76.9
Avg 30-day vol. ('000)	57.1
Sector	Energy
Industry	Oil, Gas and Coal

Market data as of August 14, 2014

Forecasts

FYE Dec; US\$m	2013A	2014E	2015E
Sales	0.74	18.9	24.1
Net income	(16.8)	8.5	12.9
Net margin	N/A	46%	54%
EPS (US\$)	(1.07)	0.50	0.76

Source: BlackOre Research, company filings

Share price history



All figures in the report are in US\$ and all references to dates are for the year 2014, unless otherwise stated.

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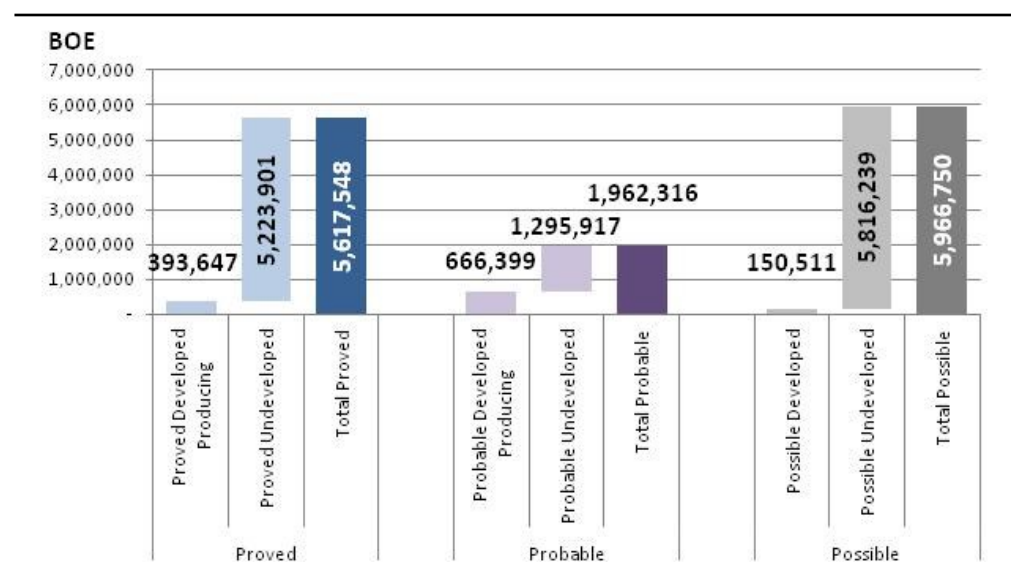
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UPDATES ON RESERVE LEVELS AND ASSET DEVELOPMENTS

Upon the completion of the acquisition of the Wattenberg asset and the continuing development of the Wattenberg and Niobrara assets, PED has seen significant increases in reserve levels. As of July 1, 2014, PED held 5.6 million barrels of oil equivalent (mmboe) in Proved reserves (1P), in comparison to 115,000 boe at 2013 year-end. PED also held 7.6 mmboe in Proved and Probable reserves (2P), and 13.5 mmboe in Proved, Probable and Possible reserves (3P). Illustrated below is a detailed breakdown of PED's reserve levels.

Fig 1: PED's reserve levels, July 2014



Source: Company filings, August 2014

DEVELOPMENT ON ASSETS AND PROGRESS ON DRILLING PLAN

Upon the acquisition of the Wattenberg asset in early March 2014, PED operated 16 wells, had a non-operated interest in 14 additional wells, and had an after-payout interest in 15 wells, all of which were on the Wattenberg and the Niobrara assets. Of the 16 operated wells, 5 were drilled and completed by PED on the Niobrara asset and 11 were acquired with the Wattenberg asset. The 14 non-operated wells and the 15 after-payout wells were acquired with the Wattenberg asset.

In March 2014, Red Hawk Petroleum, LLC (Red Hawk), a wholly-owned subsidiary of PED which holds the Wattenberg asset, elected to participate to its full working interest of 0.45% in a currently-producing long horizontal well in the Wattenberg asset. In April, 3 new long horizontal wells were completed on the Wattenberg asset by a third-party operator and Red Hawk elected to participate in these 3 wells to its full working interest of 12.5%.

In June 2014, Oil and Gas Conservation Commission of the State of Colorado granted approval to PED for drilling up to 79 horizontal wells covering 6,700 gross acres on the Wattenberg asset. Subsequently, PED established drilling plans for 3 horizontal

wells each with a lateral length of 4,000 to 4,500 ft and an 18-stage fracturing treatment. The wells would be drilled from a single pad and the gross cost of each well is estimated by the company to be \$4.2mn. PED would have approximately 45% net working interest in each well. Drilling is planned to start in August and initial production results are expected for October 2014.

For the year 2014, PED plans to drill and participate in a total of 16 gross (6 net) wells on the Wattenberg and Niobrara assets. Two gross well locations have been identified on the Niobrara asset for development this year. Furthermore, PED plans to complete 3 wells on the Mississippian asset by year-end to extend the primary lease term with Berexco LLC. Currently, the company can utilize its \$5mn cash on hand and its \$15.5mn line of credit provided by RJ Credit LLC. PED has also stated that future equity offerings, cash flows generated internally, and future debt financings are other potential sources of capital.

RESTRUCTURING OF THE KAZAKHSTAN ASSET

As a result of the Kazakhstan asset restructuring, PED's previous equity investment in Asia Sixth as a major shareholder changed into a passive investment in Caspian. The details are as follows.

