PLEDGE PETROLEUM CORP
Form 10-K
August 07, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-K

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

For Fiscal Year Ended December 31, 2016

000-53488

Commission file number

PLEDGE PETROLEUM CORP.

(Formerly PROPELL TECHNOLOGIES GROUP, INC.)

(Exact name of registrant as specified in its charter)

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

11811 North Freeway, 5th Floor,

Suite 513, Houston, TX 77060

(Address of principal executive offices)

(832) 328- 0169

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock None
(Title of Class) (Name of each exchange on which registered)

Securities registered pursuant to Section 12 (g) of the Act:

Common Stock, $0.001 par value

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of Section 15(d) of the Act. Yes ¨ No x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 (section 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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. (Check one):

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

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

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

The aggregate market value of the Registrant’s common stock held by non-affiliates of the Registrant as of June 30, 2016, the last business day of the registrant’s recently completed second quarter, was approximately $10,742,357 based on the closing price at which the common stock was last sold on that date.

The Registrant has 268,558,931 shares of common stock outstanding as of August 1, 2017.

Documents incorporated by reference: None

PLEDGE PETROLEUM CORP.

(formerly Propell Technologies Group, Inc.)

FORM 10-K

FOR THE FISCAL YEAR ENDED

DECEMBER 31, 2016

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PART I

CAUTIONARY STATEMENT RELATING TO THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Annual Report on Form 10-K includes “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). We intend those forward looking-statements to be covered by the safe harbor provisions for forward- looking statements. All statements regarding our expected financial position and operating results, our business strategy, our financing plans and the outcome of any contingencies are forward-looking statements. Any such forward-looking statements are based on current expectations, estimates, and projections about our industry and our business and are subject to a number of risks and uncertainties, many of which are difficult to predict and generally beyond our control, that could cause actual results to differ materially from those expressed, projected or implied in by the forward-looking statements. Words such as “anticipates,” “expects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” or variations of those words and similar expressions are intended to identify such forward-looking statements. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those stated in or implied by any forward-looking statements.

Such risks and uncertainties include the risks noted under Part 1. “Business,” Part 1A “Risk Factors” and Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” but are also contained elsewhere. You should refer to Item 1A. “Risk Factors.” section of this Annual Report on Form 10-K for a discussion of important factors that may cause our actual results to differ materially from those expressed or implied by our forward- looking statements. As a result of these factors, we cannot assure you that the forward-looking statements in this Annual Report will prove to be accurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame, or at all. We do not undertake any obligation to update any forward-looking statements.

Unless the context requires otherwise, references to “we,” “us,” “our,” and “Propell,” refer to Pledge Petroleum Corp (formerly Propell Technologies Group, Inc., and its subsidiaries.

Item 1. Business

Overview

Our Company

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 Plasma Pulse Technology (“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, forming a special committee to investigate a possible share buyback of the majority shareholder, Ervington Investments, and/or a possible dissolution of the Company.

In 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 PPT 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. We intend to terminate our agreement with our Mexican partner in the near future.

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 $18,512,441 through December 31, 2016 and there can be no assurance that we will be able to achieve profitability.

Recent Events

On October 4, 2016, Novas Energy USA, Inc. (“Novas USA”), our wholly owned subsidiary, delivered a notice to its joint venture partner, 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.

Section 11.1(b) of the Operating Agreement provides that the Joint Venture may be dissolved upon the election of Novas USA in the event the Joint Venture fails to satisfy any Year 1 Key Performance Indicator by an amount greater than five percent (5%) of the applicable metric (the “Year 1 Milestone”). The Joint Venture has not achieved the Year 1 Milestone. For the purposes of the Operating Agreement, the Year 1 Key Performance Indicators are defined as: during a continuous twelve (12) month period commencing upon September 1, 2015 each of: (1) sales from activities in the United States of greater than or equal to $2,829,000; (2) sales from activities in Canada of greater than or equal to $2,829,000; (3) EBITDA from activities in the United States of greater than or equal to $524,000; and (4) EBITDA from activities in Canada of greater than or equal to $524,000. In fact, NENA has not generated more than nominal revenue. Upon a dissolution, all intellectual property assets of the Joint Venture, including any improvements to Technology (as defined in the Operating Agreement) is to be distributed to Technovita solely for use in Canada, its territories and its possessions and Novas USA solely for use in the United States and its territories.

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. The Operating Agreement also provided, among other things, that Novas USA would contribute an aggregate of $1,200,000 to the capital of the Joint Venture for its 60% interest in the Joint Venture. Novas USA has contributed $900,000 to the Joint Venture to date and believes that it has valid defenses to any claim that may be made that it contribute additional funds.

On July 19, 2016, we received a notice from the 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 the 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. We and Novas believe that there is no legal basis for Licensor to terminate the License Agreement and further 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 we believe that such failures on Licensor’s part may impact what, if any, payments are due under the License Agreement by Novas to Licensor.

