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

FORM 10-K

(Mark One)

Annual report under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended **December 31, 2016**.

Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934 (No fee required)
For the transition period from _____ to _____.

Commission file number: **000-53473**

Torchlight Energy Resources, Inc.

(Exact name of registrant in its charter)

Nevada

(State or other jurisdiction of incorporation or
Organization)

74-3237581

(I.R.S. Employer Identification No.)

**5700 W. Plano Parkway, Suite 3600
Plano, Texas 75093**

(Address of principal executive offices)

(214) 432-8002

(Registrant's telephone number, including area code)

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

Common Stock (\$0.001 Par Value)

(Title of Each Class)

The NASDAQ Stock Market LLC

(Name of each exchange on which registered)

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

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 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 is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The aggregate market value of the common stock held by non-affiliates of the registrant on June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter, based on the closing price on that date of \$.55 on the Nasdaq Stock Market, was approximately \$19,404,947.

At March 21, 2017, there were 57,862,004 shares of the registrant's common stock outstanding (the only class of common stock).

DOCUMENTS INCORPORATED BY REFERENCE

None.

NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, among other things, statements regarding plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements, which are other than statements of historical facts. Forward-looking statements may appear throughout this report, including without limitation, the following sections: Item 1 “Business,” Item 1A “Risk Factors,” and Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Forward-looking statements generally can be identified by words such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” “predicts,” “projects,” “will be,” “will continue,” “will likely result,” and similar expressions. These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, which could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Annual Report on Form 10-K, and in particular, the risks discussed under the caption “Risk Factors” in Item 1A and those discussed in other documents we file with the Securities and Exchange Commission (“SEC”). Important factors that in our view could cause material adverse effects on our financial condition and results of operations include, but are not limited to, risks associated with the company's ability to obtain additional capital in the future to fund planned expansion, the demand for oil and natural gas, general economic factors, competition in the industry and other factors that may cause actual results to be materially different from those described herein as anticipated, believed, estimated or expected. We undertake no obligation to revise or publicly release the results of any revision to any forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

As used herein, the “Company,” “Torchlight,” “we,” “our,” and similar terms include Torchlight Energy Resources, Inc. and its subsidiaries, unless the context indicates otherwise.

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PART I

ITEM 1. BUSINESS

Corporate History and Background

Torchlight Energy Resources, Inc. was incorporated in October 2007 under the laws of the State of Nevada as Pole Perfect Studios, Inc. (“PPS”).

On November 23, 2010, we entered into and closed a Share Exchange Agreement (the “Exchange Agreement”) between the major shareholders of PPS and the shareholders of Torchlight Energy, Inc. (“TEI”). As a result of the transactions effected by the Exchange Agreement, at closing TEI became our wholly-owned subsidiary, and the business of TEI became our sole business. TEI is an energy company, incorporated under the laws of the State of Nevada in June 2010. We are engaged in the acquisition, exploration, exploitation, and/or development of oil and natural gas properties in the United States. In addition to TEI, we also operate our business through two other wholly-owned subsidiaries, Torchlight Energy Operating, LLC, a Texas limited liability company, and Hudspeth Oil Corporation, a Texas corporation.

Effective February 8, 2011, we changed our name to “Torchlight Energy Resources, Inc.” In connection with the name change, our ticker symbol changed from “PPFT” to “TRCH.”

Business Overview

Our business model is to focus on drilling and working interest programs within the United States, primarily in basins or areas with known geology such as the Permian Basin in West Texas. We have interests in three oil and gas projects, which projects are described in more detail below in the section titled “Current Projects.” We anticipate being involved in multiple other oil and gas projects moving forward, pending adequate funding. We anticipate acquiring exploration and development projects both as a non-operating working interest partner, participating in drilling activities primarily on a basis proportionate to the working interest, and acquiring properties we can operate. We intend to spread the risk associated with drilling programs by entering into a variety of programs in different fields with differing economics.

Salient characteristics of the company include our industry relationships, leverage for prospect selection, anticipated diversity, both geologically and geographically, cost control, partnering, and protection of capital exposure. Management believes opportunities exist to identify and pursue relatively low risk projects at very attractive entry prices. These projects may be available from small operators in financial distress, larger companies that need to share costs, and large producers who are consolidating their activities in other areas. Management believes attractive entry prices and tight cost control will result in returns that are superior to those achieved by major companies or small independents. An integral part of this strategy is the partnering of major activities. Such partnering will enable us to acquire the talents of proven industry veterans, as needed, without affecting our long-term fixed overhead costs.

Key Business Attributes

Experienced People. We build on the expertise and experiences of our management team, including John Brda and Roger Wurtele. We will also receive guidance from outside advisors as well as our Board of Directors and will align with high quality exploration and technical partners.

Project Focus. We are focusing primarily on exploitation projects by pursuing resources in areas where commercial production has already been established but where opportunity for additional and nearby development is indicated. We may pursue high risk exploration prospects which may appear less favored than low risk exploration. We will, however, consider these high risk-high reward exploration prospects in connection with exploitation opportunities in a project that would reduce the overall project economic risk. We will consider such high risk-high reward prospects on their individual merits.

Lower Cost Structure. We will attempt to maintain the lowest possible cost structure, enabling the greatest margins and providing opportunities for investment that would not be feasible for higher cost competitors.

Limit Capital Risks. Limited capital exposure is planned initially to add value to a project and determine its economic viability. Projects are staged and have options before additional capital is invested. We will limit our exposure in any one project by participating at reduced working interest levels, thereby being able to diversify with limited capital. Management has experience in successfully managing risks of projects, finance, and value.

ITEM 1. BUSINESS - continued

Project Focus

Generally, we will focus on exploitation projects (primarily for oil, although gas projects will be considered if the economics are favorable). Projects are first identified, evaluated, and followed by the engagement of third party operating or financial partners. Subject to overall availability of capital, our interest in large capital projects will be limited. Each opportunity will be investigated on a standalone basis for both technical and financial merit.

We will be actively seeking quality new investment opportunities to sustain our growth, and we believe we will have access to many new projects. The sources of these opportunities will vary but all will be evaluated with the same criteria of technical and economic factors. It is expected that projects will come from the many small producers who find themselves under-funded or over-extended and therefore vulnerable to price volatility. The financial ability to respond quickly to opportunities will ensure a continuous stream of projects and will enable us to negotiate from a stronger position to enhance value.

With emphasis on acquisitions and development strategies, the types of projects in which we will be involved vary from increased production due to simple re-engineering of existing wellbores to step-out drilling, drilling horizontally, and extensions of known fields.

Recompletion of existing wellbores in new zones, development of deeper zones and detailing of structure, and stratigraphic traps with three-dimensional seismic and utilization of new technologies will all be part of our anticipated program. Our preferred type of projects are in-fills to existing production with nearly immediate cash flow and/or adjacent or on trend to existing production. We will prefer projects with moderate to low risk, unrecognized upside potential, and geographic diversity.

Business Processes

We believe there are three principal business processes that we must follow to enable our operations to be profitable. Each major business process offers the opportunity for a distinct partner or alliance as we grow. These processes are:

- Investment Evaluation and Review;
- Operations and Field Activities; and
- Administrative and Finance Management.

Investment Evaluation and Review. This process is the key ingredient to our success. Recognition of quality investment opportunities is the fuel that drives our engine. Broadly, this process includes the following activities: prospect acquisition, regional and local geological and geophysical evaluations, data processing, economic analysis, lease acquisition and negotiations, permitting, and field supervision. We expect these evaluation processes to be managed by our management team. Expert or specific technical support will be outsourced as needed. Only if a project is taken to development, and only then, will additional staff be hired. New personnel will have very specific responsibilities. We anticipate attractive investment opportunities to be presented from outside companies and from the large informal community of geoscientists and engineers. Building a network of advisors is key to the pipeline of high quality opportunities.

Operations and Field Activities. This process begins following management approval of an investment. Well site supervision, construction, drilling, logging, product marketing, and transportation are examples of some activities. We will prefer to be the operator, but when operations are not possible, we will farm-out sufficient interests to third parties that will be responsible for these operating activities. We provide personnel to monitor these activities and associated costs.

Administrative and Finance Management. This process coordinates our initial structuring and capitalization, general operations and accounting, reporting, audit, banking and cash management, regulatory agencies reporting and interaction, timely and accurate payment of royalties, taxes, leases rentals, vendor accounts and performance management that includes budgeting and maintenance of financial controls, and interface with legal counsel and tax and other financial and business advisors.

Current Projects

As of December 31, 2016 the Company had interests in three oil and gas projects: the Orogrande Project in Hudspeth County, Texas, and the Hazel Project in Sterling, Tom Green, and Irion Counties, Texas, and the Hunton wells in partnership with Husky Ventures in Central Oklahoma .

ITEM 1. BUSINESS - *continued*

Orogrande Project, West Texas

On August 7, 2014, we entered into a Purchase Agreement with Hudspeth Oil Corporation (“Hudspeth”), McCabe Petroleum Corporation (“MPC”), and Greg McCabe. Mr. McCabe was the sole owner of both Hudspeth and MPC. Under the terms and conditions of the Purchase Agreement, at closing, we purchased 100% of the capital stock of Hudspeth which holds certain oil and gas assets, including a 100% working interest in 172,000 mostly contiguous acres in the Orogrande Basin in West Texas. This acreage is in the primary term under five-year leases that carry additional five-year extension provisions. As consideration, at closing we issued 868,750 shares of our common stock to Mr. McCabe and paid a total of \$100,000 in geologic origination fees to third parties. Additionally, Mr. McCabe has, at his option, a 10% working interest back-in after payout and a reversionary interest if drilling obligations are not met, all under the terms and conditions of a participation and development agreement. All drilling obligations through December 31, 2016 have been met. Closing of the transactions occurred on September 23, 2014.

Of the 168,000 acres, 40,154 were scheduled for renewal in December, 2014. The Company renewed the leases for the 40,154 acres during second quarter, 2015. Prior to March 31, 2015, the Company had the obligation to begin drilling its first well in order to hold the acreage block. The Rich A-11 well was permitted and spudded and drilling began as required by March 31, 2015.

The Company finalized an agreement to sell a 5% working interest in the Orogrande acreage on June 30, 2015 with an effective date of April 1, 2015. Sale proceeds were \$500,000 which were received in April, 2015. In addition, the Company issued 250,000 three year warrants with an exercise price of \$.50 to the purchaser.

On September 23, 2015, our subsidiary, Hudspeth Oil Corporation (“HOC”), entered into a Farmout Agreement by and between HOC, Pandora Energy, LP (“Pandora”), Founders Oil & Gas, LLC (“Founders”), McCabe Petroleum Corporation and Greg McCabe (McCabe Petroleum Corporation and Greg McCabe are parties to the Farmout Agreement for limited purposes) for the entire Orogrande Project in Hudspeth County, Texas. The Farmout Agreement provides for Founders to earn from HOC and Pandora (collectively, the “Farmor”) an undivided 50% of the leasehold interest in the Orogrande Project by Founder’s spending a minimum of \$45 million on actual drilling operations on the Orogrande Project in the next two years. Founders is to pay Farmor a total cost reimbursement of \$5,000,000 in multiple installments as follows: (1) \$1,000,000 at the signing of the Farmout Agreement, the balance of which was received on September 24, 2015; (2) within 90 days from the closing, Founders will frac and complete the Rich A-11 No. 1 Well; and (3) within five days of the spudding of each of the next eight wells drilled by Founders, Founders will pay to Farmor \$500,000 resulting in the payment of the remaining amount; provided that, in the event that within 90 days after the fracing of the Rich Well, Founders notifies Farmor of its election not to drill any additional wells, Founders shall have no further obligation to make further payment.

Upon payment of the first \$1,000,000, Farmor assigned to Founders an undivided 50% of the leasehold interest and a 37.5% net revenue interest in the leases subject to the terms of the Farmout Agreement (including obligations to re-assign to HOC and Pandora if the 50% interest in the entire Orogrande Project is not earned) and a proportionate share of the McCabe 10% BIAPO (back in after pay out) interest; provided, however, that for each well that Founders drills prior to earning the acreage, it will be assigned a 50% working interest in the wellbore and in the lease on which it sits.

Under a joint operating agreement (on A.A.P.L. Form 610 – 1989 Model Form Operating Agreement with COPAS 2005 Accounting Procedures) (“JOA”) also entered into on September 23, 2015, Founders is designated as operator of the leases. Any variance to the operating plan will be determined by a Development Committee, which committee is made up of members from Founders and Farmor, or their designees, to discuss and recommend the location of the drill wells, data to be gathered and the form of same. As contemplated under the Farmout Agreement, starting within 90 days of the completion of the fracing on the Rich A-11 Well, and at all times subject to the 90 day continuous drilling clause, Founders has the option, but not the obligation, to retain the assigned interest as follows: (1) if Founders spends a minimum of \$45 million on actual drilling operations while maintaining compliance with the continuous drilling clause, subject to reasonable delays resulting from reasonable Force Majeure conditions, Founders will have fulfilled its farmout obligations and will be entitled to retain the assigned interests. If Founders does not meet such obligations, it will reassign to Farmor the assigned interest except it will be entitled to retain its interest in the leases covering all wells drilled by Founders and the sections in which such wells are located. Additionally, Founders will resign as operator of the JOA as to all lands reassigned; and (2) Farmor will be carried in all drilling operations during the first two years and/or \$45 million in drilling operations, whichever comes last, subject to Founders’ right to recoup certain expenses on “Gap Wells.” After three years and after Founders has earned its working interest, either party may elect to market the acreage as an entire block, including operatorship. Should an acceptable bid arise, and both parties agree, the block will be sold 100% working interest to that third party bidder. However, if only one party wants to accept the outside offer, the other party (the party who wishes not to sell) has the right to purchase the working interest from the selling party.

The Rich A-11 well that was drilled by Torchlight in second quarter, 2015 was evaluated and numerous scientific tests were performed to provide key data for the field development thesis. During the testing process a poor cement bond was identified preventing a cost effective production test for the primary pay zones. Repair to the well bore necessary for a subsequent frac procedure was determined to be economically unfeasible. With the Rich A-11 designed as a test well rather than commercial target, a decision to begin plans for drilling the next well(s) with larger casing that utilized for future commercial production was made.

Torchlight Energy and Founders have elected to move forward on planning the next phase of drilling in the Orogrande Project. The project operator planned to permit three new wells in 2016 starting with the University Founders B-19 #1 well. The new wells would be drilled vertically for test purposes and would have sufficient casing size to support lateral entry into any pay zone(s) encountered once the well is tested vertically. Torchlight and the project operator would then run a battery of tests on each well to gain information for future development of the field. The second test well, the University Founders B-19 #1, was spudded on April 24, 2016 and drilled in second quarter, 2016. The well successfully pumped down completion fluid in third quarter and indications of hydrocarbons were seen at the surface on this second Orogrande Project test well. Despite encountering a bedding plane in a small section of the wellbore which required the installation of a pump to dewater, fluids from the B-19 #1 test well have begun to show an oil cut. The oil samples appear to be to be

very high gravity in the 45° to 47° API range. The well has shown casing pressure measured from 200 psi to 540 psi at various times during the testing phase. The presence of natural gas is also noted and samples have been taken showing a ~1050 BTU content.

ITEM 1. BUSINESS - continued

The parties have agreed to amend the drilling schedule for the next well to be no later than April 30, 2017. Future plans are focused on drilling additional wells in the Orogrande per our Farmout agreement with Founders in which we will be carried on costs for all aspects of drilling for the foreseeable future.

Hazel Project in the Midland Basin in West Texas

Effective April 1, 2016, Torchlight Energy Inc. acquired from McCabe Petroleum Corporation, a 66.66% working interest in approximately 12,000 acres in the Midland Basin in exchange for 1,500,000 warrants to purchase our common stock with an exercise price of \$1.00 for five years and a back-in after payout of a 25% working interest to the seller.

Initial development of the first well on the property, the Flying B Ranch #1, began July 10, 2016 and development continued through September 30, 2016. This well was is classified as a test well in the development pursuit of the Hazel Project.

In October, 2016, the holders of the Company's Series C Preferred shares (which were issued in July, 2016) elected to convert into a 33.33% Working Interest in the Company's Hazel Project, reducing Torchlight's ownership from 66.66% to a 33.33% Working Interest.

On December 27, 2016, drilling activities commenced on its next Midland Basin, Hazel Project well, the Flying B Ranch #2. The well will be a vertical test similar to the Company's first Hazel Project well, the Flying B Ranch #1. We intend to continue to de-risk the Hazel AMI by continuing to drill evaluation wells. The next scheduled well in the Hazel Project is set for the end of June, 2017. It is intended to be a horizontal well testing the Wolfcamp formation in order to determine horizontal viability of the play.

In November, 2016, the Company announced that it had entered into a Letter of Intent to increase its ownership across all 12,000 gross acres in the Hazel Project resulting in 8,880 net acres in its Midland Basin Hazel Project. Upon closing of the transactions in January, 2017 contemplated by the Letter of Intent, Torchlight obtained the additional 40.66% Working Interest from an entity owned and controlled by its Chairman, Greg McCabe, increasing Torchlight's total ownership to 74%. Reference "Subsequent Events" in Note 11 to the financial statements included in this report.

Hunton Play, Central Oklahoma

As of December 31, 2016, we were actively producing from one well in the Viking AMI, and one well in Prairie Grove.

Legal Proceeding

As previously disclosed, in May, 2016, Torchlight Energy Resources, Inc. and its subsidiary Torchlight Energy, Inc. filed a lawsuit in the 429th judicial district court in Collin County, Texas against Husky Ventures, Inc., Charles V. Long, April Glidewell, Silverstar of Nevada, Inc., Maximus Exploration, LLC, Atwood Acquisitions, LLC, Gastar Exploration Inc., J. Russell Porter, Michael A. Gerlich, Jerry R. Schuyler, and John M. Selser, Sr. Reference is made to Item 3, "Legal Proceedings," for more information regarding this lawsuit.

Viking AMI

In the fourth quarter of 2013 we entered into an Area of Mutual Interest (AMI) with Husky Ventures, the Viking Prospect. We acquired a 25% interest in 3,945 acres and subsequently acquired an additional 5% in May, 2014. We had an interest in 8,800 total acres as of December 31, 2016. (Net undeveloped acres = 2,600) Husky drilled the first two wells in the AMI in second quarter, 2014. Detail of developed and undeveloped acreage positions at December 31, 2016, Drilling Activity, and Cumulative Well Status are presented in Tables in Item 2 of this filing. Our net cumulative investment through December 31, 2016 in undeveloped acres in the Viking AMI was \$1,387,928. In addition the company has incurred \$133,468 as its share of costs related to the early stages of the construction of a gas pipeline which was to serve the Viking AMI.

ITEM 1. BUSINESS - continued

Rosedale AMI

In January of 2014 we contracted for a 25% Working Interest in approximately 5,000 acres in the Rosedale AMI consisting of eight townships in South Central Oklahoma. We subsequently acquired an additional 5% in May, 2014. The Company had an interest in 11,600 total acres as of December 31, 2016 (Net undeveloped acres = 3,500). Detail of developed and undeveloped acreage positions at December 31, 2016 is presented in the Table in Item 2 of this filing. Our cumulative investment through December 31, 2016 in the Rosedale AMI was \$2,833,744.

Prairie Grove – Judy Well

In February of 2014, we acquired a 10% Working Interest in a well in the Prairie Grove AMI from a non-consenting third party who elected not to participate in the well.

Thunderbird AMI

In July of 2014, we contracted for a 25% Working Interest in the Thunderbird AMI. The total acres in which the Company has an interest at December 31, 2016 totals 4,300 acres (Net undeveloped acres = 1,100). Detail of developed and undeveloped acreage positions at December 31, 2016 is presented in the Table in Item 2 of this filing. Our cumulative investment through December 31, 2016 in the T4 AMI was \$949,530.

Industry and Business Environment

Currently, we are experiencing a time of lower oil prices caused by lower demand, higher US Supply, and OPEC's policies on production. Unfortunately, this is the cyclical nature of the oil and gas industry. We experience highs and lows that seem to come in cycles. Fortunately, advances in technology drive the US market and we feel this will drive the development costs down on our exploration and drilling programs.

Competition

The oil and natural gas industry is intensely competitive, and we will compete with numerous other companies engaged in the exploration and production of oil and gas. Some of these companies have substantially greater resources than we have. Not only do they explore for and produce oil and natural gas, but also many carry on midstream and refining operations and market petroleum and other products on a regional, national, or worldwide basis. The operations of other companies may be able to pay more for exploratory prospects and productive oil and natural gas properties. They may also have more resources to define, evaluate, bid for, and purchase a greater number of properties and prospects than our financial or human resources permit.

Our larger or integrated competitors may have the resources to be better able to absorb the burden of current and future federal, state, and local laws and regulations more easily than we can, which would adversely affect our competitive position. Our ability to locate reserves and acquire interests in properties in the future will be dependent upon our ability and resources to evaluate and select suitable properties and consummate transactions in this highly competitive environment. In addition, we may be at a disadvantage in producing oil and natural gas properties and bidding for exploratory prospects because we have fewer financial and human resources than other companies in our industry. Should a larger and better financed company decide to directly compete with us, and be successful in its efforts, our business could be adversely affected.

ITEM 1. BUSINESS - *continued*

Marketing and Customers

The market for oil and natural gas that we will produce depends on factors beyond our control, including the extent of domestic production and imports of oil and natural gas, the proximity and capacity of natural gas pipelines and other transportation facilities, demand for oil and natural gas, the marketing of competitive fuels, and the effects of state and federal regulation. The oil and gas industry also competes with other industries in supplying the energy and fuel requirements of industrial, commercial, and individual consumers.

Our oil production is expected to be sold at prices tied to the spot oil markets. Our natural gas production is expected to be sold under short-term contracts and priced based on first of the month index prices or on daily spot market prices. We will rely on our operating partners to market and sell our production.

Governmental Regulation and Environmental Matters

Our operations are subject to various rules, regulations, and limitations impacting the oil and natural gas exploration and production industry as a whole.

Regulation of Oil and Natural Gas Production

Our oil and natural gas exploration, production, and related operations, when developed, will be subject to extensive rules and regulations promulgated by federal, state, tribal, and local authorities and agencies. Certain states may also have statutes or regulations addressing conservation matters, including provisions for the unitization or pooling of oil and natural gas properties, the establishment of maximum rates of production from wells, and the regulation of spacing, plugging, and abandonment of such wells. Failure to comply with any such rules and regulations can result in substantial penalties. The regulatory burden on the oil and gas industry will most likely increase our cost of doing business and may affect our profitability. Although we believe we are currently in substantial compliance with all applicable laws and regulations, because such rules and regulations are frequently amended or reinterpreted, we are unable to predict the future cost or impact of complying with such laws. Significant expenditures may be required to comply with governmental laws and regulations and may have a material adverse effect on our financial condition and results of operations.

Environmental Matters

Our operations and properties are and will be subject to extensive and changing federal, state, and local laws and regulations relating to environmental protection, including the generation, storage, handling, emission, transportation, and discharge of materials into the environment, and relating to safety and health. The recent trend in environmental legislation and regulation generally is toward stricter standards, and this trend will likely continue. These laws and regulations may:

- require the acquisition of a permit or other authorization before construction or drilling commences and for certain other activities;
- limit or prohibit construction, drilling, and other activities on certain lands lying within wilderness and other protected areas;
- impose substantial liabilities for pollution resulting from operations; or
- restrict certain areas from fracking and other stimulation techniques.

The permits required for our operations may be subject to revocation, modification, and renewal by issuing authorities. Governmental authorities have the power to enforce their regulations, and violations are subject to fines or injunctions, or both. In the opinion of management, we are and will be in substantial compliance with current applicable environmental laws and regulations, and have no material commitments for capital expenditures to comply with existing environmental requirements. Nevertheless, changes in existing environmental laws and regulations or in interpretations thereof could have a significant impact on our company, as well as the oil and natural gas industry in general.

The Comprehensive Environmental, Response, Compensation, and Liability Act ("CERCLA") and comparable state statutes impose strict, joint, and several liability on owners and operators of sites and on persons who disposed of or arranged for the disposal of "hazardous substances" found at such sites. It is not uncommon for the neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. The Federal Resource Conservation and Recovery Act ("RCRA") and comparable state statutes govern the disposal of "solid waste" and "hazardous waste" and authorize the imposition of substantial fines and penalties for noncompliance. Although CERCLA currently excludes petroleum from its definition of "hazardous substance," state laws affecting our operations may impose clean-up liability relating to petroleum and petroleum related products. In addition, although RCRA classifies certain oil field wastes as "non-hazardous," such exploration and production wastes could be reclassified as hazardous wastes thereby making such wastes subject to more stringent handling and disposal requirements.

ITEM 1. BUSINESS - continued

The Endangered Species Act (“ESA”) seeks to ensure that activities do not jeopardize endangered or threatened animal, fish, and plant species, nor destroy or modify the critical habitat of such species. Under ESA, exploration and production operations, as well as actions by federal agencies, may not significantly impair or jeopardize the species or its habitat. ESA provides for criminal penalties for willful violations of the Act. Other statutes that provide protection to animal and plant species and that may apply to our operations include, but are not necessarily limited to, the Fish and Wildlife Coordination Act, the Fishery Conservation and Management Act, the Migratory Bird Treaty Act and the National Historic Preservation Act. Although we believe that our operations will be in substantial compliance with such statutes, any change in these statutes or any reclassification of a species as endangered could subject our company to significant expenses to modify our operations or could force our company to discontinue certain operations altogether.

Climate Change

Significant studies and research have been devoted to climate change and global warming, and climate change has developed into a major political issue in the United States and globally. Certain research suggests that greenhouse gas emissions contribute to climate change and pose a threat to the environment. Recent scientific research and political debate has focused in part on carbon dioxide and methane incidental to oil and natural gas exploration and production. Many states and the federal government have enacted legislation directed at controlling greenhouse gas emissions, and future legislation and regulation could impose additional restrictions or requirements in connection with our drilling and production activities and favor use of alternative energy sources, which could affect operating costs and demand for oil products. As such, our business could be materially adversely affected by domestic and international legislation targeted at controlling climate change.

Employees

We currently have four full time employees and no part time employees. We anticipate adding additional employees, when adequate funds are available, and using independent contractors, consultants, attorneys, and accountants as necessary to complement services rendered by our employees. We presently have independent technical professionals under consulting agreements who are available to us on an as needed basis.

Research and Development

We did not spend any funds on research and development activities during years ended December 31, 2016 or 2015.

ITEM 1A. RISK FACTORS

An investment in us involves a high degree of risk and is suitable only for prospective investors with substantial financial means who have no need for liquidity and can afford the entire loss of their investment in us. Prospective investors should carefully consider the following risk factors, in addition to the other information contained in this report.

Risks Related to the Company and the Industry

We have a limited operating history relative to larger companies in our industry, and may not be successful in developing profitable business operations.

We have a limited operating history relative to larger companies in our industry. Our business operations must be considered in light of the risks, expenses and difficulties frequently encountered in establishing a business in the oil and natural gas industries. As of the date of this report, we have generated limited revenues and have limited assets. We have an insufficient history at this time on which to base an assumption that our business operations will prove to be successful in the long-term. Our future operating results will depend on many factors, including:

- our ability to raise adequate working capital;
- the success of our development and exploration;
- the demand for natural gas and oil;
- the level of our competition;
- our ability to attract and maintain key management and employees; and
- our ability to efficiently explore, develop, produce or acquire sufficient quantities of marketable natural gas or oil in a highly competitive and speculative environment while maintaining quality and controlling costs.

To achieve profitable operations in the future, we must, alone or with others, successfully manage the factors stated above, as well as continue to develop ways to enhance our production efforts. Despite our best efforts, we may not be successful in our exploration or development efforts, or obtain required regulatory approvals. There is a possibility that some, or all, of the wells in which we obtain interests may never produce oil or natural gas.

ITEM 1A. RISK FACTORS - *continued*

We have limited capital and will need to raise additional capital in the future.

We do not currently have sufficient capital to fund both our continuing operations and our planned growth. We will require additional capital to continue to grow our business via acquisitions and to further expand our exploration and development programs. We may be unable to obtain additional capital when required. Future acquisitions and future exploration, development, production and marketing activities, as well as our administrative requirements (such as salaries, insurance expenses and general overhead expenses, as well as legal compliance costs and accounting expenses) will require a substantial amount of additional capital and cash flow.

We may pursue sources of additional capital through various financing transactions or arrangements, including joint venturing of projects, debt financing, equity financing, or other means. We may not be successful in identifying suitable financing transactions in the time period required or at all, and we may not obtain the capital we require by other means. If we do not succeed in raising additional capital, our resources may not be sufficient to fund our planned operations.

Our ability to obtain financing, if and when necessary, may be impaired by such factors as the capital markets (both generally and in the oil and gas industry in particular), our limited operating history, the location of our oil and natural gas properties and prices of oil and natural gas on the commodities markets (which will impact the amount of asset-based financing available to us, if any) and the departure of key employees. Further, if oil or natural gas prices on the commodities markets decline, our future revenues, if any, will likely decrease and such decreased revenues may increase our requirements for capital. If the amount of capital we are able to raise from financing activities, together with our revenues from operations, is not sufficient to satisfy our capital needs (even to the extent that we reduce our operations), we may be required to cease our operations, divest our assets at unattractive prices or obtain financing on unattractive terms.

Any additional capital raised through the sale of equity may dilute the ownership percentage of our stockholders. Raising any such capital could also result in a decrease in the fair market value of our equity securities because our assets would be owned by a larger pool of outstanding equity. The terms of securities we issue in future capital transactions may be more favorable to our new investors, and may include preferences, superior voting rights and the issuance of other derivative securities, and issuances of incentive awards under equity employee incentive plans, which may have a further dilutive effect.

We may incur substantial costs in pursuing future capital financing, including investment banking fees, legal fees, accounting fees, securities law compliance fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we may issue, which may adversely impact our financial condition.

Our auditor indicated that certain factors raise substantial doubt about our ability to continue as a going concern.

The financial statements included with this report are presented under the assumption that we will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business over a reasonable length of time. We had a net loss of approximately \$7.7 million for the year ended December 31, 2016 and an accumulated deficit in aggregate of approximately \$82.6 million at year end. We are not generating sufficient operating cash flows to support continuing operations, and expect to incur further losses in the development of our business.

In our financial statements for the year ended December 31, 2016, our auditor indicated that certain factors raised substantial doubt about our ability to continue as a going concern. These factors included our accumulated deficit, as well as the fact that we were not generating sufficient cash flows to meet our regular working capital requirements. Our ability to continue as a going concern is dependent upon our ability to generate future profitable operations and/or to obtain the necessary financing to meet our obligations and repay our liabilities arising from normal business operations when they come due. Management's plan to address our ability to continue as a going concern includes: (1) obtaining debt or equity funding from private placement or institutional sources; (2) obtaining loans from financial institutions, where possible, or (3) participating in joint venture transactions with third parties. Although management believes that it will be able to obtain the necessary funding to allow us to remain a going concern through the methods discussed above, there can be no assurances that such methods will prove successful. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As a non-operator, our development of successful operations relies extensively on third-parties who, if not successful, could have a material adverse effect on our results of operation.

We expect to primarily participate in wells operated by third-parties. As a result, we will not control the timing of the development, exploitation, production and exploration activities relating to leasehold interests we acquire. We do, however, have certain rights as granted in our Joint Operating Agreements that allow us a certain degree of freedom such as, but not limited to, the ability to propose the drilling of wells. If our drilling partners are not successful in such activities relating to our leasehold interests, or are unable or unwilling to perform, our financial condition and results of operation could have an adverse material effect.

ITEM 1A. RISK FACTORS - *continued*

Further, financial risks are inherent in any operation where the cost of drilling, equipping, completing and operating wells is shared by more than one person. We could be held liable for the joint activity obligations of the operator or other working interest owners such as nonpayment of costs and liabilities arising from the actions of the working interest owners. In the event the operator or other working interest owners do not pay their share of such costs, we would likely have to pay those costs. In such situations, if we were unable to pay those costs, there could be a material adverse effect to our financial position.

Because of the speculative nature of oil and gas exploration, there is risk that we will not find commercially exploitable oil and gas and that our business will fail.

The search for commercial quantities of oil and natural gas as a business is extremely risky. We cannot provide investors with any assurance that any properties in which we obtain a mineral interest will contain commercially exploitable quantities of oil and/or gas. The exploration expenditures to be made by us may not result in the discovery of commercial quantities of oil and/or gas. Problems such as unusual or unexpected formations or pressures, premature declines of reservoirs, invasion of water into producing formations and other conditions involved in oil and gas exploration often result in unsuccessful exploration efforts. If we are unable to find commercially exploitable quantities of oil and gas, and/or we are unable to commercially extract such quantities, we may be forced to abandon or curtail our business plan, and as a result, any investment in us may become worthless.

Strategic relationships upon which we may rely are subject to change, which may diminish our ability to conduct our operations.

Our ability to successfully acquire oil and gas interests, to build our reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will depend on developing and maintaining close working relationships with industry participants and our ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

These realities are subject to change and our inability to maintain close working relationships with industry participants or continue to acquire suitable property may impair our ability to execute our business plan.

To continue to develop our business, we will endeavor to use the business relationships of our management to enter into strategic relationships, which may take the form of joint ventures with other private parties and contractual arrangements with other oil and gas companies, including those that supply equipment and other resources that we will use in our business. We may not be able to establish these strategic relationships, or if established, we may not be able to maintain them. In addition, the dynamics of our relationships with strategic partners may require us to incur expenses or undertake activities we would not otherwise be inclined to in order to fulfill our obligations to these partners or maintain our relationships. If our strategic relationships are not established or maintained, our business prospects may be limited, which could diminish our ability to conduct our operations.

The price of oil and natural gas has historically been volatile. If it were to decrease substantially, our projections, budgets, and revenues would be adversely affected, potentially forcing us to make changes in our operations.

Our future financial condition, results of operations and the carrying value of any oil and natural gas interests we acquire will depend primarily upon the prices paid for oil and natural gas production. Oil and natural gas prices historically have been volatile and likely will continue to be volatile in the future, especially given current world geopolitical conditions. Our cash flows from operations are highly dependent on the prices that we receive for oil and natural gas. This price volatility also affects the amount of our cash flows available for capital expenditures and our ability to borrow money or raise additional capital. The prices for oil and natural gas are subject to a variety of additional factors that are beyond our control. These factors include:

- the level of consumer demand for oil and natural gas;
- the domestic and foreign supply of oil and natural gas;
- the ability of the members of the Organization of Petroleum Exporting Countries ("OPEC") to agree to and maintain oil price and production controls;
- the price of foreign oil and natural gas;
- domestic governmental regulations and taxes;
- the price and availability of alternative fuel sources;
- weather conditions;
- market uncertainty due to political conditions in oil and natural gas producing regions, including the Middle East; and
- worldwide economic conditions.

ITEM 1A. RISK FACTORS - *continued*

These factors as well as the volatility of the energy markets generally make it extremely difficult to predict future oil and natural gas price movements with any certainty. Declines in oil and natural gas prices affect our revenues, and could reduce the amount of oil and natural gas that we can produce economically. Accordingly, such declines could have a material adverse effect on our financial condition, results of operations, oil and natural gas reserves and the carrying values of our oil and natural gas properties. If the oil and natural gas industry experiences significant price declines, we may be unable to make planned expenditures, among other things. If this were to happen, we may be forced to abandon or curtail our business operations, which would cause the value of an investment in us to decline in value, or become worthless.

If oil or natural gas prices remain depressed or drilling efforts are unsuccessful, we may be required to record additional write downs of our oil and natural gas properties.

If oil or natural gas prices remain depressed or drilling efforts are unsuccessful, we could be required to write down the carrying value of certain of our oil and natural gas properties. Write downs may occur when oil and natural gas prices are low, or if we have downward adjustments to our estimated proved reserves, increases in our estimates of operating or development costs, deterioration in drilling results or mechanical problems with wells where the cost to re drill or repair is not supported by the expected economics.

Under the full cost method of accounting, capitalized oil and gas property costs less accumulated depletion and net of deferred income taxes may not exceed an amount equal to the present value, discounted at 10%, of estimated future net revenues from proved oil and gas reserves plus the cost of unproved properties not subject to amortization (without regard to estimates of fair value), or estimated fair value, if lower, of unproved properties that are subject to amortization. Should capitalized costs exceed this ceiling, an impairment would be recognized.

The Company recognized impairment of \$22,438,114 on its oil and gas properties at June 30, 2015 and an additional Impairment adjustment of \$3,236,009 was made at December 31, 2015 for a total impairment charge of \$25,674,123 for the year 2015.

During the year ended December 31, 2016 the Company performed assessments of evaluated and unevaluated costs in the cost pool to conform the cumulative value of the Full Cost Pool to the combined amount of Reserve Value of evaluated, producing properties (as determined by independent analysis at December 31, 2015), plus the lesser of cumulative historical cost or estimated realizable value of unevaluated leases and projects expected to commence production in future operating periods. The results of the assessment was an additional impairment charge of \$70,080 for 2016.

Because of the inherent dangers involved in oil and gas operations, there is a risk that we may incur liability or damages as we conduct our business operations, which could force us to expend a substantial amount of money in connection with litigation and/or a settlement.

The oil and natural gas business involves a variety of operating hazards and risks such as well blowouts, pipe failures, casing collapse, explosions, uncontrollable flows of oil, natural gas or well fluids, fires, spills, pollution, releases of toxic gas and other environmental hazards and risks. These hazards and risks could result in substantial losses to us from, among other things, injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, cleanup responsibilities, regulatory investigation and penalties and suspension of operations. In addition, we may be liable for environmental damages caused by previous owners of property purchased and leased by us. In recent years, there has also been increased scrutiny on the environmental risk associated with hydraulic fracturing, such as underground migration and surface spillage or mishandling of fracturing fluids including chemical additives. As a result, substantial liabilities to third parties or governmental entities may be incurred, the payment of which could reduce or eliminate the funds available for exploration, development or acquisitions or result in the loss of our properties and/or force us to expend substantial monies in connection with litigation or settlements. We currently have no insurance to cover such losses and liabilities, and even if insurance is obtained, there can be no assurance that it will be adequate to cover any losses or liabilities. We cannot predict the availability of insurance or the availability of insurance at premium levels that justify our purchase. The occurrence of a significant event not fully insured or indemnified against could materially and adversely affect our financial condition and operations. We may elect to self-insure if management believes that the cost of insurance, although available, is excessive relative to the risks presented. In addition, pollution and environmental risks generally are not fully insurable. The occurrence of an event not fully covered by insurance could have a material adverse effect on our financial condition and results of operations, which could lead to any investment in us becoming worthless.

The market for oil and gas is intensely competitive, and competition pressures could force us to abandon or curtail our business plan.

ITEM 1A. RISK FACTORS - *continued*

The market for oil and gas exploration services is highly competitive, and we only expect competition to intensify in the future. Numerous well-established companies are focusing significant resources on exploration and are currently competing with us for oil and gas opportunities. Other oil and gas companies may seek to acquire oil and gas leases and properties that we have targeted. Additionally, other companies engaged in our line of business may compete with us from time to time in obtaining capital from investors. Competitors include larger companies which, in particular, may have access to greater resources, may be more successful in the recruitment and retention of qualified employees and may conduct their own refining and petroleum marketing operations, which may give them a competitive advantage. Actual or potential competitors may be strengthened through the acquisition of additional assets and interests. Additionally, there are numerous companies focusing their resources on creating fuels and/or materials which serve the same purpose as oil and gas, but are manufactured from renewable resources.

As a result, there can be no assurance that we will be able to compete successfully or that competitive pressures will not adversely affect our business, results of operations, and financial condition. If we are not able to successfully compete in the marketplace, we could be forced to curtail or even abandon our current business plan, which could cause any investment in us to become worthless.

We may not be able to successfully manage our growth, which could lead to our inability to implement our business plan.

Our growth may place a significant strain on our managerial, operational and financial resources, especially considering that we currently only have a small number of executive officers, employees and advisors. Further, as we enter into additional contracts, we will be required to manage multiple relationships with various consultants, businesses and other third parties. These requirements will be exacerbated in the event of our further growth or in the event that the number of our drilling and/or extraction operations increases. There can be no assurance that our systems, procedures and/or controls will be adequate to support our operations or that our management will be able to achieve the rapid execution necessary to successfully implement our business plan. If we are unable to manage our growth effectively, our business, results of operations and financial condition will be adversely affected, which could lead to us being forced to abandon or curtail our business plan and operations.

Our operations are heavily dependent on current environmental regulation, changes in which we cannot predict.

Oil and natural gas activities that we will engage in, including production, processing, handling and disposal of hazardous materials, such as hydrocarbons and naturally occurring radioactive materials (if any), are subject to stringent regulation. We could incur significant costs, including cleanup costs resulting from a release of hazardous material, third-party claims for property damage and personal injuries fines and sanctions, as a result of any violations or liabilities under environmental or other laws. Changes in or more stringent enforcement of environmental laws could force us to expend additional operating costs and capital expenditures to stay in compliance.

Various federal, state and local laws regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, directly impact oil and gas exploration, development and production operations, and consequently may impact our operations and costs. These regulations include, among others, (i) regulations by the Environmental Protection Agency and various state agencies regarding approved methods of disposal for certain hazardous and non-hazardous wastes; (ii) the Comprehensive Environmental Response, Compensation, and Liability Act, Federal Resource Conservation and Recovery Act and analogous state laws which regulate the removal or remediation of previously disposed wastes (including wastes disposed of or released by prior owners or operators), property contamination (including groundwater contamination), and remedial plugging operations to prevent future contamination; (iii) the Clean Air Act and comparable state and local requirements which may result in the gradual imposition of certain pollution control requirements with respect to air emissions from our operations; (iv) the Oil Pollution Act of 1990 which contains numerous requirements relating to the prevention of and response to oil spills into waters of the United States; (v) the Resource Conservation and Recovery Act which is the principal federal statute governing the treatment, storage and disposal of hazardous wastes; and (vi) state regulations and statutes governing the handling, treatment, storage and disposal of naturally occurring radioactive material.

Management believes that we will be in substantial compliance with applicable environmental laws and regulations. To date, we have not expended any amounts to comply with such regulations, and management does not currently anticipate that future compliance will have a materially adverse effect on our consolidated financial position, results of operations or cash flows. However, if we are deemed to not be in compliance with applicable environmental laws, we could be forced to expend substantial amounts to be in compliance, which would have a materially adverse effect on our financial condition. If this were to happen, any investment in us could be lost.

Government regulatory initiatives relating to hydraulic fracturing could result in increased costs and additional operating restrictions or delays.

ITEM 1A. RISK FACTORS - *continued*

Vast quantities of natural gas, natural gas liquids and oil deposits exist in deep shale and other unconventional formations. It is customary in our industry to recover these resources through the use of hydraulic fracturing, combined with horizontal drilling. Hydraulic fracturing is the process of creating or expanding cracks, or fractures, in deep underground formations using water, sand and other additives pumped under high pressure into the formation. As with the rest of the industry, our third-party operating partners use hydraulic fracturing as a means to increase the productivity of most of the wells they drill and complete. These formations are generally geologically separated and isolated from fresh ground water supplies by thousands of feet of impermeable rock layers.

We believe our third-party operating partners follow applicable legal requirements for groundwater protection in their operations that are subject to supervision by state and federal regulators. Furthermore, we believe our third-party operating partners' well construction practices are specifically designed to protect freshwater aquifers by preventing the migration of fracturing fluids into aquifers.

Hydraulic fracturing is typically regulated by state oil and gas commissions. Some states have adopted, and other states are considering adopting, regulations that could impose more stringent permitting, public disclosure, and/or well construction requirements on hydraulic fracturing operations. For example, Pennsylvania is considering proposed regulations applicable to surface use at oil and gas well sites, including new secondary containment requirements and an abandoned and orphaned well identification program that would require operators to remediate any such wells that are damaged during current hydraulic fracturing operations. New York has placed a permit moratorium on high volume fracturing activities combined with horizontal drilling pending the results of a study regarding the safety of hydraulic fracturing. And certain communities in Colorado have also enacted bans on hydraulic fracturing.

In addition to state laws, some local municipalities have adopted or are considering adopting land use restrictions, such as city ordinances, that may restrict or prohibit the performance of well drilling in general and/or hydraulic fracturing in particular. There are also certain governmental reviews either underway or being proposed that focus on deep shale and other formation completion and production practices, including hydraulic fracturing. Depending on the outcome of these studies, federal and state legislatures and agencies may seek to further regulate such activities. Certain environmental and other groups have also suggested that additional federal, state and local laws and regulations may be needed to more closely regulate the hydraulic fracturing process.

Further, the EPA has asserted federal regulatory authority over hydraulic fracturing involving "diesel fuels" under the SWDA's UIC Program. In February 2014, the EPA released its final guidance on the use of diesel additives in hydraulic fracturing operations. The EPA is also engaged in a study of the potential impacts of hydraulic fracturing activities on drinking water resources in these states where the EPA is the permitted authority, including Pennsylvania, with a progress report released in late 2012 and a draft report released in June 2015. It concluded that hydraulic fracturing activities have not led to widespread systematic impacts on drinking water resources in the U.S., but there are above and below ground mechanisms by which hydraulic fracturing could affect drinking water resources. In addition, in March 2015, the Bureau of Land Management ("BLM") issued a final rule to regulate hydraulic fracturing on federal and Indian land; however, enforcement of the rule has been delayed pending a decision in a legal challenge in the U.S. District Court of Wyoming. Further, the EPA issued an Advanced Notice of Proposed Rulemaking in May 2014 seeking comments relating to the information that should be reported or disclosed for hydraulic fracturing chemical substances and mixtures and mechanisms for obtaining this information. These actions, in conjunction with other analyses by federal and state agencies to assess the impacts of hydraulic fracturing could spur further action toward federal and/or state legislation and regulation of hydraulic fracturing activities.

We cannot predict whether additional federal, state or local laws or regulations applicable to hydraulic fracturing will be enacted in the future and, if so, what actions any such laws or regulations would require or prohibit. Restrictions on hydraulic fracturing could make it prohibitive for our third-party operating partners to conduct operations, and also reduce the amount of oil, natural gas liquids and natural gas that we are ultimately able to produce in commercial quantities from our properties. If additional levels of regulation or permitting requirements were imposed on hydraulic fracturing operations, our business and operations could be subject to delays, increased operating and compliance costs and process prohibitions.

Our estimates of the volume of reserves could have flaws, or such reserves could turn out not to be commercially extractable. As a result, our future revenues and projections could be incorrect.

ITEM 1A. RISK FACTORS - *continued*

Estimates of reserves and of future net revenues prepared by different petroleum engineers may vary substantially depending, in part, on the assumptions made and may be subject to adjustment either up or down in the future. Our actual amounts of production, revenue, taxes, development expenditures, operating expenses, and quantities of recoverable oil and gas reserves may vary substantially from the estimates.

Oil and gas reserve estimates are necessarily inexact and involve matters of subjective engineering judgment. In addition, any estimates of our future net revenues and the present value thereof are based on assumptions derived in part from historical price and cost information, which may not reflect current and future values, and/or other assumptions made by us that only represent our best estimates. If these estimates of quantities, prices and costs prove inaccurate, we may be unsuccessful in expanding our oil and gas reserves base with our acquisitions. Additionally, if declines in and instability of oil and gas prices occur, then write downs in the capitalized costs associated with any oil and gas assets we obtain may be required. Because of the nature of the estimates of our reserves and estimates in general, we can provide no assurance that reductions to our estimated proved oil and gas reserves and estimated future net revenues will not be required in the future, and/or that our estimated reserves will be present and/or commercially extractable. If our reserve estimates are incorrect, the value of our common stock could decrease and we may be forced to write down the capitalized costs of our oil and gas properties.

Decommissioning costs are unknown and may be substantial. Unplanned costs could divert resources from other projects.

We may become responsible for costs associated with abandoning and reclaiming wells, facilities and pipelines which we use for production of oil and natural gas reserves. Abandonment and reclamation of these facilities and the costs associated therewith is often referred to as “decommissioning.” We accrue a liability for decommissioning costs associated with our wells, but have not established any cash reserve account for these potential costs in respect of any of our properties. If decommissioning is required before economic depletion of our properties or if our estimates of the costs of decommissioning exceed the value of the reserves remaining at any particular time to cover such decommissioning costs, we may have to draw on funds from other sources to satisfy such costs. The use of other funds to satisfy such decommissioning costs could impair our ability to focus capital investment in other areas of our business.

We may have difficulty distributing production, which could harm our financial condition.