As mentioned in previous reports, in September 2013, PED entered into a Shares Subscription Agreement (SSA) to acquire 51% of the issued and outstanding capital stock of Asia Sixth Energy Resources Limited (Asia Sixth), which held Aral Petroleum Capital LLP (Aral) jointly with Caspian Energy Inc (Caspian). Aral holds a 100% operated working interest in exploration and production licenses covering an area of 380,000 acres in the Pre-Caspian Basin in Kazakhstan, expiring in 2034. Asia Sixth held a 60% interest in Aral, which was expected to increase to 66.5% upon the completion of certain transactions. Caspian held a 40% interest in Aral. In effect, PED would indirectly own an approximate 34.5% in equity interest in Aral provided the completion of transactions and the grant of regulatory approvals. PED had paid a \$10mn deposit for the acquisition and was obligated to pay up to \$20mn upon the completion of transactions dependent on production levels. PED's equity interest in Aral had been referred to as the "Kazakhstan asset" in our previous reports.

In August 2014, Caspian entered into a purchase agreement with Asia Sixth, PED, Groenzee B.V. and other firms to acquire 100% ownership in Aral (the Caspian Purchase Agreement). Asia Sixth's direct and indirect ownership in Aral would be exchanged for Caspian capital stock upon the completion of the transaction. As a result, the SSA between PED and Asia Sixth was terminated and PED received a promissory note of \$5mn, or 50% of the original deposit from Asia Sixth, due upon the termination of the Caspian Purchase Agreement. The other 50% of the deposit is due to Golden Globe Energy Corp. (formerly RJ Resources Corp.) in relation to PED's financing arrangement for the Wattenberg asset acquisition.

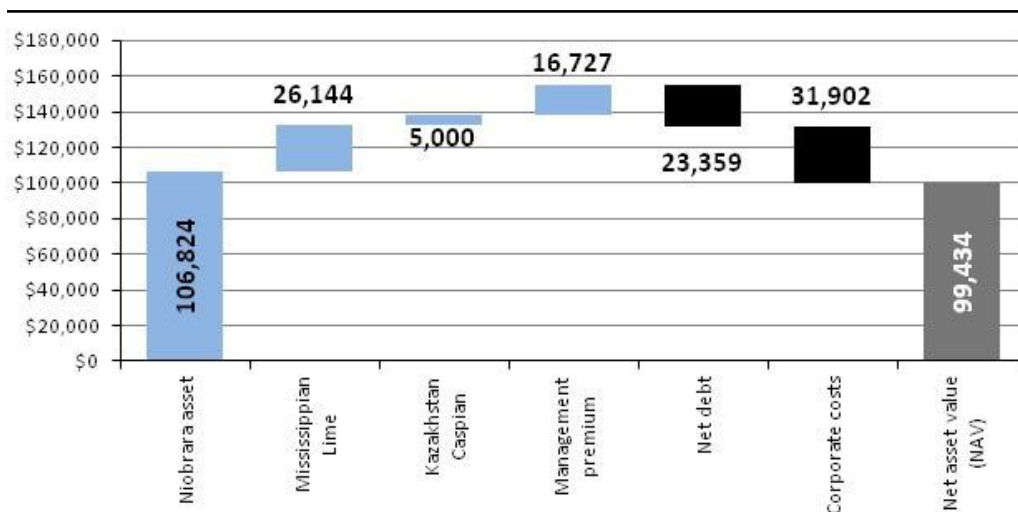
Under the Caspian Purchase Agreement, PED will assign the promissory note described above to Caspian to receive 5.0% of the common stock of the company. Other terms of the agreement include 1) the conversion of \$25.4mn of Asia Sixth's debt due to the termination of the SSA into Caspian capital stock, 2) the existing debt

of Aral would be held by Caspian as the parent company, and 3) Caspian would provide up to \$21.5mn in a debt arrangement to Aral to fund its operations. The transaction is expected to close no later than July 2015 subject to regulatory approvals.

VALUATION

We maintain our 12 to 18-month target price at US\$2.97 per share and our Neutral rating. The target price provides an upside of 53.0% to the current (August 14, 2014) share price of \$1.94. We have maintained our target price because the newly reported reserve levels were within our forecast range. We have accounted for PED's 2014 development plan on its Wattenberg and Niobrara assets in our valuation. We have valued PED's Kazakhstan asset as a \$5mn equity value in our previous valuation, which did not change through the asset restructuring. We eliminated the risk factor on the Kazakhstan asset because the \$5mn deposit was converted into common shares in Caspian. We maintained our Neutral rating because we still see uncertainty in PED's ability to fully fulfill its development plans. In our valuation, we have evaluated the Wattenberg asset as a part of the Niobrara asset to be consistent with our previous valuations.

Fig 2: PED's risk-adjusted NAV (US\$ '000), August 2014



Source: BlackOre Research

Fig 3: PED's NAV analysis, August 2014

NAV	UNADJUSTED USD (000)	RISK	RISK-ADJ USD (000)	RISK-ADJ PRICE/SHARE	% NAV
Niobrara asset	118,694	10%	106,824	\$4.03	107%
Mississippian Lime	43,574	40%	26,144	\$0.99	26%
Kazakhstan Caspian	5,000	0%	5,000	\$0.19	5%
Management premium	16,727		16,727	\$0.63	17%
Management premium % of assets	10%				
Net debt	(23,359)		(23,359)	(\$0.88)	(23%)
Corporate costs	(31,902)		(31,902)	(\$1.20)	(32%)
Value per share	128,733		99,434	\$3.75	100%
Market discount				21%	
Target price - 12 - 18mo				\$2.97	

*BlackOre estimate based on 10% of assets

Source: BlackOre Research

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