We believe that it is evident from the plain language of the Sublicense Agreement, and the fact that we transferred to NENA substantially all of its rights for the use of Licensed Plasma Pulse Technology in the United States of America, that the Sublicense Agreement replaced and superseded the royalty fees due under the License Agreement for the use of the Licensed Plasma Pulse Technology in the Licensed Territory. We also believe that we have developed our own plasma-pulse technology not based on or otherwise an infringement to, the Licensed Plasma Pulse Technology, although the Licensor has not accepted our claim. Going forward, if we decide to continue to treat oil wells, our intent is to deploy our own plasma-pulse technology in lieu of the Licensed Plasma Pulse Technology, however, if we were to seek to continue to use the Licensed Plasma Pulse Technology, by reason of the termination of the Sublicense Agreement, effective November 1, 2016, we would be required to pay royalties to Licensor.

History

Pledge Petroleum Corp ("Pledge"). (f/k/a Propell Technologies Group, Inc.) is a Delaware corporation originally formed on January 29, 2008 as CA Photo Acquisition Corp. On April 10, 2008 Crystal Magic, Inc. ("CMI"), a Florida Corporation, merged with an acquisition subsidiary of Pledge, and we issued an aggregate of 108,000 shares to the former shareholders of CMI. On May 6, 2008, we acquired both Mountain Capital, LLC (d/b/a Arrow Media Solutions) ("AMS") and Auleron 2005, LLC (d/b/a Auleron Technologies) ("AUL") and made each a wholly owned subsidiary and issued a total of 41,987 shares of our Common Stock to the members of Mountain Capital, LLC and a total of 2,721 shares of our Common Stock to the members of AUL (the shares referenced above are in pre-split amounts, that is prior to our 50-to-1 reverse split in August 2012). In 2010 AUL and AMS were dissolved. In September 2010, CMI's assets were foreclosed upon by its largest creditor and these assets were liquidated and effective December 31, 2013, we disposed of our interest in CMI for nominal consideration.

In 2013, we closed a Share Exchange Agreement with the shareholders of Novas, under which we acquired all of the outstanding equity securities of Novas in exchange for 100,000,000 shares of our common stock. Novas had entered into a license for use of the Licensed Plasma Pulse Technology licensed from Licensor for use in the United States and Mexico. Prior to the closing of the second tranche of the Series C Preferred Stock private placement and the sublicense with NENA, our focus had been on the provision of production enhancement services.

On February 19, 2015, we entered into a Series C Preferred Stock Purchase Agreement (the "Purchase Agreement") with Ervington Investment Limited, an entity organized under the laws of the Republic of Cyprus which is wholly owned by Norma Investments Limited, which in turn is wholly owned by Harmony Trust Settlement ("Ervington"), and closed the first tranche of a private placement offering under the Purchase Agreement, raising $5,000,000 in gross proceeds from the sale of 1,525,424 shares of our Series C Preferred Stock ("Series C Preferred Stock") at a purchase price of $3.277777778 per share.. On June 30, 2015, Ervington closed the second tranche of a private placement offering under the purchase agreement raising an additional $9,750,000 in gross proceeds from the sale of 2,974,576 shares of our Series C Preferred Stock at a purchase price of $3.277777778. We agreed to use the proceeds for the acquisition, enhancement and maintenance of an oil field and the use of our Plasma Pulse Technology thereon.

On October 22, 2015, Novas entered into an operating agreement with Technovita Technologies USA, Inc. ("Technovita") (the "Joint Venture Agreement") through a newly formed Delaware limited liability company, NENA, whereby Novas agreed to contribute $1,200,000 ($600,000 to be delivered on the effective date (October 22, 2015) of the Joint Venture Agreement, $300,000 on November 1, 2015 and $300,000 on the two month anniversary of the Effective Date) to the capital of NENA for 60% of the membership interests of NENA and Technovita agreed to contribute an aggregate of $800,000 to the capital of NENA for 40% of the membership interests of NENA. In October 2015, Novas entered into a sublicense agreement (the "Novas Sublicense Agreement") with NENA and the Licensor pursuant to which NENA was granted the right, subject to certain exceptions to be the exclusive provider of the Plasma Pulse Technology for treatment of vertical wells to third parties in the United States. Subject to certain exceptions and pursuant to the terms of Sublicense Agreements (the "Technovita Sublicense Agreement") that was

entered into between Technovita, NENA and Licensor, NENA is the exclusive provider of the Plasma Pulse Technology for treatment of vertical wells to third parties in Canada. Both Novas and Technovita will retain the right to deploy the Plasma Pulse Technology on vertical wells owned by Novas or Technovita in the United States or Canada, respectively. 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.