In order to sell the oil and natural gas that we are able to produce, if any, the operators of the wells we obtain interests in may have to make arrangements for storage and distribution to the market. We will rely on local infrastructure and the availability of transportation for storage and shipment of our products, but infrastructure development and storage and transportation facilities may be insufficient for our needs at commercially acceptable terms in the localities in which we operate. This situation could be particularly problematic to the extent that our operations are conducted in remote areas that are difficult to access, such as areas that are distant from shipping and/or pipeline facilities. These factors may affect our and potential partners’ ability to explore and develop properties and to store and transport oil and natural gas production, increasing our expenses.

Furthermore, weather conditions or natural disasters, actions by companies doing business in one or more of the areas in which we will operate, or labor disputes may impair the distribution of oil and/or natural gas and in turn diminish our financial condition or ability to maintain our operations.

Our business will suffer if we cannot obtain or maintain necessary licenses.

Our operations will require licenses, permits and in some cases renewals of licenses and permits from various governmental authorities.

Our ability to obtain, sustain or renew such licenses and permits on acceptable terms is subject to change in regulations and policies and to the discretion of the applicable governments, among other factors. Our inability to obtain, or our loss of or denial of extension of, any of these licenses or permits could hamper our ability to produce revenues from our operations.

Challenges to our properties may impact our financial condition.

Title to oil and gas interests is often not capable of conclusive determination without incurring substantial expense. While we intend to make appropriate inquiries into the title of properties and other development rights we acquire, title defects may exist. In addition, we may be unable to obtain adequate insurance for title defects, on a commercially reasonable basis or at all. If title defects do exist, it is possible that we may lose all or a portion of our right, title and interests in and to the properties to which the title defects relate. If our property rights are reduced, our ability to conduct our exploration, development and production activities may be impaired. To mitigate title problems, common industry practice is to obtain a title opinion from a qualified oil and gas attorney prior to the drilling operations of a well.

We rely on technology to conduct our business, and our technology could become ineffective or obsolete.

ITEM 1A. RISK FACTORS - *continued*

We rely on technology, including geographic and seismic analysis techniques and economic models, to develop our reserve estimates and to guide our exploration, development and production activities. We and our operator partners will be required to continually enhance and update our technology to maintain its efficacy and to avoid obsolescence. The costs of doing so may be substantial and may be higher than the costs that we anticipate for technology maintenance and development. If we are unable to maintain the efficacy of our technology, our ability to manage our business and to compete may be impaired. Further, even if we are able to maintain technical effectiveness, our technology may not be the most efficient means of reaching our objectives, in which case we may incur higher operating costs than we would were our technology more efficient.

The loss of key personnel would directly affect our efficiency and profitability.

Our future success is dependent, in a large part, on retaining the services of our current management team. Our executive officers possess a unique and comprehensive knowledge of our industry and related matters that are vital to our success within the industry. The knowledge, leadership and technical expertise of these individuals would be difficult to replace. The loss of one or more of our officers could have a material adverse effect on our operating and financial performance, including our ability to develop and execute our long term business strategy. We do not maintain key-man life insurance with respect to any employees. We do have employment agreements with each of our executive officers. There can be no assurance, however, that any of our officers will continue to be employed by us.

Our officers and directors control a significant percentage of our current outstanding common stock and their interests may conflict with those of our stockholders.

As of the date of this report, our executive officers and directors collectively and beneficially own approximately 28.82% of our outstanding common stock (see Item 12 of this report for an explanation of how this number is computed). This concentration of voting control gives these affiliates substantial influence over any matters which require a stockholder vote, including without limitation the election of directors and approval of merger and/or acquisition transactions, even if their interests may conflict with those of other stockholders. It could have the effect of delaying or preventing a change in control or otherwise discouraging a potential acquirer from attempting to obtain control of us. This could have a material adverse effect on the market price of our common stock or prevent our stockholders from realizing a premium over the then prevailing market prices for their shares of common stock.

In the future, we may incur significant increased costs as a result of operating as a public company, and our management may be required to devote substantial time to new compliance initiatives.

In the future, we may incur significant legal, accounting, and other expenses as a result of operating as a public company. The Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), as well as new rules subsequently implemented by the SEC, have imposed various requirements on public companies, including requiring changes in corporate governance practices. Our management and other personnel will need to devote a substantial amount of time to these new compliance initiatives. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. For example, we expect these new rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to incur substantial costs to maintain the same or similar coverage.

In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls for financial reporting and disclosure controls and procedures. In particular, we are required to perform system and process evaluation and testing on the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. In performing this evaluation and testing, management concluded that our internal control over financial reporting is not effective as of December 31, 2016 because of a material weaknesses in our internal control over financial reporting. We are, however, addressing the issue and updating of our policies and procedures. Upon finalizing these policies and procedures and ensuring they are effectively applied, we believe our internal control will be deemed effective. Correcting this issue, and thereafter our continued compliance with Section 404, will require that we incur substantial accounting expense and expend significant management efforts. We currently do not have an internal audit group, and we will need to engage independent professional assistance. Moreover, if we are not able to correct our internal control issues and comply with the requirements of Section 404 in a timely manner, or if in the future we or our independent registered public accounting firm identifies other deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

We have identified material weaknesses in our internal control over financial reporting which could, if not remediated, adversely affect our ability to report our financial condition and results of operations in a timely and accurate manner.

ITEM 1A. RISK FACTORS - *continued*

Management, including our Chief Executive Officer and our Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2016 and concluded that we did not maintain effective internal control over financial reporting. Specifically, management identified material weaknesses over the accounting for stock options issued to employees and nonemployees and stock warrants issued for services, property and financings—see Item 9A, “Controls and Procedures,” below. This control deficiency resulted in audit adjustments in preparation of this Annual Report on Form 10-K. The impact on previously issued financial statements was not determined to be significant. While certain actions have been taken to enhance our internal control over financial reporting relating to this material weaknesses, we are still in the process of implementing our comprehensive remediation plan. If the material weakness is not remediated, it could adversely affect our ability to report our financial condition and results of operations in a timely and accurate manner, which could negatively affect investor confidence in our company, and, as a result, the value of our common stock could be adversely affected.

Certain Factors Related to Our Common Stock

There presently is a limited market for our common stock, and the price of our common stock may be volatile.

Our common stock is currently quoted on The NASDAQ Stock Market LLC. There could be volatility in the volume and market price of our common stock moving forward. This volatility may be caused by a variety of factors, including the lack of readily available quotations, the absence of consistent administrative supervision of “bid” and “ask” quotations, and generally lower trading volume. In addition, factors such as quarterly variations in our operating results, changes in financial estimates by securities analysts, or our failure to meet our or their projected financial and operating results, litigation involving us, factors relating to the oil and gas industry, actions by governmental agencies, national economic and stock market considerations, as well as other events and circumstances beyond our control could have a significant impact on the future market price of our common stock and the relative volatility of such market price.

Offers or availability for sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.

Our stockholders could sell substantial amounts of common stock in the public market, including shares sold upon the filing of a registration statement that registers such shares and/or upon the expiration of any statutory holding period under Rule 144 of the Securities Act of 1933 (the “Securities Act”), if available, or upon the expiration of trading limitation periods. Such volume could create a circumstance commonly referred to as a market “overhang” and in anticipation of which the market price of our common stock could fall. Additionally, we have a large number of warrants that are presently exercisable. The exercise of a large amount of these securities followed by the subsequent sale of the underlying stock in the market would likely have a negative effect on our common stock’s market price. The existence of an overhang, whether or not sales have occurred or are occurring, also could make it more difficult for us to secure additional financing through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

Our directors and officers have rights to indemnification.

Our Bylaws provide, as permitted by governing Nevada law, that we will indemnify our directors, officers, and employees, whether or not then in service as such, against all reasonable expenses actually and necessarily incurred by him or her in connection with the defense of any litigation to which the individual may have been made a party because he or she is or was a director, officer, or employee of the company. The inclusion of these provisions in the Bylaws may have the effect of reducing the likelihood of derivative litigation against directors and officers, and may discourage or deter stockholders or management from bringing a lawsuit against directors and officers for breach of their duty of care, even though such an action, if successful, might otherwise have benefited us and our stockholders.

We do not anticipate paying any cash dividends on our common stock.

We do not anticipate paying cash dividends on our common stock for the foreseeable future. The payment of dividends, if any, would be contingent upon our revenues and earnings, if any, capital requirements, and general financial condition. The payment of any dividends will be within the discretion of our Board of Directors. We presently intend to retain all earnings, if any, to implement our business strategy; accordingly, we do not anticipate the declaration of any dividends in the foreseeable future.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not Applicable.

ITEM 2. PROPERTIES

Our principal executive offices are located at 5700 W. Plano Parkway, Suite 3600, Plano, Texas 75093. We currently lease this office space which totals approximately 3,181 square feet. We believe that the condition and size of our offices are adequate for our current needs.

Investment in oil and gas properties during the years ended December 31, 2016 and 2015 is detailed as follows:

| | 2016 | 2015 |
|----------------------------|---------------------|---------------------|
| Property acquisition costs | \$ 615,000 | \$ - |
| Development costs | 1,678,497 | 4,518,239 |
| Exploratory costs | - | - |
| Totals | \$ 2,293,497 | \$ 4,518,239 |

Property acquisition cost relates to the Company's acquisition of the Hazel Project in West Texas. The development costs include reentry of the Johnson #4 well in the south Texas Marcelina area (sold in 2016) and development costs in the Orogrande and Hazel projects in west Texas. No development costs were incurred for Oklahoma properties in 2016.

Oil and Natural Gas Reserves

Reserve Estimates

SEC Case. The following tables sets forth, as of December 31, 2016, our estimated net proved oil and natural gas reserves, the estimated present value (discounted at an annual rate of 10%) of estimated future net revenues before future income taxes (PV-10) and after future income taxes (Standardized Measure) of our proved reserves and our estimated net probable oil and natural gas reserves, each prepared using standard geological and engineering methods generally accepted by the petroleum industry and in accordance with assumptions prescribed by the Securities and Exchange Commission ("SEC"). All of our reserves are located in the United States.

The PV-10 value is a widely used measure of value of oil and natural gas assets and represents a pre-tax present value of estimated cash flows discounted at ten percent. PV-10 is considered a non-GAAP financial measure as defined by the SEC. We believe that our PV-10 presentation is relevant and useful to our investors because it presents the estimated discounted future net cash flows attributable to our proved reserves before taking into account the related future income taxes, as such taxes may differ among various companies. We believe investors and creditors use PV-10 as a basis for comparison of the relative size and value of our proved reserves to the reserve estimates of other companies. PV-10 is not a measure of financial or operating performance under GAAP and neither it nor the Standardized Measure is intended to represent the current market value of our estimated oil and natural gas reserves. PV-10 should not be considered in isolation or as a substitute for the standardized measure of discounted future net cash flows as defined under GAAP.

The estimates of our proved reserves and the PV-10 set forth herein reflect estimated future gross revenue to be generated from the production of proved reserves, net of estimated production and future development costs, using prices and costs under existing economic conditions at December 31, 2016. For purposes of determining prices, we used the average of prices received for each month within the 12-month period ended December 31, 2016, adjusted for quality and location differences, which was \$42.75 per barrel of oil and \$2.33 per MCF of gas. This average historical price is not a prediction of future prices. The amounts shown do not give effect to non-property related expenses, such as corporate general administrative expenses and debt service, future income taxes or to depreciation, depletion and amortization.

ITEM 2. PROPERTIES – continued

| Category | December 31, 2016 Reserves | | | December 31, 2016 Future Net Revenue (M\$) | |
|--|-------------------------------|----------------|----------------|---|---------------------------------|
| | Oil (Bbls) | Gas (Mcf) | Total (BOE) | Total | Present Value Discounted at 10% |
| Proved Producing | 1,400 | 23,300 | 5,284 | \$ 31 | \$ 29 |
| Proved Nonproducing | 46,800 | 467,600 | 124,733 | \$ 776 | \$ 301 |
| Total Proved | 48,200 | 490,900 | 130,017 | \$ 807 | \$ 330 |
| Standardized Measure of Future Net Cash Flows Related to Proved Oil and Gas Properties | | | | | \$ 341 |
| Probable Undeveloped | - | - | - | \$ - | \$ - |

Reserve values as of December 31, 2016 are related to a single producing well in Oklahoma – the Judy well in the Prairie Grove AMI.

| Category | December 31, 2015 Reserves | | | December 31, 2015 Future Net Revenue (M\$) | |
|--|-------------------------------|---------------|---------------|---|---------------------------------|
| | Oil (Bbls) | Gas (Mcf) | Total (BOE) | Total | Present Value Discounted at 10% |
| Proved Producing | 14,210 | 34,400 | 19,943 | \$ 322 | \$ 280 |
| Proved Nonproducing | 40,170 | 0 | 40,170 | \$ 860 | \$ 763 |
| Total Proved | 54,380 | 34,400 | 60,113 | \$ 1,182 | \$ 1,043 |
| Standardized Measure of Future Net Cash Flows Related to Proved Oil and Gas Properties | | | | | \$ 5,935 |
| Probable Undeveloped | - | - | - | \$ - | \$ - |

BOE equivalents are determined by combining barrels of oil with MCF of gas divided by six.

ITEM 2. PROPERTIES - continued

Standardized Measure of Oil & Gas Quantities - Volume Rollforward
Years Ended December 31, 2016 and 2015

The following table sets forth the Company's net proved reserves, including changes, and proved developed reserves:

| | 2016 | | | 2015 | | |
|----------------------------------|---------------|----------------|----------------|---------------|---------------|---------------|
| | Oil (Bbls) | Gas (Mcf) | BOE | Oil (Bbls) | Gas (Mcf) | BOE |
| TOTAL PROVED RESERVES: | | | | | | |
| Beginning of period | 54,380 | 34,400 | 60,113 | 914,400 | 3,790,650 | 1,546,175 |
| Acquisition | - | - | - | - | - | - |
| Extensions and discoveries | - | - | - | - | - | - |
| Divestiture of reserves | (52,600) | - | (52,600) | (394,400) | (2,483,950) | (808,391) |
| Revisions of previous estimates | 54,908 | 493,013 | 137,078 | (437,639) | (1,159,071) | (630,818) |
| Production | (8,488) | (36,513) | (14,574) | (27,981) | (113,229) | (46,853) |
| End of period | <u>48,200</u> | <u>490,900</u> | <u>130,017</u> | <u>54,380</u> | <u>34,400</u> | <u>60,113</u> |
| PROVED DEVELOPED RESERVES | | | | | | |
| Proved developed producing | 1,400 | 23,300 | 5,284 | 14,210 | 34,400 | 19,943 |
| Proved nonproducing | 46,800 | 467,600 | 124,733 | 40,170 | - | 40,170 |
| Total | <u>48,200</u> | <u>490,900</u> | <u>130,017</u> | <u>54,380</u> | <u>34,400</u> | <u>60,113</u> |
| Total Proved Undeveloped | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

The decrease attributable to divestiture of reserves is from the sale of Oklahoma properties - the Cimarron properties in second quarter, 2016.

The upward revisions of previous estimates of 54,908 Bbls and 493,013 MCF results primarily from 2016 reserve report calculations for the Company's properties driven by industry conditions and the change in the proportional quantities of oil and gas in production from the Judy well in Oklahoma from 2015 to 2016.

ITEM 2. PROPERTIES - continuedStandardized Measure of Oil & Gas Quantities
Year Ended December 31, 2016 and 2015

The standardized measure of discounted future net cash flows relating to proved oil and natural gas reserves is as follows :

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|---------------------|
| Future cash inflows | \$ 3,156,970 | \$ 2,410,202 |
| Future production costs | (1,000,410) | (1,169,591) |
| Future development costs | (1,350,000) | (58,575) |
| Future income tax expense | - | 5,818,722 |
| Future net cash flows | <u>806,560</u> | <u>7,000,758</u> |
| 10% annual discount for estimated timing of cash flows | <u>(465,644)</u> | <u>(1,065,570)</u> |
| Standardized measure of discounted future net cash flows related to proved reserves | <u>\$ 340,916</u> | <u>\$ 5,935,188</u> |

A summary of the changes in the standardized measure of discounted future net cash flows applicable to proved oil and natural gas reserves is as follows :

| | | |
|--|-------------------|---------------------|
| Balance, beginning of year | \$ 5,935,188 | \$ 23,018,966 |
| Sales and transfers of oil and gas produced during the period | (29,749) | (762,423) |
| Net change in sales and transfer prices and in production (lifting) costs related to future production | (482,569) | (18,010,821) |
| Net change due to sales of reserves | - | (14,026,302) |
| Net change due to sales of minerals in place | (191,470) | - |
| Net change due to extensions and discoveries | - | - |
| Changes in estimated future development costs | (791,630) | 19,563,576 |
| Previously estimated development costs incurred during the period | 58,575 | 357,033 |
| Net change due to revisions in quantity estimates | 482,272 | (11,062,826) |
| Other | 172,169 | (858,606) |
| Accretion of discount | 80,393 | 2,146,235 |
| Net change in income taxes | (4,892,263) | 5,570,356 |
| Balance, end of year | <u>\$ 340,916</u> | <u>\$ 5,935,188</u> |

Due to the inherent uncertainties and the limited nature of reservoir data, both proved and probable reserves are subject to change as additional information becomes available. The estimates of reserves, future cash flows, and present value are based on various assumptions, including those prescribed by the SEC, and are inherently imprecise. Although we believe these estimates are reasonable, actual future production, cash flows, taxes, development expenditures, operating expenses, and quantities of recoverable oil and natural gas reserves may vary substantially from these estimates.

In estimating probable reserves, it should be noted that those reserve estimates inherently involve greater risk and uncertainty than estimates of proved reserves. While analysis of geoscience and engineering data provides reasonable certainty that proved reserves can be economically producible from known formations under existing conditions and within a reasonable time, probable reserves involve less certainty than reserves with a higher classification due to less data to support their ultimate recovery. Probable reserves have not been discounted for the additional risk associated with future recovery. Prospective investors should be aware that as the categories of reserves decrease with certainty, the risk of recovering reserves at the PV-10 calculation increases. The reserves and net present worth discounted at 10% relating to the different categories of proved and probable have not been adjusted for risk due to their uncertainty of recovery and thus are not comparable and should not be summed into total amounts.

ITEM 2. PROPERTIES - *continued*

Reserve Estimation Process, Controls and Technologies

The reserve estimates, including PV-10 estimates, set forth above were prepared by PeTech Enterprises, Inc. for the Company's properties in Oklahoma. A copy of their full reports with regard to our reserves is attached as Exhibit 99.1 to this annual report on Form 10-K. These calculations were prepared using standard geological and engineering methods generally accepted by the petroleum industry and in accordance with SEC financial accounting and reporting standards.

We do not have any employees with specific reservoir engineering qualifications in the company. Our Chairman and Chief Executive Officer worked closely with PeTech Enterprises Inc. in connection with their preparation of our reserve estimates, including assessing the integrity, accuracy, and timeliness of the methods and assumptions used in this process.

PeTech Enterprises, Inc. ("PeTech"), who provided 2016 reserve estimates for our Oklahoma Properties, is a Texas based profitable, family owned oil and gas production and Investment Company that provides reservoir engineering, economics and valuation support to energy banks, energy companies and law firms as an expert witness. PeTech has been in business since 1982. Amiel David is the President of PeTech and the primary technical person in charge of the estimates of reserves and associated cash flow and economics on behalf of the company for the results presented in its reserves report to us. He has a PhD in Petroleum Engineering from Stanford University. He is a registered Professional Engineer in the state of Texas (PE #50970), granted in 1982, a member of the Society of Petroleum Engineers and a member of the Society of Petroleum Evaluation Engineers.

Proved Nonproducing Reserves

As of December 31, 2016, our proved nonproducing reserves totaled 124,733 barrels of oil equivalents (BOE) compared to 40,170 as of December 31, 2015, an increase of 84,563 BOE. These proved nonproducing reserves at December 31, 2016 were associated with our Hunton project Judy well. The change consists of a decrease of 40,170 BOE due to the sale of the Texas Marcelina properties and an increase of 124,733 BOE from the engineering analysis of the Judy well. These numbers are taken from the third party reserves study prepared by PeTech for 2016 and 2015 and CREST Engineering Services, Inc for 2015.

The net reserves change associated with these properties is a decrease of approximately 6,630 Bbls of oil and an increase of approximately 467,600 Mcf of gas calculated with a gas-oil equivalency factor of six.

We made investments and progress during 2016 to develop proved producing reserves in the Orogrande and Hazel Projects in the Permian Basin. As of December 31, 2016 there were no producing wells on these properties.

Our current drilling plans, subject to sufficient capital resources and the periodic evaluation of interim drilling results and other potential investment opportunities, include drilling additional wells in the Orogrande and Hazel AMI's to continue to de-risk the prospects and obtain initial production from the development efforts per our Farmout agreement with Founders in which we will be carried on all aspects of Orogrande drilling for the foreseeable future. In addition, we intend to continue to de-risk the Hazel AMI by continuing to drill evaluation wells. The next scheduled well in the Hazel Project is set for the end of June. It is intended to be a horizontal well testing the Wolfcamp formation in order to determine horizontal viability of the play.

Production, Price, and Production Cost History

During the year ended December 31, 2016, we produced and sold 8,488 barrels of oil net to our interest at an average sale price of \$34.15 per bbl. We produced and sold 36,513 MCF of gas net to our interest at an average sales price of \$1.77 per MCF. Our average production cost including lease operating expenses and direct production taxes was \$22.54 per BOE. Our depreciation, depletion, and amortization expense was \$43.67 per BOE.

During the year ended December 31, 2015, we produced and sold 27,981 barrels of oil net to our interest at an average sale price of \$46.03 per bbl. We produced and sold 113,229 MCF of gas net to our interest at an average sales price of \$3.00 per MCF. Our average production cost including lease operating expenses and direct production taxes was \$17.38 per bbl. Our depreciation, depletion, and amortization expense was \$19.87 per bbl.

Our production was from properties concentrated in central Oklahoma and in south Texas. Reserves at the beginning of 2016 from each of these areas comprised more than 15% of total reserves. The Oklahoma Cimarron properties were sold on May 1, 2016 and the Marcelina properties in south Texas were sold October 1, 2016. For 2016, approximately 4,381 BOE was produced at Marcelina Creek and approximately 9,151 BOE in Oklahoma, or 30% from Marcelina Creek and 63% from Oklahoma.

ITEM 2. PROPERTIES - continued

Quarterly Revenue and Production by State for 2016 and 2015 are detailed as follows:

| Property | Quarter | Oil Production {BBLs} | Gas Production {MCF} | Oil Revenue | Gas Revenue | Total Revenue |
|----------------------------|----------------|--------------------------------------|-------------------------------------|------------------------|------------------------|--------------------------|
| Marcelina (TX) | Q1 - 2016 | 3,000 | - | \$ 92,546 | \$ - | \$ 92,546 |
| Oklahoma | Q1 - 2016 | 2,026 | 21,148 | 54,289 | 38,624 | 92,913 |
| Kansas | Q1 - 2016 | 312 | - | 8,854 | - | 8,854 |
| Total Q1-2016 | | 5,338 | 21,148 | \$ 155,689 | \$ 38,624 | \$ 194,313 |
| Marcelina (TX) | Q2 - 2016 | 917 | - | \$ 38,812 | \$ - | \$ 38,812 |
| Oklahoma | Q2 - 2016 | 675 | 9,689 | 30,411 | 11,142 | 41,553 |
| Kansas | Q2 - 2016 | 731 | - | 28,834 | - | 28,834 |
| Total Q2-2016 | | 2,323 | 9,689 | \$ 98,057 | \$ 11,142 | \$ 109,199 |
| Marcelina (TX) | Q3 - 2016 | 464 | - | \$ 20,190 | \$ - | \$ 20,190 |
| Oklahoma | Q3 - 2016 | 180 | 2,830 | 7,925 | 6,170 | 14,095 |
| Kansas | Q3 - 2016 | - | - | - | - | - |
| Total Q3-2016 | | 644 | 2,830 | \$ 28,115 | \$ 6,170 | \$ 34,285 |
| Marcelina (TX) | Q4 - 2016 | - | - | \$ - | \$ - | \$ - |
| Oklahoma | Q4 - 2016 | 184 | 2,845 | 8,024 | 8,569 | 16,593 |
| Kansas | Q4 - 2016 | - | - | - | - | - |
| Total Q4-2016 | | 184 | 2,845 | \$ 8,024 | \$ 8,569 | \$ 16,593 |
| Year Ended 12/31/16 | | 8,488 | 36,513 | \$ 289,885 | \$ 64,505 | \$ 354,390 |

ITEM 2. PROPERTIES - continued

| Property | Quarter | Oil Production {BBLs} | Gas Production {MCF} | Oil Revenue | Gas Revenue | Total Revenue |
|----------------------------|-----------|-----------------------|----------------------|---------------------|-------------------|---------------------|
| Marcelina (TX) | Q1 - 2015 | 2,425 | - | \$ 98,787 | \$ - | \$ 98,787 |
| Oklahoma | Q1 - 2015 | 5,931 | 37,226 | 277,574 | 117,521 | 395,095 |
| Kansas | Q1 - 2015 | 979 | - | 40,680 | - | 40,680 |
| Total Q1-2015 | | 9,335 | 37,226 | \$ 417,041 | \$ 117,521 | \$ 534,562 |
| Marcelina (TX) | Q2 - 2015 | 1,957 | - | \$ 101,291 | \$ - | \$ 101,291 |
| Oklahoma | Q2 - 2015 | 5,495 | 32,348 | 290,540 | 97,374 | 387,914 |
| Kansas | Q2 - 2015 | 889 | - | 19,060 | - | 19,060 |
| Total Q2-2015 | | 8,341 | 32,348 | \$ 410,891 | \$ 97,374 | \$ 508,265 |
| Marcelina (TX) | Q3 - 2015 | 2,177 | - | \$ 86,845 | \$ - | \$ 86,845 |
| Oklahoma | Q3 - 2015 | 4,550 | 31,275 | 212,156 | 87,791 | 299,947 |
| Kansas | Q3 - 2015 | 370 | - | 13,238 | - | 13,238 |
| Total Q3-2015 | | 7,097 | 31,275 | \$ 312,239 | \$ 87,791 | \$ 400,030 |
| Marcelina (TX) | Q4 - 2015 | 1,337 | - | \$ 44,391 | \$ - | \$ 44,391 |
| Oklahoma | Q4 - 2015 | 1,624 | 12,380 | 93,864 | 37,349 | 131,213 |
| Kansas | Q4 - 2015 | 247 | - | 9,573 | - | 9,573 |
| Total Q4-2015 | | 3,208 | 12,380 | \$ 147,828 | \$ 37,349 | \$ 185,177 |
| Year Ended 12/31/15 | | 27,981 | 113,229 | \$ 1,287,999 | \$ 340,035 | \$ 1,628,034 |

Drilling Activity and Productive Wells

Marcelina Creek Project - Texas

As of December 31, 2015, we had three productive wells in the Marcelina Creek Field (2.00 net wells) and one well in the Coulter Field (.40 net well). Net wells consist of the sum of our fractional working interests in these wells.

During 2016 the Company conducted a reentry project on the Johnson #4. After an analysis of those results and the alternatives for pursuing continuing development of the Marcelina Project, a decision was made to offer the property for sale. The sale was consummated on October 1, 2016.

Central Oklahoma Projects

As of December 31, 2014, 10 wells were producing in the Cimarron, 11 wells in the Chisholm Trail, one in Prairie Grove, and one in the Viking.

During the year ended December 31, 2015, the Company continued to produce the wells in Oklahoma but did not significantly expand development due to capital constraints and industry conditions. The production and leases in the Chisholm Trail AMI were sold in November, 2015 and the Company was actively seeking buyers for the Cimarron AMI as well. A sale of the Cimarron AMI closed effective May 1, 2016.

Having sold the Chisholm Trail and Cimarron wells and acreage, the only remaining producing wells in Oklahoma are the Judy and the Loki wells as of December 31, 2016. The Company retains ownership of the Viking, Rosedale, and Thunderbird AMI's at December 31, 2016. Reference the detailed Leasehold Interest table included in this report.

ITEM 2. PROPERTIES - continued

Combined Well Status

The following table summarizes drilling activity and Well Status as of December 31, 2016:

| Drilling Activity/Well Status | Cumulative Well Status at 12/31/2016 | | Wells Acquired (Sold) 2016 | | Cumulative Well Status at 12/31/2015 | |
|--------------------------------------|---|-------------|---------------------------------------|---------------|---|-------------|
| | <u>Gross</u> | <u>Net</u> | <u>Gross</u> | <u>Net</u> | <u>Gross</u> | <u>Net</u> |
| Development Wells: | | | | | | |
| Productive -Texas | - | - | (3.00) | (2.00) | 3.00 | 2.00 |
| Productive - Okla | 2.00 | 0.20 | (7.00) | (1.15) | 9.00 | 1.35 |
| Productive - Kansas | - | - | (2.00) | (1.00) | 2.00 | 1.00 |
| Dry | - | - | - | - | - | - |
| Exploration Wells: | | | | | | |
| Productive | - | - | - | - | - | - |
| Dry | 1.00 | - | 1.00 | 0.33 | - | - |
| Total Drilled Wells: | | | | | | |
| Productive -Texas | - | - | (3.00) | (2.00) | 3.00 | 2.00 |
| Productive - Okla | 2.00 | 0.20 | (7.00) | (1.15) | 9.00 | 1.35 |
| Productive - Kansas | - | - | (2.00) | (1.00) | 2.00 | 1.00 |
| Dry | 1.00 | - | 1.00 | 0.33 | - | - |
| Acquired Wells: | | | | | | |
| Productive -Texas | - | - | (1.00) | (0.50) | 1.00 | 0.50 |
| Productive - Okla | - | - | (4.00) | (0.25) | 4.00 | 0.25 |
| Productive - Kansas | - | - | - | - | - | - |
| Total Wells: | | | | | | |
| Productive -Texas | - | - | (4.00) | (2.50) | 4.00 | 2.50 |
| Productive - Okla | 2.00 | 0.20 | (11.00) | (1.40) | 13.00 | 1.60 |
| Productive - Kansas | - | - | (2.00) | (1.00) | 2.00 | 1.00 |
| Total | <u>2.00</u> | <u>0.20</u> | <u>(17.00)</u> | <u>(4.90)</u> | <u>19.00</u> | <u>5.09</u> |
| Well Type: | | | | | | |
| Oil | - | (0.00) | (5.00) | (3.00) | 5.00 | 3.00 |
| Gas | - | - | (1.00) | (0.50) | 1.00 | 0.50 |
| Combination -Oil and Gas | 2.00 | 0.20 | (11.00) | (1.40) | 13.00 | 1.60 |
| Total | <u>2.00</u> | <u>0.20</u> | <u>(17.00)</u> | <u>(4.90)</u> | <u>19.00</u> | <u>5.09</u> |

ITEM 2. PROPERTIES - continued

Our acreage positions at December 31, 2016 are summarized as follows:

| Leasehold Interests - 12/31/2016 | Total Acres | | TRCH Interest Developed Acres | | TRCH Interest Undeveloped Acres | |
|---|--------------------|---------------|--------------------------------------|------------|--|---------------|
| | Gross | Net | Gross | Net | Gross | Net |
| Texas - | | | | | | |
| Orogrande | 163,400 | 77,615 | - | - | 163,400 | 77,615 |
| Hazel Project | 12,000 | 4,001 | - | - | 12,000 | 4,001 |
| Oklahoma - | | | | | | |
| Viking | 8,800 | 2,600 | 640 | 192 | 8,160 | 2,408 |
| Rosedale | 11,600 | 3,500 | - | - | 11,600 | 3,500 |
| Prairie Grove | 640 | 64 | 640 | 64 | - | - |
| Thunderbird | 4,300 | 1,100 | - | - | 4,300 | 1,100 |
| Total | 200,740 | 88,880 | 1,280 | 256 | 199,460 | 88,624 |

In January, 2017 the Company increased its working interest in the Hazel Project from 33.33% to 74%. Reference “Subsequent Events” in Note 11 to the financial statements included in this report.

Orogrande

On August 7, 2014, we entered into a Purchase Agreement with Hudspeth Oil Corporation (“Hudspeth”), McCabe Petroleum Corporation (“MPC”), and Greg McCabe. Mr. McCabe was the sole owner of both Hudspeth and MPC. Under the terms and conditions of the Purchase Agreement, at closing, we purchased 100% of the capital stock of Hudspeth which holds certain oil and gas assets, including a 100% working interest in 172,000 mostly contiguous acres in the Orogrande Basin in West Texas. This acreage is in the primary term under five-year leases that carry additional five-year extension provisions. As consideration, at closing we issued 868,750 shares of our common stock to Mr. McCabe and paid a total of \$100,000 in geologic origination fees to third parties. Additionally, Mr. McCabe has, at his option, a 10% working interest back-in after payout and a reversionary interest if drilling obligations are not met, all under the terms and conditions of a participation and development agreement. All drilling obligations through December 31, 2016 have been met. Closing of the transactions occurred on September 23, 2014.

Of the 168,000 acres, 40,154 were scheduled for renewal in December, 2014. The Company renewed the leases for the 40,154 acres during second quarter, 2015. Prior to March 31, 2015, the Company had the obligation to begin drilling its first well in order to hold the acreage block. The Rich A-11 well was permitted and spudded and drilling began as required by March 31, 2015.

The Company finalized an agreement to sell a 5% working interest in the Orogrande acreage on June 30, 2015 with an effective date of April 1, 2015. Sale proceeds were \$500,000 which were received in April, 2015. In addition, the Company issued 250,000 three year warrants with an exercise price of \$.50 to the purchaser.

On September 23, 2015, our subsidiary, Hudspeth Oil Corporation (“HOC”), entered into a Farmout Agreement by and between HOC, Pandora Energy, LP (“Pandora”), Founders Oil & Gas, LLC (“Founders”), McCabe Petroleum Corporation and Greg McCabe (McCabe Petroleum Corporation and Greg McCabe are parties to the Farmout Agreement for limited purposes) for the entire Orogrande Project in Hudspeth County, Texas. The Farmout Agreement provides for Founders to earn from HOC and Pandora (collectively, the “Farmor”) an undivided 50% of the leasehold interest in the Orogrande Project by Founder’s spending a minimum of \$45 million on actual drilling operations on the Orogrande Project in the next two years. Founders is to pay Farmor a total cost reimbursement of \$5,000,000 in multiple installments as follows: (1) \$1,000,000 at the signing of the Farmout Agreement, the balance of which was received on September 24, 2015; (2) within 90 days from the closing, Founders will frac and complete the Rich A-11 No. 1 Well; and (3) within five days of the spudding of each of the next eight wells drilled by Founders, Founders will pay to Farmor \$500,000 resulting in the payment of the remaining amount; provided that, in the event that within 90 days after the fracing of the Rich Well, Founders notifies Farmor of its election not to drill any additional wells, Founders shall have no further obligation to make further payment.

ITEM 2. PROPERTIES - *continued*

Upon payment of the first \$1,000,000, Farmor assigned to Founders an undivided 50% of the leasehold interest and a 37.5% net revenue interest in the leases subject to the terms of the Farmout Agreement (including obligations to re-assign to HOC and Pandora if the 50% interest in the entire Orogrande Project is not earned) and a proportionate share of the McCabe 10% BIAP0 (back in after pay out) interest; provided, however, that for each well that Founders drills prior to earning the acreage, it will be assigned a 50% working interest in the wellbore and in the lease on which it sits.

Under a joint operating agreement (on A.A.P.L. Form 610 – 1989 Model Form Operating Agreement with COPAS 2005 Accounting Procedures) (“JOA”) also entered into on September 23, 2015, Founders is designated as operator of the leases. Any variance to the operating plan will be determined by a Development Committee, which committee is made up of members from Founders and Farmor, or their designees, to discuss and recommend the location of the drill wells, data to be gathered and the form of same. As contemplated under the Farmout Agreement, starting within 90 days of the completion of the fracing on the Rich A-11 Well, and at all times subject to the 90 day continuous drilling clause, Founders has the option, but not the obligation, to retain the assigned interest as follows: (1) if Founders spends a minimum of \$45 million on actual drilling operations while maintaining compliance with the continuous drilling clause, subject to reasonable delays resulting from reasonable Force Majeure conditions, Founders will have fulfilled its farmout obligations and will be entitled to retain the assigned interests. If Founders does not meet such obligations, it will reassign to Farmor the assigned interest except it will be entitled to retain its interest in the leases covering all wells drilled by Founders and the sections in which such wells are located. Additionally, Founders will resign as operator of the JOA as to all lands reassigned; and (2) Farmor will be carried in all drilling operations during the first two years and/or \$45 million in drilling operations, whichever comes last, subject to Founders’ right to recoup certain expenses on “Gap Wells.” After three years and after Founders has earned its working interest, either party may elect to market the acreage as an entire block, including operatorship. Should an acceptable bid arise, and both parties agree, the block will be sold 100% working interest to that third party bidder. However, if only one party wants to accept the outside offer, the other party (the party who wishes not to sell) has the right to purchase the working interest from the selling party.

The Rich A-11 well that was drilled by Torchlight in second quarter, 2015 was evaluated and numerous scientific tests were performed to provide key data for the field development thesis. During the testing process a poor cement bond was identified preventing a cost effective production test for the primary pay zones. Repair to the well bore necessary for a subsequent frac procedure was determined to be economically unfeasible. With the Rich A-11 designed as a test well rather than commercial target, a decision to begin plans for drilling the next well(s) with larger casing that utilized for future commercial production was made.

Torchlight Energy and Founders have elected to move forward on planning the next phase of drilling in the Orogrande Project. The project operator planned to permit three new wells in 2016 starting with the University Founders B-19 #1 well. The new wells would be drilled vertically for test purposes and would have sufficient casing size to support lateral entry into any pay zone(s) encountered once the well is tested vertically. Torchlight and the project operator would then run a battery of tests on each well to gain information for future development of the field. The second test well, the University Founders B-19 #1, was spudded on April 24, 2016 and drilled in second quarter, 2016. The well successfully pumped down completion fluid in third quarter and indications of hydrocarbons were seen at the surface on this second Orogrande Project test well. Despite encountering a bedding plane in a small section of the wellbore which required the installation of a pump to dewater, fluids from the B-19 #1 test well have begun to show an oil cut. The oil samples appear to be to be very high gravity in the 45° to 47° API range. The well has shown casing pressure measured from 200 psi to 540 psi at various times during the testing phase. The presence of natural gas is also noted and samples have been taken showing a ~1050 BTU content.

The parties have agreed to amend the drilling schedule for the next well to be no later than April 30, 2017. Future plans are focused on drilling additional wells in the Orogrande per our Farmout agreement with Founders in which we will be carried on costs for all aspects of drilling for the foreseeable future.

Hazel Project in the Midland Basin in West Texas

Effective April 1, 2016, Torchlight Energy Inc. acquired from McCabe Petroleum Corporation, a 66.66% working interest in approximately 12,000 acres in the Midland Basin in exchange for 1,500,000 warrants to purchase our common stock with an exercise price of \$1.00 for five years and a back-in after payout of a 25% working interest to the seller.

Initial development of the first well on the property, the Flying B Ranch #1, began July 10, 2016 and development continued through September 30, 2016. This well was is classified as a test well in the development pursuit of the Hazel Project.

In October, 2016, the holders of the Company's Series C Preferred shares (which were issued in July, 2016) elected to convert into a 33.33% Working Interest in the Company's Hazel Project, reducing Torchlight's ownership from 66.66% to a 33.33% Working Interest.

ITEM 2. PROPERTIES - *continued*

On December 27, 2016, drilling activities commenced on its next Midland Basin, Hazel Project well, the Flying B Ranch #2. The well will be a vertical test similar to the Company's first Hazel Project well, the Flying B Ranch #1. We intend to continue to de-risk the Hazel AMI by continuing to drill evaluation wells. The next scheduled well in the Hazel Project is set for the end of June, 2017. It is intended to be a horizontal well testing the Wolfcamp formation in order to determine horizontal viability of the play.

In November, 2016, the Company announced that it had entered into a Letter of Intent to increase its ownership across all 12,000 gross acres in the Hazel Project resulting in 8,880 net acres in its Midland Basin Hazel Project. Upon closing of the transactions in January, 2017 contemplated by the Letter of Intent, Torchlight obtained the additional 40.66% Working Interest from an entity owned and controlled by its Chairman, Greg McCabe, increasing Torchlight's total ownership to 74%. Reference "Subsequent Events" in Note 11 to the financial statements included in this report.

Central Oklahoma Projects

The production and leases in the Chisholm Trail AMI were sold in November, 2015 and the sale of the Cimarron AMI s closed effective on May 1, 2016. The Company retains the acreage in the remaining three AMI's (Viking, Rosedale, and Thunderbird), the Loki well in the Viking AMI, and the Judy well in the Prairie Grove AMI as of December 31, 2016. The Judy and the Loki wells are producing at December 31, 2016. Reserve value at December 31, 2016 is only from the Judy well.

ITEM 3. LEGAL PROCEEDINGS

With respect to Oil and Gas properties previously owned by the Company in Central Oklahoma, Torchlight Energy Resources, Inc. and its subsidiary Torchlight Energy, Inc. ("Torchlight") has pending in the 429th judicial district court in Collin County, Texas a lawsuit against Husky Ventures, Inc., Charles V. Long, Silverstar of Nevada, Inc., Gastar Exploration Inc., J. Russell Porter, Michael A. Gerlich, and Jerry R. Schuyler that was originally filed in May 2016 (previous defendants April Glidewell, Maximus Exploration, LLC, Atwood Acquisitions, LLC and John M. Selser, Sr have been non-suited without prejudice to re-filing the claims). In the lawsuit, Torchlight alleges, among other things, that the defendants acted improperly in connection with multiple transactions, and that the defendants misrepresented and omitted material information to Torchlight with respect to these transactions. The lawsuit seeks damages arising from 15 different causes of action, including without limitation, violations of the Texas Securities Act, fraud, negligent misrepresentation, breach of fiduciary duty, breach of contract, unjust enrichment and tortious interference. The lawsuit also seeks a complete accounting as to how Torchlight's investment funds were used, including all transfers between and among the defendants. Torchlight is seeking the full amount of our damages on \$20,000,000 invested.

Defendant Gastar has asserted a breach of contract counterclaim against Torchlight related to a release contained in one of the agreements between Torchlight and Husky in which Gastar claims to be a third-party beneficiary. Torchlight is claiming that this agreement should be rescinded, and in any event, that the release is unenforceable.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is quoted on The NASDAQ Stock Market LLC under the symbol, "TRCH." Trading in our common stock in the over-the-counter market has historically been limited and occasionally sporadic and the quotations set forth below are not necessarily indicative of actual market conditions. The high and low sales prices for the common stock for each quarter of the fiscal years ended December 31, 2016 and 2015, according to NASDAQ, were as follows:

| <u>Quarter Ended</u> | <u>High</u> | <u>Low</u> |
|----------------------|-------------|------------|
| 12/31/2016 | \$ 1.48 | \$ 0.66 |
| 9/30/2016 | \$ 1.75 | \$ 0.55 |
| 6/30/2016 | \$ 0.94 | \$ 0.55 |
| 3/31/2016 | \$ 1.13 | \$ 0.42 |
| 12/31/2015 | \$ 1.87 | \$ 0.93 |
| 9/30/2015 | \$ 2.44 | \$ 0.48 |
| 6/30/2015 | \$ 2.40 | \$ 0.25 |
| 3/31/2015 | \$ 0.83 | \$ 0.22 |

Record Holders

As of March 21, 2017, there were approximately 275 stockholders of record of our common stock, and we estimate that there were approximately 2,600 additional beneficial stockholders who hold their shares in "street name" through a brokerage firm or other institution. As of March 21, 2017, we have a total of 57,862,004 shares of common stock issued and outstanding.

The holders of the common stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders. Holders of the common stock have no preemptive rights and no right to convert their common stock into any other securities. There are no redemption or sinking fund provisions applicable to the common stock.

Dividends

We have not declared any cash dividends on our common stock since inception and do not anticipate paying any dividends in the foreseeable future. The payment of dividends is within the discretion of the Board of Directors and will depend on our earnings, capital requirements, financial condition, and other relevant factors. There are no restrictions that currently limit our ability to pay dividends on our common stock other than those generally imposed by applicable state law. The Company issued preferred stock in 2016 and 2015 on which dividends were paid. No preferred stock is outstanding as of December 31, 2016.

Equity Compensation Plan Information

The following table sets forth all equity compensation plans as of December 31, 2016:

| <u>Plan Category</u> | <u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u> | <u>Weighted-average exercise price of outstanding options, warrants and rights</u> | <u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u> |
|--|--|--|--|
| Equity compensation plans approved by security holders | 6,706,905 | \$ 1.56 | 1,290,258 |

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES - continued

Sales of Unregistered Securities

Other than the sales below, all equity securities that we have sold during the period covered by this report that were not registered under the Securities Act have previously been included in a Quarterly Report on Form 10-Q or in a Current Report on Form 8-K.

In November 2016, we issued 165,000 shares of common stock in connection with Company owned lease interests.

In November 2016, we issued 221,000 four-year warrants to purchase common stock at an exercise price of \$0.70 per share in connection with Company owned lease interests.

In December 2016, Eunis Shockey (a former director) exercised warrants at an exercise price of \$0.50 per share, purchasing 271,901 shares of common stock.

In December 2016, we issued a total of 70,000 shares of common stock to a consultant as compensation for services.

In November 2016, we issued 120,000 five-year warrants to a consultant as compensation for services at an exercise price of \$1.03.

All of the above sales of securities described in this Item 2 were sold under the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933 and the rules and regulations promulgated thereunder. The issuances of securities did not involve a "public offering" based upon the following factors: (i) the issuances of securities were isolated private transactions; (ii) a limited number of securities were issued to a limited number of purchasers; (iii) there were no public solicitations; (iv) the investment intent of the purchasers; and (v) the restriction on transferability of the securities issued.

ITEM 6. SELECTED FINANCIAL DATA

Not Applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information set forth and discussed in this Management's Discussion and Analysis and Results of Operations is derived from our historical financial statements and the related notes thereto which are included in this Form 10-K. The following information and discussion should be read in conjunction with such financial statements and notes. Additionally, this Management's Discussion and Analysis and Plan of Operations contain certain statements that are not strictly historical and are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995 and involve a high degree of risk and uncertainty. Actual results may differ materially from those projected in the forward-looking statements due to other risks and uncertainties that exist in our operations, development efforts, and business environment, and due to other risks and uncertainties relating to our ability to obtain additional capital in the future to fund our planned expansion, the demand for oil and natural gas, and other general economic factors.

All forward-looking statements included herein are based on information available to us as of the date hereof, and we assume no obligation to update any such forward-looking statements.

Summary of Key Results

Overview

We are engaged in the acquisition, exploration, exploitation, and/or development of oil and natural gas properties in the United States.

During the quarter ended June 30, 2016 the Board of Directors initiated a review of Company operations in view of the divestiture of its Oklahoma properties, beginning with the sale of the Chisholm Trail properties in fourth quarter, 2015 and the sale of the Cimarron properties in second quarter, 2016. During this same time development had continued on the Orogrande Project in West Texas and in April, 2016, the Company acquired the Hazel Project in the Midland Basin also in West Texas. These West Texas properties demonstrate significant potential and future production capabilities based upon the analysis of scientific data being gathered in the day by day development activity. Therefore, the Board has determined to focus its efforts and capital on these two projects to maximize shareholder value for the long run.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

With this new emphasis, remaining projects in other locations were offered for sale. The result was the closing on August 10, 2016 of the assignment of the Company's Ring Properties in Kansas to our joint venture partner. Further, the Marcelina properties in South Texas have been sold effective October 1, 2016. The Company's remaining assets in Oklahoma consisting of three AMI's (the Viking, Rosedale, and the Thunderbird) and four wells (two are producing) are held pending the outcome of the lawsuit filed by Torchlight against the operator, Husky Ventures, in May, 2016.

The strategy in divesting of projects other than the Orogrande and the Hazel Projects is to refocus on the greatest potential future value for the Company while systematically eliminating debt as noncore assets are sold and operations are streamlined.

The following discussion of our financial condition and results of operations should be read in conjunction with our audited financial statements for the years ended December 31, 2016 and 2015 included herewith. This discussion should not be construed to imply that the results discussed herein will necessarily continue into the future, or that any conclusion reached herein will necessarily be indicative of actual operating results in the future. Such discussion represents only the best present assessment by our management.