On July 6, 2012, we filed a Certificate of Designations, Rights and Preferences with the Secretary of State of the State of Delaware designating 5,000,000 preferred shares as Series A-1 Preferred Stock. On August 17, 2012, we filed an amendment to our Certificate of Incorporation, which increased the number of shares of our authorized Common Stock to 500,000,000 shares, effectuated a 50:1 reverse split of the number of shares of our outstanding common stock and changed our name to Propell Technologies Group, Inc. On February 4, 2013, we acquired all of the outstanding shares of Novas and Novas became our wholly owned subsidiary. Effective December 31, 2013, we disposed of our e-commerce line of business. On March 14, 2014, we filed a Certificate of Designations, Rights and Preferences with the Secretary of State of the State of Delaware designating 500,000 preferred shares as Series B Preferred Stock. On February 17, 2015, we filed a Certificate of Designations, Rights and Preferences with the Secretary of State of the State of Delaware designating 4,500,000 preferred shares as Series C Preferred Stock.

On February 16, 2017, the board of directors resolved that the Company change its name to Pledge Petroleum Corp and on February 17, 2017, the "Company filed a Certificate of Amendment to the Certificate of Incorporation with the Secretary of State of Delaware to change the name of the Company to Pledge Petroleum Corp.

Available Information

Additional information about Pledge is contained at our website, http://www.pledgepcorp.com . Information contained on our website is not incorporated by reference into, and does not form any part of, this Annual Report on Form 10-K. We have included our website address as a factual reference and do not intend it to be an active link to our website. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge through the investor relations page of our internet website as soon as reasonably practicable after those reports we electronically filed such material with, or furnish it to, the SEC. Our principal offices are located at 11811 North Freeway, 5th Floor, Suite 513, Houston, TX 77060. Our telephone number is +1 (832) 328-0169 and our facsimile number is (713) 513-5700. Our fiscal year end is December 31.

Plasma Pulse Technology

On January 30, 2013, Novas entered into the exclusive, perpetual royalty bearing License Agreement with the Licensor, which was amended in March 2014 and further amended on December 23, 2014, that granted Novas the right to practice, develop, use, market and commercialize the proprietary process of the Licensor, which consists of a specially designed apparatus and certain proprietary technology, methods and processes that may be applied to enhance the production of hydrocarbon deposits using metallic plasma-generated, directed, non-linear, wide-band and elastic oscillations at resonance frequencies. The amended License Agreement provides Novas with the right to practice the licensed process and to utilize the Plasma Pulse Technology to provide services to third parties and for ourselves as well, and to sublicense the Plasma Pulse Technology in the United States and Mexico. The amended License Agreement also provides Novas with the right to design and have manufactured the apparatus and to make modifications and improvements to the Plasma Pulse Technology provided that the Licensor is provided a non-exclusive license to any such improvements and modifications and any patent rights of Novas related to the Plasma Pulse Technology. The process utilizes a down-hole tool that is lowered into vertical wellbores to the perforated oil producing zone. When initiated, the tool delivers metallic plasma- generated, directed, non-linear, wide-band elastic oscillations at resonance frequencies to enhance oil production using the tool developed by the Licensor and enhanced by Novas. The Plasma Pulse Technology is suitable for oil wells as deep as 12,000 feet. By optimizing production efficiency combined with the resulting increased oil production we expect to extend the economic life of mature oil fields and to recover previously unrecoverable oil efficiently. Most of our tools only work in vertical wells with a minimum of 5 ½-inch casings and not in horizontal wells. We developed U.S. made tools to treat 4 ½-inch cased wells.

Numerous companies have utilized the Plasma Pulse Technology that Novas has licensed in the treatment and stimulation of oil wells throughout the Russian Federation, China, Kazakhstan, Uzbekistan and Czech Republic. The tool and subsequent well treatment have been credited with increasing oil production and injector well fluid flow in over 150 wells outside of the United States in Russia and China. It does so without any chemicals associated with hydraulic fracturing and therefore is deemed to be environmentally friendly. The treatment was created to clear the well drainage area of sedimentation clogging at the perforation zone.

Our Industry

According to the U.S. Energy Information Administration (EIA), the United States produced an estimated 3.25 billion barrels of crude oil in 2016, a decrease of about 5% from the estimated 3.4 billion barrels produced in 2015. Previous to 2016, annual crude oil production in the United States had increased for seven consecutive years.

According to U.S. Crude Oil and Natural Gas Proved Reserves, 2015, released by the U.S. Energy Information Administration (EIA) in December 2016, U.S. crude oil proved reserves decreased between year end 2014 and year

end 2015 from 39.9 billion barrels to 35.2 billion barrels, an 11.8% decrease and the average price of oil dropped 47% in 2015 compared to 2014. U.S production of crude oil and lease condensate increased in 2015 for the seventh consecutive year by 7% from 2014.

Texas has the largest proved reserves of any state but also the largest decline, a net decrease of $1 billion barrels of crude oil and lease condensate proved reserves from 2014 to 2015. North Dakota has the second largest proved reserves, mostly from the Bakken Shale, and the second largest decline in 2015, a net decrease of 838 million barrels of crude oil and lease condensate proved reserves.

Intellectual Property

We license the "Plasma-Pulse Technology" from the Licensor, pursuant to the terms of an exclusive perpetual royalty bearing license we entered into in January 2013, which was amended in March 2014 and further amended on December 23, 2014. The amended license agreement provides us with the exclusive right to develop, use, market and commercialize the Plasma Pulse Technology for ourselves and/or third parties, sublicense and provide related services to third parties in the United States and Mexico including all of its states, districts, territories, possessions and protectorates. The amended license agreement also provides Novas with the right to design and have manufactured the apparatus and to make modifications and improvements to the Plasma Pulse Technology provided that the Licensor is provided a non-exclusive license to any such improvements and modifications and any patent rights of Novas related to the Plasma Pulse Technology. The license is limited to the United States and Mexico. It also provides that we will pay the Licensor royalties equal to seven and a half percent (7.5%) of Net Service Sales (as defined in the second amendment to the license agreement) and Sublicensing Consideration (as defined in the second amendment to the license agreement) and provides for a minimum royalty payment of $500,000 per year from United States operations and $500,000 per year from Mexican operations; however, no minimum royalty payment is due prior to the three-year anniversary of the license agreement for revenue derived from the United States operations and no minimum royalty is due prior to December 31, 2015 for revenue derived from Mexico. Under certain circumstances, we have the right to make additional cash payments to cover certain royalty payment deficiencies. All royalty payments made by us as well as sublicensing revenue paid by us to Licensor are credited towards the minimum royalty payment. Royalties based on revenue derived from operations in one territory can be used to satisfy obligations for minimum royalty payments in the other territory. If the minimum royalty is not timely paid with respect to one of the two territories, the Licensor has the right to terminate the license with respect to that territory and if the minimum royalty payment for both territories is not paid, to terminate the license agreement. The Licensor is responsible for the cost of filing prosecuting and maintaining the patents and we are responsible for costs of obtaining marketing approvals. The Licensor has the right to terminate the license agreement upon our breach or default. If the Licensor dissolves, becomes insolvent or engages in or is the subject of any other bankruptcy proceeding then the Plasma Pulse Technology and patent rights in the United States shall become our property.

On July 19, 2016, we received a notice from the 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 the 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. We 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 we believe that such failures on Licensor's part may impact what, if any, payments are due under the License Agreement by Novas to Licensor.

We believe that it is evident from the plain language of the Sublicense Agreement, and the fact that we transferred to NENA substantially all of its rights for the use of Licensed Plasma Pulse Technology in the United States of America,

that the Sublicense Agreement replaced and superseded the royalty fees due under the License Agreement for the use of the Licensed Plasma Pulse Technology in the Licensed Territory. We also believe that we have developed our own plasma-pulse technology not based on or otherwise an infringement to, the Licensed Plasma Pulse Technology, although the Licensor has not accepted our claim. Going forward, if we decide to continue to treat oil wells, our intent is to deploy our own plasma-pulse technology in lieu of the Licensed Plasma Pulse Technology, however, if we were to seek to continue to use the Licensed Plasma Pulse Technology, by reason of the termination of the Sublicense Agreement, effective November 1, 2016, we would be required to pay royalties to Licensor.

We have a provisional patent application pending with the United States Patent and Trademark Office (the "USPTO") filed on August 5, 2016 and directed to our own plasma-pulse technology in lieu of the Licensed Plasma Pulse Technology. One of the listed co-inventors of the patent application, a former contractor (the "Contractor"), currently refuses to execute a confirmatory assignment agreement confirming that he assigned all rights, title and interest to us for publically recording with the USPTO. While the Contractor's consulting agreement states that we own all of the intellectual property he development relating to the pulse tool, we are currently negotiating an assignment agreement with the Contractor to remove any doubt that we exclusively own the intellectual property. There can be no assurance that the Contractor will assign his rights to us or that additional action, such as litigation, may be required to settle the matter. There can also be no assurance that the pending patent application will result in the issuance of patents, that patents issued to us will not be challenged or circumvented by competitors, or that these patents will be found to be valid or sufficiently broad to protect our technology or provide us with a competitive advantage.

To maintain our proprietary position, we also rely on trade secrets and proprietary technological experience to protect proprietary manufacturing processes, technology, and know-how relating to our business. We rely, in part, on confidentiality agreements with our marketing partners, employees, advisors, vendors and consultants to protect our trade secrets and proprietary technological expertise. In addition, we also seek to maintain our trade secrets through maintenance of the physical security of the premises where our trade secrets are located. There can be no assurance that these agreements will not be breached, that we will have adequate remedies for any breach, that others will not independently develop equivalent proprietary information or that third parties will not otherwise gain access to our trade secrets and proprietary knowledge.

There has been and continues to be substantial litigation regarding intellectual property rights. If a third party asserts a claim against us, we may be forced to expend significant time and money defending such actions and an adverse determination in any patent litigation could subject us to significant liabilities to third parties, require us to redesign our tools, require us to seek licenses from third parties, and, if licenses are not available, prevent us from manufacturing, selling or using our system. Additionally, we plan to enforce our intellectual property rights vigorously and may find it necessary to initiate litigation to enforce our patent rights or to protect our trade secrets or know-how. Patent litigation can be costly and time consuming and there can be no assurance that the outcome will be favorable to us.