Historical Results for the Years Ended December 31, 2016 and 2015

For the year ended December 31, 2016, we had a net loss of \$7,684,346 compared to a net loss of \$43,252,878 for the year ended December 31, 2015.

Revenues and Cost of Revenues

For the year ended December 31, 2016, we had production revenue of \$354,390 compared to \$1,628,034 of production revenue for the year ended December 31, 2015. Refer to the table of production and revenue for 2016 included below. Our cost of revenue, consisting of lease operating expenses and production taxes, was \$328,438, and \$814,078 for the years ended December 31, 2016 and 2015, respectively. Production and Revenue are detailed as follows:

| Property | Quarter | Oil Production {BBLs} | Gas Production {MCF} | Oil Revenue | Gas Revenue | Total Revenue |
|----------------------------|-----------|-----------------------|----------------------|-------------------|------------------|-------------------|
| Marcelina (TX) | Q1 - 2016 | 3,000 | - | \$ 92,546 | \$ - | \$ 92,546 |
| Oklahoma | Q1 - 2016 | 2,026 | 21,148 | 54,289 | 38,624 | 92,913 |
| Kansas | Q1 - 2016 | 312 | - | 8,854 | - | 8,854 |
| Total Q1-2016 | | 5,338 | 21,148 | \$ 155,689 | \$ 38,624 | \$ 194,313 |
| Marcelina (TX) | Q2 - 2016 | 917 | - | \$ 38,812 | \$ - | \$ 38,812 |
| Oklahoma | Q2 - 2016 | 675 | 9,689 | 30,411 | 11,142 | 41,553 |
| Kansas | Q2 - 2016 | 731 | - | 28,834 | - | 28,834 |
| Total Q2-2016 | | 2,323 | 9,689 | \$ 98,057 | \$ 11,142 | \$ 109,199 |
| Marcelina (TX) | Q3 - 2016 | 464 | - | \$ 20,190 | \$ - | \$ 20,190 |
| Oklahoma | Q3 - 2016 | 180 | 2,830 | 7,925 | 6,170 | 14,095 |
| Kansas | Q3 - 2016 | - | - | - | - | - |
| Total Q3-2016 | | 644 | 2,830 | \$ 28,115 | \$ 6,170 | \$ 34,285 |
| Marcelina (TX) | Q4 - 2016 | - | - | \$ - | \$ - | \$ - |
| Oklahoma | Q4 - 2016 | 184 | 2,845 | 8,024 | 8,569 | 16,593 |
| Kansas | Q4 - 2016 | - | - | - | - | - |
| Total Q4-2016 | | 184 | 2,845 | \$ 8,024 | \$ 8,569 | \$ 16,593 |
| Year Ended 12/31/16 | | 8,488 | 36,513 | \$ 289,885 | \$ 64,505 | \$ 354,390 |

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

We recorded depreciation, depletion and amortization expense of \$636,426 for the year ended December 31, 2016 compared to \$930,934 for 2015.

General and Administrative Expenses

Our general and administrative expenses for the years ended December 31, 2016 and 2015 were \$6,447,706 and \$15,550,145, respectively, a decrease of \$9,102,439. Our general and administrative expenses consisted of consulting and compensation expense, substantially all of which was non-cash or deferred, accounting and administrative costs, professional consulting fees, and other general corporate expenses. The decrease in general and administrative expenses for the year ended December 31, 2016 compared to 2015 is detailed as follows:

| | |
|---|-----------------------|
| Increase(decrease) in non cash stock and warrant compensation | \$ (7,609,458) |
| Increase(decrease) in consulting expense | \$ (317,664) |
| Increase(decrease) in professional fees | \$ (165,489) |
| Increase(decrease) in investor relations | \$ 81,900 |
| Increase(decrease) in travel expense | \$ (39,345) |
| Increase(decrease) in salaries and compensation | \$ (410,188) |
| Increase(decrease) in legal fees | \$ 44,078 |
| Increase(decrease) in insurance | \$ (31,029) |
| Increase(decrease) in general corporate expenses | \$ (100,493) |
| Increase(decrease) in bad debt | \$ (554,752) |
| Total (Decrease) in General and Administrative Expenses | <u>\$ (9,102,439)</u> |

The decrease in non cash stock and warrant compensation arises from the change in vested employee stock options expense and a reduction in outside services compensated with stock and warrants. Employee options were initially issued with 50% immediate vesting of option valuation at June, 2015. The balance of the vesting was set at 25% in June, 2016 and 25% in June, 2017. The remaining valuation is being recorded over the periods up to the full vesting date using the straight line method.

The decrease in consulting expense parallels the reduction in outside services compensated with stock and warrants as noted above.

The reduction in salaries and compensation arises from a reduction in staff size due to the resignation of our inside Petroleum Engineer and the resignation of our COO.

The bad debt expense in 2015 of \$554,752 was connected with a terminated transaction with an outside working interest owner in one of the wells in Oklahoma previously owned by the Company. No bad debt expense was incurred in 2016.

Liquidity and Capital Resources

For the year ended December 31, 2016, we had a net loss of \$7,684,346 compared to a net loss of \$43,252,878 for the year ended December 31, 2015.

At December 31, 2016, we had current assets of \$2,990,446 and total assets of \$12,433,648. As of December 31, 2016, we had current liabilities of \$5,283,794. Negative working capital of \$(2,293,348) was exacerbated by the inclusion in current liabilities of the \$3,478,121 outstanding balance of subordinated convertible notes which have a maturity date of June 30, 2017. Stockholders' equity was \$7,142,803 at December 31, 2016.

Cash from operating activities for the year ended December 31, 2016, was \$(4,826,089) compared to \$(2,408,501) for the year ended December 31, 2015, a decrease of \$2,417,588. Cash from operating activities during 2016 can be attributed to net losses from operations of \$7,684,346. Cash used in operating activities during 2015 can be attributed to net losses from operations of \$43,252,878.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Cash from investing activities for year ended December 31, 2016 was \$(167,871) compared to \$(2,374,021) for the year ended December 31, 2015. Cash from investing activities consists primarily of oil and gas investment properties acquired during the year ended December 31, 2016 combined with proceeds from sale of leases.

Cash from financing activities for the year ended December 31, 2016 was \$5,736,859 as compared to \$5,629,335 for the year ended December 31, 2015. Cash from financing activities in 2016 consists primarily of proceeds from common and preferred stock issues and warrant exercises. We expect to continue to have cash provided by financing activities as we seek new rounds of financing and continue to develop our oil and gas investments.

Our current assets are insufficient to meet our current obligations or to satisfy our cash needs over the next twelve months and as such we will require additional debt or equity financing to meet our plans and needs. We face obstacles in continuing to attract new financing due to our history and current record of net losses and working capital deficits. Despite our efforts, we can provide no assurance that we will be able to obtain the financing required to meet our stated objectives or even to continue as a going concern.

We do not expect to pay cash dividends on our common stock in the foreseeable future.

Critical Accounting Policies and Estimates

Oil and gas properties – The Company uses the full cost method of accounting for exploration and development activities as defined by the Securities and Exchange Commission (“SEC”). Under this method of accounting, the costs of unsuccessful, as well as successful, exploration and development activities are capitalized as properties and equipment. This includes any internal costs that are directly related to property acquisition, exploration and development activities but does not include any costs related to production, general corporate overhead or similar activities. Gain or loss on the sale or other disposition of oil and gas properties is not recognized, unless the gain or loss would significantly alter the relationship between capitalized costs and proved reserves.

Oil and gas properties include costs that are excluded from costs being depleted or amortized. Oil and natural gas property costs excluded represent investments in unevaluated properties and include non-producing leasehold, geological, and geophysical costs associated with leasehold or drilling interests and exploration drilling costs. The Company allocates a portion of its acquisition costs to unevaluated properties based on relative value. Costs are transferred to the full cost pool as the properties are evaluated over the life of the reservoir. Unevaluated properties are reviewed for impairment at least quarterly and are determined through an evaluation considering, among other factors, seismic data, requirements to relinquish acreage, drilling results, remaining time in the commitment period, remaining capital plan, and political, economic, and market conditions.

Gains and losses on the sale of oil and gas properties are not generally reflected in income unless the gain or loss would significantly alter the relationship between capitalized costs and proved reserves. Sales of less than 100% of the Company’s interest in the oil and gas property are treated as a reduction of the capital cost of the field, with no gain or loss recognized, as long as doing so does not significantly affect the unit-of-production depletion rate. Costs of retired equipment, net of salvage value, are usually charged to accumulated depreciation.

Depreciation, depletion, and amortization – The depreciable base for oil and natural gas properties includes the sum of all capitalized costs net of accumulated depreciation, depletion, and amortization (“DD&A”), estimated future development costs and asset retirement costs not included in oil and natural gas properties, less costs excluded from amortization. The depreciable base of oil and natural gas properties is amortized on a unit-of-production method.

Ceiling test – Future production volumes from oil and gas properties are a significant factor in determining the full cost ceiling limitation of capitalized costs. Under the full cost method of accounting, the Company is required to periodically perform a “ceiling test” that determines a limit on the book value of oil and gas properties. If the net capitalized cost of proved oil and gas properties, net of related deferred income taxes, plus the cost of unproved oil and gas properties, exceeds the present value of estimated future net cash flows discounted at 10 percent, net of related tax affects, plus the cost of unproved oil and gas properties, the excess is charged to expense and reflected as additional accumulated DD&A. The ceiling test calculation uses a commodity price assumption which is based on the unweighted arithmetic average of the price on the first day of each month for each month within the prior 12 month period and excludes future cash outflows related to estimated abandonment costs.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

The determination of oil and gas reserves is a subjective process, and the accuracy of any reserve estimate depends on the quality of available data and the application of engineering and geological interpretation and judgment. Estimates of economically recoverable reserves and future net cash flows depend on a number of variable factors and assumptions that are difficult to predict and may vary considerably from actual results. In particular, reserve estimates for wells with limited or no production history are less reliable than those based on actual production. Subsequent re-evaluation of reserves and cost estimates related to future development of proved oil and gas reserves could result in significant revisions to proved reserves. Other issues, such as changes in regulatory requirements, technological advances, and other factors which are difficult to predict could also affect estimates of proved reserves in the future.

Asset retirement obligations –The fair value of a liability for an asset's retirement obligation ("ARO") is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made, with the corresponding charge capitalized as part of the carrying amount of the related long-lived asset. The liability is accreted to its then-present value each subsequent period, and the capitalized cost is depleted over the useful life of the related asset. Abandonment costs incurred are recorded as a reduction of the ARO liability.

Inherent in the fair value calculation of an ARO are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal, regulatory, environmental, and political environments. To the extent future revisions to these assumptions impact the fair value of the existing ARO liability, a corresponding adjustment is made to the oil and gas property balance. Settlements greater than or less than amounts accrued as ARO are recorded as a gain or loss upon settlement.

Share-based compensation – Compensation cost for equity awards is based on the fair value of the equity instrument on the date of grant and is recognized over the period during which an employee is required to provide service in exchange for the award. Compensation cost for liability awards is based on the fair value of the vested award at the end of each period.

The Company also issues equity awards to non-employees. The fair value of these option awards is estimated when the award recipient completes the contracted professional services. The Company recognizes expense for the estimated total value of the awards during the period from their issuance until performance completion, at which time the estimated expense is adjusted to the final value of the award as measured at performance completion.

The Company values warrant and option awards using the Black-Scholes option pricing model.

Commitments and Contingencies

Leases

The Company has a noncancelable lease for its office premises that expires on November 30, 2019 and which requires the payment of base lease amounts and executory costs such as taxes, maintenance and insurance. Rental expense for lease was \$81,595 and \$87,037 for the year ended December 31, 2016 and 2015, respectively.

Approximate future minimum rental commitments under the office premises lease are:

| For the Year Ending December 31, | Amount |
|---|-------------------|
| 2017 | \$ 79,658 |
| 2018 | \$ 81,248 |
| 2019 | \$ 75,814 |
| | <u>\$ 236,720</u> |

We are subject to contingencies as a result of environmental laws and regulations. Present and future environmental laws and regulations applicable to our operations could require substantial capital expenditures or could adversely affect our operations in other ways that cannot be predicted at this time. As of December 31, 2016 and 2015, no amounts have been recorded because no specific liability has been identified that is reasonably probable of requiring us to fund any future material amounts.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - *continued*

As of December 31, 2016, the Company had interests in three oil and gas projects: Hunton wells in partnership with Husky Ventures in Central Oklahoma, the Orogrande Project in Hudspeth County, Texas, and the Hazel Project in Sterling, Tom Green, and Irion Counties, Texas.

See the description under "Current Projects" above under "Item 1. Business" for more information and disclosure regarding commitments and contingencies relating to these projects.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Torchlight Energy Resources, Inc.
Plano, Texas

We have audited the accompanying consolidated balance sheet of Torchlight Energy Resources, Inc. (the "Company") as of December 31, 2016, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the entity will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has incurred recurring losses from operations and has a net working capital deficiency which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Briggs & Veselka Co.

Houston, Texas
March 31, 2017

Board of Directors and Stockholders
Torchlight Energy Resources, Inc.
Plano, Texas

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying consolidated balance sheet of Torchlight Energy Resources, Inc. (the "Company") as of December 31, 2015, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the entity's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2015, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The 2015 consolidated financial statements were prepared assuming that the entity would continue as a going concern. As discussed in Note 2 to the 2015 consolidated financial statements, the entity had suffered recurring losses from operations and has a net working capital deficiency which raised substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters were also described in Note 2 to the 2015 consolidated financial statements. The consolidated financial statements did not include any adjustments that might result from the outcome of this uncertainty.

/s/ Calvetti Ferguson

Houston, Texas
March 30, 2016

TORCHLIGHT ENERGY RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS

| | December 31, 2016 | December 31, 2015 |
|---|----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 1,769,499 | \$ 1,026,600 |
| Accounts receivable | 603,446 | 741,653 |
| Production revenue receivable | 7,325 | 199,317 |
| Note receivable | - | 613 |
| Prepayments - development costs | 583,347 | - |
| Prepaid expenses | 26,829 | 38,776 |
| Total current assets | <u>2,990,446</u> | <u>2,006,959</u> |
| Oil and gas properties, net | 9,392,288 | 7,057,671 |
| Office equipment, net | 29,848 | 43,110 |
| Other assets | <u>21,066</u> | <u>80,306</u> |
| TOTAL ASSETS | <u>\$ 12,433,648</u> | <u>\$ 9,188,046</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 422,684 | \$ 1,153,185 |
| Funds received pending settlement | 520,400 | - |
| Accrued payroll | 565,176 | 590,100 |
| Related party payables | 237,044 | 130,000 |
| Convertible promissory notes, (Series B) net of discount of \$91,379 at December 31, 2016 | 3,478,121 | - |
| Notes payable within one year - related party | - | 205,000 |
| Notes payable within one year | - | 129,741 |
| Due to working interest owners | 54,320 | 103,364 |
| Interest payable | 6,049 | 173,710 |
| Total current liabilities | <u>5,283,794</u> | <u>2,485,100</u> |
| Convertible promissory notes, (Series B) net of discount of \$277,911 at December 31, 2015 | - | 3,291,589 |
| Asset retirement obligation | 7,051 | 29,083 |
| Total liabilities | <u>5,290,845</u> | <u>5,805,772</u> |
| Commitments and contingencies | - | - |
| Stockholders' equity: | | |
| Preferred stock, par value \$.001, 10,000,000 shares authorized; -0- issued and outstanding at December 31, 2016 | - | 134 |
| 134,000 issued and outstanding at December 31, 2015 | 55,100 | 33,168 |
| Common stock, par value \$0.001 per share; 100,000,000 shares authorized; 55,096,503 issued and outstanding at December 31, 2016 | 89,675,488 | 78,252,411 |
| 33,166,344 issued and outstanding at December 31, 2015 | (82,587,785) | (74,903,439) |
| Additional paid-in capital | 89,675,488 | 78,252,411 |
| Accumulated deficit | (82,587,785) | (74,903,439) |
| Total stockholders' equity | <u>7,142,803</u> | <u>3,382,274</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$ 12,433,648</u> | <u>\$ 9,188,046</u> |

The accompanying notes are an integral part of these consolidated financial statements.

TORCHLIGHT ENERGY RESOURCES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

| | Year Ended December 31, 2016 | Year Ended December 31, 2015 |
|--|---------------------------------------|---------------------------------------|
| Revenue | | |
| Oil and gas sales | \$ 354,390 | \$ 1,628,034 |
| SWD and royalties | - | 6,274 |
| Cost of revenue | <u>(328,438)</u> | <u>(814,078)</u> |
| Gross profit | 25,952 | 820,230 |
| Operating expenses: | | |
| General and administrative expense | 6,447,706 | 15,550,145 |
| Depreciation, depletion and amortization | 636,426 | 930,934 |
| Impairment expense | 70,080 | 25,674,123 |
| Loss on sale | 283,285 | 24,479 |
| Total operating expenses | <u>7,437,497</u> | <u>42,179,681</u> |
| Other (income) expense | | |
| Interest income | (36) | - |
| Interest and accretion expense | 272,837 | 1,893,427 |
| Total other (income) expense | <u>272,801</u> | <u>1,893,427</u> |
| Net loss before taxes | (7,684,346) | (43,252,878) |
| Provision for income taxes | <u>-</u> | <u>-</u> |
| Net loss | <u>\$ (7,684,346)</u> | <u>\$ (43,252,878)</u> |
| Loss per share: | | |
| Basic and Diluted | <u>\$ (0.19)</u> | <u>\$ (1.58)</u> |
| Weighted average shares outstanding: | | |
| Basic and Diluted | <u>43,122,514</u> | <u>27,897,794</u> |

The accompanying notes are an integral part of these consolidated financial statements.

TORCHLIGHT ENERGY RESOURCES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| | Common stock shares | Common stock amount | Preferred stock shares | Pref. Stock Amt. | Additional paid-in capital | Accumulated deficit | Total |
|--|---------------------------|---------------------------|------------------------------|------------------------|----------------------------------|------------------------|--------------------|
| Balance, December 31, 2014 | 23,235,441 | \$ 23,237 | - | \$ - | \$0,745,072 | \$31,650,561 | \$9,117,745 |
| Issuance of common stock for cash | 4,931,250 | 4,931 | - | - | 1,295,069 | - | 1,300,000 |
| Issuance of preferred stock for cash | - | - | 135,000 | \$ 135 | 13,499,865 | - | 13,500,000 |
| Issuance of common stock for services | 2,447,696 | 2,448 | - | - | 2,649,056 | - | 2,651,504 |
| Issuance of common stock - mineral interests | 30,000 | 30 | - | - | 26,370 | - | 26,400 |
| Issuance of common stock in warrant exercise | 65,000 | 65 | - | - | 113,685 | - | 113,750 |
| Issuance of common stock for note interest | 162,860 | 163 | - | - | 162,697 | - | 162,860 |
| Issuance of common stock for preferred dividends | 577,140 | 577 | - | - | (577) | - | - |
| Preferred dividends paid in cash | - | - | - | - | (120,427) | - | (120,427) |
| Warrants issued with promissory notes | - | - | - | - | 467,800 | - | 467,800 |
| Common stock issued in conversion of notes | 1,600,000 | 1,600 | - | - | 1,148,400 | - | 1,150,000 |
| Common stock issued in part payment of bonuses | 30,000 | 30 | - | - | 39,870 | - | 39,900 |
| Common stock issued in conversion of preferred stock | 86,957 | 87 | - | - | 99,913 | - | 100,000 |
| Preferred stock cancelled in conversion | - | - | (1,000) | \$ (1) | (99,999) | - | (100,000) |
| Warrants issued for services | - | - | - | - | 8,225,619 | - | 8,225,619 |
| Net loss | - | - | - | - | - | (43,252,878) | (43,252,878) |
| Balance, December 31, 2015 | <u>33,166,344</u> | <u>\$ 33,168</u> | <u>134,000</u> | <u>\$ 134</u> | <u>\$7,252,411</u> | <u>\$74,903,439</u> | <u>\$3,382,274</u> |
| Issuance of common stock for cash | 3,750,000 | 3,750 | - | - | 2,996,250 | - | 3,000,000 |
| Issuance of preferred stock for cash | - | - | - | 10 | 999,990 | - | 1,000,000 |
| Issuance of common stock for services | 768,832 | 769 | - | - | 669,305 | - | 670,074 |
| Issuance of common stock - mineral interests | 2,824,881 | 2,825 | - | - | 1,972,221 | - | 1,975,046 |
| Issuance of common stock in warrant exercise | 3,888,745 | 3,891 | - | - | 2,539,855 | - | 2,543,746 |
| Issuance of common stock for preferred dividends | 440,262 | 440 | - | - | (440) | - | - |
| Preferred dividends paid in cash | - | - | - | - | (320,724) | - | (320,724) |
| Warrants issued with lease interests | - | - | - | - | 1,290,761 | - | 1,290,761 |
| Warrants and Options issued for services | - | - | - | - | 2,205,231 | - | 2,205,231 |
| Lease interest conveyed in conversion of preferred stock | - | - | - | (10) | (999,990) | - | (1,000,000) |
| Common stock issued in conversion of preferred stock | 10,257,439 | 10,257 | (134,000) | (134) | (10,132) | - | (9) |
| Warrants issued in connection with promissory note | - | - | - | - | 80,750 | - | 80,750 |
| Net loss | - | - | - | - | - | (7,684,346) | (7,684,346) |
| Balance, December 31, 2016 | <u>55,096,503</u> | <u>\$ 55,100</u> | <u>-</u> | <u>\$ -</u> | <u>\$9,675,488</u> | <u>\$82,587,785</u> | <u>\$7,142,803</u> |

The accompanying notes are an integral part of these consolidated financial statements.

TORCHLIGHT ENERGY RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOW

| | Year Ended December 31, 2016 | Year Ended December 31, 2015 |
|---|---------------------------------------|---------------------------------------|
| Cash Flows From Operating Activities | | |
| Net loss | \$ (7,684,346) | \$ (43,252,878) |
| Adjustments to reconcile net loss to net cash from operations: | | |
| Stock based compensation | 2,956,044 | 11,265,926 |
| Accretion of convertible note discounts | 186,532 | 1,395,103 |
| Loss on sale of assets | 283,285 | 24,479 |
| Impairment expense | 70,080 | 25,674,123 |
| Depreciation, depletion and amortization | 636,426 | 930,934 |
| Change in: | | |
| Accounts receivable | 138,207 | (187,305) |
| Note receivable | 613 | 515,135 |
| Production revenue receivable | 191,992 | 11,118 |
| Prepayment of development costs | (1,583,347) | (290,398) |
| Prepaid expenses | 11,946 | (9,142) |
| Other assets | 59,240 | (8,860) |
| Accounts payable and accrued liabilities | (396,456) | 1,024,098 |
| Due to working interest owners | (49,044) | 29,925 |
| Funds received pending settlement | 520,400 | - |
| Interest payable | (167,661) | 469,241 |
| Net cash from operating activities | (4,826,089) | (2,408,501) |
| Cash Flows From Investing Activities | | |
| Investment in oil and gas properties | (2,293,497) | (5,224,748) |
| Acquisition of office equipment | (1,863) | (1,191) |
| Proceeds from sale of oil and gas properties | 2,127,489 | 2,851,918 |
| Net cash from investing activities | (167,871) | (2,374,021) |
| Cash Flows From Financing Activities | | |
| Proceeds from short term advance | 150,000 | - |
| Repayment of short term advance | (150,000) | - |
| Proceeds from sale of common stock | 3,000,000 | 1,300,000 |
| Proceeds from sale of preferred stock | 1,000,000 | 13,500,000 |
| Preferred dividends paid in cash | (320,724) | (120,427) |
| Proceeds from warrant exercise | 1,999,310 | 113,750 |
| Proceeds from promissory notes | 708,014 | 539,916 |
| Repayment of convertible notes | - | (8,859,011) |
| Repayment of promissory notes | (649,741) | (844,893) |
| Net cash from financing activities | 5,736,859 | 5,629,335 |
| Net change in cash | 742,899 | 846,813 |
| Cash - beginning of period | 1,026,600 | 179,787 |
| Cash - end of period | \$ 1,769,499 | \$ 1,026,600 |
| Supplemental disclosure of cash flow information: (Non Cash Items) | | |
| Common stock issued for mineral interests | \$ 1,975,046 | \$ 26,400 |
| Common stock issued in conversion of promissory notes | \$ - | \$ 1,150,000 |
| Common stock issued for unpaid compensation | \$ - | \$ 39,900 |
| Warrants issued for mineral interests | \$ 1,290,761 | \$ - |
| Cash paid for interest | \$ 603,157 | \$ 919,272 |

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF BUSINESS

Torchlight Energy Resources, Inc. (“Company”) was incorporated in October 2007 under the laws of the State of Nevada as Pole Perfect Studios, Inc. (“PPS”). From its incorporation to November 2010, the company was primarily engaged in business start-up activities.

On November 23, 2010, we entered into and closed a Share Exchange Agreement (the “Exchange Agreement”) between the major shareholders of PPS and the shareholders of Torchlight Energy, Inc. (“TEI”). As a result of the transactions effected by the Exchange Agreement, at closing TEI became our wholly-owned subsidiary, and the business of TEI became our sole business. TEI was incorporated under the laws of the State of Nevada in June 2010. We are engaged in the acquisition, exploitation and/or development of oil and natural gas properties in the United States. We operate our business through our subsidiaries Torchlight Energy Inc., Torchlight Energy Operating, LLC, and Hudspeth Oil Corporation.

2. GOING CONCERN

At December 31, 2016, the Company had not yet achieved profitable operations. We had a net loss of \$7,684,346 million for the year ended December 31, 2016 and had accumulated losses of \$82,587,785 since our inception. We expect to incur further losses in the development of our business. The Company had a working capital deficit as of December 31, 2016 of \$(2,293,348). Negative working capital is exacerbated by the inclusion in current liabilities of the \$3,478,121 outstanding balance of subordinated convertible notes which have a maturity date of June 30, 2017. These conditions raise substantial doubt about the Company’s ability to continue as a going concern.

The Company’s ability to continue as a going concern is dependent on its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management’s plan to address the Company’s ability to continue as a going concern includes: (1) obtaining debt or equity funding from private placement or institutional sources; (2) obtain loans from financial institutions, where possible, or (3) participating in joint venture transactions with third parties. Although management believes that it will be able to obtain the necessary funding to allow the Company to remain a going concern through the methods discussed above, there can be no assurances that such methods will prove successful.

These consolidated financial statements have been prepared assuming that the Company will continue as a going concern and therefore, the financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amount and classifications of liabilities that may result from the outcome of this uncertainty.

3. SIGNIFICANT ACCOUNTING POLICIES

The Company maintains its accounts on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America. Accounting principles followed and the methods of applying those principles, which materially affect the determination of financial position, results of operations and cash flows are summarized below:

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and certain assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

Basis of presentation—The financial statements are presented on a consolidated basis and include all of the accounts of Torchlight Energy Resources Inc. and its wholly owned subsidiaries, Torchlight Energy, Inc., Torchlight Energy Operating, LLC, and Hudspeth Oil Corporation. All significant intercompany balances and transactions have been eliminated.

Risks and uncertainties – The Company’s operations are subject to significant risks and uncertainties, including financial, operational, technological, and other risks associated with operating an emerging business, including the potential risk of business failure.

Concentration of risks – At times the Company’s cash balances are in excess of amounts guaranteed by the Federal Deposit Insurance Corporation. The Company’s cash is placed with a highly rated financial institution, and the Company regularly monitors the credit worthiness of the financial institutions with which it does business.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Fair value of financial instruments – Financial instruments consist of cash, accounts receivable, accounts payable, notes payable to related party, and convertible promissory notes. The estimated fair values of cash, accounts receivable, accounts payable, and related party payables approximate the carrying amount due to the relatively short maturity of these instruments. The carrying amounts of the convertible promissory notes approximated their fair value giving affect for the term of the note and the effective interest rates.

For assets and liabilities that require re-measurement to fair value the Company categorizes them in a three-level fair value hierarchy as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration.
- Level 3 inputs are unobservable inputs based on management’s own assumptions used to measure assets and liabilities at fair value.

A financial asset or liability’s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Accounts receivable – Accounts receivable consist of uncollateralized oil and natural gas revenues due under normal trade terms, as well as amounts due from working interest owners of oil and gas properties for their share of expenses paid on their behalf by the Company. Management reviews receivables periodically and reduces the carrying amount by a valuation allowance that reflects management’s best estimate of the amount that may not be collectible. As of December 31, 2016 and 2015, no valuation allowance was considered necessary.

Oil and gas properties – The Company uses the full cost method of accounting for exploration and development activities as defined by the Securities and Exchange Commission (“SEC”). Under this method of accounting, the costs of unsuccessful, as well as successful, exploration and development activities are capitalized as properties and equipment. This includes any internal costs that are directly related to property acquisition, exploration and development activities but does not include any costs related to production, general corporate overhead or similar activities. Gain or loss on the sale or other disposition of oil and gas properties is not recognized, unless the gain or loss would significantly alter the relationship between capitalized costs and proved reserves.

Oil and gas properties include costs that are excluded from costs being depleted or amortized. Oil and natural gas property costs excluded represent investments in unevaluated properties and include non-producing leasehold, geological, and geophysical costs associated with leasehold or drilling interests and exploration drilling costs. The Company allocates a portion of its acquisition costs to unevaluated properties based on relative value. Costs are transferred to the full cost pool as the properties are evaluated over the life of the reservoir. Unevaluated properties are reviewed for impairment at least quarterly and are determined through an evaluation considering, among other factors, seismic data, requirements to relinquish acreage, drilling results, remaining time in the commitment period, remaining capital plan, and political, economic, and market conditions.

Gains and losses on the sale of oil and gas properties are not generally reflected in income unless the gain or loss would significantly alter the relationship between capitalized costs and proved reserves. Sales of less than 100% of the Company’s interest in the oil and gas property are treated as a reduction of the capital cost of the field, with no gain or loss recognized, as long as doing so does not significantly affect the unit-of-production depletion rate. Costs of retired equipment, net of salvage value, are usually charged to accumulated depreciation.

Capitalized interest – The Company capitalizes interest on unevaluated properties during the periods in which they are excluded from costs being depleted or amortized. During years ended December 31, 2016 and 2015, the Company capitalized \$215,938 and \$705,561, respectively, of interest on unevaluated properties net of adjustments with respect to divestiture of properties.

Depreciation, depletion, and amortization – The depreciable base for oil and natural gas properties includes the sum of all capitalized costs net of accumulated depreciation, depletion, and amortization (“DD&A”), estimated future development costs and asset retirement costs not included in oil and natural gas properties, less costs excluded from amortization. The depreciable base of oil and natural gas properties is amortized on a unit-of-production method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

Ceiling test – Future production volumes from oil and gas properties are a significant factor in determining the full cost ceiling limitation of capitalized costs. Under the full cost method of accounting, the Company is required to periodically perform a “ceiling test” that determines a limit on the book value of oil and gas properties. If the net capitalized cost of proved oil and gas properties, net of related deferred income taxes, plus the cost of unproved oil and gas properties, exceeds the present value of estimated future net cash flows discounted at 10 percent, net of related tax affects, plus the cost of unproved oil and gas properties, the excess is charged to expense and reflected as additional accumulated DD&A. The ceiling test calculation uses a commodity price assumption which is based on the unweighted arithmetic average of the price on the first day of each month for each month within the prior 12 month period and excludes future cash outflows related to estimated abandonment costs.

The determination of oil and gas reserves is a subjective process, and the accuracy of any reserve estimate depends on the quality of available data and the application of engineering and geological interpretation and judgment. Estimates of economically recoverable reserves and future net cash flows depend on a number of variable factors and assumptions that are difficult to predict and may vary considerably from actual results. In particular, reserve estimates for wells with limited or no production history are less reliable than those based on actual production. Subsequent re-evaluation of reserves and cost estimates related to future development of proved oil and gas reserves could result in significant revisions to proved reserves. Other issues, such as changes in regulatory requirements, technological advances, and other factors which are difficult to predict could also affect estimates of proved reserves in the future.

Asset retirement obligations –The fair value of a liability for an asset’s retirement obligation (“ARO”) is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made, with the corresponding charge capitalized as part of the carrying amount of the related long-lived asset. The liability is accreted to its then-present value each subsequent period, and the capitalized cost is depleted over the useful life of the related asset. Abandonment costs incurred are recorded as a reduction of the ARO liability.

Inherent in the fair value calculation of an ARO are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal, regulatory, environmental, and political environments. To the extent future revisions to these assumptions impact the fair value of the existing ARO liability, a corresponding adjustment is made to the oil and gas property balance. Settlements greater than or less than amounts accrued as ARO are recorded as a gain or loss upon settlement.

Income taxes - Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years 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 income in the period that includes the enactment date. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that the related tax benefits will not be realized.

Authoritative guidance for uncertainty in income taxes requires that the Company recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an examination. Management has reviewed the Company’s tax positions and determined there were no uncertain tax positions requiring recognition in the consolidated financial statements. The Company’s tax returns remain subject to Federal and State tax examinations for all tax years since inception as none of the statutes have expired. Generally, the applicable statutes of limitation are three to four years from their respective filings.

Estimated interest and penalties related to potential underpayment on any unrecognized tax benefits are classified as a component of tax expense in the statement of operation. The Company has not recorded any interest or penalties associated with unrecognized tax benefits for any periods covered by these financial statements.

Share-based compensation – Compensation cost for equity awards is based on the fair value of the equity instrument on the date of grant and is recognized over the period during which an employee is required to provide service in exchange for the award. Compensation cost for liability awards is based on the fair value of the vested award at the end of each period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES - *continued*

The Company also issues equity awards to non-employees. The fair value of these option awards is estimated when the award recipient completes the contracted professional services. The Company recognizes expense for the estimated total value of the awards during the period from their issuance until performance completion, at which time the estimated expense is adjusted to the final value of the award as measured at performance completion.

The Company values warrant and option awards using the Black-Scholes option pricing model.

Revenue recognition – The Company recognizes oil and gas revenues when production is sold at a fixed or determinable price, persuasive evidence of an arrangement exists, delivery has occurred and title has transferred, and collectability is reasonably assured.

Basic and diluted earnings (loss) per share – Basic earnings (loss) per common share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per common share is computed in the same way as basic earnings (loss) per common share except that the denominator is increased to include the number of additional common shares that would be outstanding if all potential common shares had been issued and if the additional common shares were dilutive. The calculation of diluted earnings per share excludes 23,131,694 shares issuable upon the exercise of outstanding warrants and options. The loss available to common shareholders was determined by subtracting preferred dividends totaling \$585,844 for 2016 and \$930,169 for 2015 from each year's respective net loss.

Environmental laws and regulations – The Company is subject to extensive federal, state, and local environmental laws and regulations. Environmental expenditures are expensed or capitalized depending on their future economic benefit. The Company believes that it is in compliance with existing laws and regulations.

Recent accounting pronouncements – On August 27, 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of the Company's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The ASU applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. The Company has adopted ASU 2014-15 and the adoption did not have a significant impact on the Company's consolidated financial statements or related disclosures.

In May 2014, the FASB issued ASU 2014-09, *Revenue From Contracts With Customers*, that introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently evaluating the new guidance to determine the impact it will have on its consolidated financial statements.

In February 2016, the FASB issued ASU, 2016-02, *Leases*. The ASU requires companies to recognize on the balance sheet the assets and liabilities for the rights and obligations created by leased assets. ASU 2016-02 will be effective for the Company in the first quarter of 2019, with early adoption permitted. The Company is currently evaluating the impact that the adoption of ASU 2016-02 will have on the Company's consolidated financial statements and related disclosures.

Other recently issued or adopted accounting pronouncements are not expected to have, or did not have, a material impact on the Company's financial position or results from operations.

Subsequent events – The Company evaluated subsequent events through March 30, 2017, the date of issuance of the financial statements. Subsequent events are disclosed in Note 11.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. OIL & GAS PROPERTIES

The following table presents the capitalized costs for oil & gas properties of the Company as of December 31, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| Evaluated costs subject to amortization | \$ 1,470,939 | \$ 24,177,851 |
| Unevaluated costs | 13,376,742 | 9,677,425 |
| Total capitalized costs | 14,847,681 | 33,855,276 |
| Less accumulated depreciation, depletion and amortization | <u>(5,455,393)</u> | <u>(26,797,605)</u> |
| Total oil and gas properties | <u>\$ 9,392,288</u> | <u>\$ 7,057,671</u> |

The Company recognized impairment expense of \$25,674,123 on its oil and gas properties during 2015. An additional impairment of \$70,080 was expensed in 2016. Due to the volatility of commodity prices, should oil and natural gas prices decline in the future, it is possible that a write-down could occur. Proved reserves are estimated quantities of crude oil, natural gas, and natural gas liquids, which geological and engineering data demonstrate with reasonable certainty to be recoverable from known reservoirs under existing economic and operating conditions. The independent engineering estimates include only those amounts considered to be proved reserves and do not include additional amounts which may result from new discoveries in the future, or from application of secondary and tertiary recovery processes where facilities are not in place or for which transportation and/or marketing contracts are not in place. Estimated reserves to be developed through secondary or tertiary recovery processes are classified as unevaluated properties.

During 2016 the Company sold its Cimarron and Marcelina properties. Those sales of the Cimarron and the Marcelina properties in 2016 represented substantial percentages of reserves at the time of each sale and are also presented on the Statement of Operations for 2016. Proceeds from the sale of Cimarron and Marcelina properties were \$750,000 and \$877,489 respectively. The combined loss on sale for 2016 was \$283,285.

5. RELATED PARTY PAYABLES

As of December 31, 2016, related party payables consisted of accrued and unpaid compensation to one of our executive officers totaling \$45,000 and \$192,044 in Director Fees payable to our Directors.

6. COMMITMENTS AND CONTINGENCIES

Leases

The Company has a noncancelable lease for its office premises that expires on November 30, 2019 and which requires the payment of base lease amounts and executory costs such as taxes, maintenance and insurance. Rental expense for lease was \$81,595 and \$87,037 for the year ended December 31, 2016 and 2015, respectively.

Approximate future minimum rental commitments under the office premises lease are:

| For the Year Ending December 31, | Amount |
|---|-------------------|
| 2017 | \$ 79,658 |
| 2018 | \$ 81,248 |
| 2019 | \$ 75,814 |
| | <u>\$ 236,720</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. COMMITMENTS AND CONTINGENCIES - *continued*

Environmental matters

The Company is subject to contingencies as a result of environmental laws and regulations. Present and future environmental laws and regulations applicable to the Company's operations could require substantial capital expenditures or could adversely affect its operations in other ways that cannot be predicted at this time. As of December 31, 2016 and 2015, no amounts had been recorded because no specific liability has been identified that is reasonably probable of requiring the Company to fund any future material amounts.

Litigation

With respect to Oil and Gas properties previously owned by the Company in Central Oklahoma, Torchlight Energy Resources, Inc. and its subsidiary Torchlight Energy, Inc. ("Torchlight") has pending in the 429th judicial district court in Collin County, Texas a lawsuit against Husky Ventures, Inc., Charles V. Long, Silverstar of Nevada, Inc., Gastar Exploration Inc., J. Russell Porter, Michael A. Gerlich, and Jerry R. Schuyler that was originally filed in May 2016 (previous defendants April Glidewell, Maximus Exploration, LLC, Atwood Acquisitions, LLC and John M. Selsler, Sr have been non-suited without prejudice to re-filing the claims). In the lawsuit, Torchlight alleges, among other things, that the defendants acted improperly in connection with multiple transactions, and that the defendants misrepresented and omitted material information to Torchlight with respect to these transactions. The lawsuit seeks damages arising from 15 different causes of action, including without limitation, violations of the Texas Securities Act, fraud, negligent misrepresentation, breach of fiduciary duty, breach of contract, unjust enrichment and tortious interference. The lawsuit also seeks a complete accounting as to how Torchlight's investment funds were used, including all transfers between and among the defendants. Torchlight is seeking the full amount of our damages on \$20,000,000 invested.

Defendant Gastar has asserted a breach of contract counterclaim against Torchlight related to a release contained in one of the agreements between Torchlight and Husky in which Gastar claims to be a third-party beneficiary. Torchlight is claiming that this agreement should be rescinded, and in any event, that the release is unenforceable.

As of December 31, 2015, the Company had a \$419,839 account receivable from Husky Ventures for the estimated balance of the sale proceeds from the sale of the Chisholm Trail properties in fourth quarter, 2015. The Chisholm Trail properties were sold to Husky Ventures who then included them with the Husky interests in Chisholm Trail and then entered into a sale agreement with Gastar Exploration Inc. for the combined Torchlight and Husky interests. Receipt of the balance of the sale proceeds was subject to final determination of mineral lease classification and was to occur by February 28, 2016.

On June 14, 2016, after the lawsuit was filed regarding the Hunton Play, the Company received and subsequently deposited a check from Husky Ventures in the amount of \$520,400. Husky Ventures designated that the check was in full satisfaction of its obligations under the transaction in which the Company sold the Chisholm Trail properties as described above. The Company does not believe the check is in full satisfaction of Husky Ventures's obligations, including but not limited to that Husky Ventures has provided insufficient information for the Company regarding this transaction.

7. STOCKHOLDERS' EQUITY

Common Stock

During the years ended December 31, 2016 and 2015, the Company issued 3,750,000 and 4,931,250 shares of common stock, respectively, for cash of \$3,000,000 and \$1,300,000.

During the years ended December 31, 2016 and 2015, the Company issued 768,832 and 2,477,696 shares of common stock with total values of \$670,074 and \$2,651,504, respectively, as compensation for services.

During the year ended December 31, 2016 and 2015 the Company issued 10,257,439 and 86,957 shares of common stock, respectively, in conversions of preferred stock valued at \$13,399,992 and \$100,000.

During the year ended December 31, 2015 the Company issued 1,600,000 shares of common stock, in conversions of notes payable valued \$1,150,000 and 162,860 shares of common stock, respectively, for interest on notes payable of \$162,860.

During the year ended December 31, 2016 and 2015 the Company issued 3,888,745 and 65,000 shares of common stock, respectively, resulting from warrant exercises for consideration totaling \$2,543,746 and \$113,750.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. STOCKHOLDERS' EQUITY - *continued*

Preferred Stock

During the year ended December 31, 2016 the Company issued 10,000 shares of Series C preferred stock for \$1,000,000 in cash. The proceeds were deposited as a prepayment with the operator for development cost of the Flying B #2 well in the Hazel Project. The preferred holders exercised their option in fourth quarter of 2016 to convert their preferred shares into an aggregate 33.33% working interest in the Flying "B" #2 whereupon they received credit for the prepayment to their working interest joint interest billing accounts.

During the year ended December 31, 2015, the Company issued 135,000 shares of preferred stock for cash of \$13,500,000.

During the year ended December 31, 2016 and 2015, the Company paid dividends on preferred stock in cash, respectively, of \$320,724 and \$120,427. In addition during the years 2016 and 2015, 440,262 and 577,140 shares of common stock, respectively, were issued for dividends on preferred stock.

Warrants and Options

During the years ended December 31, 2016 and 2015, the Company issued/vested 6,437,267 and 7,015,779 warrants and options with total values of \$2,205,231 and \$7,797,619, respectively, as compensation for services.

During the year ended December 31, 2016, and 2015, the Company issued 137,500 and 770,000 warrants, respectively, in connection with financing transactions, with total values of \$80,750 and \$368,300.

During the year ended December 31, 2015 the Company issued 2,615,676 warrants in connection with the issuance of preferred stock.

During the year ended December 31, 2016 and 2015, the Company issued 3,412,525 and 750,000 warrants and 2,824,881 and 30,000 shares of common stock, respectively, in connection with the acquisition of lease interests, respectively, with total value of \$3,265,807 and \$553,900.

A summary of warrants outstanding as of December 31, 2016 by exercise price and year of expiration is presented below:

| Exercise Price | Expiration Date in | | | | | Total |
|----------------|--------------------|------------------|------------------|------------------|------------------|-------------------|
| | 2017 | 2018 | 2019 | 2020 | 2021 | |
| \$0.50 | - | 528,099 | - | - | - | 528,099 |
| \$0.70 | - | - | - | 1,700,000 | - | 1,700,000 |
| \$0.77 | - | - | 100,000 | - | - | 100,000 |
| \$1.00 | 150,000 | - | 54,366 | - | 1,500,000 | 1,704,366 |
| \$1.03 | - | - | - | - | 120,000 | 120,000 |
| \$1.08 | - | - | 37,500 | - | - | 37,500 |
| \$1.40 | - | - | - | 1,643,475 | - | 1,643,475 |
| \$1.73 | - | 100,000 | - | - | - | 100,000 |
| \$1.80 | - | - | - | 500,000 | - | 500,000 |
| \$2.00 | 126,000 | 1,906,249 | - | - | - | 2,032,249 |
| \$2.03 | - | 2,000,000 | - | - | - | 2,000,000 |
| \$2.09 | - | 2,800,000 | - | - | - | 2,800,000 |
| \$2.23 | - | - | - | 832,512 | - | 832,512 |
| \$2.29 | - | 120,000 | - | - | - | 120,000 |
| \$2.50 | - | - | 35,211 | - | - | 35,211 |
| \$2.82 | - | 38,174 | - | - | - | 38,174 |
| \$3.50 | - | - | 15,000 | - | - | 15,000 |
| \$4.50 | - | - | 700,000 | - | - | 700,000 |
| \$5.00 | 170,000 | - | - | - | - | 170,000 |
| \$5.05 | 40,000 | - | - | - | - | 40,000 |
| \$6.00 | - | 523,123 | 22,580 | - | - | 545,703 |
| \$7.00 | - | - | 700,000 | - | - | 700,000 |
| | <u>486,000</u> | <u>8,015,645</u> | <u>1,664,657</u> | <u>4,675,987</u> | <u>1,620,000</u> | <u>16,462,289</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. STOCKHOLDERS' EQUITY - *continued*

A summary of stock options outstanding as of December 31, 2016 by exercise price and year of expiration is presented below:

| Exercise Price | Expiration Date in | | | | | Total |
|----------------|--------------------|------|------|-----------|---------|-----------|
| | 2017 | 2018 | 2019 | 2020 | 2021 | |
| \$0.97 | - | - | - | - | 259,742 | 259,742 |
| \$1.57 | - | - | - | 5,997,163 | - | 5,997,163 |
| \$1.79 | - | - | - | 412,500 | - | 412,500 |
| | - | - | - | 6,409,663 | 259,742 | 6,669,405 |

At December 31, 2016 the Company had reserved 23,131,694 shares for future exercise of warrants and options.

Warrants and options issued were valued using the Black Scholes Option Pricing Model. The assumptions used in calculating the fair value of the warrants issued were as follows:

2016

| | |
|---------------------------------------|-------------------|
| Risk-free interest rate | 0.78%-1.22% |
| Expected volatility of common stock | 101% - 189% |
| Dividend yield | 0.00% |
| Discount due to lack of marketability | 20-30% |
| Expected life of warrant | 3 years - 5 years |

2015

| | |
|---------------------------------------|-------------------|
| Risk-free interest rate | 0.78% |
| Expected volatility of common stock | 191% - 253% |
| Dividend yield | 0.00% |
| Discount due to lack of marketability | 20-30% |
| Expected life of warrant | 3 years - 5 years |

8. INCOME TAXES

The Company recorded no income tax provision for 2016 or 2015 because of losses incurred. The Company has placed a full valuation allowance against net deferred tax assets because future realization of these assets is not assured.

The following is a reconciliation between the federal income tax benefit computed at the statutory federal income tax rate of 34% and actual income tax provision for the years ended December 31, 2016 and 2015:

| | Year ended December 31, 2016 | Year ended December 31, 2015 |
|--|------------------------------------|------------------------------------|
| Federal income tax benefit at statutory rate | \$ (2,869,293) | \$(14,705,979) |
| Permanent differences | 3,000 | 4,127 |
| Other | 4,096,947 | (587,126) |
| Change in valuation allowance | (1,230,654) | 15,288,978 |
| Provision for income taxes | \$ - | \$ - |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. INCOME TAXES - *continued*

The tax effects of temporary differences that gave rise to significant portions of deferred tax assets and liabilities at December 31, 2016 and December 31, 2015 are as follows:

| | December 31, 2016 | December 31, 2015 |
|--|----------------------|----------------------|
| Deferred tax assets: | | |
| Net operating loss carryforward | \$ 16,269,090 | \$ 11,443,389 |
| Accruals | 15,300 | 30,600 |
| Reserves | 7,156,559 | 5,883,263 |
| Deferred tax liabilities: | | |
| Intangible drilling and other costs for oil and gas properties | (74,340) | 7,240,011 |
| Net deferred tax assets and liabilities | 23,366,609 | 24,597,263 |
| Less valuation allowance | (23,366,609) | (24,597,263) |
| Total deferred tax assets and liabilities | <u>\$ -</u> | <u>\$ -</u> |

The Company has federal net operating loss carryforwards of \$47,850,266 and \$39,312,173 at December 31, 2016 and 2015, respectively. The federal net operating loss carryforwards will begin to expire in 2031. Realization of the deferred tax asset is dependent, in part, on generating sufficient taxable income prior to expiration of the loss carryforwards. The Company has placed a full valuation allowance against net deferred tax assets because future realization of these assets is not assured.