Regulation

(a) General

Exploration and production operations are subject to various types of regulation at the federal, state and local levels. This regulation includes requiring permits to drill wells, maintaining bonding requirements to drill or operate wells, and regulating the location of wells, the method of drilling and casing wells, the surface use and restoration of properties on which wells are drilled, and the plugging and abandoning of wells. Our operations are also subject to various conservation laws and regulations.

Typically, oil enhancements such as hydraulic fracturing operations have historically been overseen by state regulators as part of their oil and gas regulatory programs; however, the EPA has asserted federal regulatory authority over certain hydraulic fracturing activities involving diesel under the Safe Drinking Water Act and has released draft permitting guidance for hydraulic fracturing activities that use diesel in fracturing fluids in those states where EPA is the permitting authority. As a result, we may be subject to additional permitting requirements for our operations. These permitting requirements and restrictions could result in delays in operations at well sites as well as increased costs to make wells productive. In addition, legislation introduced in Congress provides for federal regulation of hydraulic fracturing under the Safe Drinking Water Act and require the public disclosure of certain information regarding the chemical makeup of hydraulic fracturing fluids.

The EPA has published rules that establish air emission control requirements for natural gas and NGL production, processing and transportation activities, including New Source Performance Standards to address emissions of sulfur dioxide and volatile organic compounds, and National Emission Standards for Hazardous Air Pollutants (NESHAPS) to address hazardous air pollutants frequently associated with gas production and processing activities. Among other things, these rules require the reduction of volatile organic compound emissions from natural gas wells through the use of reduced emission completions or "green completions" on all hydraulically fractured wells constructed or refractured after January 1, 2015. The NESHAPS rules also include maximum achievable control technology (MACT) standards for "small" glycol dehydrators that are located at major sources of hazardous air pollutants and modifications to the leak detection standards for valves. Compliance with the EPA’s rules and requirements, especially any new green completion requirements, may require modifications to certain of our operations, including the installation of new equipment to control emissions at the well site that could result in significant costs, including increased capital expenditures and operating costs, and could adversely impact our business.

In addition to these federal legislative and regulatory proposals, some states and certain local governments have adopted, and others are considering adopting, regulations that could restrict hydraulic fracturing in certain circumstances, including requirements regarding chemical disclosure, casing and cementing of wells, withdrawal of water for use in high-volume hydraulic fracturing of horizontal wells, baseline testing of nearby water wells, and restrictions on the type of additives that may be used in hydraulic fracturing operations. Any such new regulations may require modifications to certain of our operations, including the installation of new equipment to control emissions at the well site that could result in significant costs, including increased capital expenditures and operating

costs, and could further adversely impact our business and ability to market and deploy effectively the Licensed Plasma Pulse Technology in the areas effected by such regulations.

(b) OSHA and Other Laws and Regulations.

We are subject to the requirements of the federal Occupational Safety and Health Act (OSHA), and comparable state laws. The OSHA hazard communication standard, the EPA community right-to-know regulations under the Title III of CERCLA and similar state laws require that we organize and/or disclose information about hazardous materials used or produced in our operations. Also, pursuant to OSHA, the Occupational Safety and Health Administration has established a variety of standards related to workplace exposure to hazardous substances and employee health and safety.

(c) Oil Pollution Act.

The Federal Oil Pollution Act of 1990 (OPA) and resulting regulations impose a variety of obligations on responsible parties related to the prevention of oil spills and liability for damages resulting from such spills in waters of the United States. The term "waters of the United States" has been broadly defined to include inland water bodies, including wetlands and intermittent streams. The OPA assigns joint and several strict liability to each responsible party for oil removal costs and a variety of public and private damages. We believe that we substantially comply with the Oil Pollution Act and related federal regulations.

(d) Clean Water Act.

The Federal Water Pollution Control Act (Clean Water Act) and resulting regulations, which are primarily implemented through a system of permits, also govern the discharge of certain contaminants into waters of the United States. Sanctions for failure to comply strictly with the Clean Water Act are generally resolved by payment of fines and correction of any identified deficiencies. However, regulatory agencies could require us to cease construction or operation of certain facilities or to cease hauling wastewaters to facilities owned by others that are the source of water discharges. We believe that we substantially comply with the Clean Water Act and related federal and state regulations.

Competition

Competition in the oil industry is intense. We will compete with other technologies such as gas injection, polymer flooding, microbial injection and thermal methods. As a new technology, we will compete with many of the other technologies that have been proven to be economically successful in enhancing oil production in the United States. We also actively compete against other oil companies with substantial financial and other resources.

Item 1A. Risk factors

Investing in our Company involves a high degree of risk. In addition to the risks related to our business set forth in this Form 10-K, you should carefully consider the risks described below before investing in our Company. Additional risks, uncertainties and other factors not presently known to us or that we currently deem immaterial may also impair our business operations.

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 we should find a suitable acquisition target and become an exploitation and production stage company, for which no decision has yet been made, we will face many risk associated therewith.

If we should become an exploitation and production stage company, we will face a high risk of business failure because of the unique difficulties and uncertainties inherent in oil and gas exploitation ventures. Potential investors should be aware of the risks and uncertainties normally encountered by oil and gas companies and the high rate of failure of such companies. The likelihood of our success must be considered in light of the problems, expenses, difficulties, complications and delays that could be encountered in connection with our planned exploitation and followed drilling. These potential problems include, but are not limited to, possible problems relating to exploitation and additional costs and expenses that may reduce our current forecast of income and asset value. Additional expenditures related to exploitation may not result in the confirmation of anticipated oil and gas reserves. Problems such as unusual or unexpected formations and other conditions are involved in mineral development and often result in unsuccessful efforts. The acquisition of additional fields will be dependent upon us possessing capital resources at that time in order to purchase and/or maintain such concessions. If no funding is available, we may be forced to cease our exploitation activities.

To date, we have not successfully acquired any fields and have limited funding from which to do so. Despite our cash position, we believe we do not have sufficient capital to become an exploration and production company. Our acquisition of a field is dependent upon market conditions and pricing. The competition for the acquisition of fields is intense. There can be no assurance that we will be able to acquire a suitable field with our existing resources.

Our business is difficult to evaluate because our most recent business model has been terminated and we have not formulated a new business model.

In 2015, we switched our business model with our entry into a Joint Venture Agreement with Technovita and announced that we were seeking to acquire oil wells and use a plasma pulse technology on our acquired oil wells. To date we have not acquired any wells and all of our revenue, although minimal, has been derived from operations under the Joint Venture Agreement. Effective November 1, 2016, we terminated the Joint Venture Agreement for its failure to meet certain specified milestones. To date, the joint venture has generated minimal revenue. With respect to any new business line that we enter into we will be subject to the risks inherent to the operation of a new business enterprise, and cannot assure you that we will be able to successfully address these risks.

We currently have limited revenues and may not generate any revenue in the near future, if at all, from the use of our technology.

We have generated limited revenues from the use of the Licensed Plasma Pulse Technology. During the period ended October 31, 2016, the joint venture had treated four wells using our down-hole tools. The majority of the wells that were treated as sample wells to demonstrate the ability of plasma pulse technology at no cost to the well owner. Effective November 1, 2016, we terminated the Joint Venture Agreement. Therefore, there can be no assurance that there will be any revenue from the operation of wells or from future customers of our services that utilize a plasma pulse technology.

We may not be profitable.

We expect to incur operating losses for the foreseeable future. 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 year ended December 31, 2016 we have sustained a net loss of $4,118,967 after taking into account the non-controlling shareholders share of losses and for the years ended December 31, 2015 and 2014, we sustained a net loss of $3,981,319 after taking into account the non-controlling shareholders share of losses and $5,018,483, 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 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 year ended December 31, 2016 do not include any adjustments that might result from the outcome of this uncertainty.

Our future plans and operations may require that we raise additional capital.

To date, we have not generated enough revenue from operations to pay all of our expenses. During the year ended December 31, 2015 we raised a total of $14,750,000 from our private placement of Series C Preferred stock to Ervington consummated during February and June 2015. We have used the funds raised in our financings for working capital purposes and intended to acquire an oil well with the funds that were raised. As we are currently re-evaluating our business plans, we cannot estimate how much money we will require to meet our new business plans and goals. In evaluating various business opportunities, our limited cash will be considered and may prevent us from pursuing certain opportunities. There can be no assurance that we will be able to achieve our new goals with the cash on hand or the cash generated from operations.

If we acquire wells and commence oil exploitation activities, our anticipated future oil drilling and producing operations will involve various risks.

If we acquire wells and commence oil exploitation activities, we will be subject to all the risks normally incident to the operation and development of oil and natural gas properties, including:

- well blowouts, cratering, explosions and human related accidents
- mechanical, equipment and pipe failures
- adverse weather conditions and natural disasters
- civil disturbances and terrorist activities
- oil and natural gas price reductions
- environmental risks stemming from the use, production, handling and disposal of water, waste materials, hydrocarbons and other substances into the air, soil or water title problems
- limited availability of financing
- marketing related infrastructure, transportation and processing limitations
- regulatory compliance issues

We intend to maintain insurance against many potential losses or liabilities arising from well operations in accordance with customary industry practices and in amounts believed by management to be prudent. However, insurance will not protect us against all risks.

Uncertainty of economic conditions, worldwide and in the United States may have a significant negative effect on operating results, liquidity and financial condition.

Effects of change in domestic and international economic conditions could include a decline in demand for oil and natural gas resulting in decreased oil, and natural gas reserves due to curtailed drilling activity; A decline in reserves would lead to a decline in production, and either a production decline, or a decrease in oil, and natural gas prices, would have a negative impact on our cash flow, profitability and value.

Due to the competition in the oil and gas industry for acquisition of oil wells and our limited financial and personnel resources we will have had and will continue to have difficulty competing for acquisition targets.