9. PROMISSORY NOTES

During 2014, the Company issued \$4,569,500 in principal value of 12% Series B Convertible Unsecured Promissory Notes. The 12% Notes are due and payable on June 30, 2017 and provide for conversion into common stock at a price of \$4.50 per share and included the issuance of one warrant for each \$22.50 of principal amount purchased. The Company issued a total of 203,085 of these five-year warrants to purchase common stock at an exercise price of \$6.00 per share. The value of the warrant shares was \$562,404 and the amount recorded for the beneficial conversion feature was \$195,466. These amounts were recorded as a discount on the 12% Notes.

During the quarter ended March 31, 2015, the Company amended a note with a holder of a \$1,000,000 Series B Convertible Unsecured Promissory Note to reset the conversion price to \$1.00.

During the fourth quarter of 2015, \$1 million in note principal was converted into common stock. The total outstanding balance of Series B Notes at December 31, 2016 was \$3,569,500.

10. ASSET RETIREMENT OBLIGATIONS

The following is a reconciliation of the asset retirement obligation liability through December 31, 2016:

| | |
|---|-----------------|
| Asset retirement obligation – December 31, 2014 | \$ 35,951 |
| Accretion expense | 3,492 |
| Removal of ARO for wells sold | (10,360) |
| Asset retirement obligation – December 31, 2015 | \$ 29,083 |
| Accretion expense | 41 |
| Removal of ARO for wells sold | (22,073) |
| Asset retirement obligation – December 31, 2016 | <u>\$ 7,051</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. SUBSEQUENT EVENTS

Acquisition of Additional Interest in the Hazel Project

On January 30, 2017, we and our wholly-owned subsidiary, Torchlight Acquisition Corporation, a Texas corporation (“TAC”), entered into and closed an Agreement and Plan of Reorganization and Plan of Merger with Line Drive Energy, LLC, a Texas limited liability company (“Line Drive”), under which agreements TAC merged with and into Line Drive and the separate existence of TAC ceased, with Line Drive being the surviving organization and becoming our wholly-owned subsidiary. Line Drive, which was wholly-owned by Gregory McCabe, our Chairman, owned certain assets and securities, including approximately 40.66% of 12,000 gross acres in the Hazel Project and 521,739 warrants to purchase our common stock (which warrants had been assigned by Mr. McCabe to Line Drive). Under the merger transaction, our shares of common stock of TAC converted into a membership interest of Line Drive, the membership interest in Line Drive held by Mr. McCabe immediately prior to the transaction ceased to exist, and we issued Mr. McCabe 3,301,739 restricted shares of common stock as consideration therefor. Immediately after closing, the 521,739 warrants held by Line Drive were cancelled, which warrants had an exercise price of \$1.40 per share and an expiration date of June 9, 2020. A Certificate of Merger for the merger transaction was filed with the Secretary of State of Texas on January 31, 2017.

Also on January 30, 2017, our wholly-owned subsidiary, Torchlight Energy, Inc., a Nevada corporation (“TEI”), entered into and closed a Purchase and Sale Agreement with Wolfbone Investments, LLC, a Texas limited liability company (“Wolfbone”) which is wholly-owned by Gregory McCabe. Under the agreement, TEI acquired certain of Wolfbone’s Hazel Project assets, including its interest in the Flying B Ranch #1 well and the 40 acre unit surrounding the well, for consideration of \$415,000, and additionally, Wolfbone caused to be cancelled a total of 2,780,000 warrants to purchase our common stock, including 1,500,000 warrants held by McCabe Petroleum Corporation, an entity owned by Mr. McCabe, and 1,280,000 warrants held by Green Hill Minerals, an entity owned by Mr. McCabe’s son, which warrant cancellations were effected through certain Warrant Cancellation Agreements. The 1,500,000 warrants held by McCabe Petroleum Corporation had an exercise price of \$1.00 per share and an expiration date of April 4, 2021. The warrants held by Green Hill Minerals included 100,000 warrants with an exercise price of \$1.73 and an expiration date of September 30, 2018 and 1,180,000 warrants with an exercise price of \$0.70 and an expiration date of February 15, 2020.

After the above transactions, our total ownership in the Hazel Project increased to a 74% working interest across all 12,000 gross acres.

TORCHLIGHT ENERGY RESOURCES, INC.
SUPPLEMENTAL INFORMATION ON OIL AND GAS EXPLORATION
AND PRODUCTION ACTIVITIES
(Unaudited)

The unaudited supplemental information on oil and gas exploration and production activities has been presented in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 932, *Extractive Activities—Oil and Gas* and the SEC’s final rule, *Modernization of Oil and Gas Reporting*.

Investment in oil and gas properties during the years ended December 31, 2016 and 2015 is detailed as follows:

| | 2016 | 2015 |
|----------------------------|---------------------|---------------------|
| Property acquisition costs | \$ 615,000 | \$ - |
| Development costs | 1,678,497 | 4,518,239 |
| Exploratory costs | - | - |
| Totals | \$ 2,293,497 | \$ 4,518,239 |

Property acquisition cost relates to the Company’s acquisition of the Hazel Project in West Texas. The development costs include reentry of the Johnson #4 well in the south Texas Marcelina area (sold in 2016) and development costs in the Orogrande and Hazel projects in west Texas. No development costs were incurred for Oklahoma properties in 2016.

Oil and Natural Gas Reserves

Reserve Estimates

SEC Case. The following tables sets forth, as of December 31, 2016, our estimated net proved oil and natural gas reserves, the estimated present value (discounted at an annual rate of 10%) of estimated future net revenues before future income taxes (PV-10) and after future income taxes (Standardized Measure) of our proved reserves and our estimated net probable oil and natural gas reserves, each prepared using standard geological and engineering methods generally accepted by the petroleum industry and in accordance with assumptions prescribed by the Securities and Exchange Commission (“SEC”). All of our reserves are located in the United States.

The PV-10 value is a widely used measure of value of oil and natural gas assets and represents a pre-tax present value of estimated cash flows discounted at ten percent. PV-10 is considered a non-GAAP financial measure as defined by the SEC. We believe that our PV-10 presentation is relevant and useful to our investors because it presents the estimated discounted future net cash flows attributable to our proved reserves before taking into account the related future income taxes, as such taxes may differ among various companies. We believe investors and creditors use PV-10 as a basis for comparison of the relative size and value of our proved reserves to the reserve estimates of other companies. PV-10 is not a measure of financial or operating performance under GAAP and neither it nor the Standardized Measure is intended to represent the current market value of our estimated oil and natural gas reserves. PV-10 should not be considered in isolation or as a substitute for the standardized measure of discounted future net cash flows as defined under GAAP.

The estimates of our proved reserves and the PV-10 set forth herein reflect estimated future gross revenue to be generated from the production of proved reserves, net of estimated production and future development costs, using prices and costs under existing economic conditions at December 31, 2016. For purposes of determining prices, we used the average of prices received for each month within the 12-month period ended December 31, 2016, adjusted for quality and location differences, which was \$42.75 per barrel of oil and \$2.33 per MCF of gas. This average historical price is not a prediction of future prices. The amounts shown do not give effect to non-property related expenses, such as corporate general administrative expenses and debt service, future income taxes or to depreciation, depletion and amortization.

| Category | December 31, 2016 Reserves | | | December 31, 2016 Future Net Revenue (M\$) | |
|--|-------------------------------|----------------|----------------|---|---------------------------------|
| | Oil (Bbls) | Gas (Mcf) | Total (BOE) | Total | Present Value Discounted at 10% |
| Proved Producing | 1,400 | 23,300 | 5,284 | \$ 31 | \$ 29 |
| Proved Nonproducing | 46,800 | 467,600 | 124,733 | \$ 776 | \$ 301 |
| Total Proved | 48,200 | 490,900 | 130,017 | \$ 807 | \$ 330 |
| Standardized Measure of Future Net Cash Flows Related to Proved Oil and Gas Properties | | | | | \$ 341 |
| Probable Undeveloped | - | - | - | \$ - | \$ - |

Reserve values as of December 31, 2016 are related to a single producing well in Oklahoma – the Judy well in the Prairie Grove AMI.

| Category | December 31, 2015 Reserves | | | December 31, 2015 Future Net Revenue (M\$) | |
|--|-------------------------------|---------------|---------------|---|---------------------------------|
| | Oil (Bbls) | Gas (Mcf) | Total (BOE) | Total | Present Value Discounted at 10% |
| Proved Producing | 14,210 | 34,400 | 19,943 | \$ 322 | \$ 280 |
| Proved Nonproducing | 40,170 | - | 40,170 | \$ 860 | \$ 763 |
| Total Proved | 54,380 | 34,400 | 60,113 | \$ 1,182 | \$ 1,043 |
| Standardized Measure of Future Net Cash Flows Related to Proved Oil and Gas Properties | | | | | \$ 5,935 |
| Probable Undeveloped | - | - | - | \$ - | \$ - |

BOE equivalents are determined by combining barrels of oil with MCF of gas divided by six.

Standardized Measure of Oil & Gas Quantities - Volume Rollforward
Years Ended December 31, 2016 and 2015

The following table sets forth the Company's net proved reserves, including changes, and proved developed reserves:

| | 2016 | | | 2015 | | |
|----------------------------------|---------------|----------------|----------------|---------------|---------------|---------------|
| | Oil (Bbls) | Gas (Mcf) | BOE | Oil (Bbls) | Gas (Mcf) | BOE |
| TOTAL PROVED RESERVES: | | | | | | |
| Beginning of period | 54,380 | 34,400 | 60,113 | 914,400 | 3,790,650 | 1,546,175 |
| Acquisition | - | - | - | - | - | - |
| Extensions and discoveries | - | - | - | - | - | - |
| Divestiture of reserves | (52,600) | - | (52,600) | (394,400) | (2,483,950) | (808,391) |
| Revisions of previous estimates | 54,908 | 493,013 | 137,078 | (437,639) | (1,159,071) | (630,818) |
| Production | (8,488) | (36,513) | (14,574) | (27,981) | (113,229) | (46,853) |
| End of period | <u>48,200</u> | <u>490,900</u> | <u>130,017</u> | <u>54,380</u> | <u>34,400</u> | <u>60,113</u> |
| PROVED DEVELOPED RESERVES | | | | | | |
| Proved developed producing | 1,400 | 23,300 | 5,284 | 14,210 | 34,400 | 19,943 |
| Proved nonproducing | <u>46,800</u> | <u>467,600</u> | <u>124,733</u> | <u>40,170</u> | - | <u>40,170</u> |
| Total | <u>48,200</u> | <u>490,900</u> | <u>130,017</u> | <u>54,380</u> | <u>34,400</u> | <u>60,113</u> |
| Total Proved Undeveloped | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

The decrease attributable to divestiture of reserves is from the sale of Oklahoma properties - the Cimarron properties in second quarter, 2016.

The upward revisions of previous estimates of 54,908 Bbls and 493,013 MCF results primarily from 2016 reserve report calculations for the Company's properties driven by industry conditions and the change in the proportional quantities of oil and gas in production from the Judy well in Oklahoma from 2015 to 2016.

Standardized Measure of Oil & Gas Quantities
Year Ended December 31, 2016 and 2015

The standardized measure of discounted future net cash flows relating to proved oil and natural gas reserves is as follows :

| | 2016 | 2015 |
|---|-------------------|---------------------|
| Future cash inflows | \$ 3,156,970 | \$ 2,410,202 |
| Future production costs | (1,000,410) | (1,169,591) |
| Future development costs | (1,350,000) | (58,575) |
| Future income tax expense | - | 5,818,722 |
| Future net cash flows | 806,560 | 7,000,758 |
| 10% annual discount for estimated timing of cash flows | (465,644) | (1,065,570) |
| Standardized measure of discounted future net cash flows related to proved reserves | <u>\$ 340,916</u> | <u>\$ 5,935,188</u> |

A summary of the changes in the standardized measure of discounted future net cash flows applicable to proved oil and natural gas reserves is as follows :

| | | |
|--|-------------------|---------------------|
| Balance, beginning of year | \$ 5,935,188 | \$ 23,018,966 |
| Sales and transfers of oil and gas produced during the period | (29,749) | (762,423) |
| Net change in sales and transfer prices and in production (lifting) costs related to future production | (482,569) | (18,010,821) |
| Net change due to sales of reserves | - | (14,026,302) |
| Net change due to sales of minerals in place | (191,470) | - |
| Net change due to extensions and discoveries | - | - |
| Changes in estimated future development costs | (791,630) | 19,563,576 |
| Previously estimated development costs incurred during the period | 58,575 | 357,033 |
| Net change due to revisions in quantity estimates | 482,272 | (11,062,826) |
| Other | 172,169 | (858,606) |
| Accretion of discount | 80,393 | 2,146,235 |
| Net change in income taxes | (4,892,263) | 5,570,356 |
| Balance, end of year | <u>\$ 340,916</u> | <u>\$ 5,935,188</u> |

Due to the inherent uncertainties and the limited nature of reservoir data, both proved and probable reserves are subject to change as additional information becomes available. The estimates of reserves, future cash flows, and present value are based on various assumptions, including those prescribed by the SEC, and are inherently imprecise. Although we believe these estimates are reasonable, actual future production, cash flows, taxes, development expenditures, operating expenses, and quantities of recoverable oil and natural gas reserves may vary substantially from these estimates.

In estimating probable reserves, it should be noted that those reserve estimates inherently involve greater risk and uncertainty than estimates of proved reserves. While analysis of geoscience and engineering data provides reasonable certainty that proved reserves can be economically producible from known formations under existing conditions and within a reasonable time, probable reserves involve less certainty than reserves with a higher classification due to less data to support their ultimate recovery. Probable reserves have not been discounted for the additional risk associated with future recovery. Prospective investors should be aware that as the categories of reserves decrease with certainty, the risk of recovering reserves at the PV-10 calculation increases. The reserves and net present worth discounted at 10% relating to the different categories of proved and probable have not been adjusted for risk due to their uncertainty of recovery and thus are not comparable and should not be summed into total amounts.

Reserve Estimation Process, Controls and Technologies

The reserve estimates, including PV-10 estimates, set forth above were prepared by PeTech Enterprises, Inc. for the Company's properties in Oklahoma. A copy of their full reports with regard to our reserves is attached as Exhibit 99.1 to this annual report on Form 10-K. These calculations were prepared using standard geological and engineering methods generally accepted by the petroleum industry and in accordance with SEC financial accounting and reporting standards.

We do not have any employees with specific reservoir engineering qualifications in the company. Our Chairman and Chief Executive Officer worked closely with PeTech Enterprises Inc. in connection with their preparation of our reserve estimates, including assessing the integrity, accuracy, and timeliness of the methods and assumptions used in this process.

PeTech Enterprises, Inc. ("PeTech"), who provided 2016 reserve estimates for our Oklahoma Properties, is a Texas based profitable, family owned oil and gas production and Investment Company that provides reservoir engineering, economics and valuation support to energy banks, energy companies and law firms as an expert witness. PeTech has been in business since 1982. Amiel David is the President of PeTech and the primary technical person in charge of the estimates of reserves and associated cash flow and economics on behalf of the company for the results presented in its reserves report to us. He has a PhD in Petroleum Engineering from Stanford University. He is a registered Professional Engineer in the state of Texas (PE #50970), granted in 1982, a member of the Society of Petroleum Engineers and a member of the Society of Petroleum Evaluation Engineers.

Results of Operations for Oil and Gas Producing Activities

| For the Year Ended December 31, 2016 | <u>Total</u> | <u>Texas</u> | <u>Oklahoma</u> | <u>Kansas</u> |
|---|---------------------|---------------------|---------------------|-----------------|
| Oil and Gas revenue | \$ 354,390 | \$ 151,548 | \$ 165,154 | \$ 37,688 |
| Production costs | 328,438 | 203,735 | 101,581 | 23,122 |
| Depreciation, depletion, and amortization | 623,611 | 273,378 | 339,170 | 11,063 |
| Exploration expenses | - | - | - | - |
| | <u>952,049</u> | <u>477,113</u> | <u>440,751</u> | <u>34,185</u> |
| Income tax expense | - | - | - | - |
| Results of Operations (excluding corporate overhead and interest costs) | <u>\$ (597,659)</u> | <u>\$ (325,565)</u> | <u>\$ (275,597)</u> | <u>\$ 3,503</u> |

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2016. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were not effective to ensure that the information required to be disclosed by us in the reports we submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms and that such information was accumulated and communicated to our Chief Executive Officer and Chief Financial Officer, in a manner that allowed for timely decisions regarding disclosure. This determination is based on the material weaknesses management identified in our internal control over financial reporting, as described below. Subsequent to December 31, 2016, we have worked at remediating the material weaknesses (see “Remediation Process” below) which should remedy our disclosure controls and procedures, but we will continue to monitor this issue.

Notwithstanding the results of the evaluation above, we believe all of our reports submitted under the Exchange Act contain, in all material respects, the information required to be disclosed by us in such reports.

Management’s Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including our Chief Executive Officer and our Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control — Integrated Framework (2013). A material weakness in internal controls is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. Because of its inherent limitations, even appropriate internal control over financial reporting may not prevent or detect misstatements.

Based on this assessment, management concluded that we did not maintain effective internal control over financial reporting. Specifically, management identified material weaknesses over the accounting for stock options issued to employees and nonemployees and stock warrants issued for services, property and financings. We use the Black-Scholes Option Pricing Model (“BSM”) to estimate the value of stock options and warrants issued. Variables used in the BSM can have a significant impact on calculated values. For the variables used in the BSM, we did not calculate historical volatility based on a widely used approach, and we did not recognize expense over the service period.

This control deficiency resulted in audit adjustments in preparation of this Annual Report on Form 10-K. The impact on previously issued financial statements was not determined to be significant.

Changes in Internal Control over Financial Reporting

Other than as described below under “Remediation Process,” there were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the three months ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9A. CONTROLS AND PROCEDURES - *continued*

Remediation Process

While certain actions have been taken to enhance our internal control over financial reporting relating to the material weaknesses identified above, we are still in the process of implementing our comprehensive remediation plan. Following the identification of the material weaknesses described above, and with the oversight of the Audit Committee, we commenced a process to remediate the underlying causes of those material weaknesses, enhance the control environment and strengthen our internal control over financial reporting. Those steps include review and implementation of equity compensation controls, policies and plan documentation to ensure those terms are accounted for and require timely review by our Chief Financial Officer, or an appropriate designee, of all compensation arrangements for proper accounting treatment, with prior approval required for any revision to or deviation from any pre-defined equity compensation plans.

The status of our remediation plan is being, and will continue to be, reported by management to the Audit Committee of the Board of Directors on a regular basis. In addition, we have assigned personnel to oversee the remedial changes to the overall design of our internal control environment and to address the root causes of our material weaknesses. Remediation generally requires making changes to how controls are designed and then adhering to those changes for a sufficient period of time such that the operating effectiveness of those changes is demonstrated through testing.

As we continue to evaluate and work to improve our internal control over financial reporting, we may take additional measures to address these control deficiencies or modify our remediation plan. We cannot make assurances, however, of when we will remediate such weaknesses, nor can we be certain of whether additional actions will be required. See above under Item 1A. Risk Factors, the risk factor titled, *We have identified material weaknesses in our internal control over financial reporting which could, if not remediated, adversely affect our ability to report our financial condition and results of operations in a timely and accurate manner.*

Limitations on Effectiveness of Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that disclosure controls or internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake.

Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management's override of the control. The design of any systems of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Individual persons may perform multiple tasks which normally would be allocated to separate persons and therefore extra diligence must be exercised during the period these tasks are combined.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Our executive officers and directors are as follows:

| Name | Age | Position(s) and Office(s) |
|--------------------|-----|---|
| John A. Brda | 52 | Chief Executive Officer, Secretary and Director |
| Roger N. Wurtele | 70 | Chief Financial Officer |
| Greg McCabe, Sr. | 55 | Director |
| Alexandre Zyngier | 47 | Director |
| R. David Newton | 62 | Director |
| E. Scott Kimbrough | 66 | Director |

Below is certain biographical information of our executive officers and directors:

John A. Brda – Mr. Brda has been our Chief Executive Officer since December 2014 and our President and Secretary and a member of the Board of Director since January 2012. He has been the Managing Member of Brda & Company, LLC since 2002, which provided consulting services to public companies—with a focus in the oil and gas sector—on investor relations, equity and debt financings, strategic business development and securities regulation matters, prior to him becoming President of the company.

We believe Mr. Brda is an excellent fit to our Board of Directors and management team based on his extensive experience in transaction negotiation and business development, particularly in the oil and gas sector as well as other non-related industries. He has consulted with many public companies in the last ten years, and we believe that his extensive network of industry professionals and finance firms will contribute to our success.

Roger N. Wurtele – Mr. Wurtele has served as our Chief Financial Officer since September 2013. He is a versatile, experienced finance executive that has served as Chief Financial Officer for several public and private companies. He has a broad range of experience in public accounting, corporate finance and executive management. Mr. Wurtele previously served as CFO of Xtreme Oil & Gas, Inc. from February 2010 to September 2013. From May 2013 to September 2013 he worked as a financial consultant for us. From November 2007 to January 2010, Mr. Wurtele served as CFO of Lang and Company LLC, a developer of commercial real estate projects. He graduated from the University of Nebraska and has been a Certified Public Accountant for 40 years.

Gregory McCabe – Mr. McCabe has been a member of our Board of Directors since July 2016 and was appointed Chairman of the Board in October 2016. He is an experienced geologist who brings over 32 years of oil and gas experience to our company. He is a principal of numerous oil and gas focused entities including McCabe Petroleum Corporation, Manix Royalty, Masterson Royalty Fund and GMc Exploration. He has been the President of McCabe Petroleum Corporation from 1986 to the present. Mr. McCabe has been involved in numerous oil and gas ventures throughout his career and has a vast experience in technical evaluation, operations and acquisitions and divestitures. Mr. McCabe is also our largest stockholder and provided entry for us into our two largest assets, the Hazel Project in the Midland Basin and the Orogrande Project in Hudspeth County, Texas.

We believe that Mr. McCabe's background in geology and his many years in the oil and gas industry compliments the Board of Directors.

E. Scott Kimbrough - Mr. Kimbrough has served on our Board of Directors since October 2016. He is the owner of multiple independent oil and gas related companies, which he has managed for more than 20 years, including serving as the President of Maverick Oil & Gas Corporation for the last 22 years. His diverse oil and gas background spans 39 years and includes roles ranging from field operations to senior corporate management. Mr. Kimbrough began his career with Arco Oil & Gas Company, followed by work with independents including Quintana Petroleum Corporation, Lasmo Energy, and Nearburg Producing Company. His focus has been in domestic U.S. fields including the Permian Basin in West Texas and Southeast New Mexico, on and offshore Gulf Coast, Midcontinent, Rocky Mountain area and onshore California. Mr. Kimbrough received a Bachelor of Science in Personnel Management (Business) from Louisiana Tech University and a Bachelor of Science in Mechanical Engineering from Texas A&M University. He is a Registered Petroleum Engineer in the State of Texas.

We believe Mr. Kimbrough's wide ranging experience in operating E&P (exploration and production) companies make him an excellent fit to the Board of Directors.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE - *continued*

R. David Newton - Mr. Newton has been a member of our Board of Directors since October 2016. He has more than 25 years of experience in management consulting from various positions he has held with U.S. based investment firms. Additionally, he has been active in farming, ranching and oil and gas exploration for over 30 years. Since 1994 he has owned and managed R. David Newton and Associates, a management consulting and investment firm, through which he has focused on funding venture capital, channel distribution, startups, second and third stage financings, and corporate turnarounds. He holds a Bachelor of Science degree from the University of Texas at Austin.

Mr. Newton brings a depth of relationships developed through decades of participation in corporate finance and operational skills obtained while focused on helping growth stage entities involved in oil and natural gas, aerospace, timber and various other industries, and accordingly can make a substantial contribution to the Board.

Alexandre Zyngier - Mr. Zyngier has served on our Board of Directors since June 2016. He has been the Managing Director of Batuta Advisors since founding it in August 2013. The firm pursues high return investment and advisory opportunities in the distressed and turnaround sectors. Mr. Zyngier has over 20 years of investment, strategy, and operating experience. He is currently a director of Atari SA, AudioEye Inc. and GT Advanced Technologies, Inc. Before starting Batuta Advisors, Mr. Zyngier was a portfolio manager at Alden Global Capital from February 2009 until August 2013, investing in public and private opportunities. He has also worked as a portfolio manager at Goldman Sachs & Co. and Deutsche Bank Co. Additionally, he was a strategy consultant at McKinsey & Company and a technical brand manager at Procter & Gamble. Mr. Zyngier holds an MBA in Finance and Accounting from the University of Chicago and a BS in Chemical Engineering from UNICAMP in Brazil.

We believe that Mr. Zyngier's investment experience and his experience in overseeing a broad range of companies will greatly benefit the Board of Directors.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, and persons who own beneficially more than ten percent of our common stock, to file reports of ownership and changes of ownership with the Securities and Exchange Commission. Based solely upon a review of Forms 3, 4 and 5 furnished to us during the fiscal year ended December 31, 2016, we believe that the directors, executive officers, and greater than ten percent beneficial owners have complied with all applicable filing requirements during the fiscal year ended December 31, 2016, with the exception of (i) a Form 4 filed late by E. Scott Kimbrough, (ii) a Form 4 filed late by R. David Newton, (iii) a Form 4 filed late by Gregory McCabe, and (iv) a Form 3 filed late by Alexandre Zyngier.

Code of Ethics

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The Code of Ethics is available at our website at torchlightenergy.com. Further, we undertake to provide by mail to any person without charge, upon request, a copy of such code of ethics if we receive the request in writing by mail to: Torchlight Energy Resources, Inc., 5700 W. Plano Parkway, Suite 3600, Plano, Texas 75093.

Procedures for Stockholders to Recommend Nominees to the Board

There have been no material changes to the procedures by which stockholders may recommend nominees to our Board of Directors since we last provided disclosure regarding this process.

Audit Committee

We maintain a separately-designated standing audit committee. The Audit Committee currently consists of our three independent directors, Alexandre Zyngier, E. Scott Kimbrough, and R. David Newton. Mr. Zyngier is the Chairman of the Audit Committee, and the Board of Directors has determined that he is an audit committee financial expert as defined in Item 5(d)(5) of Regulation S-K. The primary purpose of the Audit Committee is to oversee our accounting and financial reporting processes and audits of our financial statements on behalf of the Board of Directors. The Audit Committee meets privately with our management and with our independent registered public accounting firm and evaluates the responses by our management both to the facts presented and to the judgments made by our outside independent registered public accounting firm.

ITEM 11. EXECUTIVE COMPENSATION

The following table provides summary information for the years 2016 and 2015 concerning cash and non-cash compensation paid or accrued to or on behalf of certain executive officers.

Summary Executive Compensation Table

| Name and Principal Position | Year | Salary | Bonus | Stock | Option | Non-Equity | Change in | All Other | Total |
|---|------|-----------|-------|-------------|--------------------|----------------------------------|---|-------------------|-------------------|
| | | (\$) | (\$) | Awards (\$) | Awards (\$) (A) | Incentive Plan Compensation (\$) | Pension Value and Nonqualified Deferred Compensation (\$) | Compensation (\$) | Compensation (\$) |
| John A. Brda President and CEO | 2016 | \$375,000 | - | - | \$712,500 (1) | - | - | - | \$,087,500 |
| | 2015 | \$337,500 | - | - | \$,530,000 (1) | - | - | - | \$,867,500 |
| Willard G. McAndrew III Former COO (2) | 2016 | \$310,526 | - | - | \$356,250 (2) | - | - | \$400,512 (3) | \$,067,288 |
| | 2015 | \$337,500 | - | - | \$,530,000 (1) | - | - | - | \$,867,500 |
| Roger Wurtele CFO | 2016 | \$225,000 | - | - | \$356,250 (1) | - | - | - | \$581,250 |
| | 2015 | \$202,500 | - | - | \$765,000 (1) | - | - | - | \$967,500 |

(A) Stock Value as applicable is determined using the Black Scholes Method.

- On June 11, 2015, we granted new stock option awards to our executive officers, as follows: (i) 3,000,000 stock options to John Brda, President and Chief Executive Officer; (ii) 3,000,000 stock options to Willard G. McAndrew, then Chief Operating Officer; and (iii) 1,500,000 stock options to Roger Wurtele, Chief Financial Officer. The options were granted under our 2015 Stock Option Plan which plan was approved by stockholders on September 9, 2015. The options are subject to a two-year vesting schedule with one-half vesting September 9, 2015, one-fourth vesting after one year of the grant date, and the remaining one-fourth vesting after the second year, provided however that the options will be subject to earlier vesting under certain events set forth in the 2015 Stock Option Plan, including without limitation a change in control.
- Willard G. McAndrew resigned as Chief Operating Officer and director on October 6, 2016. In connection with his resignation, on September 28, 2016 we entered into a Resignation and Settlement Agreement (the "Resignation Agreement") with Mr. McAndrew, which agreement became effective on October 5, 2016 (the "Effective Date"). Under the terms and conditions of the agreement, on the Effective Date (i) the entire unvested portion of Mr. McAndrew's stock options granted pursuant to his Stock Option Agreement dated June 11, 2015 (the "Stock Options") did not vest and became null and void, amounting to the termination of 750,000 unvested Stock Options, and Mr. McAndrew surrendered for cancellation a total of 250,000 vested Stock Options (valued at \$255,000), leaving Mr. McAndrew with 2,000,000 Stock Options at an exercise price of \$1.57 per share that he was granted pursuant to the Stock Option Agreement, (ii) the Stock Options were modified to expire on June 11, 2019, and (iii) we owed Mr. McAndrew a total amount of cash compensation of \$789,454, all of which was used to exercise a portion of the Stock Options, and accordingly, he was issued a total of 502,837 shares of common stock pursuant to the exercise of the Stock Options, leaving him with 1,497,163 of those Stock Options.
- Of the \$789,454 in cash compensation owed to Mr. McAndrew under the Resignation Agreement (see footnote 2 above), \$388,942 was for accrued and unpaid salary and bonuses and \$400,512 was a severance payment equal to one year of salary plus the cash value of health benefits owed pursuant to his employment agreement.

Setting Executive Compensation

We fix executive base compensation at a level we believe enables us to hire and retain individuals in a competitive environment and to reward satisfactory individual performance and a satisfactory level of contribution to our overall business goals. We also take into account the compensation that is paid by companies that we believe to be our competitors and by other companies with which we believe we generally compete for executives.

ITEM 11. EXECUTIVE COMPENSATION - continued

In establishing compensation packages for executive officers, numerous factors are considered, including the particular executive's experience, expertise, and performance, our company's overall performance, and compensation packages available in the marketplace for similar positions. In arriving at amounts for each component of compensation, our Compensation Committee strives to strike an appropriate balance between base compensation and incentive compensation. The Compensation Committee also endeavors to properly allocate between cash and non-cash compensation (including without limitation stock and stock option awards) and between annual and long-term compensation.

Employment Agreements

On June 16, 2015, we entered into new five-year employment agreements with each of John Brda, our President and Chief Executive Officer; Willard G. McAndrew, our then Chief Operating Officer; and Roger Wurtele, our Chief Financial Officer. Under the new agreements, which replace and supersede their prior employment agreements, each individual's salary was increased by 25%, so that the salaries of Messrs. Brda, McAndrew and Wurtele were \$375,000, \$375,000 and \$225,000, respectively, provided these salary increases will accrue unpaid until such time as management believes there is adequate cash for such increases. Also under the new agreements, each individual was eligible for a bonus, at the Compensation Committee's discretion, of up to two times his salary and be eligible for any additional stock options, as deemed appropriate by the Compensation Committee. Each agreement also provided that if we (or our successor) terminate the employee upon the occurrence of a change in control, the employee will be paid in one lump sum his salary and any bonus or other amounts due through the end of the term of the agreement. Each employment agreement also has a covenant not to compete.

Willard G. McAndrew resigned as Chief Operating Officer and director on October 6, 2016. In connection with his resignation, on September 28, 2016 we entered into a Resignation and Settlement Agreement (the "Resignation Agreement") under the terms of which his employment agreement terminated—see footnotes 2 and 3 to the "Summary Executive Compensation Table" above. Under the Resignation Agreement, Mr. McAndrew continues to be bound by confidentiality and non-compete provisions (subject to certain modifications) of his terminated employment agreement. Also pursuant to the Resignation Agreement, we agreed to file a registration statement covering the resale of 1,500,000 shares underlying certain outstanding stock options and 900,000 shares underlying warrants he beneficially owns, for a total of 2,400,000 shares—all of which have an exercise price of \$2.09. The Resignation Agreement provides mutual release and indemnification provisions, as well as an arbitration provision.

Outstanding Equity Awards at Fiscal Year End

The following table details all outstanding equity awards held by our named executive officers at December 31, 2016:

| Name | Option Awards | | Number of Securities Underlying Unexercised Options (#) | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) | Option Exercise Price (\$) | Option Expiration Date |
|-------------------------|---|---|---|---|----------------------------|------------------------|
| | Number of Securities Underlying Unexercised Options (#) | Number of Securities Underlying Unexercised Options (#) | | | | |
| John A. Brda | 245,000 | - | - | \$ 2.00 | 9/4/2018 | |
| | 2,250,000 (1) | 750,000 (1) | - | \$ 1.57 | 6/11/2020 | |
| Willard G. McAndrew III | 900,000 | - | - | \$ 2.09 | 4/15/2018 | |
| | 1,500,000 (2)(3) | - | - | \$ 2.09 | 9/9/2018 | |
| | 1,497,163 (1)(4) | - | - | \$ 1.57 | 6/11/2019 | |
| Roger Wurtele | 300,000 (5)(6) | - | - | \$ 2.09 | 10/10/2018 | |
| | 1,125,000 (1) | 375,000 (1) | - | \$ 1.57 | 6/11/2020 | |

ITEM 11. EXECUTIVE COMPENSATION - continued

- (1) The options were awarded on June 11, 2015. The options were granted under our 2015 Stock Option Plan which plan was approved by stockholders on September 9, 2015. The options are subject to a two-year vesting schedule with one-half vesting on September 9, 2015, one-fourth vesting after one year of the grant date, and the remaining one-fourth vesting after the second year, provided however that the options will be subject to earlier vesting under certain events set forth in the 2015 Stock Option Plan, including without limitation a change in control.
- (2) Mr. McAndrew gifted these options to WMDM Family, Ltd. The general partner and 1% owner of WMDM Family, Ltd. is a limited liability company which is owned by a trust of which Mr. McAndrew is a beneficiary.
- (3) These options were awarded to Mr. McAndrew in September 2013, and vested on January 2, 2014.
- (4) In connection with his resignation in October 2016, (i) the entire unvested portion of Mr. McAndrew's stock options granted on June 11, 2015 did not vest and became null and void, amounting to the termination of 750,000 unvested stock options, (ii) Mr. McAndrew surrendered for cancellation a total of 250,000 vested stock options, and (iii) the remaining stock options were modified to expire on June 11, 2019.
- (5) Mr. Wurtele gifted these options to Birch Glen Investments Ltd. Mr. Wurtele and his wife together hold a 98% interest in the general partner of Birch Glen Investments Ltd.
- (6) These options were awarded to Mr. Wurtele in October 2013. 100,000 options vested in October 2013 and the remaining 200,000 options vested on January 2, 2014.

Compensation of Directors

We have no standard arrangement pursuant to which directors are compensated for any services they provide or for committee participation or special assignments. We anticipate, however, implementing more standardized director compensation arrangements in the near future.

Summary Director Compensation Table

Compensation to directors during the year ended December 31, 2016 was as follows:

| Name | Fees Earned Paid | | Option Awards | | Non-Equity Incentive Plan Compensation | Nonqualified Deferred Compensation Earnings | All Other Compensation | Total |
|--------------------|------------------|----------------------|--------------------|-----|--|---|------------------------|------------|
| | in Cash (\$) | Stock Awards (\$)(A) | Option Awards (\$) | | (\$) | (\$) | (\$) | (\$) |
| E. Scott Kimbrough | - | - | 100,000 | (1) | - | - | - | \$ 100,000 |
| R. David Newton | - | - | 100,000 | (1) | - | - | - | \$ 100,000 |
| Alexandre Zyngier | - | 137,500 | - | (2) | - | - | - | \$ 137,500 |

(A) Stock Value as applicable is determined using the Black Scholes Method.

- (1) On November 3, 2016, this director was granted \$72,728 worth of director compensation payable, at his election, in either (i) stock options under the 2015 Stock Option Plan with an exercise price of \$0.97 with the amount of options granted based upon the Black-Scholes pricing model or (ii) shares of common stock at \$0.97 per share, which stock issuance would be subject to shareholder approval. The director elected to receive the stock options. The \$27,272 balance of the Director Fees was accrued at December 31, 2016.

ITEM 11. EXECUTIVE COMPENSATION - *continued*

- (2) In connection with the appointment of Mr. Zyngier on June 15, 2016, the Board of Directors approved paying Mr. Zyngier \$100,000 as director compensation, payable, at the election of Mr. Zyngier, either (i) in shares of our common stock, based on a price \$0.73 per share, (ii) in cash when funds are deemed available, or (iii) in a combination thereof. It was provided that if Mr. Zyngier elected for us to pay him in common stock, the issuance of such shares would be subject to stockholder approval. Mr. Zyngier elected to receive the entire \$100,000 in common stock (amounting to 136,986 shares). Stockholders approved the issuance on December 8, 2016. Additionally, in October 2016, our Board of Directors formed a special committee called the "Litigation Committee," appointed Mr. Zyngier to that committee, and approved compensating Mr. Zyngier for his role with the Litigation Committee by paying him up to \$150,000 over four quarters, with the first quarterly payment of \$37,500 being made on October 11, 2016 and \$37,500 being payable at the beginning of each three months thereafter that certain litigation is not settled or otherwise resolved, up to a maximum amount of \$150,000. Each payment was to either be paid in cash or common stock at our election. For a stock payment, the amount of shares of common stock issued would be based on the closing price of our common stock on the day of the payment. On December 8, 2016, stockholders approved giving the Company authority to make these payments in stock. Immediately after the December 8, 2016 meeting of stockholders, the Board of Directors held a meeting, at which Mr. Zyngier and the Board discussed placing vesting restrictions on all the above shares described in this footnote, and accordingly such shares were not immediately issued. Subsequently in January 2017, the Board and Mr. Zyngier agreed on what the vesting restrictions would be and we issued him the 136,986 shares in connection with his directorship and 47,504 shares in lieu of the cash payment of \$37,500 that was payable to Mr. Zyngier on October 11, 2016 in connection with his role on the Litigation Committee. As of the date of this report, none of these shares have vested.

Compensation Policies and Practices as they Relate to Risk Management

We attempt to make our compensation programs discretionary, balanced and focused on the long term. We believe goals and objectives of our compensation programs reflect a balanced mix of quantitative and qualitative performance measures to avoid excessive weight on a single performance measure. Our approach to compensation practices and policies applicable to employees and consultants is consistent with that followed for its executives. Based on these factors, we believe that our compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on us.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information, as of March 21, 2017, concerning, except as indicated by the footnotes below, (i) each person whom we know beneficially owns more than 5% of our common stock, (ii) each of our directors, (iii) each of our named executive officers, and (iv) all of our directors and executive officers as a group. The table includes these persons' beneficial ownership of common stock. Unless otherwise noted below, the address of each beneficial owner listed in the table is c/o Torchlight Energy Resources, Inc., 5700 W. Plano Parkway, Suite 3600, Plano, Texas 75093. We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of common stock that they beneficially own, subject to applicable community property laws. Applicable percentage ownership is based on 57,862,004 shares of common stock outstanding at March 21, 2017. In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, we deemed outstanding shares of common stock subject to stock options or warrants held by that person that are currently exercisable or exercisable within 60 days of March 21, 2017 and shares of common stock issuable upon conversion of other securities held by that person that are currently convertible or convertible within 60 days of March 21, 2017. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person. Unless otherwise noted, stock options and warrants referenced in the footnotes below are currently fully vested and exercisable. Beneficial ownership representing less than 1% is denoted with an asterisk (*).

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT - continued

Shares Beneficially Owned

| Name of beneficial owner | Common Stock | % of Class |
|---|----------------|------------|
| John A. Brda President, CEO, Secretary and Director | 5,063,322 (1) | 8.39 |
| Gregory McCabe Director (Chairman of the Board) | 11,148,390 (2) | 19.24 |
| Roger N. Wurtele Chief Financial Officer | 1,435,000 (3) | 2.42 |
| E. Scott Kimbrough Director | 129,871 (4) | * |
| R. David Newton Director | 129,871 (5) | * |
| Alexandre Zyngier Director | - | * |
| All directors and executive officers as a group (9 persons) | 17,906,454 | 28.82 |
| Robert Kenneth Dulin (6) | 4,351,381 (6) | 7.30 |
| Willard G. McAndrew III | 3,993,046 (7) | 6.47 |

(1) Includes 2,568,322 shares of common stock held by the John A. Brda Trust (the "Trust"). Mr. Brda is the settlor of the Trust and reserves the right to revoke the Trust without the consent of another person. Further, he is the trustee of the Trust and exercises investment control over the securities held by the Trust. Also includes stock options that are exercisable into 2,495,000 shares of common stock, held individually by Mr. Brda.

(2) Includes (a) 10,264,335 shares of common stock held individually Mr. McCabe; and (b) securities held by G Mc Exploration, LLC ("GME"), including (i) 797,099 shares of common stock and (ii) 86,956 shares issuable upon exercise of warrants. Mr. McCabe may be deemed to hold beneficial ownership of securities held by GME as a result of his ownership of 50% of the outstanding membership interests of GME.

(3) Includes 10,000 shares of common stock and stock options that are exercisable into 1,125,000 shares of common stock held individually by Mr. Wurtele. Also includes stock options held by Birch Glen Investments Ltd. that are exercisable into 300,000 shares of common stock. Mr. Wurtele and his wife together hold a 98% interest in the general partner of Birch Glen Investments Ltd., and Mr. Wurtele shares voting and investment authority over the shares held by Birch Glen Investments Ltd. Additionally, the general partner and 1% owner of WMDM Family, Ltd. (see footnote "(7)" below) is a limited liability company which is owned by a trust of which Mr. Wurtele is the trustee. Securities held by WMDM Family, Ltd. are not included, however, because Mr. Wurtele is not deemed to have voting or investment authority over the shares held by WMDM Family, Ltd. Mr. Wurtele disclaims beneficial ownership of shares held by WMDM Family, Ltd.

(4) Includes stock options that are exercisable into 129,871 shares of common stock held individually by Mr. Kimbrough.

(5) Includes stock options that are exercisable into 129,871 shares of common stock held individually by Mr. Newton.

- (6) Includes (a) securities held individually by Robert Kenneth Dulin, including (i) 27,000 shares of common stock and (ii) warrants that are exercisable into 150,000 shares of common stock; (b) 243,360 shares of common stock held in trust for the benefit of immediate family members of Mr. Dulin; (c) securities held by Sawtooth Properties, LLLP ("Sawtooth"), including (i) 892,258 shares of common stock and (ii) warrants that are exercisable into 234,745 shares of common stock; (d) securities held by Black Hills Properties, LLLP ("Black Hills"), including (i) 612,099 shares of common stock, and (ii) warrants that are exercisable into 189,956 shares of common stock; (e) securities held by Pine River Ranch, LLC ("Pine River"), including (i) 801,939 shares of common stock and (ii) warrants that are exercisable into 450,024 shares of common stock; and (f) securities held by Pandora Energy, LP ("Pandora"), including warrants that are exercisable into 750,000 shares of common stock. Mr. Dulin is trustee/custodian of each of the trusts and/or accounts referenced in "(b)" above and has voting and investment authority over the shares held by them. Mr. Dulin is the Managing Partner of Sawtooth Properties, LLLP, the Managing Partner of Black Hills, the Managing Member of Pine River, and the General Partner of Pandora, and he has voting and investment authority over the shares held by each entity. Each holder of shares of Series A Preferred Stock is entitled to the number of votes equal to the number of shares of common stock into which such shares of Series A Preferred could be converted. Presently, all issued and outstanding shares of Series A Preferred are convertible at the election of the holder. Mr. Dulin's address is 8449 Greenwood Drive, Niwot, Colorado, 80503.
- (7) Includes 95,883 shares of common stock and stock options that are exercisable into 1,497,163 shares of common stock held individually by Mr. McAndrew. Also includes securities held by WMDM Family, Ltd., including warrants that are exercisable into 900,000 shares of common stock and stock options that are exercisable into 1,500,000 shares of common stock. The general partner and 1% owner of WMDM Family, Ltd. is a limited liability company of which Mr. McAndrew is the manager. He has voting and investment authority over the shares held by WMDM Family, Ltd.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On April 1, 2015, Sawtooth Properties, LLLP ("Sawtooth"), lent us \$150,000 pursuant to a convertible promissory note due September 30, 2015. Robert Kenneth Dulin is the Managing Partner and majority owner of Sawtooth. The Sawtooth note bearing interest at the rate of 12% per annum, with all principal and interest due in one lump-sum. At Sawtooth's election, outstanding principal on the note is convertible into shares of our common stock at a conversion price of \$0.25 per share. Accordingly, the principal on the note is convertible into up to 600,000 shares of common stock. As part of the transaction, we also issued Sawtooth 150,000 three-year warrants to purchase common stock at an exercise price of \$0.50 per share. Sawtooth converted the note into common stock in September 2015.

In April 2015, Pandora Energy, LP ("Pandora"), an entity of which Mr. Dulin is the General Partner and holds a 50% pecuniary interest, paid \$500,000 towards a proposed purchase of a working interest in certain of our oil and gas properties. As part of the transaction, on May 4, 2015 we issued Pandora 250,000 three-year warrants with an exercise price of \$0.50 per share. As part of the final terms and conditions of Pandora's purchase of the working interest, on July 1, 2015 we issued Pandora 500,000 three-year warrants with an exercise price of \$2.31 per share. Of these 500,000 warrants, 250,000 are exercisable on September 30, 2015 and the remaining 250,000 are exercisable on December 31, 2015.

On August 6, 2015, Green Hill Minerals, LLC ("Green Hill Minerals") loaned us \$250,000, which was repaid with \$4,521 in interest on September 30, 2015. Green Hill Minerals is owned by sons of Gregory McCabe, our Chairman. In connection with the loan, we issued Green Hill Minerals a three-year warrant to purchase 100,000 shares of common stock at an exercise price of \$1.73 per share.

On February 15, 2016, we entered into a consulting service agreement with Green Hill Minerals, LLC. As compensation for the consulting services provided under the agreement, we agreed to issue Green Hill Minerals 115,000 shares of common stock at signing, 115,000 shares of common stock 90 days from signing, 115,000 shares of common stock 180 days from signing and 115,000 shares of common stock 270 days from signing. Also under the agreement, we issued Green Hill Minerals 1,700,000 four-year warrants to purchase shares of common stock at an exercise price of \$0.70 per share, vesting as follows: 425,000 warrants at signing, 425,000 warrants 90 days from signing, 425,000 warrants 180 days from signing and 425,000 warrants 270 days from signing.

On March 31, 2016, Mr. McCabe made a short term, non-interest bearing loan to us of \$500,000. We repaid the loan in full on April 29, 2016.

Effective April 4, 2016, our subsidiary, Torchlight Energy Inc., acquired from McCabe Petroleum Corporation ("MPC") a 66.66% working interest in approximately 12,000 acres in the Midland Basin in exchange for 1,500,000 warrants to purchase our common stock at an exercise price of \$1.00 for five years, and a back-in after payout of a 25% working interest to MPC. Gregory McCabe is the sole owner of MPC.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS - *continued*

On January 30, 2017, we and our wholly-owned subsidiary, Torchlight Acquisition Corporation, a Texas corporation (“TAC”), entered into and closed an Agreement and Plan of Reorganization and Plan of Merger with Line Drive Energy, LLC, a Texas limited liability company (“Line Drive”), under which agreements TAC merged with and into Line Drive and the separate existence of TAC ceased, with Line Drive being the surviving organization and becoming our wholly-owned subsidiary. Line Drive, which was wholly-owned by Gregory McCabe, owned certain assets and securities, including approximately 40.66% of 12,000 gross acres in the Hazel Project and 521,739 warrants to purchase our common stock (which warrants had been assigned by Mr. McCabe to Line Drive). Under the merger transaction, our shares of common stock of TAC converted into a membership interest of Line Drive, the membership interest in Line Drive held by Mr. McCabe immediately prior to the transaction ceased to exist, and we issued Mr. McCabe 3,301,739 restricted shares of common stock as consideration therefor. Immediately after closing, the 521,739 warrants held by Line Drive were cancelled, which warrants had an exercise price of \$1.40 per share and an expiration date of June 9, 2020. A Certificate of Merger for the merger transaction was filed with the Secretary of State of Texas on January 31, 2017.

Also on January 30, 2017, our wholly-owned subsidiary, Torchlight Energy, Inc., a Nevada corporation (“TEI”), entered into and closed a Purchase and Sale Agreement with Wolfbone Investments, LLC, a Texas limited liability company (“Wolfbone”) which is wholly-owned by Gregory McCabe. Under the agreement, TEI acquired certain of Wolfbone’s Hazel Project assets, including its interest in the Flying B Ranch #1 well and the 40 acre unit surrounding the well, for consideration of \$415,000, and additionally, Wolfbone caused to be cancelled a total of 2,780,000 warrants to purchase our common stock, including 1,500,000 warrants held by McCabe Petroleum Corporation, an entity owned by Mr. McCabe, and 1,280,000 warrants held by Green Hill Minerals, an entity owned by Mr. McCabe’s son, which warrant cancellations were effected through certain Warrant Cancellation Agreements. The 1,500,000 warrants held by McCabe Petroleum Corporation had an exercise price of \$1.00 per share and an expiration date of April 4, 2021. The warrants held by Green Hill Minerals included 100,000 warrants with an exercise price of \$1.73 and an expiration date of September 30, 2018 and 1,180,000 warrants with an exercise price of \$0.70 and an expiration date of February 15, 2020.

After the above transactions, our total ownership in the Hazel Project increased to a 74% working interest across all 12,000 gross acres.

Director Independence

We currently have three independent directors on our Board, Alexandre Zyngier, E. Scott Kimbrough, and R. David Newton. The definition of “independent” used herein is based on the independence standards of The NASDAQ Stock Market LLC. The Board performed a review to determine the independence of Alexandre Zyngier, E. Scott Kimbrough, and R. David Newton and made a subjective determination as to each of these directors that no transactions, relationships, or arrangements exist that, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director of Torchlight Energy Resources, Inc. In making these determinations, the Board reviewed information provided by these directors with regard to each Director’s business and personal activities as they may relate to us and our management.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the fees paid or accrued by us for the audit and other services provided by our former auditor, Calvetti Ferguson, during the years ended December 31, 2016 and 2015. Briggs & Veselka Co. were engaged in 2017 for our year end December 31, 2016 audit. No payments were made to Briggs & Veselka Co. before December 31, 2016.

| | 2016 | 2015 |
|-----------------------|-------------------|-------------------|
| Audit Fees(1) | \$ 73,968 | \$ 101,758 |
| Audit Related Fees(2) | 26,280 | - |
| Tax Fees(3) | 22,035 | 39,680 |
| All Other Fees | 450 | - |
| Total Fees | <u>\$ 122,733</u> | <u>\$ 141,438</u> |

- (1) Audit Fees: This category represents the aggregate fees billed for professional services rendered by the principal independent accountant for the audit of our annual financial statements and review of financial statements included in our Form 10-K and services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for the fiscal years.
- (2) Audit Related Fees: This category consists of the aggregate fees billed for assurance and related services by our independent consultant that are reasonably related to the performance of the audit or review of our financial statements and are not reported under “Audit Fees.”
- (3) Tax Fees: This category consists of the aggregate fees billed for professional services rendered by the principal independent consultant for tax compliance, tax advice, and tax planning.

PART IV

ITEM 15. EXHIBITS

| Exhibit No. | Description |
|-----------------------|--|
| 2.1 | Share Exchange Agreement dated November 23, 2010. (Incorporated by reference from Form 8-K filed with the SEC on November 24, 2010.) * |
| 3.1 | Articles of Incorporation. (Incorporated by reference from Form S-1 filed with the SEC on May 2, 2008.) * |
| 3.2 | Certificate of Amendment to Articles of Incorporation dated December 10, 2014. (Incorporated by reference from Form 10-Q filed with the SEC on May 15, 2015.) * |
| 3.3 | Certificate of Amendment to Articles of Incorporation dated September 15, 2015. (Incorporated by reference from Form 10-Q filed with the SEC on November 12, 2015.) * |
| 3.4 | Amended and Restated Bylaws (Incorporated by reference from Form 8-K filed with the SEC on October 26, 2016.) * |
| 4.1 | Certificate of Designation for Series A Convertible Preferred Stock (Incorporated by reference from Form 8-K filed with the SEC on June 9, 2015.) * |
| 4.2 | Certificate of Designation for Series B Convertible Preferred Stock (Incorporated by reference from Form 8-K filed with the SEC on September 30, 2015.) * |
| 4.3 | Certificate of Designation for Series C Convertible Preferred Stock (Incorporated by reference from Form 8-K filed with the SEC on July 11, 2016.) * |
| 10.1 | 12% Series B Unsecured Convertible Promissory Note (form of) (Incorporated by reference from Form 10-Q filed with the SEC on August 14, 2015.) * |
| 10.2 | Securities Purchase Agreement (for Series A Convertible Preferred Stock) (Incorporated by reference from Form 10-Q filed with the SEC on August 14, 2015.) * |
| 10.3 | Employment Agreement (with John A. Brda) (Incorporated by reference from Form 8-K filed with the SEC on June 16, 2015.) * |
| 10.4 | Employment Agreement (with Roger Wurtele) (Incorporated by reference from Form 8-K filed with the SEC on June 16, 2015.) * |
| 10.5 | Loan documentation and warrants with Eunis L. Shockey (Incorporated by reference from Form 10-Q filed with the SEC on August 14, 2015.) * |
| 10.6 | Farmout Agreement between Hudspeth Oil Corporation, Founders Oil & Gas, LLC and certain other parties (Incorporated by reference from Form 8-K filed with the SEC on September 29, 2015) * |
| 10.7 | Securities Purchase Agreement and Amendment to Securities Purchase Agreement (for Series B Convertible Preferred Stock) (Incorporated by reference from Form 10-Q filed with the SEC on November 12, 2015) * |
| 10.8 | Purchase and Sale Agreement with Husky Ventures, Inc. (Incorporated by reference from Form 8-K filed with the SEC on November 12, 2015) * |
| 10.10 | Purchase Agreement with McCabe Petroleum Corporation for acquisition of “Hazel Project” (Incorporated by reference from Form 10-Q filed with the SEC on August 15, 2016) * |
| 10.11 | Resignation and Settlement Agreement with Willard G. McAndrew (Incorporated by reference from Form 10-Q filed with the SEC on November 10, 2016) * |
| 10.12 | Agreement and Plan of Reorganization and Plan of Merger with Line Drive Energy, LLC |

ITEM 15. EXHIBITS - continued

| | |
|-------------------------|---|
| 10.13 | Purchase and Sale Agreement with Wolfbone Investments, LLC |
| 14.1 | Code of Ethics (Incorporated by reference from Form S-1 filed with the SEC on May 2, 2008.) * |
| 16.01 | Letter from Calvetti Ferguson to the Securities and Exchange Commission (Incorporated by reference from Form 8-K filed with the SEC on December 19, 2016) * |
| 21.1 | Subsidiaries |
| 23.1 | Consent of Briggs & Veselka Co. |
| 23.2 | Consent of Calvetti Fergusson |
| 23.3 | Consent of PeTech Enterprises, Inc. |
| 31.1 | Certification of principal executive officer required by Rule 13a – 14(1) or Rule 15d – 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of principal financial officer required by Rule 13a – 14(1) or Rule 15d – 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Section 1350 of 18 U.S.C. 63. |
| 99.1 | Report of PeTech Enterprises, Inc. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | XBRL Taxonomy Extension Definitions Linkbase |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase |

* Incorporated by reference from our previous filings with the SEC

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Torchlight Energy Resources, Inc.

/s/ John A. Brda

By: John A. Brda
Chief Executive Officer

Date: March 31, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|---|--|----------------|
| <u>/s/ John A. Brda</u> John A. Brda | Director, Chief Executive Officer, President and Secretary | March 31, 2017 |
| <u>/s/ Gregory McCabe</u> Gregory McCabe | Director (Chairman of the Board) | March 31, 2017 |
| <u>/s/ Roger N. Wurtele</u> Roger N. Wurtele | Chief Financial Officer and Principal Accounting Officer | March 31, 2017 |
| <u>/s/ E. Scott Kimbrough</u> E. Scott Kimbrough | Director | March 31, 2017 |
| <u>/s/ R. David Newton</u> R. David Newton | Director | March 31, 2017 |
| <u>/s/ Alexandre Zyngier</u> Alexandre Zyngier | Director | March 31, 2017 |

**AGREEMENT AND
PLAN OF REORGANIZATION**

This Agreement and Plan of Reorganization (the “**Agreement**”) is made and entered into effective this 30th day of January, 2017 (the “**Effective Date**”), by and among Line Drive Energy, LLC, a Texas limited liability company (the “**Company**”), Greg McCabe, Sr., an individual (the “**Seller**”), Torchlight Energy Resources, Inc., a Nevada corporation (the “**Purchaser**”), and Torchlight Acquisition Corporation, a Texas corporation (the “**Merger Sub**”). The Company, the Seller, the Purchaser, and the Merger Sub are sometimes hereinafter collectively referred to as the “**Parties**.”

WHEREAS, the respective Boards of Directors of Purchaser and Merger Sub and the Seller, as both the Manager and sole Member of the Company, have each determined that the merger of the Merger Sub with and into the Company (the “**Merger**”) upon the terms and subject to the conditions set forth in this Agreement is advisable, fair to and in the best interests of the Company and Merger Sub, as the “**Parties to the Merger**” and their respective owners and have approved the Merger pursuant to the Plan of Merger attached hereto as Exhibit A (the “**Plan of Merger**”);

NOW, THEREFORE, in consideration of the premises, the mutual covenants and agreements and the respective representations and warranties herein contained, and on the terms and subject to the conditions herein set forth, the parties hereto, intending to be legally bound, hereby agree as follows:

**ARTICLE I
THE MERGER**

1.1 **The Merger.** At the Effective Time (as defined in Section 1.2) and subject to the terms and conditions of this Agreement and the Plan of Merger, Merger Sub shall be merged with and into the Company and the separate existence of Merger Sub shall thereupon cease, in accordance with the applicable provisions of the Texas Business Organizations Code (the “**Act**”). the Company shall be the surviving organization in the Merger (sometimes referred to herein as the “**Surviving Organization**”) and will continue to be governed by the laws of the State of Texas, and the existence of the Company will continue. The Merger will have the effects specified by the Act.

1.2 **Closing and Effective Time of the Merger.** The closing (the “**Closing**”) will take place at the Purchaser’s offices or at such other place as agreed upon among the Parties on the later of (a) the Effective Date or (b) as soon as practicable following fulfillment or waiver of the conditions specified in Article VII of this Agreement (the “**Closing Date**”). In addition to the other actions contemplated hereunder, the Parties to the Merger will cause a Certificate of Merger (the “**Certificate of Merger**”) to be filed with the office of the Secretary of State of the State of Texas as provided in Section 10.151 of the Act, and will cause this Plan of Merger to be on file at the principal place of business of the Company. Subject to and in accordance with the laws of the State of Texas, the Merger will become effective upon the filing of the Certificate of Merger with the office of the Secretary of State of the State of Texas, or such later time or date as may be specified in the Certificate of Merger (the “**Effective Time**”).

**ARTICLE II
THE SURVIVING ORGANIZATION**

2.1 Certificate of Formation. The Certificate of Formation of the Company, as in effect immediately prior to the Effective Time shall be the Certificate of Formation of the Surviving Organization until the same shall be altered or amended.

2.2. Company Agreement. The Company Agreement of the Company, as in effect immediately prior to the Effective Time shall be the Company Agreement of the Surviving Organization until the same shall be altered or amended.

2.3. Manager. The Manager of the Company, as the Surviving Organization, immediately after the Effective Time shall be John Brda.

**ARTICLE III
CONVERSION OF SECURITIES**

3.1 Conversion of Capital Stock of Merger Sub. As of the Effective Time, by virtue of the Merger and without any action on the part of Purchaser, Merger Sub, the Company or the respective shareholders of members thereof, each share of the capital stock of Merger Sub issued and outstanding immediately prior to the Effective Time shall be automatically converted into and become one (1) validly issued membership interest in the Surviving Organization, and such membership interest in the Surviving Organization shall constitute all of the issued and outstanding membership interests in the Surviving Organization immediately following the Effective Time.

3.2 Conversion of Membership Interest in the Company.

(a) Aggregate Merger Consideration. The aggregate merger consideration payable for the issued and outstanding membership interest in the Company (the “**Merger Consideration**”) shall be 3,301,739 restricted shares of common stock, par value \$0.001 per share, of Purchaser (the “**Purchaser Common Stock**”). The issuance of the Purchaser Common Stock will not be registered.

(b) Cancellation of the Company Membership Interest. As of the Effective Time, by virtue of the Merger and without any action on the part of Purchaser, Merger Sub, the Company or the respective shareholders of members thereof, the membership interest in the Company issued and outstanding immediately prior to the Effective Time (the “**Company Membership Interest**”) shall cease to exist; provided, however, that the holder of the Company Membership Interest shall be entitled to the Merger Consideration in the form of Purchaser Common Stock.

(c) Payment of Merger Consideration. At the Closing, Purchaser will deliver to Seller stock certificates evidencing the Purchaser Common Stock.

3 . 3 Tax Consequences. The Parties intend for the Merger to constitute a reorganization within the meaning of Sections 368(a)(1)(A) and (a)(2)(E) of the Internal Revenue Code of 1986, as amended (the “Code”). The Parties adopt this Agreement as a plan of reorganization with the meaning of Treasury Regulations Section 1.368-2(g). “Treasury Regulations” shall mean the temporary and final Income Tax Regulations promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding Treasury Regulations). The Parties agree to satisfy the tax return reporting requirements of Treasury Regulations §1.368-3.

**ARTICLE IV
REPRESENTATIONS AND WARRANTIES
OF THE COMPANY AND THE SELLER**

The Company and the Seller, jointly and severally, hereby represent and warrant to Purchaser as follows:

Section 4.1. Organization, Good Standing and Qualification of the Company.

(i) The Company is a Texas limited liability company, duly organized and validly existing under the laws of the state of Texas, (ii) has all requisite power and authority to carry on its business, and (iii) is duly qualified to transact business and is in good standing in all jurisdictions where its ownership, lease or operation of property or the conduct of its business requires such qualification, except where the failure to do so would not have a material adverse effect to the Company.

(ii) The Company Membership Interest is the sole ownership interest in the Company. There is no other class of equity interest authorized or issued by the Company. The Company Membership Interest is owned beneficially and of record by the Seller free and clear of any liens, claims, equities, charges, options, rights of first refusal or encumbrances. The Company has no obligation to repurchase, reacquire, or redeem any of its outstanding equity interests. There are no outstanding securities convertible into or evidencing the right to purchase or subscribe for any equity interests of the Company, there are no outstanding or authorized options, warrants, calls, subscriptions, rights, commitments or any other agreements of any character obligating the Company to issue any securities convertible into or evidencing the right to purchase or subscribe for any security of the Company, and there are no agreements or understandings with respect to the voting, sale, transfer or registration of any equity interests of the Company.

Section 4.2 Subsidiaries. The Company does not own any subsidiaries.

Section 4.3 Ownership of the Assets. Subject to that certain Participation Agreement set forth in Schedule 4.16, at Closing, the Company will own all of the assets listed in Schedule 4.3 (“Assets”).

Section 4.4 Ownership of the Company Membership Interest. The Seller has the unrestricted right and power to transfer, convey and deliver full ownership of the Company Membership Interest without the consent or agreement of any other person and without any designation, declaration or filing with any governmental authority. Upon the transfer of the Company Membership Interest to Purchaser as contemplated herein, Purchaser will receive good and valid title thereto, free and clear of any liens, claims, equities, charges, options, rights of first refusal, encumbrances or other restrictions.

Section 4.5 Authorization.

(i) All action on the part of the Company necessary for the authorization, execution, delivery and performance of this Agreement and all documents related to consummate the transactions contemplated herein have been taken by the Company. The Company has the requisite power and authority to execute and deliver this Agreement and to perform its obligations hereunder and to consummate the transactions contemplated hereby. This Agreement, when duly executed and delivered in accordance with its terms, will constitute a valid and binding obligation of the Company, enforceable against each in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, and other similar laws of general application relating to or affecting creditors' rights and to general equitable principles.

(ii) The Seller represents that he is a person of full age of majority, with full power, capacity, and authority to enter into this Agreement and perform the obligations contemplated hereby by and for himself. All action on the part of the Seller necessary for the authorization, execution, delivery and performance of this Agreement by him has been taken, or will be taken by them prior to the Closing Date. This Agreement, when duly executed and delivered in accordance with its terms, will constitute legal, valid and binding obligation of the Seller enforceable against him in accordance with the terms, except as may be limited by bankruptcy, insolvency, reorganization and other similar laws of general application affecting creditors' rights generally or by general equitable principles.

Section 4.6 No Breaches or Defaults. The execution, delivery, and performance of this Agreement by the Company and the Seller does not: (i) conflict with, violate, or constitute a breach of or a default under any other outstanding agreements or the constituent documents of the Company, (ii) result in the creation or imposition of any lien, claim, or encumbrance of any kind upon the Company or the Assets or (iii) require any authorization, consent, approval, exemption, or other action by or filing with any third party or Governmental Authority (as defined below) under any provision of: (a) any applicable Legal Requirement (as defined below), or (b) any credit or loan agreement, promissory note, or any other agreement or instrument to which the Seller or the Company is a party or by which the Company or the Assets may be bound or affected. For purposes of this Agreement, "**Governmental Authority**" means any foreign governmental authority, the United States of America, any state of the United States, and any political subdivision of any of the foregoing, and any agency, department, commission, board, bureau, court, or similar entity, having jurisdiction over the parties hereto or their respective assets or properties. For purposes of this Agreement, "**Legal Requirement**" means any law, statute, injunction, decree, order or judgment (or interpretation of any of the foregoing) of, and the terms of any license or permit issued by, any Governmental Authority.

Section 4.7 Consents. No permit, consent, approval or authorization of, or designation, declaration or filing with, any Governmental Authority or any other person or entity is required on the part of the Seller or the Company in connection with the execution and delivery by the Seller or the Company of this Agreement or the consummation and performance of the transactions contemplated hereby.

Section 4.8 Pending Claims. There is no claim, suit, arbitration, investigation, action, litigation or other proceeding, whether judicial, administrative or otherwise, now pending or, to the Seller's or the Company's knowledge, contemplated or threatened against the Seller, the Company or the Assets before any court, arbitration, administrative or regulatory body or any governmental agency which may result in any judgment, order, award, decree, liability or other determination which will or could reasonably be expected to have any material effect upon the Seller, the Company, or the Assets, and there is no basis known to the Seller or the Company for any such action. No litigation is pending, or, to the Seller's or the Company's knowledge, threatened against the Seller or the Company, or the Assets which seeks to restrain or enjoin the execution and delivery of this Agreement or any of the documents referred to herein or the consummation of any of the transactions contemplated thereby or hereby. Neither the Seller nor the Company is subject to any judicial injunction or mandate or any quasi-judicial or administrative order or restriction directed to or against them or which would affect the Company or the Assets.

Section 4.9 Taxes. The Company has timely and accurately prepared and filed all federal, state, foreign and local tax returns and reports required to be filed prior to such dates and has timely paid all taxes shown on such returns as owed for the periods of such returns, including all sales taxes and withholding or other payroll related taxes shown on such returns. The Company is not delinquent in the payment of any tax or governmental charge of any nature. Neither the Company nor the Seller have any knowledge of any liability for any tax to be imposed by any taxing authorities upon the Company as of the Effective Date and as of the Closing that is not adequately provided for. No assessments or notices of deficiency or other communications have been received by the Seller or the Company with respect to any tax return which has not been paid, discharged or fully reserved against and no amendments or applications for refund have been filed or are planned with respect to any such return. None of the federal, state, foreign and local tax returns of the Company have been audited by any taxing authority. Neither the Seller nor the Company have any knowledge of any additional assessments, adjustments or contingent tax liability (whether federal or state) of any nature whatsoever, whether pending or threatened against the Company for any period, nor of any basis for any such assessment, adjustment or contingency. There are no agreements between the Company and any taxing authority, including, without limitation, the Internal Revenue Service, waiving or extending any statute of limitations with respect to any tax return.

Section 4.10 Acquisition of Stock for Investment. The Seller understands that the issuance of the Purchaser Common Stock (as referenced in Section 3.2 herein) will not have been registered under the Securities Act of 1933, as amended (the "**Securities Act**"), or any state securities acts, and accordingly, are restricted securities, and the Seller represents and warrants to the Purchaser that the present intention of the Seller is to receive and hold the Purchaser Common Stock for investment only and not with a view to the distribution or resale thereof. Additionally, the Seller understands that any sale of any of the issued Purchaser Common Stock will require, under current law, either (a) the registration of the such Purchaser Common Stock under the Securities Act and applicable state securities acts; (b) compliance with Rule 144 of the Securities Act; or (c) the availability of an exemption from the registration requirements of the Securities Act and applicable state securities acts.

To assist in implementing the above provisions, the Seller hereby consents to the placement of the legend, or a substantially similar legend, set forth below, on all certificates representing ownership of the Purchaser Common Stock acquired hereby until the Purchaser Common Stock have been sold, transferred, or otherwise disposed of, pursuant to the requirements hereof. The legend shall read substantially as follows:

“THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES ACTS. THESE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT, ARE RESTRICTED AS TO TRANSFERABILITY, AND MAY NOT BE SOLD, HYPOTHECATED, OR OTHERWISE TRANSFERRED WITHOUT COMPLIANCE WITH THE REGISTRATION AND QUALIFICATION PROVISIONS OF APPLICABLE FEDERAL AND STATE SECURITIES LAWS OR APPLICABLE EXEMPTIONS THEREFROM.”

Section 4.11 Access to Information. The Seller hereby confirms and represents that he (a) has access to and has reviewed all current information about the Purchaser filed with the Securities and Exchange Commission (the “SEC”) (which filings can be accessed by going to www.sec.gov/edgar/searchedgar/companysearch.html, typing “Torchlight Energy Resources” in the “Company name” field, and clicking the “Search” button) (collectively, the “SEC Reports”); (b) has been afforded the opportunity to ask questions of and receive answers from representatives of the Purchaser concerning the business and financial condition, properties, operations and prospects of the Purchaser and all such questions have been answered to the full satisfaction of the Seller; (c) has such knowledge and experience in financial and business matters so as to be capable of evaluating the relative merits and risks of the transactions contemplated hereby; (d) has had an opportunity to engage and is represented by an attorney of his choice; (e) has had an opportunity to negotiate the terms and conditions of this Agreement; (f) has been given adequate time to evaluate the merits and risks of the transactions contemplated hereby; and (g) has been provided with and given an opportunity to review all current information about the Purchaser.

Section 4.12 Purchase for Investment – Accredited Investor. The Seller is acquiring the Purchaser Common Stock for his own account, for investment purposes only and not with view to any public resale or other distribution thereof. The Seller represents and warrants that it is an “accredited investor” as that term is defined in Rule 501(a) of Regulation D of the Securities Act. The Seller and/or his representatives have received, or have had access to, and have had sufficient opportunity to review, all books, records, financial information and other information which each of them consider necessary or advisable to enable them to make a decision concerning its acquisition of the Purchaser Common Stock, and that each of them possesses such knowledge and experience in financial and business matters that each is capable of evaluating the merits and risks of his investment hereunder.

Section 4.13 Labor Matters. The Company is not a party or otherwise subject to any collective bargaining agreement with any labor union or association. There are no discussions, negotiations, demands or proposals that are pending or have been conducted or made with or by any labor union or association, and there are not pending or threatened against the Company any labor disputes, strikes or work stoppages. To the Company’s and the Seller’s knowledge, the Company is in compliance with all federal and state laws respecting employment and employment practices, terms and conditions of employment and wages and hours, and, to their knowledge, is not engaged in any unfair labor practices. The Company is not a party to any written or oral contract, agreement or understanding for the employment of any officer, director or employee of the Company.

Section 4.14 Compliance with Laws. To Sellers knowledge, the Company is in compliance with all statutes, orders, rules, ordinances and regulations applicable to it or to the ownership of its assets or the operation of its businesses. Neither the Seller nor the Company has any basis to expect, nor have they received, any order or notice of any such violation or claim of violation of any such statute, order, rule, ordinance or regulation by the Company. The Company owns, holds, possesses or lawfully uses in the operation of its business all permits and licenses which are in any manner necessary or required for it to conduct its operation and business as now being conducted.

Section 4.15 No Conflicts. The execution and delivery of this Agreement by the Company does not, and the performance and consummation of the transactions contemplated hereby by the Company, will not (i) conflict with the articles of organization or regulations of the Company as appropriate; (ii) conflict with or result in a breach or violation of, or default under, or give rise to any right of acceleration or termination of, any of the terms, conditions or provisions of any note, bond, lease, license, agreement or other instrument or obligation to which the Company is a party or by which the Company's assets or properties are bound; or (iii) result in the creation of any encumbrance on any of the assets or properties of the Company.

Section 4.16 Title to Properties; Encumbrances. At Closing, to Seller's knowledge, the Assets are free and clear of all mortgages, claims, liens, security interests, charges, leases, encumbrances and other restrictions of any kind and nature, except (i) as disclosed in Schedule 4.16, (ii) statutory liens not yet delinquent, and (iii) such liens consisting of zoning or planning restrictions, imperfections of title, easements and encumbrances, if any, as do not materially detract from the value or materially interfere with the present use of the property or assets subject thereto or affected thereby.

Section 4.17 No Liabilities. As of the Closing Date, the Company does not and shall not have any obligation or liability (contingent or otherwise) or unpaid bill to any third party, except as set forth herein in Schedule 4.17.

Section 4.18 Contracts and Leases. Except as shown on Exhibit 4.18, the Company does not (i) have any leases of personal property relating to the Assets, whether as lessor or lessee; (ii) have any contractual or other obligations relating to the Assets, whether written or oral; and (iii) have given any power of attorney to any person or organization for any purpose relating to the Assets. The Company shall provide to Purchaser prior to the Closing Date each and every contract, lease or other document relating to the Assets to which it is subject or is a party or a beneficiary. To the Company's and the Seller's knowledge, such contracts, leases or other documents are valid and in full force and effect according to their terms and constitute legal, valid and binding obligations of the Company and the other respective parties thereto and are enforceable in accordance with their terms. The Seller and the Company have no knowledge of any default or breach under such contracts, leases or other documents or of any pending or threatened claims under any such contracts, leases or other documents. Neither the execution of this Agreement, nor the consummation of all or any of the transactions contemplated under this Agreement, will constitute a breach or default under any such contracts, leases or other documents which would have a material adverse effect on the financial condition of the Company or the Assets after the Closing.

Section 4.19 No Pending Transactions. Except for the transactions contemplated by this Agreement, the Company is not a party to or bound by or the subject of any agreement, undertaking, commitment or discussions or negotiations with any person that could result in: (i) the sale, merger, consolidation or recapitalization of the Company; (ii) the sale of any of the Assets; (iii) the sale of any outstanding equity interest of the Company; (iv) the acquisition by the Company of any operating business or the capital stock of any other person or entity; (v) the borrowing of money; (vi) any agreement with any of the respective officers, managers or affiliates of the Company; or (vii) any expenditures or the performance by the Company extending for a period more than one year from the date hereof.

Section 4.20 Material Agreements; Action. Except for the transactions contemplated by this Agreement and as set forth in Schedule 4.16, there are no contracts, agreements, commitments, understandings or proposed transactions, whether written or oral, to which the Company is a party or by which it is bound that involve or relate to (i) any of the respective officers, directors, stockholder or partners of the Company or (ii) covenants of the Seller or the Company not to compete in any line of business or with any person in any geographical area or covenants of any other person not to compete with the Company in any line of business or in any geographical area.

Section 4.21 Insurance Policies. Copies of all insurance policies maintained by the Company have been or will be delivered or made available to Purchaser. The policies of insurance held by the Company are in such amounts, and insure against such losses and risks, as the Company reasonably deems appropriate for their property and business operations. All such insurance policies are in full force and effect and all premiums due thereon have been paid and will be paid through the Closing.

Section 4.22 No Default. The Company is not in default under any term or condition of any instrument evidencing, creating or securing any indebtedness of the Company, and there has been no default in any material obligation to be performed by the Company under any other contract, lease, agreement, commitment or undertaking to which the Company is a party or by which it or its assets or properties are bound, nor has the Company waived any material right under any such contract, lease, agreement, commitment or undertaking.

Section 4.23 Books and Records. The books of account, minute books, stock record books and other records of the Company, all of which have been made available to Purchaser, are accurate and complete and have been maintained in accordance with sound business practices.

Section 4.24 Environmental. To Seller's knowledge, the Company is not in violation of any state, local or federal statutes, laws, regulations, ordinances, or rules pertaining to health or the environment requirements affecting the Assets. Neither the Company nor the Seller have received any citation, directive, letter or other communication, written or oral, or any notice of any proceeding, claim or lawsuit relating to any environmental issue arising out of the ownership of any of the Assets, and there is no basis known to the Company or the Seller for any such action.

Section 4.25 Disclosure. No representation or warranty of the Seller or the Company contained in this Agreement (including the exhibits hereto) contains any untrue statement or omits to state a material fact necessary in order to make the statements contained herein or therein, in light of the circumstances under which they were made, not misleading.

Section 4.26 Employee Benefit Plans. The Company is not a party to any employee-benefit plan.

Section 4.27 Brokerage Commission. No broker or finder has acted on behalf of the Seller or the Company in connection with this Agreement or the transactions contemplated hereby and no person is entitled to any brokerage or finder's fee or compensation in respect thereto based in any way on agreements, arrangements or understandings made by or on behalf of the Seller or the Company.

**ARTICLE V
REPRESENTATIONS AND WARRANTIES
OF PURCHASER AND MERGER SUB**

The Purchaser and Merger Sub hereby represent and warrant to the Company and the Seller as follows:

Section 5.1 Organization, Good Standing and Qualification.

(a) The Purchaser (i) is a corporation duly organized, validly existing and in good standing under the laws of the state of Nevada, (ii) has all requisite power and authority to carry on its business, and (iii) is duly qualified to transact business and is in good standing in all jurisdictions where its ownership, lease or operation of property or the conduct of its business requires such qualification, except where the failure to do so would not have a material adverse effect to the Purchaser.

(b) The Merger Sub (i) is a corporation duly organized, validly existing and in good standing under the laws of the state of Texas, (ii) has all requisite power and authority to carry on its business, and (iii) is duly qualified to transact business and is in good standing in all jurisdictions where its ownership, lease or operation of property or the conduct of its business requires such qualification, except where the failure to do so would not have a material adverse effect to the Merger Sub.

Section 5.2 Authorization. All action on the part of the Purchaser and the Merger Sub necessary for the authorization, execution, delivery and performance of this Agreement and all documents related to consummate the transactions contemplated herein has been taken by the respective corporation. Each of the Purchaser and the Merger Sub has the requisite power and authority to execute and deliver this Agreement and to perform its obligations hereunder and to consummate the transactions contemplated hereby. This Agreement, when duly executed and delivered in accordance with its terms, will constitute a valid and binding obligation of each of the Purchaser and the Merger Sub, enforceable against such corporation in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, and other similar laws of general application relating to or affecting creditors' rights and to general equitable principles.

Section 5.3 No Breaches or Defaults. The execution, delivery, and performance of this Agreement by each of Purchaser and Merger Sub does not: (i) conflict with, violate, or constitute a breach of or a default under or (ii) require any authorization, consent, approval, exemption, or other action by or filing with any third party or Governmental Authority under any provision of: (a) any applicable Legal Requirement, or (b) any credit or loan agreement, promissory note, or any other agreement or instrument to which any of Purchaser and Merger Sub is a party.

Section 5.4 Consents. No permit, consent, approval or authorization of, or designation, declaration or filing with, any Governmental Authority or any other person or entity is required on the part of any of Purchaser and Merger Sub in connection with the execution and delivery by Purchaser and Merger Sub of this Agreement or the consummation and performance of the transactions contemplated hereby.

Section 5.5 Disclosure. No representation or warranty of Purchaser and Merger Sub contained in this Agreement (including the exhibits hereto) contains any untrue statement or omits to state a material fact necessary in order to make the statements contained herein or therein, in light of the circumstances under which they were made, not misleading.

Section 5.6 Brokerage Commission. No broker or finder has acted on behalf of any of Purchaser and Merger Sub in connection with this Agreement or the transactions contemplated hereby and no person is entitled to any brokerage or finder's fee or compensation in respect thereto based in any way on agreements, arrangements or understandings made by or on behalf of any of Purchaser and Merger Sub.

ARTICLE VI

[INTENTIONALLY OMITTED]

ARTICLE VII CONDITIONS TO CLOSING OF THE SELLER AND THE COMPANY

Each obligation of the Seller and the Company to be performed on the Closing Date shall be subject to the satisfaction of each of the conditions stated in this Article VII, except to the extent that such satisfaction is waived by the Seller and the Company in writing:

Section 7.1 Payment of Merger Consideration. Purchaser shall have tendered the Merger Consideration as referenced in Section 3.2 hereof to the Company concurrently with the Closing, in the form of certificates evidencing the Purchaser Common Stock duly endorsed to Seller or accompanied by duly executed stock powers in form and substance satisfactory to the Seller.

Section 7.2 Corporate Resolutions. Purchaser and Merger Sub shall provide a corporate resolution of its respective Board of Directors which approves the transactions contemplated herein and authorizes the execution, delivery and performance of this Agreement and the documents referred to herein to which it is or is to be a party dated as of the Closing Date.

Section 7.3 Absence of Proceedings. No action, suit or proceeding by or before any court or any governmental or regulatory authority shall have been commenced and no investigation by any governmental or regulatory authority shall have been commenced seeking to restrain, prevent or challenge the transactions contemplated hereby or seeking judgments against Purchaser.

ARTICLE VIII CONDITIONS TO CLOSING OF THE PURCHASER AND MERGER SUB

Each obligation of Purchaser and Merger Sub to be performed on the Closing Date will be subject to the satisfaction of each of the conditions stated in this Article VIII, except to the extent that such satisfaction is waived by Purchaser in writing.

Section 8.1 Delivery of Purchaser Warrants. The Company shall have delivered certificates evidencing the Warrants to acquire shares of common stock of the Purchaser held by the Company and listed on Schedule 4.3 duly endorsed to the Company.

Section 8.2 Company Resolutions. The Company shall provide to Purchaser resolutions of its sole Member and Manager, the Seller, which approves all of the transactions contemplated herein and authorizes the execution, delivery and performance of this Agreement and the documents referred to herein to which it is or is to be a party dated as of the Closing Date.

Section 8.3 No Assumption of Liabilities. The Purchaser will not assume any liabilities of the Company as of the Closing Date.

Section 8.4 Absence of Proceedings. No action, suit or proceeding by or before any court or any governmental or regulatory authority will have been commenced and no investigation by any governmental or regulatory authority will have been commenced seeking to restrain, prevent or challenge the transactions contemplated hereby or seeking judgments against the Company or any of the Assets.

ARTICLE IX INDEMNIFICATION

Section 9.1 Indemnification from the Seller. Seller hereby agrees to and shall indemnify, defend (with legal counsel reasonably acceptable to Purchaser), and hold Purchaser, its officers, directors, shareholders, employees, affiliates, parent, agents, legal counsel, successors and assigns (collectively, the “**Purchaser Group**”) harmless at all times after the date of this Agreement, from and against any and all actions, suits, claims, demands, debts, liabilities, obligations, losses, damages, costs, expenses, penalties or injury (including reasonable attorneys’ fees and costs of any suit related thereto) suffered or incurred by any of the Purchaser Group arising from: (a) any misrepresentation by, or breach of any covenant or warranty of the Seller or the Company contained in this Agreement, or any exhibit, certificate, or other instrument furnished or to be furnished by the Seller or the Company hereunder; (b) any nonfulfillment of any agreement on the part of the Seller under this Agreement; or (c) any suit, action, proceeding, claim or investigation against Purchaser Group which arises from or which is based upon or pertaining to the Seller’s or the Company’s conduct or the operation or liabilities of the business of the Company or the Assets prior to the Closing Date.

Section 9.2 Indemnification from Purchaser. Purchaser agrees to and shall indemnify, defend (with legal counsel reasonably acceptable to the Seller) and hold the Seller and its officers, directors, affiliates, agents, legal counsel, successors and assigns (collectively, the “**Seller Group**”) harmless at all times after the date of the Agreement from and against any and all actions, suits, claims, demands, debts, liabilities, obligations, losses, damages, costs, expenses, penalties or injury (including reasonable attorney’s fees and costs of any suit related thereto) suffered or incurred by any of Seller Group, arising from (a) any misrepresentation by, or breach of any covenant or warranty of Purchaser contained in this Agreement or any exhibit, certificate, or other agreement or instrument furnished or to be furnished by Purchaser hereunder or; (b) any nonfulfillment of any agreement on the part of Purchaser under this Agreement.;

Section 9.3 Defense of Claims. If any lawsuit enforcement action or any attempt to collect on an alleged liability is filed against any party entitled to the benefit of indemnity hereunder, written notice thereof shall be given to the indemnifying party within ten (10) business days after receipt of notice or other date by which action must be taken; provided that the failure of any indemnified party to give timely notice shall not affect rights to indemnification hereunder except to the extent that the indemnifying party demonstrates damage caused by such failure. After such notice, the indemnifying party shall be entitled, if it so elects, to take control of the defense and investigation of such lawsuit or action and to employ and engage attorneys of its own choice to handle and defend the same, at the indemnifying party’s cost, risk and expense; and such indemnified party shall cooperate in all reasonable respects, at its cost, risk and expense, with the indemnifying party and such attorneys in the investigation, trial and defense of such lawsuit or action and any appeal arising therefrom; provided, however, that the indemnified party may, at its own cost, participate in such investigation, trial and defense of such lawsuit or action and any appeal arising therefrom. The indemnifying party shall not, without the prior written consent of the indemnified party, effect any settlement of any proceeding in respect of which any indemnified party is a party and indemnity has been sought hereunder unless such settlement of a claim, investigation, suit, or other proceeding only involves a remedy for the payment of money by the indemnifying party and includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such proceeding.

Section 9.4 Default of Indemnification Obligation. If an entity or individual having an indemnification, defense and hold harmless obligation, as above provided, shall fail to assume such obligation, then the party or entities or both, as the case may be, to whom such indemnification, defense and hold harmless obligation is due shall have the right, but not the obligation, to assume and maintain such defense (including reasonable counsel fees and costs of any suit related thereto) and to make any settlement or pay any judgment or verdict as the individual or entities deem necessary or appropriate in such individuals or entities absolute sole discretion and to charge the cost of any such settlement, payment, expense and costs, including reasonable attorneys’ fees, to the entity or individual that had the obligation to provide such indemnification, defense and hold harmless obligation and same shall constitute an additional obligation of the entity or of the individual or both, as the case may be.

Section 9.5 Survival of Representations and Warranties. The respective representations, warranties and indemnities given by the parties to each other pursuant to this Agreement shall survive the Closing for a period ending twelve (12) months from the Closing Date (“**Survival Date**”). Notwithstanding anything to the contrary contained herein, no claim for indemnification may be made against the party required to indemnify (the “Indemnitor”) under this Agreement unless the party entitled to indemnification (the “Indemnitee”) shall have given the Indemnitor written notice of such claim as provided herein on or before the Survival Date. Any claim for which notice has been given prior to the expiration of the Survival Date shall not be barred hereunder.

**ARTICLE X
MISCELLANEOUS**

Section 10.1 Amendment; Waiver. Neither this Agreement nor any provision hereof may be amended, modified or supplemented unless in writing, executed by all the parties hereto. Except as otherwise expressly provided herein, no waiver with respect to this Agreement shall be enforceable unless in writing and signed by the party against whom enforcement is sought. Except as otherwise expressly provided herein, no failure to exercise, delay in exercising, or single or partial exercise of any right, power or remedy by any party, and no course of dealing between or among any of the parties, shall constitute a waiver of, or shall preclude any other or further exercise of, any right, power or remedy.

Section 10.2 Notices. Any notices or other communications required or permitted hereunder shall be sufficiently given if in writing and delivered in Person or sent by registered or certified mail (return receipt requested) or nationally recognized overnight delivery service, postage pre-paid, addressed as follows, or to such other address as such party may notify to the other parties in writing:

- (a) If to the Seller or the Company: Greg McCabe
500 W. Texas, Suite 890
Midland, Texas 79701
- with a copy to: Michael J. Dawson
Dawson Parrish, PC
309 W. 7th St, Ste. 915
Fort Worth, Texas 76102
- (b) If to the Purchaser or Merger Sub: Torchlight Energy Resources, Inc.
Attn: John Brda, President
5700 W. Plano Parkway, Suite 3600
Plano, Texas 75093
- with a copy to: Robert D. Axelrod
Axelrod, Smith & Kirshbaum
5300 Memorial Drive, Suite 1000
Houston, Texas 77007

A notice or communication will be effective (i) if delivered in Person or by overnight courier, on the business day it is delivered and (ii) if sent by registered or certified mail, three (3) business days after dispatch.

Section 10.3 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement.

Section 10.4 Assignment; Successors and Assigns. Except as otherwise provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors and permitted assigns of the parties hereto. No party hereto may assign its rights or delegate its obligations under this Agreement without the prior written consent of the other parties hereto, which consent will not be unreasonably withheld.

Section 10.5 Public Announcements. The parties hereto agree that prior to making any public announcement or statement with respect to the transactions contemplated by this Agreement, the party desiring to make such public announcement or statement shall consult with the other parties hereto and exercise their best efforts to agree upon the text of a public announcement or statement to be made by the party desiring to make such public announcement; provided, however, that if any party hereto is required by law to make such public announcement or statement, then such announcement or statement may be made without the approval of the other parties. Provided, however, that this section shall not apply post-Closing to Purchaser or Company.

Section 10.6 Entire Agreement. This Agreement, the Plan of Merger and the other documents delivered pursuant hereto constitute the full and entire understanding and agreement between the parties with regard to the subject matter hereof and thereof and supersede and cancel all prior representations, alleged warranties, statements, negotiations, undertakings, letters, acceptances, understandings, contracts and communications, whether verbal or written among the parties hereto and thereto or their respective agents with respect to or in connection with the subject matter hereof.

Section 10.7 Choice of Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Texas without regard to principles of conflict of laws. In any action between or among any of the parties, whether arising out of this Agreement or otherwise, each of the parties irrevocably consents to the exclusive jurisdiction and venue of the federal and state courts located in Collin County, Texas.

Section 10.8 Execution. This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a “.pdf” format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or “.pdf” signature page were an original thereof.

Section 10.9 Costs and Expenses. Each party shall pay their own respective fees, costs and disbursements incurred in connection with this Agreement.

Section 10.10 Section Headings. The section and subsection headings in this Agreement are used solely for convenience of reference, do not constitute a part of this Agreement, and shall not affect its interpretation.

Section 10.11 No Third-Party Beneficiaries. Nothing in this Agreement will confer any third party beneficiary or other rights upon any person (specifically including any employees of The Company) or any entity that is not a party to this Agreement.

Section 10.12 Further Assurances. Each party covenants that at any time, and from time to time, after the Closing Date, it will execute such additional instruments and take such actions as may be reasonably be requested by the other parties to confirm or perfect or otherwise to carry out the intent and purposes of this Agreement.

Section 10.13 Exhibits Not Attached. Any exhibits not attached hereto on the date of execution of this Agreement shall be deemed to be and shall become a part of this Agreement as if executed on the date hereof upon each of the parties initialing and dating each such exhibit, upon their respective acceptance of its terms, conditions and/or form.

Section 10.14 Attorney Review - Construction. In connection with the negotiation and drafting of this Agreement, the parties represent and warrant to each other that they have had the opportunity to be advised by attorneys of their own choice and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any amendments hereto.

Section 10.15 Gender. All personal pronouns used in this Agreement shall include the other genders, whether used in the masculine, feminine or neuter gender and the singular shall include the plural and vice versa, wherever appropriate.

[SIGNATURES APPEAR ON THE FOLLOWING PAGE.]

IN WITNESS WHEREOF, the undersigned have executed this Agreement and Plan of Reorganization to become effective as of the Effective Date.

COMPANY

LINE DRIVE ENERGY, LLC, a Texas limited liability company

By: /s/ Greg McCabe, Sr.

Greg McCabe, Sr., Manager

SELLER

By: /s/ Greg McCabe, Sr.

GREG MCCABE, SR.

PARENT

TORCHLIGHT ENERGY RESOURCES, INC., a Nevada corporation

By: /s/ John Brda

John Brda, CEO

MERGER SUB

TORCHLIGHT ACQUISITION CORPORATION, a Texas corporation

By: /s/ John Brda

John Brda, President

EXHIBIT A
PLAN OF MERGER

This **PLAN OF MERGER** (the "Plan of Merger") is made as of the 30th day of January, 2017 by and among **TORCHLIGHT ENERGY RESOURCES, INC.**, a Nevada corporation ("Purchaser"), **TORCHLIGHT ACQUISITION CORPORATION**, a Texas corporation ("Merger Sub"), and **LINE DRIVE ENERGY, LLC**, a Texas limited liability company ("Target") (Merger Sub and Target being hereinafter collectively referred to as the "Parties to the Merger").

RECITALS

A. Prior to the execution of this Plan of Merger, Purchaser, Merger Sub, and Target have entered into an Agreement and Plan of Reorganization dated as of January 30, 2017 (the "Plan of Reorganization") providing for certain representations, warranties, and agreements in connection with the transaction contemplated.

B. The Boards of Directors of Purchaser and Merger Sub and the Manager and Member of Target have approved the acquisition of Target by Parent.

C. The Boards of Directors of Purchaser and Merger Sub and the Manager and Member of Target have approved the merger of Merger Sub into Target (the "Merger") upon the terms and subject to the conditions set forth herein and in the Plan of Reorganization.

D. For federal income tax purposes, it is intended that the Merger shall qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code").

WITNESSETH

Now, therefore, in consideration of the premises and the mutual promises and covenants contained herein, and subject to the conditions hereinafter set forth, the parties agree as follows:

ARTICLE I
THE MERGER

1.1 The Merger. At the Effective Time (as defined in Section 1.2) and subject to the terms and conditions of this Plan of Merger and the Plan of Reorganization, Merger Sub shall be merged with and into Target and the separate existence of Merger Sub shall thereupon cease, in accordance with the applicable provisions of the Texas Business Organizations Code (the "Act"). Target shall be the surviving organization in the Merger (sometimes referred to herein as the "Surviving Entity") and will continue to be governed by the laws of the State of Texas, and the existence of Target will continue. The Merger will have the effects specified by the Act.

1.2 Effective Time. As soon as practicable following fulfillment or waiver of the conditions specified in Article VII of the Plan of Reorganization and provided that this Plan of Merger has not been terminated or abandoned pursuant to Article IV hereof, the Parties to the Merger will cause a Certificate of Merger (the "Certificate of Merger") to be filed with the office of the Secretary of State of the State of Texas as provided in Section 10.151 of the Act, and will cause this Plan of Merger to be on file at the principal place of business of the Target. Subject to and in accordance with the laws of the State of Texas, the Merger will become effective upon the filing of the Certificate of Merger with the office of the Secretary of State of the State of Texas , or such later time or date as may be specified in the Certificate of Merger (the "Effective Time").

ARTICLE II THE SURVIVING ORGANIZATION

2.1 Certificate of Formation. The Certificate of Formation of Target, as in effect immediately prior to the Effective Time shall be the Certificate of Formation of the Surviving Organization until the same shall be altered or amended.

2.2. Company Agreement. The Company Agreement of Target, as in effect immediately prior to the Effective Time shall be the Company Agreement of the Surviving Organization until the same shall be altered or amended.