Competition in the oil and gas industry is extremely intense in all aspects, including but not limited to raising investment capital and obtaining qualified managerial and technical employees. We are an insignificant participant in the oil and gas industry due to our limited financial and personnel resources. Our competition includes large established oil and gas companies, with substantial capabilities and with greater financial and technical resources than we have, as well as the myriad of other small stage companies. These companies are able to pay more for development prospects and productive oil and natural gas properties and are able to define, evaluate, bid for, purchase and subsequently drill a greater number of properties and prospects than our financial or human resources permit. As a result of this competition, we have not been successful in finding suitable acquisition targets and may be unable to attract the necessary funding or qualified personnel. If we are unable to successfully compete for funding or for qualified personnel, our activities may be slowed, suspended or terminated, any of which would have a material adverse effect on our ability to continue operations.

If we should acquire an oil well, shortages of oil field equipment, services, qualified personnel and resulting cost increases could adversely affect results of operations.

The demand for qualified and experienced field personnel, geologists, geophysicists, engineers and other professionals in the oil and natural gas industry can fluctuate significantly, often in correlation with oil and natural gas prices, resulting in periodic shortages. When demand for rigs and equipment increases due to an increase in the number of wells being drilled, there have been shortages of drilling rigs, hydraulic fracturing equipment and personnel and other oilfield equipment. Higher oil and natural gas prices generally stimulate increased demand for, and result in increased prices of, drilling rigs, crews and associated supplies, equipment and services. If we were to acquire a well, these shortages or price increases could negatively affect the ability to drill wells and conduct ordinary operations by the operators of our wells, resulting in an adverse effect on our financial condition, cash flow and operating results.

If we should acquire an oil well, our operations will be subject to permitting requirements.

Oil drilling operations will be subject to permitting requirements, which could require us to delay, suspend or terminate our operations. Our operations, including but not limited to any exploitation program, require permits from the U.S. government. We may be unable to obtain these permits in a timely manner, on reasonable terms, or at all. If we cannot obtain or maintain the necessary permits, or if there is a delay in receiving these permits, our timetable and business plan for exploration and/or exploitation, may be materially and adversely affected.

International expansion of our business exposes us to business, regulatory, political, operational, financial and economic risks associated with doing business outside of the United States.

Doing business internationally involves a number of risks, including:

- multiple, conflicting and changing laws and regulations such as tax laws, export and import restrictions, employment laws, regulatory requirements and other governmental approvals, permits and licenses;
- failure by us to obtain regulatory approvals for the sale or use of our technology in various countries;
- difficulties in managing foreign operations;
- financial risks, such as longer payment cycles, difficulty enforcing contracts and collecting accounts receivable and exposure to foreign currency exchange rate fluctuations;
- reduced protection for intellectual property rights;
- natural disasters, political and economic instability, including wars, terrorism and political unrest, outbreak of disease, boycotts, curtailment of trade and other business restrictions; and
- failure to comply with the Foreign Corrupt Practices Act, including its books and records provisions and its anti-bribery provisions, by maintaining accurate information and control over activities.

Any of these risks, if encountered, could significantly harm our future international expansion and operations and, consequently, have a material adverse effect on our financial condition, results of operations and cash flows.

We will have limited control over the activities on properties for which we own an interest but we do not operate.

We may acquire interests in oil wells that will be operated by other companies. We will have limited ability to influence or control the operation or future development of these non-operated properties or the amount of capital expenditures that we are required to fund with respect to them. Our dependence on the operator and other working interest owners for these projects and our limited ability to influence or control the operation and future development of these properties could materially adversely affect the realization of our targeted returns on capital and lead to unexpected future costs.

We may be adversely affected by actions of our competitors.

The market in the oil and gas recovery industry is highly competitive. Many of our competitors have substantially greater financial, technical and other resources than we have. We face competition from owners of oil wells as well as large oil and gas companies. Our ability to compete effectively depends in part on market acceptance of our technology, the environmental impact of our technology and our ability to service customers in a timely manner. There can be no assurance that we will be able to compete effectively or that we will respond appropriately to industry trends or to activities of competitors.

Although we believe the Licensor does not have the right to terminate the License Agreement, if the Licensor is successful in its claims, the result could have material adverse outcomes.

On July 19, 2016, we 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. We 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.

Although we and Novas believe that it is evident from the plain language of the Sublicense Agreement, and the fact that we transferred to NENA substantially all of its rights for the use of the Licensed Plasma Pulse Technology in the United States of America, that the Sublicense Agreement replaced and superseded the royalty fees due under the License Agreement for the use of the Licensed Plasma Pulse Technology in the Licensed Territory, our termination of the Sublicense Agreement, effective November 1, 2016, will impact our ability to maintain this license from and thereafter, If minimum royalties are found to be due and not otherwise waived or deferred, any failure to make the required payments would permit the Licensor to terminate the license. Although we believe that no payment is due with respect to the territory of the United States and that other payments have been waived or excused, there can be no assurance that a court would agree with our position. If we were to lose or otherwise be unable to maintain this license, it would halt our ability to market the Licensed Plasma Pulse Technology, which could have an immediate material adverse effect on our business, operating results and financial condition.