2.3. Manager. The Manager of Target, as the Surviving Organization, immediately after the Effective Time shall be John Brda.

ARTICLE III CONVERSION OF SECURITIES

3.1 Conversion of Capital Stock of Merger Sub. As of the Effective Time, by virtue of the Merger and without any action on the part of Purchaser, Merger Sub, Target or the respective shareholders or members thereof, each share of the capital stock of Merger Sub issued and outstanding immediately prior to the Effective Time shall be automatically converted into and become one (1) validly issued membership interest in the Surviving Organization, and such membership interest in the Surviving Organization shall constitute all of the issued and outstanding membership interests in the Surviving Organization immediately following the Effective Time.

3.2 Conversion of Membership Interest in Target.

(a) Aggregate Merger Consideration. The aggregate merger consideration payable for the issued and outstanding membership interest in Target (the "Merger Consideration") shall be 3,301,739 restricted shares of common stock, par value \$0.0001 per share, of Purchaser ("Purchaser Common Stock"). The issuance of the Purchaser Common Stock will be made without registration under the Securities Act of 1933, as amended, or any securities "blue sky" or other similar laws of any state.

(b) Cancellation of Target Membership Interest. As of the Effective Time, by virtue of the Merger and without any action on the part of Purchaser, Merger Sub, Target or the respective shareholders of members thereof, the membership interest in Target issued and outstanding immediately prior to the Effective Time (the “Target Membership Interest”) shall cease to exist; provided, however, that the holder of the Target Membership Interest shall be entitled to the Merger Consideration in the form of Purchaser Common Stock.

(c) Payment of Merger Consideration. At the Closing (as defined in the Plan of Reorganization), Purchaser will deliver stock certificates evidencing the Purchaser Common Stock.

ARTICLE IV TERMINATION AND AMENDMENT

4.1 Termination. This Plan of Merger shall terminate in the event of and upon termination of the Plan of Reorganization.

4.2 Amendment. This Plan of Merger may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

4 . 3 Severability. Whenever possible, each provision of this Plan of Merger shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Plan of Merger is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Plan of Merger.

4 . 4 Assignment, Successors and Assigns. The provisions hereof shall inure to the benefit of, and be binding upon, the successors and permitted assigns of the parties hereto. No party hereto may assign its rights or delegate its obligations under this Plan of Merger without the prior written consent of the other parties hereto, which consent will not be unreasonably withheld.

4 . 5 Entire Agreement. This Agreement and the Plan of Reorganization constitute the full and entire understanding and agreement between the parties with regard to the subject matter hereof and thereof and supersede and cancel all prior representations, alleged warranties, statements, negotiations, undertakings, letters, acceptances, understandings, contracts and communications, whether verbal or written among the parties hereto and thereto or their respective agents with respect to or in connection with the subject matter hereof.

4 . 6 Choice of Law. This Plan of Merger shall be governed by, and construed in accordance with, the laws of the State of Texas without regard to principles of conflict of laws. In any action between or among any of the parties, whether arising out of this Plan of Merger or otherwise, each of the parties irrevocably consents to the exclusive jurisdiction and venue of the federal and state courts located in Collin County, Texas.

4.7 Execution. This Plan of Merger may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party, it being understood that both parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a “.pdf” format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or “.pdf” signature page were an original thereof.

4 . 8 Section Headings. The section and subsection headings in this Plan of Merger are used solely for convenience of reference, do not constitute a part of this Plan of Merger, and may not affect its interpretation.

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IN WITNESS WHEREOF, the parties, by and through their respective authorized representatives, have executed this Plan of Merger effective as of the day first written above.

TORCHLIGHT ENERGY RESOURCES, INC., a
Nevada corporation

By: /s/ John Brda
Name: John Brda
Title: President

TORCHLIGHT ACQUISITION CORPORATION,
a Texas corporation

By: /s/ John Brda
John Brda, President

LINE DRIVE ENERGY, LLC, a Texas limited
liability company

By: /s/ Greg McCabe, Sr.
Name: Greg McCabe, Sr., Manager

Schedules

Schedule 4.3 -- Assets

Warrant to Purchase 521,739 shares of common stock of Torchlight Energy Resources, Inc., warrant certificate number W-SAP-004

Lessor: Cotten Resources, LTD

Lessee: Torchlight Energy, Inc.

Date: June 8, 2016

V/P: Unknown

Legal Description:

All of Section 73 Block 6, Abstract 1005, Tom Green County, 640 acres.

All of Section 41, Block 7, Abstract 950(TG) & 237(S), Tom Green and Sterling County, 640 acres

All of Section 86, Block 6, Abstract 8472(TG) & 1119(S), Tom Green and Sterling County, 640 acres

All of Section 87, Block 6, Abstract 1012(TG) & 191(S), Tom Green and Sterling County, 640 acres

All of Section 88, Block 6, Abstract 8345(TG) & 1076(S), Tom Green and Sterling County, 640 acres**

All of Section 90, Block 6, Abstract 1075, Sterling County, 640 acres

All of Section 91, Block 6, Abstract 193, Sterling County, 640 acres

Total acres: 4,480 gross acres

** Save and Except 40 acres in the form of a square around the wellbore of the EXCO PNR-Harris Heirs "88" #1 Well (API No. 42-431-33263) located 850 feet FNL and 1320 feet FWL of Section 88, as to depths from the surface down to 5,482 feet.

Lessor: Cotten Resources, LTD

Lessee: Oxy USA, Inc.

Date: 4/12/13

V/P: 71/345

Legal Description:

All of Section 73 Block 6, Abstract 1005, Tom Green County, 640 acres.

All of Section 41, Block 7, Abstract 950(TG) & 237(S), Tom Green and Sterling County, 640 acres

All of Section 86, Block 6, Abstract 8472(TG) & 1119(S), Tom Green and Sterling County, 640 acres

All of Section 87, Block 6, Abstract 1012(TG) & 191(S), Tom Green and Sterling County, 640 acres

All of Section 88, Block 6, Abstract 8345(TG) & 1076(S), Tom Green and Sterling County, 640 acres**

All of Section 90, Block 6, Abstract 1075, Sterling County, 640 acres

All of Section 91, Block 6, Abstract 193, Sterling County, 640 acres

Total acres: 4,480 gross acres

** Save and Except 40 acres in the form of a square around the wellbore of the EXCO PNR-Harris Heirs "88" #1 Well (API No. 42-431-33263) located 850 feet FNL and 1320 feet FWL of Section 88, as to depths from the surface down to 5,482 feet.

Lessor: Judson Properties, LTD, & Judson Investment Corporation

Lessee: Oxy USA, Inc.

Date: 4/12/13

V/P: 71/360

Legal Description:

All of Section 70, Block 6, Abstract 8592(TG) & 1187(I), Irion and Tom Green County, 644.20 acres

All of Section 71, Block 6, Abstract 1004(TG) & 347(I), Irion and Tom Green County, 640 acres

All of Section 72, Block 6, Abstract 8662(TG) & 1214(I), Irion and Tom Green County, 644.20 acres

All of Section 73 Block 6, Abstract 1005, Tom Green County, 640 acres

All of Section 74, Block 6, Abstract 8344, Tom Green County, 645.9 acres

All of Section 75, Block6, Abstract 1006, Tom Green County, 640 acres

All of Section 41, Block 7, Abstract 950(TG) & 237(S), Tom Green and Sterling County, 640 acres

All of Section 86, Block 6, Abstract 8472(TG) & 1119(S), Tom Green and Sterling County, 640 acres

All of Section 87, Block 6, Abstract 1012(TG) & 191(S), Tom Green and Sterling County, 640 acres

All of Section 88, Block 6, Abstract 8345(TG) & 1076(S), Tom Green and Sterling County, 640 acres**

Total acres: 6,414.3

All of Section 89, Block 6, Abstract 192, Sterling County, 640 acres

All of Section 90, Block 6, Abstract 1075, Sterling County, 640 acres

All of Section 91, Block 6, Abstract 193, Sterling County, 640 acres

All of Section 102, Block 6, Abstract 1170, Sterling County, 649 acres

All of Section 103, Block 6, Abstract 199, Sterling County, 640 acres

All of Section 104, Block 6, Abstract 1169, Sterling County, 649.3 acres

All of Section 105, Block 6, Abstract 201, Sterling County, 640 acres

All of Section 106, Block 6, Abstract 1072, Sterling County, 650 acres

All of Section 107, Block 6, Abstract 202, Sterling County, 640 acres

Total acres: 5,788.30 gross acres

** Save and Except 40 acres in the form of a square around the wellbore of the EXCO PNR-Harris Heirs "88" #1 Well (API No. 42-431-33263) located 850 feet FNL and 1320 feet FWL of Section 88, as to depths from the surface down to 5,482 feet.

Lessor: LAJ Corporation

Lessee: Oxy USA, Inc.

Date: 4/11/13

V/P: 71/366

Legal Description:

All of Section 70, Block 6, Abstract 8592(TG) & 1187(I), Irion and Tom Green County, 644.20 acres
All of Section 71, Block 6, Abstract 1004(TG) & 347(I), Irion and Tom Green County, 640 acres
All of Section 72, Block 6, Abstract 8662(TG) & 1214(I), Irion and Tom Green County, 644.20 acres
All of Section 73 Block 6, Abstract 1005, Tom Green County, 640 acres
All of Section 74, Block 6, Abstract 8344, Tom Green County, 645.9 acres
All of Section 75, Block6, Abstract 1006, Tom Green County, 640 acres
All of Section 41, Block 7, Abstract 950(TG) & 237(S), Tom Green and Sterling County, 640 acres
All of Section 86, Block 6, Abstract 8472(TG) & 1119(S), Tom Green and Sterling County, 640 acres
All of Section 87, Block 6, Abstract 1012(TG) & 191(S), Tom Green and Sterling County, 640 acres
All of Section 88, Block 6, Abstract 8345(TG) & 1076(S), Tom Green and Sterling County, 640 acres**
Total acres: 6,414.3

All of Section 89, Block 6, Abstract 192, Sterling County, 640 acres
All of Section 90, Block 6, Abstract 1075, Sterling County, 640 acres
All of Section 91, Block 6, Abstract 193, Sterling County, 640 acres
All of Section 102, Block 6, Abstract 1170, Sterling County, 649 acres
All of Section 103, Block 6, Abstract 199, Sterling County, 640 acres
All of Section 104, Block 6, Abstract 1169, Sterling County, 649.3 acres
All of Section 105, Block 6, Abstract 201, Sterling County, 640 acres
All of Section 106, Block 6, Abstract 1072, Sterling County, 650 acres
All of Section 107, Block 6, Abstract 202, Sterling County, 640 acres
Total acres: 5,788.30 gross acres

** Save and Except 40 acres in the form of a square around the wellbore of the EXCO PNR-Harris Heirs "88" #1 Well (API No. 42-431-33263) located 850 feet FNL and 1320 feet FWL of Section 88, as to depths from the surface down to 5,482 feet.

Lessor: Sigmar, Inc.

Lessee: Oxy USA, Inc.

Date: 4/11/13

V/P: 71/354

Legal Description:

All of Section 70, Block 6, Abstract 8592(TG) & 1187(I), Irion and Tom Green County, 644.20 acres
All of Section 71, Block 6, Abstract 1004(TG) & 347(I), Irion and Tom Green County, 640 acres
All of Section 72, Block 6, Abstract 8662(TG) & 1214(I), Irion and Tom Green County, 644.20 acres
All of Section 73 Block 6, Abstract 1005, Tom Green County, 640 acres
All of Section 74, Block 6, Abstract 8344, Tom Green County, 645.9 acres
All of Section 75, Block6, Abstract 1006, Tom Green County, 640 acres

All of Section 41, Block 7, Abstract 950(TG) & 237(S), Tom Green and Sterling County, 640 acres
All of Section 86, Block 6, Abstract 8472(TG) & 1119(S), Tom Green and Sterling County, 640 acres
All of Section 87, Block 6, Abstract 1012(TG) & 191(S), Tom Green and Sterling County, 640 acres
All of Section 88, Block 6, Abstract 8345(TG) & 1076(S), Tom Green and Sterling County, 640 acres**
Total acres: 6,414.3

All of Section 89, Block 6, Abstract 192, Sterling County, 640 acres
All of Section 90, Block 6, Abstract 1075, Sterling County, 640 acres
All of Section 91, Block 6, Abstract 193, Sterling County, 640 acres
All of Section 102, Block 6, Abstract 1170, Sterling County, 649 acres
All of Section 103, Block 6, Abstract 199, Sterling County, 640 acres
All of Section 104, Block 6, Abstract 1169, Sterling County, 649.3 acres
All of Section 105, Block 6, Abstract 201, Sterling County, 640 acres
All of Section 106, Block 6, Abstract 1072, Sterling County, 650 acres
All of Section 107, Block 6, Abstract 202, Sterling County, 640 acres
Total acres: 5,788.30 gross acres

** Save and Except 40 acres in the form of a square around the wellbore of the EXCO PNR-Harris Heirs "88" #1 Well (API No. 42-431-33263) located 850 feet FNL and 1320 feet FWL of Section 88, as to depths from the surface down to 5,482 feet.

Lessor: Wayne H. Bellows; Marilyn L. Bellows; Andrew Paul Smith and wife, Bonnie Smith; Andrew P. Smith, Trustee; Andrew P. Smith, JR., Trustee of the Andrew P. Smith, Jr., Mineral Trust dated September 19, 2008; Clayton H. Smith, Trustee of the Clayton H. Smith Mineral Trust dated September 19, 2008; Shannon Fraser Smith Stephens, Successor Trustee of the David M. Smith Family Trust U/W/O of David Malcolm Smith, Deceased; Frank Harris Smith and wife, Gloria Grubb Smith, Wells Fargo Bank N.A., Successor Trustee of the Keith French Ellwanger Trust; Stephen Martin Samuel; Daniel H. Barrow, Kenneth H. Wanamaker, Trustee of the Townes Trust; Robin Mourning and Deborah Jeanne Crownover, Trustee of the Crownover Revocable Trust dated October 7, 1993, as Amended and Restated in Restated Declaration of Trust dated May 22, 2012

Lessee: Oxy USA, Inc.

Date: 7/12/12

V/P: 63/350

Legal Description:

All of Section 70, Block 6, Abstract 8592(TG) & 1187(I), Irion and Tom Green County, 644.20 acres
All of Section 71, Block 6, Abstract 1004(TG) & 347(I), Irion and Tom Green County, 640 acres
All of Section 72, Block 6, Abstract 8662(TG) & 1214(I), Irion and Tom Green County, 644.20 acres
All of Section 73 Block 6, Abstract 1005, Tom Green County, 640 acres
All of Section 74, Block 6, Abstract 8344, Tom Green County, 645.9 acres

All of Section 75, Block 6, Abstract 1006, Tom Green County, 640 acres
All of Section 41, Block 7, Abstract 950(TG) & 237(S), Tom Green and Sterling County, 640 acres
All of Section 86, Block 6, Abstract 8472(TG) & 1119(S), Tom Green and Sterling County, 640 acres
All of Section 87, Block 6, Abstract 1012(TG) & 191(S), Tom Green and Sterling County, 640 acres
All of Section 88, Block 6, Abstract 8345(TG) & 1076(S), Tom Green and Sterling County, 640 acres**
Total acres: 6,414.3

All of Section 89, Block 6, Abstract 192, Sterling County, 640 acres
All of Section 90, Block 6, Abstract 1075, Sterling County, 640 acres
All of Section 91, Block 6, Abstract 193, Sterling County, 640 acres
All of Section 102, Block 6, Abstract 1170, Sterling County, 649 acres
All of Section 103, Block 6, Abstract 199, Sterling County, 640 acres
All of Section 104, Block 6, Abstract 1169, Sterling County, 649.3 acres
All of Section 105, Block 6, Abstract 201, Sterling County, 640 acres
All of Section 106, Block 6, Abstract 1072, Sterling County, 650 acres
All of Section 107, Block 6, Abstract 202, Sterling County, 640 acres
Total acres: 5,788.30 gross acres

** Save and Except 40 acres in the form of a square around the wellbore of the EXCO PNR-Harris Heirs "88" #1 Well (API No. 42-431-33263) located 850 feet FNL and 1320 feet FWL of Section 88, as to depths from the surface down to 5,482 feet.

Lessor: Wesley Z. Hodges and wife, Karen G. Hodges

Lessee: Oxy USA, Inc.

Date: 7/18/13

V/P: 73/355

Legal Description:

33.96 acres, more or less, situated in Sterling County, TX out of what is known and designated as Survey No 1H out of the J.E. Beavers Survey No 1, described in Warranty Deed dated January 28, 1942 from W.B. Atkinson to L.F. Hodges, recorded in Volume 35, Page 101, Deed Records of Sterling County, TX and more particularly described as follows:

Beginning at a rock mound made for the S. Common corner of Sections 37 and 38, G.C.&S.F.Ry. Co. for N.E. Corner of this survey and N.W. Corner of Sur. 1-A in name of W.B. Atkinson.

Thence South $87^{\circ}41'W$. with the S. line of said Section 38, 1903 vrs. to an old rock mound at a fence corner for the S. common corner of Sections 38 and 39 for N.W. Corner of this survey:

Thence South $4^{\circ}45'E$, with a division fence 89 vrs. to a stake for S.W. corner of this survey and N.W. corner of Survey N. 2A in the name of W.B. Atkinson;

Thence East with the N. line of Section 136, Block 6, H. & T.C. Ry. Co. 1896 vrs. to a point in the N. line of said Section 136, for the SE corner of this survey and S.W. corner of Survey No. 1-A, W.B. Atkinson;

Thence North 130 vrs. to the place of the beginning.

Lessor: James Clinton Hodges and wife, Joyce G. Hodges

Lessee: Oxy USA, Inc.

Date: 7/25/13

V/P: 73/667

Legal Description:

52.52 acres more or less, situated in Sterling County, TX out of what is known and designated as Survey No. 2H out of the J.E. Beavers Survey No. 1, described in Warranty Deed dated January 28, 1942 from W.B. Atkinson to L.F. Hodges, recorded in Volume 35, Page 101, deed records of Sterling County, Tx and more particularly described as follows:

Beginning at an old rock mound made for the S. Common corner of Sections 38 and 39, G.C.&S.F. Ry. Co. for the Northerly corner of this survey.

Thence South 4°41'E, with the division fence 1947 vrs. a rock mound for the SW corner of Section 136, Blk 6, H.&T.C. Ry. Co., a mesquite stump brs. S, 27-1/2° E 79 vrs. DO. Brs. S. 41-1/2° E, ff-1/2° vrs.

Thence West at 1915 vrs. a rock mound for the N common corner of Section 7 and 8, Blk 7, .&T.C. Ry. Co., at 3828 vrs. a rock mound for N common corner of Section 6 and 7 in said Blk 7. A mesquite 8" brs. S 33° E, 55 vrs. at 4048 vrs. a stake in the N line of Section 6 in said Blk 7, At a point 220 vrs, West of its NE corner for SW corner of this survey;

Thence North 33vrs. to the S common corner of Sections 41 and 44, G.C.&S.F. Ry Co. for NW corner of this survey;

Thence North 89° 40'E 1937 vrs. to SE corner of Section 40, G.C.&S.F. Ry Co., which is 159 vrs. W and 40 vrs. N of the SW corner of said Section 136.

Thence North 1900 vrs. to the place of beginning.

Lessor: Hudson Management, Ltd.

Lessee: Oxy USA, Inc.

Date: 1/25/13

V/P: 203/624

Legal Description:

510 acre portion of Section 70, Block 6, Abstract 8592(TG) & 1187(I), Irion and Tom Green County

400 acre portion of Section 71, Block 6, Abstract 1004(TG) & 347(I), Irion and Tom Green County

All of Section 74, Block 6, Abstract 8344, Tom Green County, 645.9 acres

All of Section 75, Block 6, Abstract 1006, Tom Green County, 640 acres

Schedule 4.16 – Encumbrances

The Assets are specifically subject to that certain Participation Agreement, dated effective May 1, 2016, by and between McCabe Petroleum Corporation, Imperial Exploration, LLC, and Torchlight Energy, Inc., and all amendments and modifications thereto. The Participation Agreement also includes a joint operating agreement that is binding on the assets.

Schedule 4.17 -- Liabilities

1. The Assets are specifically subject to that certain Participation Agreement, dated effective May 1, 2016, by and between McCabe Petroleum Corporation, Imperial Exploration, LLC, and Torchlight Energy, Inc., and all amendments and modifications thereto. The Participation Agreement also includes a joint operating agreement that is binding on the assets.
2. Its proportionate share of the costs incurred in drilling the Flying B Ranch #2 Well (API Number 42-451-32852).

Schedule 4.18 – Contracts and Leases

The Assets are specifically subject to that certain Participation Agreement, dated effective May 1, 2016, by and between McCabe Petroleum Corporation, Imperial Exploration, LLC, and Torchlight Energy, Inc., and all amendments and modifications thereto. The Participation Agreement also includes a joint operating agreement that is binding on the assets.

PURCHASE AND SALE AGREEMENT

This PURCHASE AND SALE AGREEMENT (this "Agreement"), dated effective January 30, 2017, (the "Effective Date"), is entered into by **Wolfbone Investments, LLC** ("Seller"), and **Torchlight Energy, Inc.**, a Nevada corporation, 5700 W. Plano Pkwy., Ste. 3600, Plano, Texas 75093, ("Purchaser" or "Buyer"). Seller and Purchaser are sometimes collectively referred to as the "Parties" and each is referred to individually as a "Party."

RECITALS

WHEREAS, Seller owns an undivided 40.66% of 8/8ths working interest in an oil/gas well, the Flying B Ranch #1 (API 451-32847) located in Tom Green County, Texas, and the personal property associated with the well, along with an undivided 40.66% of 8/8ths working interest in an oil and gas leases covering forty acres around such well.

WHEREAS, Seller desires to sell, and Purchaser desires to purchase, all of Seller's right, title and interest in the above referenced well, oil and gas leases, and related assets, which constitute the Assets, as more fully described and defined below, on the terms and conditions set forth in this Agreement.

WHEREAS, Seller and Buyer are bound by that certain Participation Agreement (the "Participation Agreement"), dated effective May 1, 2016, among McCabe Petroleum Corporation, Imperial Exploration, LLC, and Torchlight Energy, Inc., and all amendments and modifications thereto, which is applicable to the Assets; and

WHEREAS, Seller and Purchaser intend that the purchase price for the Assets shall be based on fair market value under current prices for oil and gas.

DEFINITIONS

"Assets" means

- (a) All of Seller's working interest in the oil and gas leases, described in the Assignment of Oil & Gas Interests ("Assignment") attached as **Exhibit A** (the "Leases") and the lands covered by such Leases or otherwise pooled or unitized therewith (the "Lands").
- (b) The working interests assigned in **Exhibit A** include a proportionate undivided interest in the following (to the extent that such exists or is accessible to Seller):
 - 1. The oil and gas wells now located on the Lands or lands pooled or unitized therewith, whether producing or non-producing (the "Wells"), and all Hydrocarbons that may be produced from the Wells after the Closing.

2. Subject to all rights of offset or withholding under the Participation Agreement, all Hydrocarbon sales, purchase, gathering, compression, treating, transportation, storage and processing agreements and all other contracts, operating agreements, balancing agreements, joint venture agreements, partnership agreements, farmout agreements and other contracts, agreements and instruments insofar and only insofar as they cover or relate to the Leases and Lands, excluding any insurance contracts.
3. The geological and geophysical data, studies, surveys, evaluations, maps, plats and information of every form and nature and in every form and manner record, stored or transmitted, pertaining to the Leases and Lands.
4. The permits, licenses, approvals, servitudes, rights-of-way, easements, surface use agreements, and other surface rights that are used or held primarily for use in connection with the operation of the Leases and Lands (or lands pooled, communitized or unitized therewith) (collectively, the "Easements").
5. The personal property, equipment, machinery, fixtures and improvements, operational or nonoperational, known or unknown, located on the Lands (or lands pooled, communitized or unitized therewith) or the Easements, including pipelines, gathering systems, manifolds, well equipment, casing, tubing, pumps, motors, compression equipment, flow lines, processing and separation facilities, pads, and structures that, as of the date of this Agreement, are located on the Lands (or lands pooled, communitized or unitized therewith), and to the degree such are used or held for use primarily in connection with the operation of the Assigned Interest in the Wells or Lands (or lands pooled, communitized or unitized therewith) (collectively, the "Equipment").
6. The rights to any fee surface property, and the surface leases used for Seller yards for operation of the Leases and Lands.
7. The pipes, tubulars, fittings, and other materials used or specifically held for use as operating inventory in connection with the operation of the Leases and Lands in the Wells or the Equipment.

"Closing" means the execution of all documents necessary to effectuate the sale and transfers of the Assets contemplated under this Agreement, which shall occur contemporaneously with the execution of this Agreement, at Buyer's offices.

"Hydrocarbons" means all oil, gas, natural gas liquids and other hydrocarbons and products produced in association therewith.

"Net Revenue Interest" means the share of production after all burdens, royalties, and overriding royalties, have been deducted from the working interest.

In this Agreement, unless expressly stated otherwise, the singular includes the plural, and vice versa; likewise, the disjunctive includes the conjunctive, and vice versa.

AGREEMENT

For and in consideration of the mutual promises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

- A. **Sale and Purchase.** At the Closing, upon the terms and conditions hereinafter set forth, Seller agrees to sell, assign and convey to Purchaser all of its right, title and interest in the Assets, respectively, effective as of the Effective Time, and Purchaser agrees to buy and accept such right, title and interest in such Assets from Seller at such Closing, effective as of the Effective Time.
- B. **Cancellation of Warrants.** As part of the transaction contemplated by this Agreement, Seller will cause the following warrants to be canceled:
- a. a Purchase Warrant giving Green Hill Minerals, LLC the right to purchase 100,000 Warrant Shares, which has a warrant number of "SEPT-100-2015", a date of issuance of September 30, 2015 and an expiration date of September 30, 2018 (the "100,000 Warrant"), and (ii) a Purchase Warrant giving it the right to purchase 1,700,000 Warrant Shares, which has a warrant number of "FEB-100-2016-A", a date of issuance of February 15, 2016 and an expiration date of February 15, 2020. Such cancellation will be effected through the Warrant Cancellation Agreement attached hereto as Exhibit B-1, which will be executed by Green Hill Minerals and Torchlight Energy Resources, Inc. at Closing; and
 - b. Seller shall additionally cause McCabe Petroleum Corporation to deliver to Purchaser for cancellation a total of 1,500,000 warrants to purchase common stock of Torchlight Energy Resources, Inc., which warrants are held in the name of McCabe Petroleum Corporation, a warrant number of "APRIL-04-2016," a date of issuance of April 4, 2016 and an expiration date of April 4, 2021. Such cancellation will be effected through the Warrant Cancellation Agreement attached hereto as Exhibit B-2, which will be executed by McCabe Petroleum Corporation and Torchlight Energy Resources, Inc. at Closing.
- C. **Purchase Price for Assets.** Subject to the terms and conditions in this Agreement:
- 1. Purchaser will purchase the Assets by a cash payment of FOUR HUNDRED FIFTEEN THOUSAND AND 92/100THS US DOLLARS (\$415,000.00) (the "Purchase Price") at the Closing.

D. **Acquisition of Assets and Conditions of Closing.**

As conditions to the Closing:

- 1. On or before the Closing, Seller will deliver the Assets to Purchaser as is, where is, with all faults.

2. The Parties will execute and deliver the Assignment attached and incorporated herein as Exhibit A to effectuate transfer the Assets.
 3. Seller and Purchaser shall execute and deliver all necessary letters in lieu of transfer orders directing all purchasers of production to pay operator the proceeds attributable to production, which will distribute the net proceeds from production from the Assets from and after the Effective Time to Purchaser.
 4. Torchlight Energy Resources, Inc. shall have acquired all the right, title and interest in all membership interest Line Drive Energy, LLC, as outlined in the Purchase Agreement among Torchlight Energy Resources, Inc., Greg McCabe, and Line Drive Energy, LLC, dated effective November 1, 2016.
 5. Green Hill Minerals and Torchlight Energy Resources, Inc. will execute and deliver the Warrant Cancellation Agreement attached hereto as Exhibit B-1.
 6. McCabe Petroleum Corporation and Torchlight Energy Resources, Inc. will execute and deliver the Warrant Cancellation Agreement attached hereto as Exhibit B-2.
- E. **Taxes.** Seller shall pay all taxes on the Assets that are accrued as of the Effective Time.
- F. **Responsibility for Recordation.** Purchaser's counsel shall record the Assignment Agreement in the appropriate real property records, and provide copies of the file-stamped originals of those documents to the Parties as soon as practicable after each Closing.
- G. **Representations, Warranties and Covenants.**
1. **Seller's Representations, Warranties and Covenants.** Each of the Sellers hereby, jointly and severally, make the following representations and warranties to the Purchaser as of the date of the Agreement:
 - (a) Seller has all requisite power and authority to carry on his business as presently conducted, to enter into this Agreement and to perform his obligations hereunder. The consummation of the transactions contemplated by this Agreement will not violate or be in conflict with any provision of any material agreement or instrument to which Seller is a party or by which Seller is bound, or any judgment, decree, order, statute, rule or regulation applicable to Seller.
 - (b) Seller warrants and represents to Purchaser that Seller is authorized to enter into this Agreement, all third-party consents required have been obtained, and that the person executing this Agreement on its behalf has the authority to do so.
 - (c) This Agreement constitutes, and all documents and instruments required hereunder to be executed and delivered by Seller at each Closing will, when duly executed and delivered for value constitute, valid, legal and binding obligations of Seller, enforceable against Seller, in accordance with their respective terms, subject to applicable bankruptcy and other similar laws of general application with respect to creditors as well as the general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

- (d) Seller further warrants and represents to Purchaser that it is the owner of all the Assets covered by this Agreement, that there are no other parties with an interest in the Assets.
- (e) Seller shall convey title to the Assets to Purchaser with a special warranty of title, by through and under Seller, but not otherwise.
- (f) Seller warrants and represents to Purchaser that it has not transferred, sold, assigned conveyed, encumbered, pledged or hypothecated any rights, title or interest in or to the Assets, nor is such transfer, sale, assignment, conveyance, encumbrance, pledging or hypothecation pending.

2. Purchaser's Representations and Warranties.

- (a) Purchaser warrants and represents to Seller that Purchaser is authorized to enter into this Agreement, and that the person executing this Agreement on its behalf has the authority to do so.
- (b) Purchaser has all requisite company powers and authority to carry on its business as presently conducted, to enter into this Agreement, to purchase the Assets on the terms and conditions described in this Agreement, and to perform its other obligations under this Agreement. The consummation of the transactions contemplated by this Agreement will not violate nor be in conflict with any provision of Purchaser's governing documents or any material agreement or instrument to which Purchaser is a party or by which Purchaser is bound, or any judgment, decree, order, statute, rule or regulation applicable to Purchaser.
- (c) This Agreement and all documents and instruments required or contemplated hereunder to be executed and delivered by Purchaser on each Closing Date will, when duly executed and delivered for value, constitute valid, legal and binding obligations of Purchaser, enforceable against Purchaser, in accordance with their respective terms, subject only to applicable bankruptcy and other similar laws of general application with respect to creditors.
- (d) Purchaser has had sufficient time to examine the Seller's records regarding the Assets and believes that the Purchase Price is a fair price to pay for the Assets.

H. **Assumption.** From and after a Closing, Purchaser shall be deemed to have assumed and shall have proportionate responsibility and liability for the following, but only insofar as attributable to the Assets acquired under this Agreement, and prior to such Closing shall have assumed none such responsibility or liability:

- 1. Assumed Environmental Liabilities. The normal and customary pro rata environmental liabilities of a working interest owner. ("Assumed Environmental Liabilities").

2. **General Assumption.** Except to the extent covered by Seller's limited indemnification of Purchaser, upon such Closing, Purchaser shall assume and pay all normal and customary costs, expenses and liabilities assumed by a working interest owner that arise after the Effective Date (the "Assumed Liabilities").
- I. **Non-Reliance.** The Parties hereby declare and represent that in making this Agreement, they rely wholly upon their respective judgment, belief, and knowledge of their respective liabilities, the subject Leases, and that this Agreement is executed and made without any reliance upon any statement or representation of any other party or of any other party's representative and Seller acknowledges that it had access to all information and data it deems necessary to evaluate this transaction, including the Purchase Price to be paid by Purchaser and the other terms and conditions herein.
- J. **Notices.** All notices contemplated under this Agreement shall be made to the following, unless modified by written notice via U.S. mail, fax, or email to the other party(ies):
1. Seller:
Greg McCabe
Wolfbone Investments, LLC
500 W. Texas, Suite 890
Midland, Texas 79701
 2. Purchaser:
John Brda
Torchlight Energy, Inc.
5700 W. Plano Pkwy., Ste. 3600
Plano, Texas 75093
- K. **Relationship of Parties.** It is not the purpose or intention of this Agreement to create any joint venture, partnership, mining partnership, or association, and neither this Agreement (including any exhibit attached to this Agreement) nor the operations hereunder shall be construed or considered as creating any such legal relationship. The liabilities of the Parties shall be several and not joint or collective. Furthermore, nothing in this Agreement shall be construed as providing directly or indirectly for any joint or cooperative refining or marketing or sale of any Party's interest in oil and gas or the products therefrom.
- L. **Controlling Law.** The Parties agree that this Agreement shall be governed, construed, and applied in accordance with the laws of the State of Texas applicable to contracts between Texas residents that are to be wholly performed in Texas, without regard to choice of law or conflicts of law principles of Texas or any other jurisdiction.

- M. **Forum Selection Clause.** The Parties agree that all disputes arising under this Agreement shall be brought exclusively in the Judicial District Courts of Collin County, Texas.
- N. **Entire Agreement.** This Agreement constitutes the entire, final agreement of the Parties on all matters that are the subject of this Agreement, and this Agreement fully supersedes and replaces any and all prior agreements or understandings, written or oral, between the Parties relating to the Assets.
- O. **Multiple Counterparts.** This Agreement may be executed in counterparts by the undersigned and all such counterparts so executed shall together be deemed to constitute one final agreement, as if one document had been signed by all parties hereto; and each such counterpart shall be deemed to be an original, binding the party subscribed thereto, and multiple signature pages (including faxes or other electronic delivery of signature pages) affixed to a single copy of this Agreement shall be deemed to be a fully executed original Agreement. It shall be sufficient in making proof of this Agreement to produce or account for a facsimile or pdf copy of an executed counterpart of this Agreement.
- P. **Fees & Costs.** Each Party will pay its own legal fees and costs associated with this transaction.
- Q. **Joint Drafting.** The Parties agree that this Agreement was drafted jointly and that this Agreement shall not be construed against the other because of their involvement in drafting this Agreement.
- R. **Non-Waiver.** No exercise or failure to exercise or delay by any Party in exercising any right or remedy under this Agreement shall constitute a waiver by such Party of such right or remedy in any other instance or any other right or remedy.
- S. **Amendment & Modification.** Any amendment or modification to this Agreement must be in writing and executed by the Parties.
- T. **No Assignments.** No obligation or right arising under this Agreement may be assigned or delegated by any Party without the express written consent of the other Parties, which consent shall not be unreasonably withheld. Any assignment made without prior written consent is void *ab initio*. Provided, however, that Purchaser may assign all of its rights and obligations under this Agreement without the consent of the other parties, as long as that assignment is made in furtherance of the acquisition of the Assets.
- U. **Future Documents.** The Parties shall perform any and all acts and execute and deliver any and all documents that may be or become necessary and proper to give effect to and carry out the terms hereof.
- V. **No Third-Party Beneficiary.** Any agreement to perform any obligations herein contained, express or implied, shall be only for the benefit of the Parties and their respective heirs, successors, assigns and legal representatives, and such agreements and obligations shall not inure to the benefit of any indebtedness or any other party, whatsoever, it being the intention of the Parties that no one shall be deemed to be a third-party beneficiary of this Agreement.

- W. **Binding Effect**. The Parties may plead this Agreement as a full and complete defense to, and may use this Agreement as the basis for, an injunction against any action, suit or other proceeding which may be instituted, prosecuted or attempted by the other Party, or by the other Party's respective representatives, agents, executors, decedents, trustees, beneficiaries, successors, heirs, attorneys and assigns, in contravention or breach of this Agreement.
- X. **Severability**. Each part of this Agreement is intended to be several. If any term, covenant, condition or provision violates any applicable law or is declared illegal, invalid or unenforceable, in whole or in part, by a court of last resort, such provision shall be enforced to the greatest extent permitted by law, and such a declaration shall not affect the legality, validity or enforceability of the remaining parts of this Agreement, all of which shall remain in full force and effect.
- Y. **Review by Counsel**. The Parties have had sufficient opportunity to read this Agreement and to consult with legal counsel of their choosing regarding the meaning and effect of this Agreement and its rights and liabilities under it. Accordingly, each Party and signatory to this Agreement has entered into it freely, voluntarily and without duress.
- Z. **Disclaimers**. THE PARTIES AGREE THAT, TO THE EXTENT REQUIRED BY APPLICABLE LAW TO BE OPERATIVE, THE DISCLAIMERS OF WARRANTIES CONTAINED IN THIS SECTION ARE "CONSPICUOUS" DISCLAIMERS FOR THE PURPOSES OF ANY APPLICABLE LAW, RULE OR ORDER. THE EXPRESS REPRESENTATIONS AND WARRANTIES OF SELLER CONTAINED IN THIS AGREEMENT, AND THE TITLE WARRANTIES IN THE CONVEYANCES OF THE CONVEYED INTERESTS TO BE DELIVERED AT EACH CLOSING, (COLLECTIVELY "SELLER'S" WARRANTIES") ARE EXCLUSIVE AND ARE IN LIEU OF ALL OTHER REPRESENTATIONS AND WARRANTIES, EXPRESS, IMPLIED, STATUTORY OR OTHERWISE. SELLER EXPRESSLY DISCLAIMS ANY AND ALL SUCH OTHER REPRESENTATIONS AND WARRANTIES. WITHOUT LIMITATION OF THE FOREGOING AND EXCEPT FOR SELLER'S WARRANTIES, THE CONVEYED INTERESTS SHALL BE CONVEYED PURSUANT HERETO WITHOUT (A) ANY WARRANTY OR REPRESENTATION, WHETHER EXPRESS, IMPLIED, STATUTORY OR OTHERWISE, RELATING TO (I) TITLE TO THE CONVEYED INTERESTS, THE CONDITION, QUANTITY, QUALITY, FITNESS FOR A PARTICULAR PURPOSE, CONFORMITY TO THE MODELS OR SAMPLES OF MATERIALS OR MERCHANTABILITY OF ANY EQUIPMENT OR ITS FITNESS FOR ANY PURPOSE, (II) THE ACCURACY OR COMPLETENESS OF ANY DATA, REPORTS, RECORDS, PROJECTIONS, INFORMATION OR MATERIALS NOW, HERETOFORE OR HEREAFTER FURNISHED OR MADE AVAILABLE TO PURCHASER IN CONNECTION WITH THIS AGREEMENT, (III) PRICING ASSUMPTIONS, OR QUALITY OR QUANTITY OF HYDROCARBON RESERVES (IF ANY) ATTRIBUTABLE TO THE CONVEYED INTERESTS OR THE ABILITY OR POTENTIAL OF THE CONVEYED INTERESTS TO PRODUCE HYDROCARBONS, (IV) THE ENVIRONMENTAL CONDITION OF THE CONVEYED INTERESTS, BOTH SURFACE AND SUBSURFACE, (V) ANY IMPLIED OR EXPRESS WARRANTY OF NON-INFRINGEMENT, OR (VI) ANY OTHER MATTERS CONTAINED IN ANY MATERIALS FURNISHED OR MADE AVAILABLE TO PURCHASER BY SELLER OR BY SELLER'S AGENTS OR REPRESENTATIVES, OR (B) ANY OTHER EXPRESS, IMPLIED, STATUTORY OR OTHER WARRANTY OR REPRESENTATION WHATSOEVER. PURCHASER SHALL HAVE INSPECTED, OR WAIVED (AND UPON EACH CLOSING SHALL BE DEEMED TO HAVE WAIVED) ITS RIGHT TO INSPECT, THE CONVEYED INTERESTS FOR ALL PURPOSES AND SATISFIED ITSELF AS TO THEIR PHYSICAL AND ENVIRONMENTAL CONDITION, BOTH SURFACE AND SUBSURFACE, INCLUDING BUT NOT LIMITED TO CONDITIONS SPECIFICALLY RELATED TO THE PRESENCE, RELEASE OR DISPOSAL OF HAZARDOUS SUBSTANCES, SOLID WASTES, ASBESTOS AND OTHER MAN MADE FIBERS. PURCHASER IS RELYING SOLELY UPON THE TERMS OF THIS AGREEMENT AND ITS OWN INSPECTION OF THE CONVEYED INTERESTS, AND PURCHASER SHALL ACCEPT ALL OF THE SAME IN THEIR "AS IS, WHERE IS" CONDITION.

AA. Subject to and Conflicting Terms. This Agreement and the Assets assigned herein shall be specifically subject to the Participation Agreement. In the case of any conflict between this Agreement and the Purchase Agreement, the Purchase Agreement shall control in all cases.

INTENTIONALLY BLANK—SIGNATURE PAGES FOLLOW

AGREED AND EXECUTED as of the Effective Date:

Torchlight Energy, Inc.

By: /s/ John A. Brda
John A. Brda, CEO

AND:

Wolfbone Investments, LLC

By: /s/ Greg McCabe
Greg McCabe, Managing Member

Subsidiaries of the Registrant

| Name | State of Organization |
|----------------------------------|-----------------------|
| Torchlight Energy, Inc. | Nevada |
| Torchlight Energy Operating, LLC | Texas |
| Hudspeth Oil Corporation | Texas |
| Line Drive Energy, LLC | Texas |

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-1 (File Nos. 333-215586, 333-213732 and 333-208467) and on Form S-8 (File No. 333-210812) of Torchlight Energy Resources, Inc. of our report dated March 31, 2017 relating to the financial statements for the year ended December 31, 2016 which appear in this Annual Report on Form 10-K for the year ended December 31, 2016.

/s/ Briggs & Veselka Co.

Houston, Texas
March 31, 2017

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-1 (File Nos. 333-215586, 333-213732 and 333-208467) and on Form S-8 (File No. 333-210812) of Torchlight Energy Resources, Inc. of our report dated March 30, 2016 relating to the financial statements for the year ended December 31, 2015 which appear in this Annual Report on Form 10-K for the year ended December 31, 2016.

/s/ Calvetti Ferguson

Houston, Texas
March 30, 2017

CONSENT OF PETECH ENTERPRISES, INC.

We hereby consent to the references to our firm in the form and context in which they appear in the Annual Report on Form 10-K of Torchlight Energy Resources, Inc. for the year ended December 31, 2016 (the "Annual Report"). We hereby further consent to the inclusion in the Annual Report of estimated oil and gas reserves as of December 31, 2016, contained in our report dated, February 2, 2017, and to the inclusion of such report as an exhibit to the Annual Report. We further consent to the incorporation by reference thereof into Torchlight Energy Resources, Inc.'s Registration Statements on Form S-1 (File Nos. 333-215586, 333-213732 and 333-208467) and on Form S-8 (File No. 333-210812).

PETECH ENTERPRISES, INC.

By: /s/ Amiel David, PE

Amiel David, PE

Houston, Texas
March 29, 2017

CERTIFICATION PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, John A. Brda, certify that:

1. I have reviewed this annual report on Form 10-K of Torchlight Energy Resources, Inc. for the year ended December 31, 2016;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over the financial reporting; and
5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ John A. Brda

John A. Brda
Chief Executive Officer
(Principal Executive Officer)
Date: March 31, 2017

CERTIFICATION PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Roger Wurtele, certify that:

1. I have reviewed this annual report on Form 10-K of Torchlight Energy Resources, Inc. for the year ended December 31, 2016;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over the financial reporting; and
5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Roger Wurtele
Roger Wurtele,
Chief Financial Officer
(Principal Financial Officer)
Date: March 31, 2017

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

I, John A. Brda, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the annual report on Form 10-K of Torchlight Energy Resources, Inc. for the year ended December 31, 2016, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such annual report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Torchlight Energy Resources, Inc.

/s/ John A. Brda

John A. Brda,
Chief Executive Officer (Principal Executive Officer)

Date: March 31, 2017

I, Roger Wurtele, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the annual report on Form 10-K of Torchlight Energy Resources, Inc. for the year ended December 31, 2016, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such annual report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Torchlight Energy Resources, Inc.

/s/ Roger Wurtele

Roger Wurtele,
Chief Financial Officer (Principal Financial Officer)

Date: March 31, 2017

The foregoing certification is not deemed filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended ("Exchange Act"), and is not to be incorporated by reference into any filing of Torchlight Energy Resources, Inc. under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filing.



APPRAISAL REPORT
ON CERTAIN PROPERTIES
owned by
TORCHLIGHT ENERGY RESOURCES, INC.
(HUNTON)
As of
December 31, 2016

February 2, 2017

Mr. John Brda
Chief Executive Officer
Torchlight Energy Resources, Inc.
5700 W. Plano Parkway #3600
Plano, TX 75093

Dear Mr. Brda,

At your request PeTech Enterprises, Inc. ("PEI") has prepared an estimate of certain hydrocarbon reserves owned by Torchlight Energy Resources, Inc. ("TER") in the State of Texas as of December 31, 2015. This evaluation was completed by February 2, 2017

These estimates include only proved reserves and were prepared in accordance with the United States Securities and Exchange Commission ("SEC") guidelines rule 4-10 Regulation S-X for evaluating and reporting oil and gas reserves. Rule 4-10 defines reserves as "...those quantities of oil and gas, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations-prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for estimation.Reserves which can be produced through the application of improved recovery technique.....Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-months period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions. Undeveloped oil and gas reserves are reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for completion. A more complete description of the rule is attached as an Appendix.

Acceptable evaluation geological, engineering and accounting (cost, taxes, etc.) practice principles were utilized to reach the results of this evaluation. Results were based on historical oil, gas and water production information, geological maps, logs and offsetting lease analogies. The evaluation is based on information provided by the company. Data such as production rates, lease operating costs, ownership interests and projections for future activities were relied on to be true. In all cases PEI has reviewed the data to ensure reasonable values, consistency and dependability.

OPERATIONS

This evaluation covers the company operation in Kingfisher and Johnston Counties, OK. TER participated in the projects as a non-operator, with the operation conducted by Husky Ventures, Inc.

Production is from the Paleozoic age Hunton Group in the Judy well and the Bromide formation in the Loki well. The Hunton/Bromide are well-known oil and gas producing formation, and recently has been developed by drilling horizontal wells. The vertical depth to the target is between 5,000 and 8,000 feet and the horizontal section may

reach 4,000 feet for a total well length of 12,000-14,000 feet. Spacing of 160 acres per well are anticipated in the future. TER currently owns interest in two producing wells, the Judy 1-15H and the Loki 1-24. The initial rate of production for the Judy well was 10,000 barrels of oil per month and gas production reached 94 MMcf per month. Production profile for the well had a typical hyperbolic decline which trends to a level production in future years. It is anticipated that the ultimate recovery for the Judy 1-15H will reach 89 MB and close to 1.5 Bcf, a slight increase over the 2015 year end values. The Loki 1-24 has produced over 1,000 barrels of oil and is considered currently be uneconomical.

The area around the Judy 1-15H has a potential for three proved undeveloped locations which were included for initial drilling in 2018.

PRODUCTS PRICE The twelve months unweighted average of first day of the month prices for oil (WTI) and for the Mid Continent gas used in calculating the 2016 average price resulting in \$2.33/MMBtu and \$42.75/B.

Oil and gas price differentials were calculated from the actual prices realized and were utilized in this evaluation. The average oil and gas prices were held constant throughout the economic life of the leases

OPERATING EXPENSES and CAPITAL COSTS reoccurring lease operating expenses were provided by the company and accepted when seemed reasonable for the type of operation and area. Lease operating expenses were held constant throughout the life of the reserve. Abandonment cost Of \$75,000 was included for the well.

TAXES

Production and ad valorem taxes were based on the Oklahoma rates, including a tax reduction to 1.2% of revenue for the first 48 months.

Hedge values were not considered in this evaluation.

Note that oil and gas reserves as well as gross and net revenues are ESTIMATES that may change as additional production and other technical data become available or prices change. All estimates are subject to change due to the inherent uncertainty in the application of judgmental factors as well as regulatory environment.

PEI did not physically visit any of the fields, PEI accepted as true all ownership interests. PEI has not evaluated any potential environmental liability. PEI does not own economic interest in any of the company's assets.

AS OF December 31, 2016

| | PROVED DEVELOPED PRODUCING | | PROVED UNDEVELOPED | |
|---------------------------------|-------------------------------|----------|-----------------------|-----------|
| | OIL, MB | GAS MMCF | OIL, MB | GAS, MMCF |
| GROSS ULTIMATE RESERVES | 82.1 | 1147.3 | 603.3 | 6033.2 |
| GROSS REMAINING RESERVES | 17.6 | 299.2 | 603.3 | 6033.2 |
| NET REMAINING RESERVES | 1.4 | 23.3 | 46.8 | 467.6 |

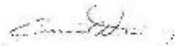
Values of proved reserves in this report are expressed in terms of ESTIMATED future gross revenue, future net revenue, and present worth using a discount factor of 10%. Future gross revenue is the revenue which will accrue to the appraised interests from production and sale of the estimated net reserves. Net revenue is the gross revenue less production and ad valorem taxes, operating expenses and capital costs. Operating expenses include direct field expenses but exclude general administration costs. Federal income tax was not included in this analysis.

AS OF DECEMBER 31, 2016

| | PROVED | |
|-----------------------------------|------------------------|-------------|
| | DEVELOPED PRODUCING | UNDEVELOPED |
| FUTURE GROSS INCOME, M\$ | 99.2 | 3057.8 |
| PRODUCTION AND ADVALOREM TAX, M\$ | 1.5 | 217.0 |
| OPERATING EXPENSES, M\$ | 59.8 | 722.1 |
| CAPITAL COST, M\$ | 7.5 | 1342.5 |
| FUTURE NET REVENUE, M\$ | 30.4 | 776.2 |
| PRESENT VALUE, DISC AT 10%, M\$ | 28.9 | 300.9 |

| CHANGE | PROVED | | | |
|-----------------------------|------------------------|-----------|-------------|-----------|
| | DEVELOPED PRODUCING | | UNDEVELOPED | |
| | OIL, MB | GAS, MMCF | OIL, MB | GAS, MMCF |
| REMAINING RESERVES, 12/2015 | 1.9 | 0.0 | 0.00 | 0.00 |
| 2016 PRODUCTION | 0.7 | 11.5 | 0.00 | 0.00 |
| RESERVES REVISION | 0.2 | 34.8 | 46.8 | 467.6 |
| REMAINING RESRVES 12/2016 | 1.4 | 23.3 | 46.8 | 467.6 |

Submitted,



Amiel David, P.E. #50970

For PeTech Enterprises, Inc. No. 15360



TORCHLIGHT ENERGY, INC
Reserve and Economic Projection
 As of 1/1/2017
 Custom Selection

Total

| Year | Wells | Estimated 8/8 The Production | | | Net Production | | | Oil | NGL | Gas |
|-------|-------|------------------------------|-------------|-------------|----------------|-------------|-------------|-------|------|------|
| | | Oil Mmbl | NGL Mgal | Gas MMcf | Oil Mmbl | NGL Mgal | Gas MMcf | | | |
| 2017 | 1 | 5.54 | 0.00 | 96.88 | 0.43 | 0.00 | 7.56 | 42.92 | 0.00 | 1.73 |
| 2018 | 4 | 120.24 | 0.00 | 1,232.12 | 9.32 | 0.00 | 95.53 | 42.92 | 0.00 | 2.22 |
| 2019 | 4 | 122.48 | 0.00 | 1,247.68 | 9.49 | 0.00 | 96.72 | 42.92 | 0.00 | 2.22 |
| 2020 | 4 | 68.24 | 0.00 | 700.86 | 5.29 | 0.00 | 54.34 | 42.92 | 0.00 | 2.21 |
| 2021 | 4 | 47.37 | 0.00 | 484.59 | 3.67 | 0.00 | 37.57 | 42.92 | 0.00 | 2.22 |
| 2022 | 3 | 35.23 | 0.00 | 352.34 | 2.73 | 0.00 | 27.31 | 42.92 | 0.00 | 2.25 |
| 2023 | 3 | 28.72 | 0.00 | 287.17 | 2.23 | 0.00 | 22.26 | 42.92 | 0.00 | 2.25 |
| 2024 | 3 | 24.31 | 0.00 | 243.08 | 1.88 | 0.00 | 18.84 | 42.92 | 0.00 | 2.25 |
| 2025 | 3 | 20.98 | 0.00 | 209.78 | 1.63 | 0.00 | 16.26 | 42.92 | 0.00 | 2.25 |
| 2026 | 3 | 18.49 | 0.00 | 184.95 | 1.43 | 0.00 | 14.33 | 42.92 | 0.00 | 2.25 |
| 2027 | 3 | 16.54 | 0.00 | 165.39 | 1.28 | 0.00 | 12.82 | 42.92 | 0.00 | 2.25 |
| 2028 | 3 | 15.00 | 0.00 | 149.97 | 1.16 | 0.00 | 11.62 | 42.92 | 0.00 | 2.25 |
| 2029 | 3 | 13.65 | 0.00 | 136.50 | 1.06 | 0.00 | 10.58 | 42.92 | 0.00 | 2.25 |
| 2030 | 3 | 12.56 | 0.00 | 125.56 | 0.97 | 0.00 | 9.73 | 42.92 | 0.00 | 2.25 |
| 2031 | 3 | 11.62 | 0.00 | 116.24 | 0.90 | 0.00 | 9.01 | 42.92 | 0.00 | 2.25 |
| Sub-T | | 560.97 | 0.00 | 5,735.10 | 43.48 | 0.00 | 444.46 | 42.92 | 0.00 | 2.22 |
| After | | 59.93 | 0.00 | 599.27 | 4.64 | 0.00 | 46.44 | 42.92 | 0.00 | 2.25 |
| Total | | 620.96 | 0.00 | 6,332.37 | 48.13 | 0.00 | 490.91 | 42.92 | 0.00 | 2.22 |
| Cum. | | 64.51 | 0.00 | 848.11 | | | | | | |
| Ult. | | 685.40 | 0.00 | 7,180.48 | | | | | | |

| Year | Company Future Gross Revenue | | | | | Prod & Adv Taxes | | Revenue after Sev & Adv |
|-------|------------------------------|------------|------------|--------------|--------------|------------------|----------------|----------------------------|
| | Oil M\$ | NGL M\$ | Gas M\$ | Other M\$ | Total M\$ | Prod Tax M\$ | Adv Tax M\$ | |
| 2017 | 18.55 | 0.00 | 13.06 | 0.00 | 31.62 | 0.48 | 0.00 | 31.13 |
| 2018 | 400.03 | 0.00 | 211.82 | 0.00 | 611.85 | 42.10 | 0.00 | 569.76 |
| 2019 | 407.48 | 0.00 | 215.13 | 0.00 | 622.61 | 43.13 | 0.00 | 579.48 |
| 2020 | 227.06 | 0.00 | 120.26 | 0.00 | 347.32 | 23.77 | 0.00 | 323.55 |
| 2021 | 157.60 | 0.00 | 83.11 | 0.00 | 240.71 | 16.56 | 0.00 | 224.15 |
| 2022 | 117.20 | 0.00 | 61.38 | 0.00 | 178.57 | 12.67 | 0.00 | 165.90 |
| 2023 | 95.52 | 0.00 | 50.02 | 0.00 | 145.54 | 10.33 | 0.00 | 135.22 |
| 2024 | 80.85 | 0.00 | 42.34 | 0.00 | 123.20 | 8.74 | 0.00 | 114.46 |
| 2025 | 69.78 | 0.00 | 36.51 | 0.00 | 106.22 | 7.54 | 0.00 | 98.78 |
| 2026 | 61.52 | 0.00 | 32.22 | 0.00 | 93.74 | 6.65 | 0.00 | 87.09 |
| 2027 | 55.01 | 0.00 | 28.81 | 0.00 | 83.82 | 5.95 | 0.00 | 77.88 |
| 2028 | 49.88 | 0.00 | 26.12 | 0.00 | 76.01 | 5.39 | 0.00 | 70.62 |
| 2029 | 45.40 | 0.00 | 23.78 | 0.00 | 69.18 | 4.91 | 0.00 | 64.27 |
| 2030 | 41.76 | 0.00 | 21.87 | 0.00 | 63.64 | 4.51 | 0.00 | 59.12 |
| 2031 | 38.67 | 0.00 | 20.25 | 0.00 | 58.91 | 4.18 | 0.00 | 54.73 |
| Sub-T | 1,866.33 | 0.00 | 986.92 | 0.00 | 2,853.25 | 196.91 | 0.00 | 2,656.34 |
| After | 199.33 | 0.00 | 104.39 | 0.00 | 303.72 | 21.55 | 0.00 | 282.17 |
| Total | 2,065.66 | 0.00 | 1,091.31 | 0.00 | 3,156.97 | 218.46 | 0.00 | 2,938.51 |

| Year | Deductions | | | | Future Net Income Before Income Taxes | | | |
|-------|---------------------------|---------------------------|------------------------|-----------------------|---------------------------------------|---------|----------------|---------|
| | Lease Net Costs M\$ | Net Investments M\$ | Trans. Costs M\$ | Net Profits M\$ | Undiscounted | | Discounted Ann | |
| 2017 | 12.75 | 0.00 | 0.00 | 0.00 | 18.38 | 18.38 | 17.61 | 17.61 |
| 2018 | 32.75 | 1,320.00 | 0.00 | 0.00 | -782.99 | -764.61 | -490.53 | -672.92 |
| 2019 | 48.75 | 0.00 | 0.00 | 0.00 | 530.73 | -233.88 | 421.28 | -251.65 |
| 2020 | 48.75 | 0.00 | 0.00 | 0.00 | 274.80 | 40.93 | 197.69 | -53.96 |
| 2021 | 44.80 | 7.50 | 0.00 | 0.00 | 172.05 | 212.97 | 112.56 | 58.60 |
| 2022 | 36.00 | 0.00 | 0.00 | 0.00 | 129.50 | 342.86 | 77.11 | 135.71 |
| 2023 | 36.00 | 0.00 | 0.00 | 0.00 | 99.22 | 442.09 | 53.53 | 189.23 |
| 2024 | 36.00 | 0.00 | 0.00 | 0.00 | 78.46 | 520.55 | 38.47 | 227.70 |
| 2025 | 36.00 | 0.00 | 0.00 | 0.00 | 62.78 | 583.33 | 27.98 | 255.68 |
| 2026 | 36.00 | 0.00 | 0.00 | 0.00 | 51.09 | 634.41 | 20.69 | 276.37 |
| 2027 | 36.00 | 0.00 | 0.00 | 0.00 | 41.88 | 676.29 | 15.42 | 291.79 |
| 2028 | 36.00 | 0.00 | 0.00 | 0.00 | 34.62 | 710.90 | 11.59 | 303.38 |
| 2029 | 36.00 | 0.00 | 0.00 | 0.00 | 28.27 | 739.18 | 8.60 | 311.98 |
| 2030 | 36.00 | 0.00 | 0.00 | 0.00 | 23.12 | 762.30 | 6.40 | 318.38 |
| 2031 | 36.00 | 0.00 | 0.00 | 0.00 | 18.73 | 781.03 | 4.71 | 323.09 |
| Sub-T | 547.80 | 1,327.50 | 0.00 | 0.00 | 781.03 | 781.03 | 323.09 | 323.09 |
| After | 234.14 | 22.50 | 0.00 | 0.00 | 25.53 | 25.53 | 6.69 | 6.69 |
| Total | 781.95 | 1,350.00 | 0.00 | 0.00 | 806.56 | 806.56 | 329.79 | 329.79 |

Eco. Indicators

Return on Investment (disc): 1.284
 Return on Investment (undisc): 1.597
 Years to Payout: 3.95
 Internal Rate of Return (%): 28.40

Present Worth Profile (M\$)

PW 5.00%: 520.50
 PW 8.00%: 397.40
 PW 9.00%: 362.33
 PW 12.00%: 271.44
 PW 15.00%: 198.06
 PW 20.00%: 104.34

TORCHLIGHT ENERGY, INC
Reserve and Economic Projection
 As of 1/1/2017
 Custom Selection

Provided Rev Class

| Year | Wells | Estimated 8/8 Ths Production | | | Net Production | | | Oil | NGL | Gas |
|-------|-------|------------------------------|------|----------|----------------|------|--------|-------|------|------|
| | | Oil | NGL | Gas | Oil | NGL | Gas | | | |
| | | Mbbl | Mgal | Mbbl | Mbbl | Mgal | MMcf | kbbbl | Wgal | MMcf |
| 2017 | 1 | 5.54 | 0.00 | 96.88 | 0.43 | 0.00 | 7.56 | 42.92 | 0.00 | 1.73 |
| 2018 | 4 | 120.24 | 0.00 | 1,232.12 | 9.32 | 0.00 | 95.53 | 42.92 | 0.00 | 2.22 |
| 2019 | 4 | 122.48 | 0.00 | 1,247.68 | 9.49 | 0.00 | 96.72 | 42.92 | 0.00 | 2.22 |
| 2020 | 4 | 68.21 | 0.00 | 700.86 | 5.29 | 0.00 | 54.34 | 42.92 | 0.00 | 2.21 |
| 2021 | 4 | 47.37 | 0.00 | 484.59 | 3.67 | 0.00 | 37.57 | 42.92 | 0.00 | 2.22 |
| 2022 | 3 | 35.23 | 0.00 | 352.54 | 2.73 | 0.00 | 27.31 | 42.92 | 0.00 | 2.25 |
| 2023 | 3 | 28.72 | 0.00 | 287.17 | 2.23 | 0.00 | 22.26 | 42.92 | 0.00 | 2.25 |
| 2024 | 3 | 24.31 | 0.00 | 243.08 | 1.88 | 0.00 | 18.84 | 42.92 | 0.00 | 2.25 |
| 2025 | 3 | 20.98 | 0.00 | 209.78 | 1.63 | 0.00 | 16.26 | 42.92 | 0.00 | 2.25 |
| 2026 | 3 | 18.49 | 0.00 | 184.95 | 1.43 | 0.00 | 14.33 | 42.92 | 0.00 | 2.25 |
| 2027 | 3 | 16.34 | 0.00 | 165.39 | 1.28 | 0.00 | 12.82 | 42.92 | 0.00 | 2.25 |
| 2028 | 3 | 15.00 | 0.00 | 149.92 | 1.16 | 0.00 | 11.62 | 42.92 | 0.00 | 2.25 |
| 2029 | 3 | 13.65 | 0.00 | 136.50 | 1.06 | 0.00 | 10.58 | 42.92 | 0.00 | 2.25 |
| 2030 | 3 | 12.56 | 0.00 | 125.56 | 0.97 | 0.00 | 9.73 | 42.92 | 0.00 | 2.25 |
| 2031 | 3 | 11.62 | 0.00 | 116.24 | 0.90 | 0.00 | 9.01 | 42.92 | 0.00 | 2.25 |
| Sub-T | | 560.97 | 0.00 | 5,733.10 | 43.48 | 0.00 | 444.46 | 42.92 | 0.00 | 2.22 |
| After | | 59.93 | 0.00 | 599.27 | 4.64 | 0.00 | 46.44 | 42.92 | 0.00 | 2.25 |
| Total | | 620.90 | 0.00 | 6,332.37 | 48.13 | 0.00 | 490.91 | 42.92 | 0.00 | 2.22 |
| Cum. | | 64.51 | 0.00 | 848.11 | | | | | | |
| Ult. | | 685.40 | 0.00 | 7,180.48 | | | | | | |

| Year | Company Future Gross Revenue | | | | | Prod & Adv Taxes | | Revenue after Sev & Adv |
|-------|------------------------------|------|----------|-------|----------|------------------|---------|-------------------------|
| | Oil | NGL | Gas | Other | Total | Prod Tax | Adv Tax | |
| | M\$ | M\$ | M\$ | M\$ | M\$ | M\$ | M\$ | M\$ |
| 2017 | 18.35 | 0.00 | 13.06 | 0.00 | 31.62 | 0.48 | 0.00 | 31.13 |
| 2018 | 400.03 | 0.00 | 211.82 | 0.00 | 611.85 | 42.10 | 0.00 | 569.76 |
| 2019 | 407.48 | 0.00 | 215.13 | 0.00 | 622.61 | 43.13 | 0.00 | 579.48 |
| 2020 | 227.06 | 0.00 | 120.26 | 0.00 | 347.32 | 23.77 | 0.00 | 323.55 |
| 2021 | 157.60 | 0.00 | 83.31 | 0.00 | 240.91 | 16.56 | 0.00 | 224.35 |
| 2022 | 117.20 | 0.00 | 61.38 | 0.00 | 178.57 | 12.67 | 0.00 | 165.90 |
| 2023 | 95.52 | 0.00 | 50.02 | 0.00 | 145.54 | 10.33 | 0.00 | 135.22 |
| 2024 | 80.85 | 0.00 | 42.34 | 0.00 | 123.20 | 8.74 | 0.00 | 114.46 |
| 2025 | 69.78 | 0.00 | 36.54 | 0.00 | 106.32 | 7.54 | 0.00 | 98.78 |
| 2026 | 61.52 | 0.00 | 32.22 | 0.00 | 93.74 | 6.65 | 0.00 | 87.09 |
| 2027 | 55.01 | 0.00 | 28.81 | 0.00 | 83.82 | 5.95 | 0.00 | 77.88 |
| 2028 | 49.88 | 0.00 | 26.12 | 0.00 | 76.01 | 5.39 | 0.00 | 70.62 |
| 2029 | 45.40 | 0.00 | 23.78 | 0.00 | 69.18 | 4.91 | 0.00 | 64.27 |
| 2030 | 41.76 | 0.00 | 21.87 | 0.00 | 63.64 | 4.51 | 0.00 | 59.12 |
| 2031 | 38.67 | 0.00 | 20.25 | 0.00 | 58.91 | 4.18 | 0.00 | 54.73 |
| Sub-T | 1,866.33 | 0.00 | 986.92 | 0.00 | 2,853.25 | 196.91 | 0.00 | 2,656.34 |
| After | 199.33 | 0.00 | 104.39 | 0.00 | 303.72 | 21.55 | 0.00 | 282.17 |
| Total | 2,065.66 | 0.00 | 1,091.31 | 0.00 | 3,156.97 | 218.46 | 0.00 | 2,938.51 |

| Year | Deductions | | | | Future Net Income Before Income Taxes | | | Disc. Cum. Annual @ 10.00% |
|-------|-----------------|-----------------|--------------|-------------|---------------------------------------|-------------------------|-------------------------|----------------------------|
| | Lease Net Costs | Net Investments | Trans. Costs | Net Profits | Undiscounted Annual | Undiscounted Cumulative | Discounted Ann @ 10.00% | |
| | M\$ | M\$ | M\$ | M\$ | M\$ | M\$ | M\$ | M\$ |
| 2017 | 12.75 | 0.00 | 0.00 | 0.00 | 18.38 | 18.38 | 17.61 | 17.61 |
| 2018 | 32.75 | 1,320.00 | 0.00 | 0.00 | -782.59 | 764.61 | -690.53 | -672.92 |
| 2019 | 48.75 | 0.00 | 0.00 | 0.00 | 530.73 | -233.88 | 421.28 | -251.65 |
| 2020 | 48.75 | 0.00 | 0.00 | 0.00 | 274.80 | 40.93 | 197.68 | -53.96 |
| 2021 | 44.80 | 7.50 | 0.00 | 0.00 | 172.03 | 212.97 | 112.56 | 58.60 |
| 2022 | 36.00 | 0.00 | 0.00 | 0.00 | 129.50 | 342.88 | 77.11 | 135.71 |
| 2023 | 36.00 | 0.00 | 0.00 | 0.00 | 99.22 | 442.09 | 53.53 | 189.25 |
| 2024 | 36.00 | 0.00 | 0.00 | 0.00 | 78.46 | 520.55 | 38.47 | 227.70 |
| 2025 | 36.00 | 0.00 | 0.00 | 0.00 | 62.78 | 583.33 | 27.98 | 255.68 |
| 2026 | 36.00 | 0.00 | 0.00 | 0.00 | 51.09 | 634.41 | 20.69 | 276.37 |
| 2027 | 36.00 | 0.00 | 0.00 | 0.00 | 41.88 | 676.29 | 15.42 | 291.79 |
| 2028 | 36.00 | 0.00 | 0.00 | 0.00 | 34.62 | 710.90 | 11.59 | 303.38 |
| 2029 | 36.00 | 0.00 | 0.00 | 0.00 | 28.27 | 739.18 | 8.60 | 311.98 |
| 2030 | 36.00 | 0.00 | 0.00 | 0.00 | 23.12 | 762.30 | 6.40 | 318.38 |
| 2031 | 36.00 | 0.00 | 0.00 | 0.00 | 18.73 | 781.03 | 4.71 | 323.09 |
| Sub-T | 547.80 | 1,327.50 | 0.00 | 0.00 | 781.03 | 781.03 | 323.09 | 323.09 |
| After | 234.14 | 22.50 | 0.00 | 0.00 | 25.53 | 25.53 | 6.69 | 6.69 |
| Total | 781.95 | 1,350.00 | 0.00 | 0.00 | 806.56 | 806.56 | 329.79 | 329.79 |

Eco. Indicators

Return on Investment (disc) : 1.284
 Return on Investment (undisc) : 1.597
 Years to Payout : 3.95
 Internal Rate of Return (%) : 28.40

Present Worth Profile (M\$)

PW 5.00% : 520.50
 PW 8.00% : 397.40
 PW 9.00% : 362.33
 PW 12.00% : 271.44
 PW 15.00% : 198.06
 PW 20.00% : 104.34

TORCHLIGHT ENERGY, INC
Reserve and Economic Projection
 As of 1/1/2017
 Custom Selection

Proved Rsv Class
 Producing Rsv Category

| Year | Wells | Estimated 8/8 Tbs Production | | | Net Production | | | Oil - \$/bbl - | NGL - \$/gal - | Gas - \$/Mcf - |
|------|-------|------------------------------|-------------|-------------|----------------|-------------|-------------|-------------------|-------------------|-------------------|
| | | Oil Mbbbl | NGL Mgal | Gas MMcf | Oil Mbbbl | NGL Mgal | Gas MMcf | | | |
| 2017 | 1 | 5.54 | 0.00 | 96.88 | 0.43 | 0.00 | 7.56 | 42.92 | 0.00 | 1.73 |
| 2018 | 1 | 4.17 | 0.00 | 71.48 | 0.33 | 0.00 | 5.58 | 42.92 | 0.00 | 1.73 |
| 2019 | 1 | 3.35 | 0.00 | 56.35 | 0.26 | 0.00 | 4.40 | 42.92 | 0.00 | 1.73 |
| 2020 | 1 | 2.80 | 0.00 | 46.45 | 0.22 | 0.00 | 3.62 | 42.92 | 0.00 | 1.73 |
| 2021 | 1 | 1.71 | 0.00 | 28.03 | 0.13 | 0.00 | 2.19 | 42.92 | 0.00 | 1.73 |

| | | | | | | | | | |
|-----------|-------|------|----------|------|------|-------|-------|------|------|
| Sub-T | 17.58 | 0.00 | 299.19 | 1.37 | 0.00 | 23.34 | 42.92 | 0.00 | 1.73 |
| After | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total | 17.58 | 0.00 | 299.19 | 1.37 | 0.00 | 23.34 | 42.92 | 0.00 | 1.73 |
| Cum. Ult. | 64.51 | 0.00 | 848.11 | | | | | | |
| | 82.09 | 0.00 | 1,147.30 | | | | | | |

| Year | Company Future Gross Revenue | | | | | Prod & Adv Taxes | | Revenue after Sev & Adv |
|------|------------------------------|------------|------------|--------------|--------------|------------------|----------------|----------------------------|
| | Oil M\$ | NGL M\$ | Gas M\$ | Other M\$ | Total M\$ | Prod Tax M\$ | Adv Tax M\$ | |
| 2017 | 18.55 | 0.00 | 13.06 | 0.00 | 31.62 | 0.48 | 0.00 | 31.13 |
| 2018 | 13.97 | 0.00 | 9.64 | 0.00 | 23.61 | 0.36 | 0.00 | 23.25 |
| 2019 | 11.21 | 0.00 | 7.60 | 0.00 | 18.81 | 0.29 | 0.00 | 18.52 |
| 2020 | 9.39 | 0.00 | 6.26 | 0.00 | 15.65 | 0.24 | 0.00 | 15.41 |
| 2021 | 5.73 | 0.00 | 3.78 | 0.00 | 9.51 | 0.14 | 0.00 | 9.37 |

| | | | | | | | | |
|-------|-------|------|-------|------|-------|------|------|-------|
| Sub-T | 58.85 | 0.00 | 40.35 | 0.00 | 99.20 | 1.51 | 0.00 | 97.69 |
| After | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total | 58.85 | 0.00 | 40.35 | 0.00 | 99.20 | 1.51 | 0.00 | 97.69 |

| Year | Deductions | | | | Future Net Income Before Income Taxes | | | |
|------|---------------------------|---------------------------|------------------------|-----------------------|---------------------------------------|------------|----------------------------|-------------------------------|
| | Lease Net Costs M\$ | Net Investments M\$ | Trans. Costs M\$ | Net Profits M\$ | Undiscounted | | Discounted Ann @ 10.00% | Disc. Cum. Annual @ 10.00% |
| | | | | | Annual | Cumulative | | |
| 2017 | 12.75 | 0.00 | 0.00 | 0.00 | 18.38 | 18.38 | 17.61 | 17.61 |
| 2018 | 12.75 | 0.00 | 0.00 | 0.00 | 10.50 | 28.88 | 9.14 | 26.75 |
| 2019 | 12.75 | 0.00 | 0.00 | 0.00 | 5.77 | 34.66 | 4.57 | 31.32 |
| 2020 | 12.75 | 0.00 | 0.00 | 0.00 | 2.66 | 37.32 | 1.92 | 33.25 |
| 2021 | 8.80 | 7.50 | 0.00 | 0.00 | -6.94 | 30.38 | -4.36 | 28.88 |

| | | | | | | | | |
|-------|-------|------|------|------|-------|-------|-------|-------|
| Sub-T | 59.80 | 7.50 | 0.00 | 0.00 | 30.38 | 30.38 | 28.88 | 28.88 |
| After | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total | 59.80 | 7.50 | 0.00 | 0.00 | 30.38 | 30.38 | 28.88 | 28.88 |

Eco. Indicators

Return on Investment (disc) : 7.096
 Return on Investment (undisc) : 5.051
 Years to Payout : 0.34
 Internal Rate of Return (%) : >1000

Present Worth Profile (M\$)

PW 5.00% : 29.67
 PW 8.00% : 29.20
 PW 9.00% : 29.04
 PW 12.00% : 28.56
 PW 15.00% : 28.08
 PW 20.00% : 27.27

Date : 02/05/2017 2:16:18PM

JUDY I-15H - 1-15H

SOONER TREND Field, KINGFISHER (OK) Co., OK

Operator : HUSKY VENTURES INC

Reservoir : HUNTON

TORCHLIGHT ENERGY, INC

Reserve and Economic Projection

As of 1/1/2017

Custom Selection

Proved Producing

| Year | Wells | Estimated 8/8 This Production | | | Net Production | | | Oil | NGL | Gas |
|------|-------|-------------------------------|-------------|-------------|----------------|-------------|-------------|-------|------|------|
| | | Oil Mbbbl | NGL Mgal | Gas MMcf | Oil Mbbbl | NGL Mgal | Gas MMcf | | | |
| 2017 | 1 | 5.54 | 0.00 | 96.88 | 0.43 | 0.00 | 7.56 | 42.92 | 0.00 | 1.73 |
| 2018 | 1 | 4.17 | 0.00 | 71.48 | 0.53 | 0.00 | 5.58 | 42.92 | 0.00 | 1.73 |
| 2019 | 1 | 5.35 | 0.00 | 56.35 | 0.26 | 0.00 | 4.40 | 42.92 | 0.00 | 1.73 |
| 2020 | 1 | 2.80 | 0.00 | 46.45 | 0.22 | 0.00 | 3.62 | 42.92 | 0.00 | 1.73 |
| 2021 | 1 | 1.71 | 0.00 | 28.03 | 0.13 | 0.00 | 2.19 | 42.92 | 0.00 | 1.73 |

| | | | | | | | | | |
|-------|-------|------|----------|------|------|-------|-------|------|------|
| Sub-T | 17.58 | 0.00 | 299.19 | 1.37 | 0.00 | 23.34 | 42.92 | 0.00 | 1.73 |
| After | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total | 17.58 | 0.00 | 299.19 | 1.37 | 0.00 | 23.34 | 42.92 | 0.00 | 1.73 |
| Com. | 62.94 | 0.00 | 848.11 | | | | | | |
| Ult. | 80.52 | 0.00 | 1,147.30 | | | | | | |

| Year | Company Future Gross Revenue | | | | | Prod & Adv Taxes | | Revenue after Sev & Adv |
|------|------------------------------|------------|------------|--------------|--------------|------------------|----------------|----------------------------|
| | Oil M\$ | NGL M\$ | Gas M\$ | Other M\$ | Total M\$ | Prod Tax M\$ | Adv Tax M\$ | |
| 2017 | 18.55 | 0.00 | 13.06 | 0.00 | 31.62 | 0.48 | 0.00 | 31.13 |
| 2018 | 13.97 | 0.00 | 9.64 | 0.00 | 23.61 | 0.36 | 0.00 | 23.25 |
| 2019 | 11.21 | 0.00 | 7.60 | 0.00 | 18.81 | 0.29 | 0.00 | 18.52 |
| 2020 | 9.39 | 0.00 | 6.26 | 0.00 | 15.65 | 0.24 | 0.00 | 15.41 |
| 2021 | 5.73 | 0.00 | 3.78 | 0.00 | 9.51 | 0.14 | 0.00 | 9.37 |

| | | | | | | | | |
|-------|-------|------|-------|------|-------|------|------|-------|
| Sub-T | 58.85 | 0.00 | 40.35 | 0.00 | 99.20 | 1.51 | 0.00 | 97.69 |
| After | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total | 58.85 | 0.00 | 40.35 | 0.00 | 99.20 | 1.51 | 0.00 | 97.69 |

| Year | Deductions | | | | Future Net Income Before Income Taxes | | | | |
|------|---------------------------|---------------------------|------------------------|-----------------------|---------------------------------------|------------|----------------------------|-------|-----------------------------|
| | Lease Net Costs M\$ | Net Investments M\$ | Trans. Costs M\$ | Net Profits M\$ | Undiscounted | | Discounted Ann @ 10.00% | | Disc. Com Annul @ 10.00% |
| 2017 | 12.75 | 0.00 | 0.00 | 0.00 | Annual | Cumulative | | | |
| 2018 | 12.75 | 0.00 | 0.00 | 0.00 | 18.38 | 18.38 | 17.61 | 17.61 | 17.61 |
| 2019 | 12.75 | 0.00 | 0.00 | 0.00 | 10.50 | 28.88 | 9.14 | 26.75 | 26.75 |
| 2020 | 12.75 | 0.00 | 0.00 | 0.00 | 5.77 | 34.66 | 4.57 | 31.32 | 31.32 |
| 2021 | 8.80 | 7.50 | 0.00 | 0.00 | 2.66 | 37.32 | 1.92 | 33.25 | 33.25 |
| | | | | | -6.94 | 30.38 | -4.56 | 28.88 | 28.88 |

| | | | | | | | | |
|-------|-------|------|------|------|-------|-------|-------|-------|
| Sub-T | 59.80 | 7.50 | 0.00 | 0.00 | 30.38 | 30.38 | 28.88 | 28.88 |
| After | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total | 59.80 | 7.50 | 0.00 | 0.00 | 30.38 | 30.38 | 28.88 | 28.88 |

Eco. Indicators

Return on Investment (disc) : 7.096
 Return on Investment (undisc) : 5.051
 Years to Payout : 0.34
 Internal Rate of Return (%) : >1000

Ownership Interests

| | Initial | 1st Rev. | 2nd Rev. |
|-------------|------------|------------|------------|
| W. I. : | 0.10000000 | 0.00000000 | 0.00000000 |
| Net R. I. : | 0.07800000 | 0.00000000 | 0.00000000 |
| Rev. Date : | | | |

Present Worth Profile (M\$)

| | |
|-------------|-------|
| PW 5.00% : | 29.67 |
| PW 8.00% : | 20.20 |
| PW 9.00% : | 29.01 |
| PW 12.00% : | 28.56 |
| PW 15.00% : | 28.08 |
| PW 20.00% : | 27.27 |

Date: 02/05/2017 2:16:18PM
 LOKI 1-24 - 1-24
 N/A Field, JOHNSTON (OK) Co., OK
 Operator: HUSKY VENTURES INC
 Reservoir: BROMIDE

TORCHLIGHT ENERGY, INC
 Reserve and Economic Projection
 As of 1/1/2017
 Custom Selection

Proved Producing

| Year | Wells | Estimated N/S Tbs Production | | | Net Production | | | Oil | NGL | Gas |
|------|-------|------------------------------|------|------|----------------|------|------|-------|-------|-------|
| | | Oil | NGL | Gas | Oil | NGL | Gas | | | |
| | | Mbbl | Mgal | MMcf | Mbbl | Mgal | MMcf | S/bbl | S/gal | S/Mcf |

NON-ECONOMIC

| | | | | | | | | | | |
|-------|------|------|------|------|------|------|------|------|------|------|
| Sub-T | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| After | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Com. | 1.56 | 0.00 | 0.00 | | | | | | | |
| Ult. | 1.56 | 0.00 | 0.00 | | | | | | | |

| Year | Company Future Gross Revenue | | | | | Prod & Adv Taxes | | Revenue after Sev & Adv |
|------|------------------------------|-----|-----|-------|-------|------------------|---------|-------------------------|
| | Oil | NGL | Gas | Other | Total | Prod Tax | Adv Tax | |
| | M\$ | M\$ | M\$ | M\$ | M\$ | M\$ | M\$ | M\$ |

| | | | | | | | | |
|------|------|------|------|------|------|------|------|------|
| 2017 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
|------|------|------|------|------|------|------|------|------|

| | | | | | | | | |
|-------|------|------|------|------|------|------|------|------|
| Sub-T | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| After | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

| Year | Deductions | | | | Future Net Income Before Income Taxes | | | |
|------|-----------------|-----------------|--------------|-------------|---------------------------------------|-------------------------|-------------------------|----------------------------|
| | Lease Net Costs | Net Investments | Trans. Costs | Net Profits | Annual Undiscounted | Cumulative Undiscounted | Discounted Ann @ 10.00% | Disc. Cum. Annual @ 10.00% |
| | M\$ | M\$ | M\$ | M\$ | M\$ | M\$ | M\$ | M\$ |

| | | | | | | | | |
|------|------|------|------|------|------|------|------|------|
| 2017 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
|------|------|------|------|------|------|------|------|------|

| | | | | | | | | |
|-------|------|------|------|------|------|------|------|------|
| Sub-T | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| After | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

Eco. Indicators

Return on Investment (disc): 0.000
 Return on Investment (undisc): 0.000
 Years to Payout: 0.00
 Internal Rate of Return (%): 0.00

Ownership Interests

| | Initial | 1st Rev. | 2nd Rev. |
|------------|------------|------------|------------|
| W. I.: | 0.50000000 | 0.00000000 | 0.00000000 |
| Net R. I.: | 0.23400000 | 0.00000000 | 0.00000000 |
| Rev. Date: | | | |

Present Worth Profile (M\$)

| | |
|------------|------|
| PW 5.00%: | 0.00 |
| PW 8.00%: | 0.00 |
| PW 9.00%: | 0.00 |
| PW 12.00%: | 0.00 |
| PW 15.00%: | 0.00 |
| PW 20.00%: | 0.00 |

TORCHLIGHT ENERGY, INC
Reserve and Economic Projection
 As of 1/1/2017
 Custom Selection

Proved Rsv Class
 Undeveloped Rsv Category

| Year | Wells | Estimated &S This Production | | | Net Production | | | Oil | NGL | Gas |
|-------|-------|------------------------------|------|----------|----------------|------|--------|--------|--------|--------|
| | | Oil | NGL | Gas | Oil | NGL | Gas | | | |
| | | Mbbl | Mgal | MMcf | Mbbl | Mgal | MMcf | \$/bbl | \$/gal | \$/Mcf |
| 2017 | 0 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 2018 | 3 | 116.06 | 0.00 | 1,160.64 | 8.99 | 0.00 | 89.95 | 42.92 | 0.00 | 2.25 |
| 2019 | 3 | 119.13 | 0.00 | 1,191.33 | 9.23 | 0.00 | 92.33 | 42.92 | 0.00 | 2.25 |
| 2020 | 3 | 65.44 | 0.00 | 654.41 | 5.07 | 0.00 | 50.72 | 42.92 | 0.00 | 2.25 |
| 2021 | 3 | 45.66 | 0.00 | 456.57 | 3.54 | 0.00 | 35.38 | 42.92 | 0.00 | 2.25 |
| 2022 | 3 | 35.23 | 0.00 | 352.34 | 2.73 | 0.00 | 27.31 | 42.92 | 0.00 | 2.25 |
| 2023 | 3 | 28.72 | 0.00 | 287.17 | 2.23 | 0.00 | 22.26 | 42.92 | 0.00 | 2.25 |
| 2024 | 3 | 24.31 | 0.00 | 243.08 | 1.88 | 0.00 | 18.84 | 42.92 | 0.00 | 2.25 |
| 2025 | 3 | 20.98 | 0.00 | 209.78 | 1.63 | 0.00 | 16.26 | 42.92 | 0.00 | 2.25 |
| 2026 | 3 | 18.49 | 0.00 | 184.95 | 1.43 | 0.00 | 14.33 | 42.92 | 0.00 | 2.25 |
| 2027 | 3 | 16.54 | 0.00 | 165.39 | 1.28 | 0.00 | 12.82 | 42.92 | 0.00 | 2.25 |
| 2028 | 3 | 15.00 | 0.00 | 149.97 | 1.16 | 0.00 | 11.62 | 42.92 | 0.00 | 2.25 |
| 2029 | 3 | 13.65 | 0.00 | 136.50 | 1.06 | 0.00 | 10.58 | 42.92 | 0.00 | 2.25 |
| 2030 | 3 | 12.56 | 0.00 | 125.56 | 0.97 | 0.00 | 9.73 | 42.92 | 0.00 | 2.25 |
| 2031 | 3 | 11.62 | 0.00 | 116.24 | 0.90 | 0.00 | 9.01 | 42.92 | 0.00 | 2.25 |
| Sub-T | | 543.39 | 0.00 | 5,433.91 | 42.11 | 0.00 | 421.13 | 42.92 | 0.00 | 2.25 |
| After | | 59.93 | 0.00 | 599.27 | 4.64 | 0.00 | 46.44 | 42.92 | 0.00 | 2.25 |
| Total | | 603.32 | 0.00 | 6,033.18 | 46.76 | 0.00 | 467.57 | 42.92 | 0.00 | 2.25 |
| Com. | | 0.00 | 0.00 | 0.00 | | | | | | |
| Ult. | | 603.32 | 0.00 | 6,033.18 | | | | | | |

| Year | Company Future Gross Revenue | | | | | Prod & Adv Taxes | | Revenue after Sev & Adv |
|-------|------------------------------|------|----------|-------|----------|------------------|---------|-------------------------|
| | Oil | NGL | Gas | Other | Total | Prod Tax | Adv Tax | |
| | M\$ | M\$ | M\$ | M\$ | M\$ | M\$ | M\$ | M\$ |
| 2017 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 2018 | 386.06 | 0.00 | 202.18 | 0.00 | 588.24 | 41.74 | 0.00 | 546.51 |
| 2019 | 396.27 | 0.00 | 207.53 | 0.00 | 603.80 | 42.84 | 0.00 | 560.96 |
| 2020 | 217.68 | 0.00 | 114.00 | 0.00 | 331.67 | 23.53 | 0.00 | 308.14 |
| 2021 | 151.87 | 0.00 | 79.53 | 0.00 | 231.40 | 16.42 | 0.00 | 214.98 |
| 2022 | 117.20 | 0.00 | 61.38 | 0.00 | 178.57 | 12.67 | 0.00 | 165.90 |
| 2023 | 95.52 | 0.00 | 50.02 | 0.00 | 145.54 | 10.33 | 0.00 | 135.22 |
| 2024 | 80.85 | 0.00 | 42.34 | 0.00 | 123.20 | 8.74 | 0.00 | 114.46 |
| 2025 | 69.78 | 0.00 | 36.54 | 0.00 | 106.32 | 7.54 | 0.00 | 98.78 |
| 2026 | 61.52 | 0.00 | 32.22 | 0.00 | 93.74 | 6.65 | 0.00 | 87.09 |
| 2027 | 55.01 | 0.00 | 28.81 | 0.00 | 83.82 | 5.95 | 0.00 | 77.88 |
| 2028 | 49.88 | 0.00 | 25.12 | 0.00 | 76.01 | 5.39 | 0.00 | 70.62 |
| 2029 | 45.40 | 0.00 | 23.78 | 0.00 | 69.18 | 4.91 | 0.00 | 64.27 |
| 2030 | 41.76 | 0.00 | 21.87 | 0.00 | 63.64 | 4.51 | 0.00 | 59.12 |
| 2031 | 38.67 | 0.00 | 20.25 | 0.00 | 58.91 | 4.18 | 0.00 | 54.73 |
| Sub-T | 1,807.48 | 0.00 | 946.57 | 0.00 | 2,754.05 | 195.40 | 0.00 | 2,558.65 |
| After | 199.33 | 0.00 | 104.39 | 0.00 | 303.72 | 21.55 | 0.00 | 282.17 |
| Total | 2,006.81 | 0.00 | 1,050.96 | 0.00 | 3,057.77 | 216.95 | 0.00 | 2,840.82 |

| Year | Deductions | | | | Future Net Income Before Income Taxes | | | |
|-------|------------|-------------|-------|---------|---------------------------------------|------------|----------------|-----------------|
| | Lease | Net | Trans | Net | Undiscounted | | Discounted Ann | Disc. Cum. |
| | Net Costs | Investments | Costs | Profits | Annual | Cumulative | @ 10.00% | Annual @ 10.00% |
| | M\$ | M\$ | M\$ | M\$ | M\$ | M\$ | M\$ | M\$ |
| 2017 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 2018 | 20.00 | 1,320.00 | 0.00 | 0.00 | -793.49 | -793.49 | -699.67 | -699.67 |
| 2019 | 36.00 | 0.00 | 0.00 | 0.00 | 524.96 | -268.53 | -416.70 | -282.97 |
| 2020 | 36.00 | 0.00 | 0.00 | 0.00 | 272.14 | 3.61 | 195.77 | -87.20 |
| 2021 | 36.00 | 0.00 | 0.00 | 0.00 | 178.98 | 182.59 | 116.92 | 29.71 |
| 2022 | 36.00 | 0.00 | 0.00 | 0.00 | 129.90 | 312.49 | 77.11 | 106.82 |
| 2023 | 36.00 | 0.00 | 0.00 | 0.00 | 99.22 | 411.71 | 53.53 | 160.35 |
| 2024 | 36.00 | 0.00 | 0.00 | 0.00 | 78.46 | 490.17 | 38.47 | 198.82 |
| 2025 | 36.00 | 0.00 | 0.00 | 0.00 | 62.78 | 552.95 | 27.98 | 226.79 |
| 2026 | 36.00 | 0.00 | 0.00 | 0.00 | 51.09 | 604.03 | 20.69 | 247.49 |
| 2027 | 36.00 | 0.00 | 0.00 | 0.00 | 41.88 | 645.91 | 15.42 | 262.91 |
| 2028 | 36.00 | 0.00 | 0.00 | 0.00 | 34.62 | 680.52 | 11.59 | 274.50 |
| 2029 | 36.00 | 0.00 | 0.00 | 0.00 | 28.27 | 708.79 | 8.60 | 283.10 |
| 2030 | 36.00 | 0.00 | 0.00 | 0.00 | 23.12 | 731.91 | 6.40 | 289.50 |
| 2031 | 36.00 | 0.00 | 0.00 | 0.00 | 18.75 | 750.65 | 4.71 | 294.21 |
| Sub-T | 488.00 | 1,320.00 | 0.00 | 0.00 | 750.65 | 750.65 | 294.21 | 294.21 |
| After | 234.14 | 22.50 | 0.00 | 0.00 | 25.53 | 25.53 | 6.69 | 6.69 |
| Total | 722.14 | 1,342.50 | 0.00 | 0.00 | 776.18 | 776.18 | 300.90 | 300.90 |

Eco. Indicators

Return on Investment (disc) : 1.260
 Return on Investment (undisc) : 1.578
 Years to Payout : 4.09
 Internal Rate of Return (%) : 25.85

Present Worth Profile (M\$)