The termination of the License Agreement or loss of the United States as a Licensed Territory could have a material adverse effect on our business.

We may be unable to generate sufficient revenues to meet the minimum royalties under our license agreement.

The License Agreement with the Licensor requires us to pay aggregate minimum royalty payments of $1,000,000 per year. To date, we have not generated enough revenue to pay minimum royalty payments and the Licensor has threatened to terminate the License Agreement for our failure to pay the royalty that the Licensor claims is due. No assurance can be given that we will generate sufficient revenue to make these minimum royalty payments.

There is uncertainty as to market acceptance of the plasma pulse technology and products.

Plasma pulse technology has been utilized in the United States on a limited basis. Neither us nor NENA were able to generate any significant revenue from the application of plasma pulse technology and there can be no assurance that any plasma pulse technology will be accepted in the market or that our commercialization efforts will be successful.

The results of the application of the Licensed Plasma Pulse Technology for initial well treatments may not support future well treatments and are not necessarily predictive of future long-term results on the wells for which the initial data is favorable.

To date, we have applied the Licensed Plasma Pulse Technology to treat over forty wells in the USA and an additional twelve wells in Canada, and we do not have long term results on the wells that were treated. Long-term results are critical insofar as favorable results that are achieved in early well treatments may not last and may not be repeated in later treatments of other wells. The inability to show long-term results increases the difficulty of establishing to potential customers the economic benefit of applying the Licensed Plasma Pulse Technology.

The beneficial ownership of a significant percentage of our common stock gives Ervington effective control of us, and limits the influence of other shareholders on important policy and management issues.

Ervington currently beneficially owns approximately 50.9% of our voting shares on a fully diluted basis (including outstanding options, warrants and convertible instruments). In addition, Ervington currently has the right to three votes on our board of directors and has appointed one member with an aggregate of three votes, which constitutes a majority of the votes on our board of directors. The Ervington appointee to the Board of Directors has also been appointed as the Chief Executive Officer and interim Chief Financial Officer. As a result of this appointment rights and its voting control of our company, Ervington has the power to control the outcome of all matters submitted to our shareholders for approval, including the election of our directors, our business strategy, our day-to-day operations and

any proposed merger, consolidation or sale of all or substantially all of our assets. Ervington's control of our company could discourage the acquisition of our common stock by potential investors and could have an anti-takeover effect, preventing a change in control of our company that might be otherwise beneficial to our shareholders, and possibly depress the trading price of our common stock. There can be no assurance that conflicts of interest will not arise with respect to Ervington's ownership and control of our company or that any conflicts will be resolved in a manner favorable to the other shareholders of our company.

We have experienced several management changes.

We have had significant changes in management in the past few years. On April 25, 2017, Mr. Persiyanov was appointed as our Chief Executive Officer in the place of Mr. Boutte who resigned as our Chief Executive Officer. On January 1, 2016, Mr. Boutte was appointed as our Chief Executive Officer. Changes in our key positions, as well as additions of new personnel and departures of existing personnel, can be disruptive, might lead to additional departures of existing personnel and could have a material adverse effect on our business, operating results, financial results and internal controls over financial reporting.

Trends in oil and natural gas prices affect the level of exploration, development, and production activity of our customers and the demand for our services and products, which could have a material adverse effect on our business, consolidated results of operations, and consolidated financial condition.

Demand for our services and products if we continue in the oil recovery business or oil derived from any wells that we may acquire will be particularly sensitive to the level of exploration, development, and production activity of, and the corresponding capital spending by, oil and natural gas companies, including national oil companies. The level of exploration, development, and production activity is directly affected by trends in oil and natural gas prices, which historically have been volatile and are likely to continue to be volatile.

Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty, and a variety of other economic factors that are beyond our control. The decline in oil prices from $80 per barrel in December 2014 to $52 per barrel in December 2016 has resulted in a decline in oil drilling which has depressed the immediate level of exploration, development, and production activity, which could have a material adverse effect on our business, consolidated results of operations, and consolidated financial condition. Even the perception of longer-term lower oil and natural gas prices by oil and natural gas companies can similarly reduce or defer major expenditures given the long-term nature of many large-scale development projects. Factors affecting the prices of oil and natural gas include:

- the level of supply and demand for oil and natural gas, especially demand for natural gas in the United States;
- governmental regulations, including the policies of governments regarding the exploration for and production and development of their oil and natural gas reserves;
- weather conditions and natural disasters;
- worldwide political, military, and economic conditions;
- the level of oil production by non-OPEC countries and the available excess production capacity within OPEC;
- oil refining capacity and shifts in end-customer preferences toward fuel efficiency and the use of natural gas;
- the cost of producing and delivering oil and natural gas; and

- potential acceleration of development of alternative fuels.

Legislative and regulatory changes affecting the environment and the oil industry could adversely affect our business

Political, e