PW 5.00% : 490.84
 PW 8.00% : 368.20
 PW 9.00% : 335.28
 PW 12.00% : 242.88
 PW 15.00% : 169.99
 PW 20.00% : 77.06

Date : 02/05/2017 2:16:18PM

JUDY PHD 24

SOONER TREND Field, KINGFISHER (OK) Co., OK

Operator : HUSKY VENTURES INC

Reservoir : HUNTON

TORCHLIGHT ENERGY, INC

Reserve and Economic Projection

As of 1/1/2017

Custom Selection

Proved Undeveloped

| Year | Wells | Estimated 8/8 Ths Production | | | Net Production | | | Oil | NGL | Gas |
|-----------|-------|------------------------------|-------------|-------------|----------------|-------------|-------------|-------|------|-----|
| | | Oil Mbbbl | NGL Mgal | Gas MMcf | Oil Mbbbl | NGL Mgal | Gas MMcf | | | |
| 2017 | 0 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | |
| 2018 | 1 | 62.25 | 0.00 | 622.49 | 4.82 | 0.00 | 48.24 | 42.92 | 0.00 | |
| 2019 | 1 | 27.58 | 0.00 | 275.83 | 2.14 | 0.00 | 21.58 | 42.92 | 0.00 | |
| 2020 | 1 | 17.99 | 0.00 | 179.94 | 1.39 | 0.00 | 13.95 | 42.92 | 0.00 | |
| 2021 | 1 | 13.33 | 0.00 | 133.25 | 1.03 | 0.00 | 10.33 | 42.92 | 0.00 | |
| 2022 | 1 | 10.61 | 0.00 | 106.08 | 0.82 | 0.00 | 8.22 | 42.92 | 0.00 | |
| 2023 | 1 | 8.81 | 0.00 | 88.13 | 0.68 | 0.00 | 6.83 | 42.92 | 0.00 | |
| 2024 | 1 | 7.56 | 0.00 | 75.58 | 0.59 | 0.00 | 5.10 | 42.92 | 0.00 | |
| 2025 | 1 | 6.59 | 0.00 | 65.85 | 0.51 | 0.00 | 4.53 | 42.92 | 0.00 | |
| 2026 | 1 | 5.85 | 0.00 | 58.48 | 0.45 | 0.00 | 4.08 | 42.92 | 0.00 | |
| 2027 | 1 | 5.26 | 0.00 | 52.59 | 0.41 | 0.00 | 3.71 | 42.92 | 0.00 | |
| 2028 | 1 | 4.79 | 0.00 | 47.90 | 0.37 | 0.00 | 3.39 | 42.92 | 0.00 | |
| 2029 | 1 | 4.38 | 0.00 | 43.77 | 0.34 | 0.00 | 3.13 | 42.92 | 0.00 | |
| 2030 | 1 | 4.04 | 0.00 | 40.38 | 0.31 | 0.00 | 2.91 | 42.92 | 0.00 | |
| 2031 | 1 | 3.75 | 0.00 | 37.49 | 0.29 | 0.00 | 2.91 | 42.92 | 0.00 | |
| Sub-T | | 182.78 | 0.00 | 1,827.76 | 14.17 | 0.00 | 141.65 | 42.92 | 0.00 | |
| After | | 18.34 | 0.00 | 183.44 | 1.42 | 0.00 | 14.22 | 42.92 | 0.00 | |
| Total | | 201.12 | 0.00 | 2,011.21 | 15.59 | 0.00 | 155.87 | 42.92 | 0.00 | |
| Cum. Utl. | | 0.00 | 0.00 | 0.00 | | | | | | |
| Utl. | | 201.12 | 0.00 | 2,011.21 | | | | | | |

| Year | Company Future Gross Revenue | | | | | Prod & Adv Taxes | | Revenue after Sev & Adv |
|-------|------------------------------|------------|------------|--------------|--------------|------------------|----------------|-------------------------|
| | Oil M\$ | NGL M\$ | Gas M\$ | Other M\$ | Total M\$ | Prod Tax M\$ | Adv Tax M\$ | |
| 2017 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 2018 | 207.66 | 0.00 | 108.44 | 0.00 | 315.49 | 22.38 | 0.00 | 293.11 |
| 2019 | 91.75 | 0.00 | 48.05 | 0.00 | 139.80 | 9.92 | 0.00 | 129.88 |
| 2020 | 59.85 | 0.00 | 31.35 | 0.00 | 91.20 | 6.47 | 0.00 | 84.73 |
| 2021 | 44.32 | 0.00 | 23.21 | 0.00 | 67.54 | 4.79 | 0.00 | 62.75 |
| 2022 | 35.28 | 0.00 | 18.48 | 0.00 | 53.76 | 3.81 | 0.00 | 49.95 |
| 2023 | 29.32 | 0.00 | 15.35 | 0.00 | 44.67 | 3.17 | 0.00 | 41.50 |
| 2024 | 25.14 | 0.00 | 13.17 | 0.00 | 38.31 | 2.72 | 0.00 | 35.59 |
| 2025 | 21.90 | 0.00 | 11.47 | 0.00 | 33.38 | 2.37 | 0.00 | 31.01 |
| 2026 | 19.45 | 0.00 | 10.19 | 0.00 | 29.64 | 2.10 | 0.00 | 27.53 |
| 2027 | 17.49 | 0.00 | 9.16 | 0.00 | 26.65 | 1.89 | 0.00 | 24.76 |
| 2028 | 15.93 | 0.00 | 8.34 | 0.00 | 24.28 | 1.72 | 0.00 | 22.56 |
| 2029 | 14.56 | 0.00 | 7.62 | 0.00 | 22.18 | 1.57 | 0.00 | 20.61 |
| 2030 | 13.43 | 0.00 | 7.03 | 0.00 | 20.47 | 1.45 | 0.00 | 19.02 |
| 2031 | 12.47 | 0.00 | 6.53 | 0.00 | 19.00 | 1.35 | 0.00 | 17.65 |
| Sub-T | 607.97 | 0.00 | 318.39 | 0.00 | 926.36 | 65.73 | 0.00 | 860.63 |
| After | 61.02 | 0.00 | 31.96 | 0.00 | 92.97 | 6.60 | 0.00 | 86.37 |
| Total | 668.98 | 0.00 | 350.35 | 0.00 | 1,019.33 | 72.32 | 0.00 | 947.01 |

| Year | Deductions | | | | Future Net Income Before Income Taxes | | | |
|-------|--------------------|--------------------|-----------------|----------------|---------------------------------------|------------|----------------|------------|
| | Lease Net Costs | Net Investments | Trans. Costs | Net Profits | Undiscounted | | Discounted Ann | |
| | M\$ | M\$ | M\$ | M\$ | Annual | Cumulative | @ 10.00% | Disc. Cum. |
| 2017 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 2018 | 12.00 | 440.00 | 0.00 | 0.00 | -158.89 | -158.89 | -153.93 | -153.93 |
| 2019 | 12.00 | 0.00 | 0.00 | 0.00 | 117.88 | -41.01 | 93.35 | -60.58 |
| 2020 | 12.00 | 0.00 | 0.00 | 0.00 | 72.73 | 31.72 | 53.28 | -8.29 |
| 2021 | 12.00 | 0.00 | 0.00 | 0.00 | 50.75 | 82.46 | 33.14 | 24.85 |
| 2022 | 12.00 | 0.00 | 0.00 | 0.00 | 37.95 | 120.41 | 22.52 | 47.37 |
| 2023 | 12.00 | 0.00 | 0.00 | 0.00 | 29.50 | 149.91 | 15.91 | 63.28 |
| 2024 | 12.00 | 0.00 | 0.00 | 0.00 | 23.59 | 173.50 | 11.57 | 74.84 |
| 2025 | 12.00 | 0.00 | 0.00 | 0.00 | 19.01 | 192.51 | 8.47 | 83.31 |
| 2026 | 12.00 | 0.00 | 0.00 | 0.00 | 15.53 | 208.04 | 6.29 | 89.61 |
| 2027 | 12.00 | 0.00 | 0.00 | 0.00 | 12.76 | 220.80 | 4.70 | 94.31 |
| 2028 | 12.00 | 0.00 | 0.00 | 0.00 | 10.50 | 231.36 | 3.53 | 97.84 |
| 2029 | 12.00 | 0.00 | 0.00 | 0.00 | 8.61 | 239.97 | 2.62 | 100.46 |
| 2030 | 12.00 | 0.00 | 0.00 | 0.00 | 7.02 | 246.98 | 1.94 | 102.40 |
| 2031 | 12.00 | 0.00 | 0.00 | 0.00 | 5.65 | 252.63 | 1.42 | 103.82 |
| Sub-T | 168.00 | 440.00 | 0.00 | 0.00 | 252.63 | 252.63 | 103.82 | 103.82 |
| After | 72.81 | 7.50 | 0.00 | 0.00 | 6.07 | 6.07 | 1.74 | 1.74 |
| Total | 240.81 | 447.50 | 0.00 | 0.00 | 258.70 | 258.70 | 105.56 | 105.56 |

Eco. Indicators

Return on Investment (disc) : 1.263
 Return on Investment (undisc) : 1.578
 Years to Payout : 3.62
 Internal Rate of Return (%) : 26.38

Ownership Interests

Initial : 0.10000000
 1st Rev. : 0.00000000
 Net R. I. : 0.07750000
 2nd Rev. : 0.00000000
 Rev. Date :

Present Worth Profile (M\$)

PW 5.00% : 167.69
 PW 8.00% : 127.76
 PW 9.00% : 116.27
 PW 12.00% : 86.22
 PW 15.00% : 61.60
 PW 20.00% : 29.53

| Year | Wells | Estimated 8/8 This Production | | | Net Production | | | Oil | NGL | Gas |
|-----------|-------|-------------------------------|------|----------|----------------|------|--------|--------|--------|--------|
| | | Oil | NGL | Gas | Oil | NGL | Gas | | | |
| | | Mbbl | Mgal | MMcf | Mbbl | Mgal | MMcf | \$/bbl | \$/gal | \$/Mcf |
| 2017 | 0 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 2018 | 1 | 44.51 | 0.00 | 445.12 | 3.45 | 0.00 | 34.50 | 42.92 | 0.00 | 2.25 |
| 2019 | 1 | 55.61 | 0.00 | 356.05 | 2.76 | 0.00 | 27.59 | 42.92 | 0.00 | 2.25 |
| 2020 | 1 | 21.02 | 0.00 | 210.18 | 1.63 | 0.00 | 16.29 | 42.92 | 0.00 | 2.25 |
| 2021 | 1 | 14.91 | 0.00 | 149.09 | 1.16 | 0.00 | 11.55 | 42.92 | 0.00 | 2.25 |
| 2022 | 1 | 11.58 | 0.00 | 115.85 | 0.90 | 0.00 | 8.98 | 42.92 | 0.00 | 2.25 |
| 2023 | 1 | 9.48 | 0.00 | 94.76 | 0.73 | 0.00 | 7.34 | 42.92 | 0.00 | 2.25 |
| 2024 | 1 | 8.04 | 0.00 | 80.39 | 0.62 | 0.00 | 6.23 | 42.92 | 0.00 | 2.25 |
| 2025 | 1 | 6.95 | 0.00 | 69.48 | 0.54 | 0.00 | 5.38 | 42.92 | 0.00 | 2.25 |
| 2026 | 1 | 6.13 | 0.00 | 61.32 | 0.48 | 0.00 | 4.75 | 42.92 | 0.00 | 2.25 |
| 2027 | 1 | 5.49 | 0.00 | 54.87 | 0.43 | 0.00 | 4.25 | 42.92 | 0.00 | 2.25 |
| 2028 | 1 | 4.98 | 0.00 | 49.79 | 0.39 | 0.00 | 3.86 | 42.92 | 0.00 | 2.25 |
| 2029 | 1 | 4.53 | 0.00 | 45.34 | 0.35 | 0.00 | 3.51 | 42.92 | 0.00 | 2.25 |
| 2030 | 1 | 4.17 | 0.00 | 41.72 | 0.33 | 0.00 | 3.23 | 42.92 | 0.00 | 2.25 |
| 2031 | 1 | 3.86 | 0.00 | 38.63 | 0.30 | 0.00 | 2.99 | 42.92 | 0.00 | 2.25 |
| Sub-T | | 181.26 | 0.00 | 1,812.58 | 14.05 | 0.00 | 140.47 | 42.92 | 0.00 | 2.25 |
| After | | 19.84 | 0.00 | 198.41 | 1.54 | 0.00 | 15.38 | 42.92 | 0.00 | 2.25 |
| Total | | 201.10 | 0.00 | 2,010.99 | 15.59 | 0.00 | 155.85 | 42.92 | 0.00 | 2.25 |
| Cum. Utl. | | 0.00 | 0.00 | 0.00 | | | | | | |
| Utl. | | 201.10 | 0.00 | 2,010.99 | | | | | | |

| Year | Company Future Gross Revenue | | | | | Prod & Adv Taxes | | Revenue after Sev & Adv |
|-------|------------------------------|------|--------|-------|----------|------------------|---------|-------------------------|
| | Oil | NGL | Gas | Other | Total | Prod Tax | Adv Tax | |
| | M\$ | M\$ | M\$ | M\$ | M\$ | M\$ | M\$ | M\$ |
| 2017 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 2018 | 148.06 | 0.00 | 77.54 | 0.00 | 225.60 | 16.01 | 0.00 | 209.59 |
| 2019 | 118.43 | 0.00 | 62.02 | 0.00 | 180.46 | 12.80 | 0.00 | 167.65 |
| 2020 | 69.91 | 0.00 | 36.61 | 0.00 | 106.52 | 7.56 | 0.00 | 98.96 |
| 2021 | 49.59 | 0.00 | 25.97 | 0.00 | 75.56 | 5.36 | 0.00 | 70.20 |
| 2022 | 38.53 | 0.00 | 20.18 | 0.00 | 58.71 | 4.17 | 0.00 | 54.55 |
| 2023 | 31.52 | 0.00 | 16.51 | 0.00 | 48.03 | 3.41 | 0.00 | 44.62 |
| 2024 | 26.74 | 0.00 | 14.00 | 0.00 | 40.74 | 2.89 | 0.00 | 37.85 |
| 2025 | 23.11 | 0.00 | 12.10 | 0.00 | 35.21 | 2.50 | 0.00 | 32.71 |
| 2026 | 20.40 | 0.00 | 10.68 | 0.00 | 31.08 | 2.20 | 0.00 | 28.87 |
| 2027 | 18.25 | 0.00 | 9.56 | 0.00 | 27.81 | 1.97 | 0.00 | 25.84 |
| 2028 | 16.56 | 0.00 | 8.67 | 0.00 | 25.23 | 1.79 | 0.00 | 23.44 |
| 2029 | 15.68 | 0.00 | 7.90 | 0.00 | 22.98 | 1.63 | 0.00 | 21.35 |
| 2030 | 13.88 | 0.00 | 7.27 | 0.00 | 21.14 | 1.50 | 0.00 | 19.64 |
| 2031 | 12.85 | 0.00 | 6.73 | 0.00 | 19.58 | 1.39 | 0.00 | 18.19 |
| Sub-T | 602.92 | 0.00 | 315.75 | 0.00 | 918.66 | 65.18 | 0.00 | 853.48 |
| After | 66.00 | 0.00 | 34.56 | 0.00 | 100.56 | 7.13 | 0.00 | 93.42 |
| Total | 668.91 | 0.00 | 350.31 | 0.00 | 1,019.22 | 72.31 | 0.00 | 946.91 |

| Year | Deductions | | | | Future Net Income Before Income Taxes | | | |
|-------|------------|-------------|--------|---------|---------------------------------------|------------|----------------|-----------------|
| | Lease | Net | Trans. | Net | Undiscounted | | Discounted Ann | Disc. Cum. |
| | Net Costs | Investments | Costs | Profits | Annual | Cumulative | @ 10.00% | Annual @ 10.00% |
| | M\$ | M\$ | M\$ | M\$ | M\$ | M\$ | M\$ | M\$ |
| 2017 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 2018 | 7.00 | 440.00 | 0.00 | 0.00 | -237.41 | -237.41 | -213.19 | -213.19 |
| 2019 | 12.00 | 0.00 | 0.00 | 0.00 | 155.65 | -81.75 | 123.41 | -89.77 |
| 2020 | 12.00 | 0.00 | 0.00 | 0.00 | 86.96 | 5.21 | 62.55 | -27.23 |
| 2021 | 12.00 | 0.00 | 0.00 | 0.00 | 58.20 | 63.41 | 38.02 | 10.79 |
| 2022 | 12.00 | 0.00 | 0.00 | 0.00 | 42.55 | 105.96 | 25.25 | 36.04 |
| 2023 | 12.00 | 0.00 | 0.00 | 0.00 | 32.62 | 138.58 | 17.60 | 53.64 |
| 2024 | 12.00 | 0.00 | 0.00 | 0.00 | 25.85 | 164.43 | 12.68 | 66.31 |
| 2025 | 12.00 | 0.00 | 0.00 | 0.00 | 20.71 | 185.15 | 9.23 | 75.55 |
| 2026 | 12.00 | 0.00 | 0.00 | 0.00 | 16.87 | 202.02 | 6.83 | 82.38 |
| 2027 | 12.00 | 0.00 | 0.00 | 0.00 | 13.84 | 215.86 | 5.10 | 87.48 |
| 2028 | 12.00 | 0.00 | 0.00 | 0.00 | 11.44 | 227.30 | 3.85 | 91.31 |
| 2029 | 12.00 | 0.00 | 0.00 | 0.00 | 9.35 | 236.65 | 2.84 | 94.15 |
| 2030 | 12.00 | 0.00 | 0.00 | 0.00 | 7.64 | 244.29 | 2.11 | 96.27 |
| 2031 | 12.00 | 0.00 | 0.00 | 0.00 | 6.19 | 250.48 | 1.56 | 97.82 |
| Sub-T | 163.00 | 440.00 | 0.00 | 0.00 | 250.48 | 250.48 | 97.82 | 97.82 |
| After | 77.63 | 7.50 | 0.00 | 0.00 | 8.30 | 8.30 | 2.19 | 2.19 |
| Total | 240.63 | 447.50 | 0.00 | 0.00 | 258.78 | 258.78 | 100.01 | 100.01 |

Egg. Indicators

Return on Investment (disc): 1.258
 Return on Investment (undisc): 1.578
 Years to Payout: 4.03
 Internal Rate of Return (%): 25.55

Ownership Interests

W. I.: 0.10000000
 Net R. I.: 0.07750000
 Rev. Date:

Initial: 0.00000000
 1st Rev.: 0.00000000
 2nd Rev.: 0.00000000

Present Worth Profile (M\$)

PW 5.00%: 163.57
 PW 8.00%: 122.55
 PW 9.00%: 110.86
 PW 12.00%: 80.56
 PW 15.00%: 56.10
 PW 20.00%: 24.86

Date: 02/05/2017 2:16:18PM
 JUDY PUD #0

SOONER TREND Field, KINGFISHER (OK) Co., OK
 Operator: HUSKY VENTURES INC
 Reservoir: HUNTON

TORCHLIGHT ENERGY, INC
 Reserve and Economic Projection
 As of 1/1/2017
 Custom Selection

Proved Undeveloped

| Year | Wells | Estimated S/B This Production | | | Net Production | | | Oil | NGL | Gas |
|-------|-------|-------------------------------|-------------|-------------|----------------|-------------|-------------|-------|------|-----|
| | | Oil Mbbbl | NGL Mgal | Gas MMcf | Oil Mbbbl | NGL Mgal | Gas MMcf | | | |
| 2017 | 0 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | |
| 2018 | 1 | 9.30 | 0.00 | 93.03 | 0.72 | 0.00 | 7.21 | 42.92 | 0.00 | |
| 2019 | 1 | 55.95 | 0.00 | 559.45 | 4.34 | 0.00 | 43.36 | 42.92 | 0.00 | |
| 2020 | 1 | 26.43 | 0.00 | 264.29 | 2.05 | 0.00 | 20.48 | 42.92 | 0.00 | |
| 2021 | 1 | 17.42 | 0.00 | 174.22 | 1.35 | 0.00 | 13.50 | 42.92 | 0.00 | |
| 2022 | 1 | 13.04 | 0.00 | 130.41 | 1.01 | 0.00 | 10.11 | 42.92 | 0.00 | |
| 2023 | 1 | 10.43 | 0.00 | 104.27 | 0.81 | 0.00 | 8.08 | 42.92 | 0.00 | |
| 2024 | 1 | 8.71 | 0.00 | 87.10 | 0.68 | 0.00 | 6.75 | 42.92 | 0.00 | |
| 2025 | 1 | 7.44 | 0.00 | 74.45 | 0.58 | 0.00 | 5.77 | 42.92 | 0.00 | |
| 2026 | 1 | 6.32 | 0.00 | 63.15 | 0.50 | 0.00 | 5.05 | 42.92 | 0.00 | |
| 2027 | 1 | 5.29 | 0.00 | 52.92 | 0.45 | 0.00 | 4.49 | 42.92 | 0.00 | |
| 2028 | 1 | 5.23 | 0.00 | 52.28 | 0.41 | 0.00 | 4.05 | 42.92 | 0.00 | |
| 2029 | 1 | 4.74 | 0.00 | 47.40 | 0.37 | 0.00 | 3.67 | 42.92 | 0.00 | |
| 2030 | 1 | 4.35 | 0.00 | 43.46 | 0.34 | 0.00 | 3.37 | 42.92 | 0.00 | |
| 2031 | 1 | 4.01 | 0.00 | 40.12 | 0.31 | 0.00 | 3.11 | 42.92 | 0.00 | |
| Sub-T | | 179.26 | 0.00 | 1,793.57 | 13.90 | 0.00 | 139.00 | 42.92 | 0.00 | |
| After | | 21.74 | 0.00 | 217.42 | 1.69 | 0.00 | 16.85 | 42.92 | 0.00 | |
| Total | | 201.10 | 0.00 | 2,010.99 | 15.59 | 0.00 | 155.85 | 42.92 | 0.00 | |
| Com. | | 0.00 | 0.00 | 0.00 | | | | | | |
| Ubl. | | 201.10 | 0.00 | 2,010.99 | | | | | | |

| Year | Company Future Gross Revenue | | | | | Prod & Adv Taxes | | Revenue after Sev & Adv |
|-------|------------------------------|------------|------------|--------------|--------------|------------------|----------------|----------------------------|
| | Oil M\$ | NGL M\$ | Gas M\$ | Other M\$ | Total M\$ | Prod Tax M\$ | Adv Tax M\$ | |
| 2017 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 2018 | 30.94 | 0.00 | 16.21 | 0.00 | 47.15 | 3.35 | 0.00 | 43.80 |
| 2019 | 186.09 | 0.00 | 97.45 | 0.00 | 283.54 | 20.12 | 0.00 | 263.43 |
| 2020 | 87.91 | 0.00 | 46.04 | 0.00 | 133.95 | 9.50 | 0.00 | 124.45 |
| 2021 | 57.95 | 0.00 | 30.35 | 0.00 | 88.30 | 6.26 | 0.00 | 82.04 |
| 2022 | 43.38 | 0.00 | 22.72 | 0.00 | 66.10 | 4.69 | 0.00 | 61.41 |
| 2023 | 34.68 | 0.00 | 18.16 | 0.00 | 52.85 | 3.75 | 0.00 | 49.10 |
| 2024 | 28.97 | 0.00 | 15.17 | 0.00 | 44.15 | 3.13 | 0.00 | 41.01 |
| 2025 | 24.76 | 0.00 | 12.97 | 0.00 | 37.73 | 2.68 | 0.00 | 35.06 |
| 2026 | 21.67 | 0.00 | 11.35 | 0.00 | 33.02 | 2.34 | 0.00 | 30.68 |
| 2027 | 19.27 | 0.00 | 10.09 | 0.00 | 29.36 | 2.08 | 0.00 | 27.27 |
| 2028 | 17.39 | 0.00 | 9.11 | 0.00 | 26.50 | 1.88 | 0.00 | 24.62 |
| 2029 | 15.77 | 0.00 | 8.26 | 0.00 | 24.02 | 1.70 | 0.00 | 22.32 |
| 2030 | 14.45 | 0.00 | 7.57 | 0.00 | 22.02 | 1.56 | 0.00 | 20.46 |
| 2031 | 13.35 | 0.00 | 6.99 | 0.00 | 20.33 | 1.44 | 0.00 | 18.89 |
| Sub-T | 596.59 | 0.00 | 312.43 | 0.00 | 909.03 | 64.50 | 0.00 | 844.53 |
| After | 72.32 | 0.00 | 37.87 | 0.00 | 110.19 | 7.82 | 0.00 | 102.38 |
| Total | 668.91 | 0.00 | 350.31 | 0.00 | 1,019.22 | 72.31 | 0.00 | 946.91 |

| Year | Deductions | | | | Future Net Income Before Income Taxes | | | |
|-------|---------------------------|---------------------------|------------------------|-----------------------|---------------------------------------|-----------------------------------|-----------------------------------|--------------------------------------|
| | Lease Net Costs M\$ | Net Investments M\$ | Trans. Costs M\$ | Net Profits M\$ | Annual Undiscounted M\$ | Cumulative Undiscounted M\$ | Discounted Ann @ 10.00% M\$ | Disc. Cum. Annual @ 10.00% M\$ |
| 2017 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 2018 | 1.00 | 440.00 | 0.00 | 0.00 | -397.20 | -397.20 | -332.56 | -332.56 |
| 2019 | 12.00 | 0.00 | 0.00 | 0.00 | 251.92 | -145.28 | 199.94 | -132.62 |
| 2020 | 12.00 | 0.00 | 0.00 | 0.00 | 112.45 | -33.32 | 80.94 | -51.68 |
| 2021 | 12.00 | 0.00 | 0.00 | 0.00 | 70.04 | 36.71 | 45.76 | -5.92 |
| 2022 | 12.00 | 0.00 | 0.00 | 0.00 | 49.41 | 86.12 | 29.33 | 23.41 |
| 2023 | 12.00 | 0.00 | 0.00 | 0.00 | 37.10 | 123.22 | 20.02 | 43.43 |
| 2024 | 12.00 | 0.00 | 0.00 | 0.00 | 29.01 | 152.23 | 14.23 | 57.66 |
| 2025 | 12.00 | 0.00 | 0.00 | 0.00 | 23.06 | 175.29 | 10.27 | 67.93 |
| 2026 | 12.00 | 0.00 | 0.00 | 0.00 | 18.68 | 193.97 | 7.57 | 75.50 |
| 2027 | 12.00 | 0.00 | 0.00 | 0.00 | 15.27 | 209.24 | 5.63 | 81.12 |
| 2028 | 12.00 | 0.00 | 0.00 | 0.00 | 12.62 | 221.86 | 4.22 | 85.35 |
| 2029 | 12.00 | 0.00 | 0.00 | 0.00 | 10.32 | 232.18 | 3.14 | 88.49 |
| 2030 | 12.00 | 0.00 | 0.00 | 0.00 | 8.46 | 240.64 | 2.34 | 90.83 |
| 2031 | 12.00 | 0.00 | 0.00 | 0.00 | 6.89 | 247.53 | 1.73 | 92.56 |
| Sub-T | 157.00 | 440.00 | 0.00 | 0.00 | 247.53 | 247.53 | 92.56 | 92.56 |
| After | 83.71 | 7.50 | 0.00 | 0.00 | 11.17 | 11.17 | 2.77 | 2.77 |
| Total | 240.71 | 447.50 | 0.00 | 0.00 | 258.70 | 258.70 | 95.33 | 95.33 |

Eco. Indicators

Return on Investment (disc): 1.258
 Return on Investment (undisc): 1.578
 Years to Payout: 4.54
 Internal Rate of Return (%): 25.55

Ownership Interests

W. I.: 0.10000000
 Net R. I.: 0.07750000
 Rev. Date:

Initial: 0.10000000
 1st Rev.: 0.00000000
 2nd Rev.: 0.00000000

Present Worth Profile (M\$)

PW 5.00%: 159.58
 PW 8.00%: 117.89
 PW 9.00%: 106.15
 PW 12.00%: 76.10
 PW 15.00%: 52.29
 PW 20.00%: 22.68

2/5/2017 2:47:00PM

Economic One-Liners

As of Date: 1/1/2017

Project Name: TORCHLIGHT ENERGY, INC

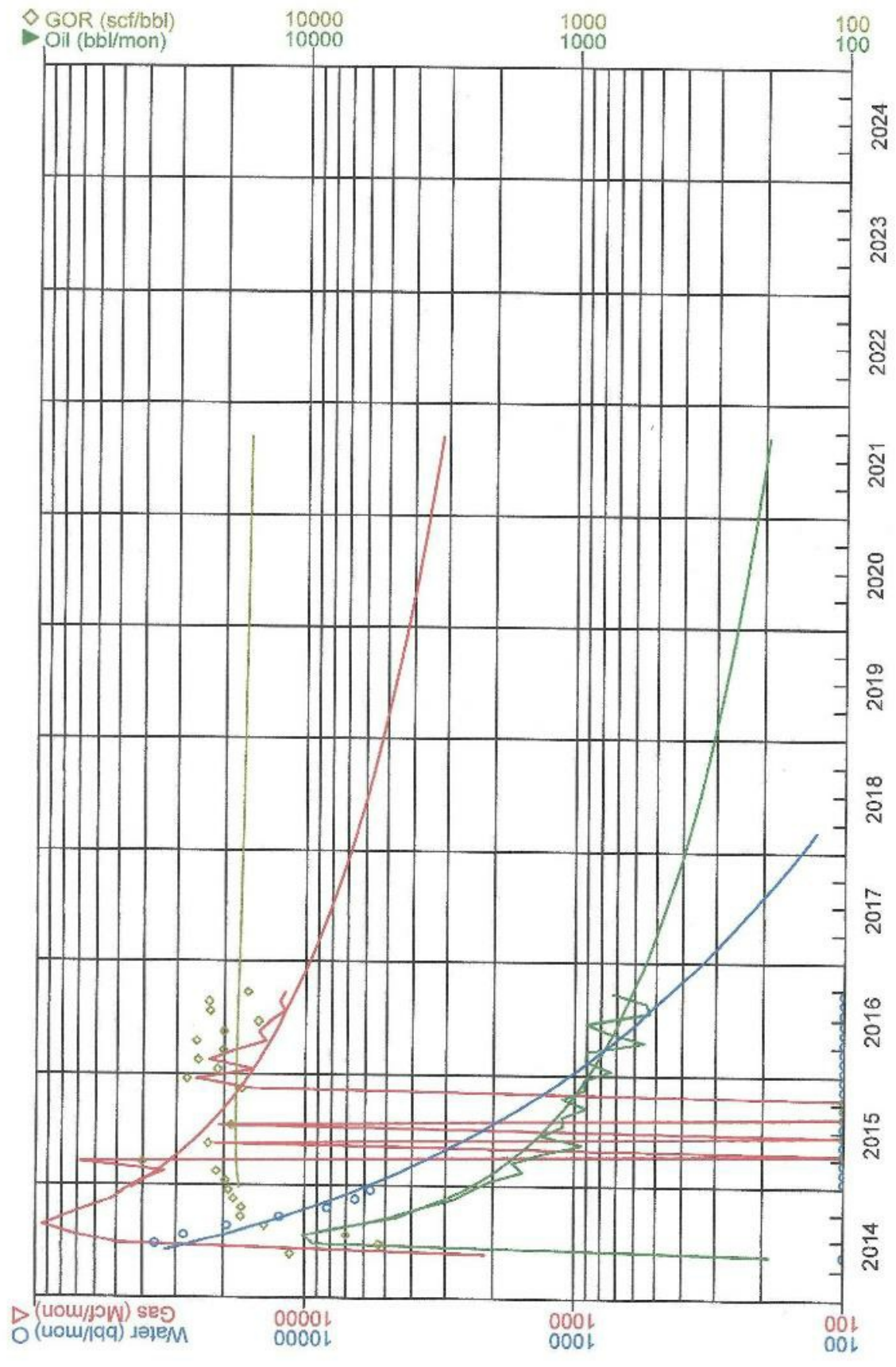
Ownership Group: All Cases

| Lease Name Risked/UnRisked | Net Reserves | | | Net Revenue | | | | Cash Flow | | | Life (years) |
|--|---|---------------|--|-------------|---------------|--------------------------|----------------|-------------------|------------------|-------|-----------------|
| | Oil, Cond, NGL ^a (MMbbl) | Gas (MMcf) | Oil, Cond, NGL ^a (MM) | Gas (MM) | Other (MM) | Expense & Tax (MM) | Invest (MM) | Non-Disc. (MM) | Disc. CF (MM) | | |
| Grand Total | 48.13 | 490.91 | 2,065.66 | 1,091.31 | 0.00 | 1,900.41 | 1,350.00 | 806.56 | 329.79 | 21.97 | |
| Proved Rsv Class | 48.13 | 490.91 | 2,065.66 | 1,091.31 | 0.00 | 1,900.41 | 1,350.00 | 806.56 | 329.79 | 21.97 | |
| Proved Rsv Class Producing Rsv Category | 1.37 | 23.34 | 58.85 | 40.35 | 0.00 | 61.32 | 7.50 | 30.38 | 38.88 | 4.70 | |
| Proved Rsv Class Producing Rsv Category | 1.37 | 23.34 | 58.85 | 40.35 | 0.00 | 61.32 | 7.50 | 30.38 | 38.88 | 4.70 | |
| OK State | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | |
| JUDY 1-15H - 1-15H | 1.37 | 23.34 | 58.85 | 40.35 | 0.00 | 61.32 | 7.50 | 30.38 | 38.88 | 4.70 | |
| LOK1 1-24 - 1-24 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | |
| Proved Rsv Class Undeveloped Rsv Category | 46.76 | 467.57 | 2,006.81 | 1,050.96 | 0.00 | 939.09 | 1,342.50 | 776.18 | 300.90 | 21.97 | |
| Proved Rsv Class Undeveloped Rsv Category | 46.76 | 467.57 | 2,006.81 | 1,050.96 | 0.00 | 939.09 | 1,342.50 | 776.18 | 300.90 | 21.97 | |
| OK State | 15.59 | 155.85 | 668.91 | 350.31 | 0.00 | 313.13 | 447.50 | 258.70 | 105.56 | 21.07 | |
| JUDY PUD 24 | 15.59 | 155.85 | 668.91 | 350.31 | 0.00 | 313.13 | 447.50 | 258.70 | 105.56 | 21.07 | |
| JUDY PUD 31 | 15.59 | 155.85 | 668.91 | 350.31 | 0.00 | 313.13 | 447.50 | 258.70 | 105.56 | 21.07 | |
| JUDY PUD 40 | 15.59 | 155.85 | 668.91 | 350.31 | 0.00 | 313.13 | 447.50 | 258.70 | 105.56 | 21.07 | |

* Assumes Oil, Condensate and NGL are all using the same units.

Case Name: JUDY 1-15H
 Field: SOONER TREND
 County/State: KINCFISHER (OK), OK

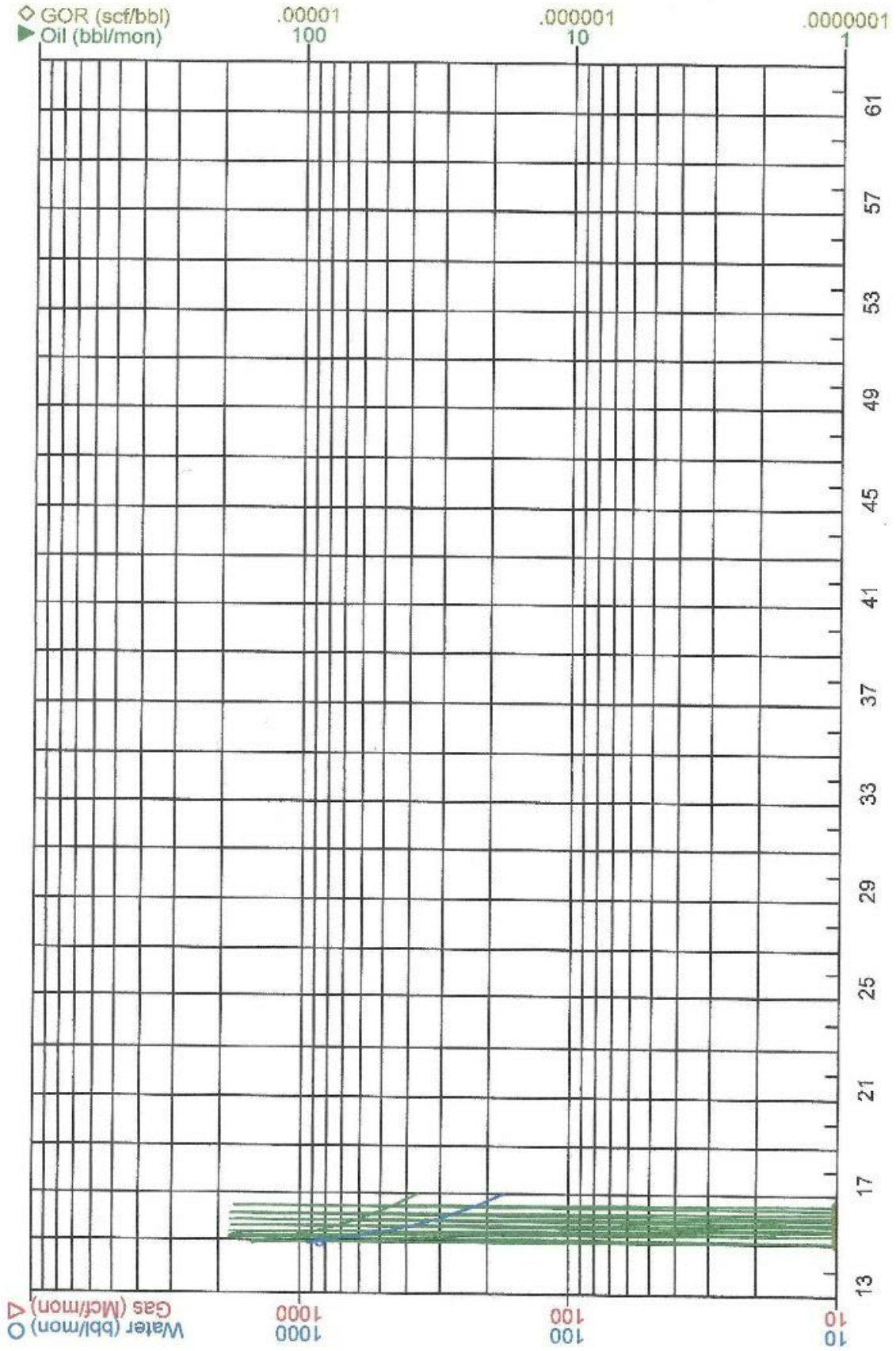
Oper: EUSKY VENTURES INC
 Disc Value: 28.88 M\$



Case Name: LOKI 1-24
Field: N/A
County, State: JOHNSTON (OK), OK

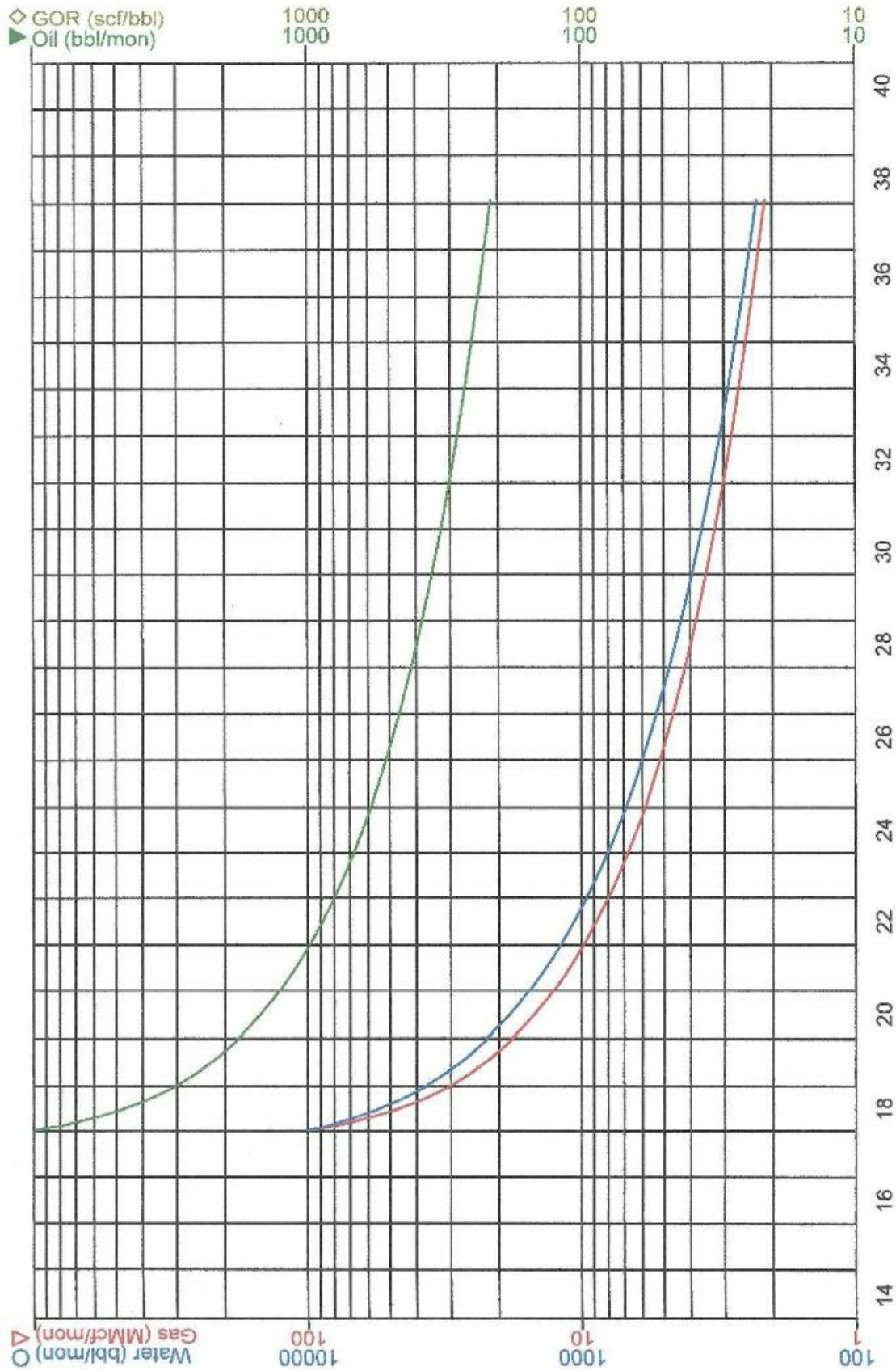
Oper: HUSKY VENTURES INC

Disc Value: 0.00 M\$



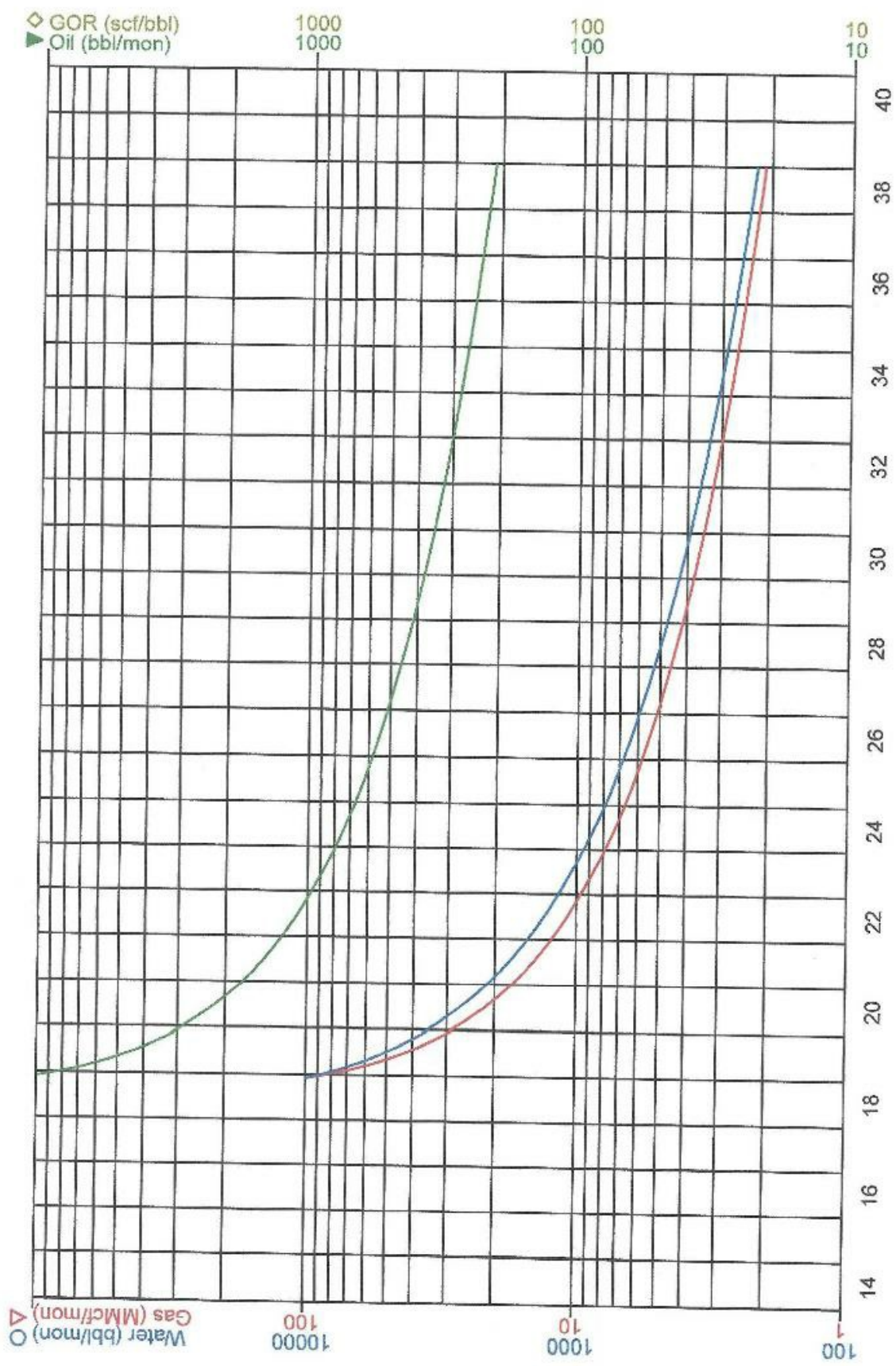
Case Name: JUDY PUD 24
Field: SOOMER TREND
County, State: KINGFISHER (OK), OK

Operator: HUSKY VENTURES INC
Disc Value: 105.56 M\$



Case Name: JUDY PUD 40
 Field: SOONER TREND
 County, State: KINGFISHER (OK), OK

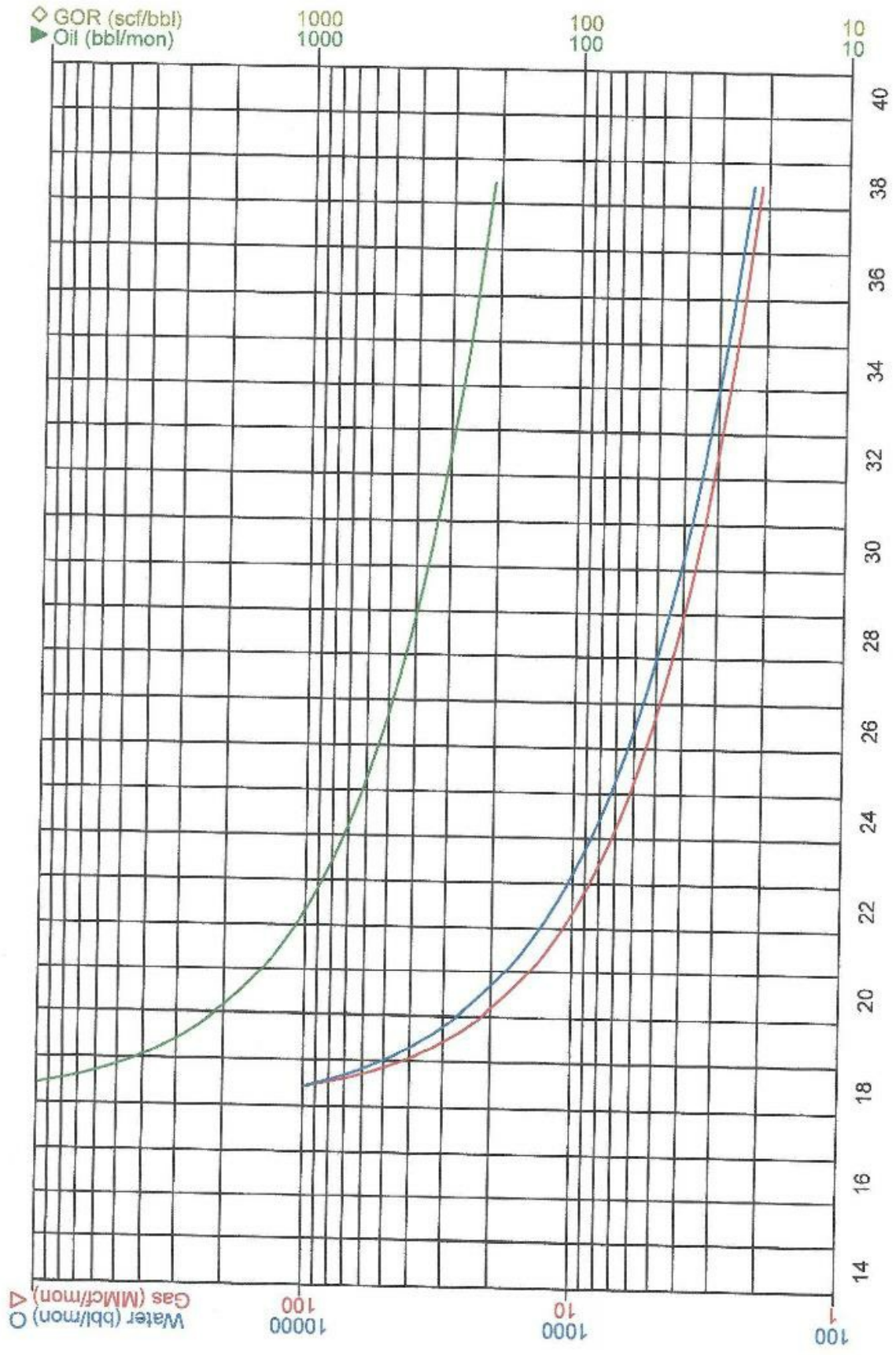
Oper: HUSKY VENTURES INC
 Disc Value: 95.33 M\$



Case Name: JUDY PUD 31
 Field: SOONER TREND
 County, State: KINGFISHER (OK), OK

Oper: HUSKY VENTURES INC

Disc Value: 100.01 M\$



Dr. Amiel David has over 40 years of expertise in energy related operations, management, investment banking and engineering. Amiel is past president of the publicly traded Dune Energy, Inc., and was involved with the establishment of other public and private energy companies including Golden Gate Oil (20,000 acres in the heavy oil fields of Santa Barbara County, CA), Strategic American Oil Company (Galveston Bay, TX), and Cross Canyon Energy. He was also previously employed by: Gulf Research and Development Company, Superior Oil Company, First City Bank, First Union Bank (now part of Wells Fargo) and Duke Capital Partners amongst others. Amiel was instrumental in raising \$25MM in debt and equity for Golden Gate. At Duke Capital Partners he was involved in the up stream's \$250MM mezzanine and debt portfolio. He raised \$10MM in equity to purchase Galveston Bay Energy (Strategic American Oil Co) and added to it a \$5MM in a debt instrument. At Dune Energy, Amiel, as the president of the company led a \$250MM purchase of assets (GoldKing). He has been involved in reserves determination for the last 30+ years covering most producing basins in the US as well as international areas.

He is a member of the SPE, SPEE, and is a Registered Professional Engineer. He has presented numerous technical papers at SPE conferences, and been published in technical journals. Amiel holds a PhD in Petroleum Engineering from Stanford, an MSE in Chemical Engineering from UPenn, an MBA from Pitt, and a BS in Petroleum Engineering from the University of Tulsa.
